



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS MAY - AUGUST 2018 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCAC 405

**COURSE TITLE: BANKRUPTCY AND REORGANIZATION
ACCOUNTING**

DATE: 6 AUG 2018

TIME: 8.00 AM – 11.00 AM

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

Question One

- a) Bankruptcy is a legal term for when a person or business cannot repay their outstanding debts. The bankruptcy process begins with a petition filed by the debtor, which is most common, or on behalf of creditor. Explain the seven acts of bankruptcy. **[14 marks]**
- b) Explain the following terms are used in bankruptcy:
- (i) Petition **[4 marks]**
 - (ii) Official Receiver **[4 marks]**
 - (iii) Adjudication Order **[4 marks]**
 - (iv) Annulment of Order **[4 marks]**
 - (v) Committee of inspection **[4 marks]**
- c) There are compulsory grounds for a company to wind up. Explain three reasons that a company may be wound up by the court. **[6 marks]**

SECTION B: ANSWER ANY THREE QUESTIONS

Question Two

- a) All the debts and liabilities present or future, certain or contingent, are provable in bankruptcy. Explain the six exceptions. **[12 marks]**
- b) If a company defaults in payment of principal or interest, or otherwise defaults in observing the conditions contained in debentures issued, a receivership may result. A receiver is appointed where the debentures are secured by a fixed or floating charge or both. Discuss the effects of the appointment of the receiver. **[8 marks]**

a)

Question three

- a) A trustee may vacate office through removal either by the creditors or by ordinary resolution, or by court. Explain *four* reasons which may lead to this action. [8 marks]
- b) A trustee is the person who administers a bankruptcy. The trustee can be either the Accountant in Bankruptcy or a private insolvency practitioner. Discuss *six* powers of a trustee with the permission of the committee of inspection or the court. [12 marks]

Question Four

- a) The court may order the estate of a debtor to be administered summarily, if the debtor's assets are not like to exceed Kshs. 12,000 in value. This is known as "small Bankruptcy". Discuss six differences between small bankruptcy and ordinary bankruptcy. [12 marks]
- b) There are compulsory grounds for a company to wind up. Explain four reasons that a company may be wound up by the court. [8marks]

Question five

Mulwa Maingi carrying business in Machakos found himself insolvent and on 30th November 2012 and filed a petition in bankruptcy. The following balances were extracted from the books of his business on that date:

Description	Kshs	Description	Kshs
Mulwa Maingi 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	Mulwa Maingi drawings	5,256,000
Loan – Paul Musembi	400,000	Cash in hand	8,000
Loan – Peter Muli	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 Machakos County in respect of rates in for the current period and a small loan from Mulwa Maingi's friend Kioko 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 2012 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 2012 was kshs. 384,000
- (v) The loan from Commercial Bank of Africa was obtained when Mulwa Maingi 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 Paul Musembi 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 Muli is Mulwa Maingi'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) Mulwa Maingi uncle died recently and he was to receive kshs. 200,000 as inheritance.
- (xii) Mulwa Maingi 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:

Prepare a statement of affairs for Mulwa Maingi as at 30th November 2012.

[20 marks]