

**W1-2-60-1-6**

**JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

**UNIVERSITY EXAMINATIONS 2018/2019**

**EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE**

**HBA 2305: BANKRUPTCY AND INSOLVENCY**

**DATE: DECEMBER 2018 TIME: 2 HOURS**

INSTRUCTIONS: Answer question one and any other two questions.

QUESTION ONE (30 MARKS)

a. What is the purpose of bankruptcy accounts. (4 marks)

b. State two items that contribute to a deficit and two items that reduce the deficit in a deficiency account. (4 marks)

c. Explain the term receiving order in relation to the bankruptcy act. (4 marks)

d. Discuss four acts of bankruptcy. (6 marks)

e. Explain the term contributory. (5 marks)

f. Explain ways in which a company may be liquidated. (7 marks)

QUESTION TWO

a. List and explain the powers of a liquidator. (5 marks)

b. Owen Ltd makes its accounts each year to 31st December. A resolution for voluntary liquidation was passed on 31st December 2015 at which date the statement of financial position was as follows:

OWEN LTD

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015.

|  |  |  |  |
| --- | --- | --- | --- |
| NON-CURRENT ASSETS | SH 000 | SH 000 | SH 000 |
| Free hold |  |  | 11000 |
| Plant and machinery |  |  | 2750 |
|  |  |  | 13750 |
| CURRENT ASSETS |  |  |  |
| Inventory | 8750 |  |  |
| Receivables | 13375 |  |  |
| Cash | 125 | 22250 |  |
|  |  |  |  |
| CURRENT LIABILITIES |  |  |  |
| Bank overdraft | 3750 |  |  |
| Payables | 11250 |  |  |
| Interest payable(5% dep) | 500 | 15500 | 6750 |
|  |  |  | 20500 |

Financed by

Paid up capital.

|  |  |
| --- | --- |
| 10000, 10% pref shares of sh 500 @fully paid | 5000 |
| 25000 ordinary shares of sh500 @fully paid | 12500 |
| 10000 ordinary shares of sh500 @sh250 paid | 20000 |
| Revenue reserve profit and loss account | (9500) |
| Non –Current liabilities (5% Debentures) | 10000 |
|  | 20500 |

Additional information

1. Debentures are secured by a flooting charge on the assets of the company.

2. The bank overdraft is secured by a fixed charge on the company’s property.

3. The preference shares carry a right to a fixed cumulative dividend of 10% per annum up to the date of liquidation and a repayment of sh500 per share in priority to all other classes of shares dividends have not been paid for the last two years.

4. The payables include;

|  |  |
| --- | --- |
| Directors fee for the year | Sh 1000000 |
| Managers salary to Dec 31st 2015 | Sh 100000 |
| Wages for 215 employees | 9000000 |
| Rates for six months to 31st Dec 2015 | Sh123000 |
| Rates for six months to 31st Dec 2015 | Shs1025000 |

5. The Assets realized the following amounts.

|  |  |
| --- | --- |
| Freehold property | Shs12250000 |
| Plant and machinery | Shs2000000 |
| Inventory | 6250000 |
| Receivables | 12,2600000 |

6. The expenses for requidation amounted to shs125000 and the liquidators salary was fixed at shs 500000.

Required

The requidator’s statement of account showing in order of priority the payments made and the compilation for any sales to be made. (15 marks)

QUESTION THREE

a. Distinguish between statement of affairs and statement of financial position affairs.

(10 marks)

b. Outline the order of payment of debts of a bankrupt according to the bankruptcy Act.

(16 marks)

c. Distinguish between provable and non-provable debts. (4 marks)

QUESTION FOUR

Moraa a business lady filed her own petition in bankruptcy on 31st Dec 2015. The date of receiving order, Moraa’s balance sheet Showep;

|  |  |  |
| --- | --- | --- |
|  | Book value | Net Realizable value |
|  | Shs | Shs |
| Freehold shop building | 600000 | 700000 |
|  |  |  |
| 25000 shares of sh20 each in |  |  |
| ECO Ltd | 500000 | 100000 |
| Stock in Trade | 200000 | 150000 |
| Debtors | 200000 | 175000 |
| Balance at Bank | 50000 | 50000 |
|  | 1550000 |  |
| Capital account as on |  |  |
| 1st Jan 2015 | 300000 |  |
| Profit for the year | 100000 |  |
| Drawings during the year | (90000) |  |
| Trade creditors | 840000 |  |
| Loan secured on freehold shop | 400000 |  |
|  | 1550000 |  |

Additional information

1. Moraa’s personal assets included.

|  |  |
| --- | --- |
| Motor car | Shs 100000 |
| Current account | Sh20000 |
| Gold watch | Sh5000 |

2. Moraa’s private liabilities include;

|  |  |
| --- | --- |
| Taresa | Sh3000 |
| Spot pesa | Sh5000 |

3. 10 year ago Moraa made a voluntary statement of sh250000 in favours of her disabled brother Kenani.

4. The trade creditors included sh25000 in a preferential creditor in bankruptcy.

Required

a. Statement of affairs. (12 marks)

b. Deficiency account. (8 marks)