



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM

MANAGEMENT

DEPARTMENT OF BUSINESS AND FINANCE

THIRD YEAR..... SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 306 BANKRUPTCY AND RE-REORGANIZATION

DATE:

TIME:

INSTRUCTIONS

Answer Question One and Any Other Two Questions.

QUESTION ONE (COMPULSORY) (30 MARKS)

Njuguna Mwandawiro, carrying on a business as a trader in Likoni, Mombasa, finds himself insolvent, and on 15 August 1997 files his petition in bankruptcy. The following balances are extracted from the books of his business on that date:

	Sh		Sh
N. Mwandawiro Capital	1,200,000	Shop – land and buildings	4,000,000
Mortgage on shop (land and buildings)	3,000,000	Furniture and fittings	1,000,000
Loan – I.C.D.C. Ltd.	1,000,000	Stock of goods	575,100
Loan – Barclays Bank Ltd.	1,200,000	Debtors	641,300
Loan – Co-operative Bank Ltd.	600,000	N. Mwandawiro drawings	1,314,000
Loan – Paul Nkobei	200,000	Cash on hand	2,000
Loan – Mutiso Kuria	100,000		36,000
Trade creditors	20,000		
N.H.I.F., N.S.S.F. and P.A.Y.E.			
Salaries and wages payable	1,140,000		
Bank overdraft	<u>18,000</u>		
	<u>7,532,400</u>		<u>,532,400</u>

The following information is provided:

1. The trade creditors includes Sh.30,000 owing to Mombasa Municipal Council in respect of rates in for the current period and a small loan from Mwandawiro's friend Waititu for Sh. 10,000.
2. The amount owing for salaries and wages and statutory payroll deductions are for 1997.
3. There is 210,000 interest unpaid on the mortgage as at 15 August 1997, which has not been recorded in the books.
4. The loan from I.C.D.C. Ltd. is secured by a second mortgage on the shop (land and buildings). The unrecorded interest owing as at 15 August 1997 was Sh.96,000.
5. The loan from the Co-operative Bank Ltd. was obtained when Mwandawiro pledged his wholly owned piece of land as security. The value of the piece of land is sh.300,000. There is no interest outstanding on his loan.
6. The interest on loan from Paul Nkobei was to vary with profits, but since the business has beeb operating at a loss, there is no interest due.
7. There is no interest outstanding on the loan from Barclays Bank Ltd.
8. Mutiso Kuria is Mwandawiro's brother-in-law.
9. The value of the assets is estimated to be:

	Sh.
Shop – land and buildings	4,200,000
Furniture and fittings	800,000
Stock of goods	200,000

10. Of the debtors, Sh.400,000 are thought to be good and Sh.200,000 doubtful, of which Sh.150,000 should be collectable.
11. Mwandawiro's uncle died recently and he will be receiving Sh.50,000 as an inheritance.
12. Mwandawiro has no personal creditors outside the business, but he has other personal assets, beside the piece of land, amounting to Sh.60,000, exclusive of household and personal effects.

Required:

- (a) A statement of affairs for Njuguna Mwandawiro as at 15 August 1997 in good form (15 marks)
- (b) A deficiency account as at that date. (8 marks)
- (c) A profit and loss account for the period ended 15 August 1997. (7 marks)

QUESTION TWO (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.
- 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.

QUESTION THREE (20 MARKS)

- a) Bankruptcy a debtor new lease of life to start a fresh, to start new business, safe him from creditors
- b)
 - i) Assignment of property to trustee
 - ii) Fraudulent conveyance
 - iii) Fraudulent preference
 - iv) Absenting
 - v) Execution against goods
 - vi) Petition by debt

QUESTION FOUR (20 MARKS)

- a) Explain any four consequences of making a receiving order (10 marks)
- b) State and list any five priority order of paying debts of a bankrupt. (10 marks)

QUESTION FIVE (20 MARKS)

- a) Distinguish between balance sheet and statement of affairs
- b) Define the following:
 - i) Receivership
 - ii) Liquidation
 - iii) Scheme of arrangement