



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

..... YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 306: BANKRUPTCY AND LIQUIDATION/REORGANIZATION

DATE:

TIME:

INSTRUCTIONS:

Answer question one and any other two questions.

SECTION A

QUESTION ONE (30 MARKS)

- (a) (i) Differentiate between Receivership and Liquidation (2 marks)
- (ii) Explain the order of payment in the event of a Liquidation of a company (4 marks)
- b) 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	1,200,00	Shop – land and	4,000,000
Mortgage on shop (land and	0	buildings	1,000,000
buildings)	3,000,00	Furniture and fittings	575,100
Loan – I.C.D.C. Ltd.	0	Stock of goods	641,300
Loan – Barclays Bank Ltd.	1,200,00	Debtors	1,314,000
Loan – Co-operative Bank Ltd.	0	N. Mwandawiro	2,000
Loan – Paul Nkobei	600,000	drawings	
Loan – Mutiso Kuria	200,000	Cash on hand	
Trade creditors	100,000		
N.H.I.F., N.S.S.F. and P.A.Y.E.	20,000		
Salaries and wages payable	1,140,00		
Bank overdraft	0		
	36,000		

18,000

18,000

7,532,400

7,532,400

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 been 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:

- i) A statement of affairs for Njuguna Mwandawiro as at 15 August 1997 in good form (12 marks)
- ii) A deficiency account as at that date.(6 marks)
- iii) A profit and loss account for the period ended 15 August 1997. (6 marks)

SECTION B

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. (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. (10 marks)

QUESTION THREE

- a) Differentiate between bankruptcy and reorganization (8 marks)
- b) Describe the main provisions of bankruptcy Act (cap 53) of Kenya (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) Distinguish between balance sheet and statement of affairs (4 marks)
- b) Define the following: (6 marks)
 - i. Insolvency
 - ii. Scheme of arrangement
- c) Explain items found in a deficiency account (10 marks)