



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR FIRST SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH
INFORMATION TECHNOLOGY**

HOMA-BAY CAMPUS

**ABA 417: BANKRUPTCY AND INSOLVENCY LAW AND
ACCOUNTS**

Date: 24th June, 2017

Time: 9.00 - 12.00 noon

INSTRUCTIONS:

- Answer question ONE and any other THREE questions.



QUESTION ONE

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- a) (i) Differentiate between an insolvent person and a bankrupt person (2 marks)
(ii) Give the four conditions that must be fulfilled before a bankruptcy petition is presented against a debtor. (8 marks)
- b) Explain the following terms as they are used in bankruptcy proceedings:
- (i) Receiving order. (2 marks)
 - (ii) Scheme of arrangement (2 marks)
 - (iii) First meeting of creditors (2 marks)
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- c) (i) What is the difference between receivership and liquidation? (4 marks)
(ii) Explain the order of payment of liabilities in receiverships. (5marks)

QUESTION TWO

Korir carrying out a business as a trader in Nairobi finds himself insolvent and on 15 March 2016 files his own petition in bankruptcy. The following balances are extracted from the books of his business on that date:

	Shs.		Shs.
Capital	180,00	Shop, loan and buildings	600,000
Mortgage on shop –land and building	450,000	Furniture and fittings	150,000
Loan ICDC	180,000	Stock of goods	81,405
Loan – Barclays Bank	90,000	Debtors	96,195
Loan – Co-operative Society	30,000	Korir – drawings	197,100
Loan – A Kariuki	15,000	Cash in hand	300
Loan – W. Kuria	3,000		
Trade creditors	171,000		
Salaries, wages payable	2,700		
NHIF, NSSF, PAYE	540		
Bank overdraft	<u>2,7600</u>		
	<u>1,125,000</u>		<u>1,125,000</u>

The following additional information is available:

1. Trade creditors include Sh.4,500 owing to Nairobi City council in respect of rates for the current period and a small loan from his friend Macharia Sh.1,500.
2. The amount owing for salaries, wages and payroll deductions are for 2016
3. There is Sh.31,500 interest unpaid on the mortgage as at 15 March 2016 which has not been recorded in books.
4. The loan from ICDC is secured by a second mortgage on the shop, land and building. The unrecorded interest owing as at 15 March 2016 is Sh.14,400.
5. The loan from the Co-operative society was obtained when Korir pledged his wholly owned farm as security. The farm is valued at Sh.45,000. There is no interest outstanding on his loan.
6. The interest on the loan from A Kariuki was to vary with profits, but since the business has been operating at loss, there is no interest due.
7. There is no interest outstanding on the loan from Barclays Bank.
8. W. Kuria is Korir's brother-in-law.
9. The value assets are estimated to be:

	Shs.
Shop, land and building	630,000
Furniture and fittings	120,000
Stock of goods	30,000

10. Of the debtors, Sh.60,000 are thought to be good and Sh.30,000 doubtful of which Sh.22,500 should be collectable.
11. Korir's uncle died recently and he will be receiving Sh.7,500 as an inheritance.
12. Korir has no personal creditors outside the business but he has other personal assets as well as the small piece of land amounting to Sh.9,000 exclusive of household and personal effects.

Required:

- (a) A statement of affairs for Korir as at 15 March 2016 in good form (10 marks)
- (b) A deficiency account. (5 marks)

QUESTION THREE

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- a) Explain any five bankruptcy offences. (10 marks)
- b) Explain the term contributory and give practical examples when a former shareholder can be called a contributory. (5 marks)

QUESTION FOUR

Matatizo Ltd. went into voluntary liquidation on 30 November 2013. Its Statement of Financial Position as at that date was as follows:

	Sh.
Assets:	
Land and building	5,000,000
Plant and machinery	12,500,000
Patents	2,000,000
Inventory	2,750,000
Sundry debtors	5,500,000
Cash at bank	1,500,000
Profit and loss account balance	<u>5,625,000</u>
	<u>34,875,000</u>
Equity and liabilities:	
Issued and subscribed capital	
100,000 10% cumulative preference shares of Sh.100 each, fully paid	10,000,000
50,000 equity shares of Sh.100 each, Sh. 75 paid	3,750,000
150,000 equity shares of Sh.100 each, Sh. 60 paid	9,000,000
15% debentures secured by floating charge	5,000,000
Interest outstanding on debentures	750,000
Creditors	6,375,000
	<u>34,875,000</u>

Additional information:

1. Preference dividends were in arrears for two years and the creditors included preferential creditors of Sh.760,000.
2. The assets were realized as follows:

Land and building	Sh. 6,000,000
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	Plant and machinery	10,000,000
	Patents	1,500,000
3.	Inventory	3,000,000
	Sundry debtors	4,000,000

Liquidation expenses amounted to Sh.545,000. The liquidator is entitled to a commission of 3% on assets realized except cash.

4. The final payments (including those relating to debentures) were made on 31 May 2014.

Required: The liquidator's final statement of account as at 31 May 2014.

(15 marks)

QUESTION FIVE

The following are the particulars of the joint and separate estate of the firm and partners Mama and Mtoto who were declared bankrupt as at 31 March 2016:

	Firm	Mama (Shs.)	Mtoto
Liabilities			
Capital: Mama	160,000	-	-
Mtoto	120,000	-	-
Creditors	600,000	40,000	160,000
Preferential Creditors	40,000	-	-
Mortgage on Buildings	160,000	-	-
Bank overdraft	200,000	-	-
Excess of assets over liabilities	-	240,000	80,000
	1,280,000	280,000	240,000
Assets			
Debtors	120,000	-	-
Inventory	400,000	-	-
Furniture	40,000	40,000	40,000
Buildings	280,000	-	-
Investments	-	80,000	80,000
Plant	400,000	-	-
Capital	-	160,000	120,000
Cash	40,000	-	-
	1,280,000	280,000	240,000

The bank overdraft was secured by a second charge on buildings and Mtoto's personal guarantee and his investments as collateral security.

The estimated realisable values are:

Firm's assets: Buildings Sh. 220,000; Plant Sh. 80,000; Furniture Sh. 20,000;
~~Inventory Sh. 160,000; Debtors - Good Sh. 40,000; Doubtful Sh. 40,000 (Realisable~~
value Sh. 20,000), Bad Sh. 40,000

Mama's assets: Furniture Sh. 20,000; Investments Sh. 60,000

Mtoto's assets: Furniture Sh. 20,000; Investments Sh. 40,000

Required: Account for the bankruptcy.

(15 marks)
