



# TECHNICAL UNIVERSITY OF MOMBASA

## *Faculty of Business & Social Studies*

DEPARTMENT OF BUSINESS STUDIES

UNIVERSITY EXAMINATIONS FOR DEGREE IN  
BACHELOR OF BUSINESS ADMINISTRATION

### **BAC 4425: BANKRACY AND INSOLVENCY ACCOUNTS**

END OF SEMESTER EXAMINATIONS

**SERIES: AUGUST 2013**

**TIME: 2 HOURS**

#### **INSTRUCTIONS:**

– Answer Question **ONE (Compulsory)** and any other **TWO** questions.

***This paper consists of Two printed pages***

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#### **QUESTION 1 (Compulsory)**

The business of Ghavilu Round of Malindi experienced severe financial difficulties and he filed his petition in insolvency as 31 December, 2005. At that date his business had the following particulars.

- i) Trade creditors Kshs 65,000.
- ii) Creditors Ksh 40,000 having a first charge on the land and Building book value kshs 54,000 estimated to realize ksh.50,000.
- iii) Creditors kshs 30,000 having a second charge on the land and building.
- iv) Cash ksh.1,000.
- v) Stock ksh 20,000 estimated to realize sh.16,000
- vi) Machinery shs 50,000 estimated to realize sh 28,000.
- vii) Furniture shs.15,000 estimated to realize sh 9,000.
- viii) Bills receivable sh 20,000
- ix) Investments sh 35,000 estimated to realize sh 32,000.
- x) Sundry debtors –Good sh 5,000 and Doubtful sh 20,000 estimated to realize sh 5,000 and bad sh8,000.

- xi) Household debts sh 1,700.
- xii) Clerks salaries for 4 months in arrears sh.20,000
- xiii) Wages due to a servant for 5 months sh.10,000.
- xiv) Household utensils sh.200.
- xv) Taxes due sh.5000.
- xvi) Bank overdraft sh.25,000
- xvii) Mrs.Loaniya sh.11,000
- xviii) Liabilities on bills discounted/estimated to rank sh.2000) sh.5,000.
- xix) Household furniture sh.800.
- xx) Mrs. Ghanibu Daud gave up Jewellery valued at sh.4,000 to the official receiver. Estimating the cost of winding up at sh.3,205.

**Required.**

- a) Prepare a statement Affairs of Gharibu Round of Malindi as at 31 December 2005.
- b) Work out the estimated final dividend payable to the unsecured creditors. (30marks)

**QUESTION 2**

The Kenkenya LTD, a trading company has experienced severe financial difficulties and is currently insolvent.

The company has decided to a voluntary winding up and is to file a petition in court . The following records up their balance sheet that as at 30 June 2011.

**Balance sheet as at 30 June 2011.**

| <u>Fixed Assets</u>                 |                | Sh.'000'         |
|-------------------------------------|----------------|------------------|
| Land                                |                | 200,000          |
| Building (NPV)                      |                | 220,000          |
| Equipment (NBV)                     |                | 16,000           |
| Intangible assets                   |                | <u>30,000</u>    |
|                                     |                | 610,000          |
| Investment securities               |                | <u>30,000</u>    |
|                                     |                | 640,000          |
| <br><u>Current Assets</u>           |                |                  |
| Stocks                              | 82,000         |                  |
| Debtors                             | 46,000         |                  |
| Prepaid expenses                    | 6,000          |                  |
| Cash at Bank                        | <u>4,000</u>   |                  |
|                                     | 138,000        |                  |
| <br><u>Less current liabilities</u> |                |                  |
| Creditors                           | 120,000        |                  |
| Accrued expenses                    | 36,000         |                  |
| Bills payable(secured by stocks)    | <u>150,000</u> | <u>(168,000)</u> |
| Working capital                     |                | <u>472,000</u>   |
| Financed by:                        |                |                  |

|  |                  |
|--|------------------|
| Ordinary share capital                     | 200,000          |
| Profit and loss Account                    | <u>(128,000)</u> |
|  | 72,000           |
| Long term liabilities                      |                  |
| Bills payable (sunred by Land & Buildings) | <u>400,000</u>   |
|  | <u>472,000</u>   |

Additional information:

