



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS JANUARY – APRIL 2017 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 405

COURSE TITLE: BANKRUPTCY AND REORGANIZATION ACCOUNTING

DATE: 6 APRIL 2017

TIME: 3.00 PM – 6.00 PM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: All exam rooms are under CCTV surveillance during the examination period.

SECTION A: COMPULSORY (40MARKS)

Question One

- (a) Discuss four differences between a balance sheet and a statement of affairs. **(8marks)**
- (b) A company may wound up through different ways. Discuss two methods in which a company may wound up. **(4marks)**
- (c) A trustee is the person who administers a bankruptcy. The trustee can be either the Accountant in Bankruptcy or a private insolvency practitioner. Discuss for powers of a trustee. **(8marks)**
- (d) Karimi Mwangi carrying business in Kerugoya found herself insolvent and on 30th November 2010 and filed a petition in bankruptcy. The following balances were extracted from the books of his business on that date:

Description	Kshs	Description	Kshs
Karimi Mwangi Capital	4,800,000	Shop land and building	16,000,000
Mortgage on shop(land & Building)	12,000,000	Furniture and Fittings	4,000,000
Loan I.C.D.C Ltd	4,800,000	Stock of Goods	3,300,400
Loan – Equity	2,400,000	Debtors	2,565,200
Loan – Commercial Bank of Africa	800,000	Karimi Mwangi drawings	5,256,000
Loan – John Kamau	400,000	Cash in hand	8,000
Loan – Peter Maina	80,000		
Trade Creditors	4,560,000		
N.H.I.F, N.S.S.F, and P.A.Y.E	144,000		
Salaries and Wages Payable	72,000		
Bank overdraft	73,600		
	30,129,600		30,129,600

Additional information

- (i) The trade creditors includes kshs. 120,000 owing to Kirinyanga County in respect of rates in for the current period and a small loan from Karimi Mwangi's friend Kariuki for Kshs. 40,000
- (ii) The amount owing for salaries and wages and statutory deductions are for 2006.
- (iii) There is a Kshs. 840,000 interest unpaid on the mortgage as at 30th November 2010 which was not recorded in the books.

- (iv) The loan from I.C.D.C. Ltd was secured by a second mortgage on the shop (land and building). The unrecorded interest owing as at November 2010 was kshs. 384,000
- (v) The loan from Commercial Bank of Africa was obtained when Karimi Mwangi pledged his wholly owned piece of land as security. The value of the piece of land was kshs. 1,200,000. There was no interest outstanding on his loan
- (vi) The interest on John Kamau was to vary with profits, since the business was operating a loss, there was no interest due.
- (vii) There was no interest outstanding on the loan from Equity Bank
- (viii) Peter Maina is Karimi Mwangi's brother in law
- (ix) The value of the assets was estimated to be:

Shop – Land and Building	Kshs. 16,800,000
Furniture and fittings	Kshs. 3,200,000
Stock of goods	Kshs. 800,000
- (x) Of the debtors kshs. 1,600,000 were thought to be goods and kshs.800,000 doubtful of which kshs. 600,000 was collectable
- (xi) Karimi Mwangi uncle died recently and he was to receive kshs. 200,000 as inheritance.
- (xii) Karimi Mwangi has no personal creditors outside the business but she had other personal assets beside the piece of land amounting to kshs. 240,000, exclusive of households and personal effects.

Required:

- (a) Prepare a statement of affairs for Karimi Mwangi as at 30th November 2010. **(16marks)**
- (b) Prepare a deficiency account as at that date **(4marks)**

SECTION B

Question Two

- (a) The following terms are used in bankruptcy. Briefly explain them with appropriate examples.

- (i) Preferential creditors **(5marks)**
- (ii) Scheme of arrangement **(5marks)**
- (iv) Receiving order **(5marks)**

(v) Official receiver

(5marks)

Question Three

(a) Explain the powers a trustee may exercise with the permission of the committee of inspection.

(8marks)

(b) Discuss four main bankruptcy offences.

(12marks)

Question Four

(a) Preferential investors have both the benefits of an investor and also a debt investor. Discuss the six preferential creditors in bankruptcy.

(12marks)

(b) Discuss four main objectives of the bankruptcy proceeding.

(8marks)

Question Five

(a) Discuss five consequences of making of the adjudication order.

(10marks)

(b) A trustee may vacate office in different ways. He may be removed by either the creditors by ordinary resolution, or by the court. Discuss four reasons which may lead to a trustee removal from office.

(10marks)