- i) The administrative costs of shs.43,000,000 are projected if the liquidation petition is accepted.
- ii) Stocks that are being held can be sold for kshs. 100,000,000 but they need to undergo repairs of sh. 10,000,000 before they can be sold.
- iii) The land and buildings can be sold for 10% more than their book value.
- iv) The equipment is expected to fetch only 40% of its current book value.
- v) The investments on the balance sheet have appreciated in value since acquisition and are now worth sh. 40,000,000. Dividends of kshs 1,000,000 are currently due from these investments but not yet recognized.
- vi) Interest of kshs.10,000,000 on the long term liabilities has not been accrued for the current financial Year.
- vii) Of the debtors figure only kshs. 4,000,000 is estimated to be good and collectable.
- viii) The accrued expenses include salaries of kshs.26,000,000. Of this figure one executive is owed a total of kshs.6,000,000 but is the only employee whose amount due is in excess of the statutory limit.
- ix) Payroll taxes with held from salaries and wages but not yet remitted to the Kenya Revenue Authority total kshs 6,000,000.  
However, company records currently show only ksh.2,000,000 a portion of this liability.
- X The company is expecting to receive a refund of Kshs 2,000,000 for the prepaid expenses but the Company intangible assets have no resale value.

**Required.**

- a) Prepare a statement of Affairs.
- b) A deficiency Account in accordance to the requirements of the company's Act (20marks)

**QUESTION 3**

Kane and Abel are equal partners and insolvency petition is filed on 30 June 2009. The Baalance sheet as an 30 June 2009 is as follows:

|                    |         |                    |        |
|--------------------|---------|--------------------|--------|
|                    |         | Balance sheet      |        |
|                    |         | As at 30 June 2009 |        |
| Freshhold land     | 160,000 | Capital – Kane     | 88,000 |
| Plant of machinery | 120,000 |                    |        |

|                |                |                        |                |
|----------------|----------------|------------------------|----------------|
| Fixtures       | 12,000         | mortgage loan on       |                |
| Stock          | 80,000         | freehold land          | 40,000         |
| Debtors        | 100,000        |                        |                |
| Cash           | 2,000          | Bank overdraft         |                |
|                |                | Secured by second      |                |
| Abel – capital | 20,000         | mortgage on            |                |
|                |                | Freehold land          | 160,000        |
|                |                | Preferential creditors | 6,000          |
|                |                | Unsecured creditors    | <u>200,000</u> |
|                | <u>494,000</u> |                        | <u>494,000</u> |

Additional information:

- i) The following were the realizable value of the assets.
  - a) Freehold land shs.120,000.
  - b) Plant and machinery sh 72,000.
  - c) Fixtures sh.4,000
  - d) Stock sh.40,000
  - e) Debtors sh.60,000
- ii) The overdraft is secured, in addition to second mortagage by Kane’s personel guarantee against which his investments have been deposited. Kane’s investment are estimated to realize shs. 64,000 after meeting his guarantee, his private estate was insolvent.
- iii) Abel was solvent and shs. 38,000 was available from his estate per firms creditors.

Required.

- a) The statement of Affairs of the firm.
- b) Deficiency Account of the firm
- c) Capital Accounts of the patners. (20marks)

#### QUESTION 4

- a) Describe the order of payment in case of a liquidaqtion. (5marks)
- b) Mwanaheri was appointed as a liquidation of Kensanegro ltd. The balance sheet of the firm at the time of liquidation was as follows.

Balance that as at 30 June 2011

|                 |                  |                        |                  |
|-----------------|------------------|------------------------|------------------|
| Fixed Assets    | 4,000,000        | ordinary share capital | 4,000,000        |
| Stocks          | 500,000          | Debentures             | 2,000,000        |
| Debtors         | 2,300,000        | creditors              | 2,000,000        |
| Cash            | 300,000          |                        |                  |
| Profit and loss | 900,000          |                        |                  |
|                 | <u>8,000,000</u> |                        | <u>8,000,000</u> |

Additional information.

- i) Fixed assets were sold for Kshs.2,400,000. to a debenture holder of kshs 800,000 worth of debentures and cash was received after set off.
- ii) Cash realized from debtors amounted to kshs.1400,000.
- iii) The liquidation expenses amounted to sh.20,000.
- iv) The stocks were sold for kshs.200,000.
- v) The liquidator is to be paid a fixed allowance of shs.20,000 plus 2% commission.

Required.

Prepare the liquidators final statement of Account. (15marks)

### QUESTION 5

- a) Explain the term.
  - Receivership
  - Liquidation(8marks)
- b) Describe the order of payment in case of liquidation (8marks)
- c) What is internal reconstruction and why is it used? (4marks)