



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR SECOND SEMESTER EXAMINATION FOR
THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH INFORMATION TECHNOLOGY**

MAIN CAMPUS

ABA 417: BANKRUPTCY AND INSOLVENCY ACCOUNTING

Date: 1st August, 2017

Time: 8.30 - 11.30am

INSTRUCTIONS:

- Answer Question ONE and any other THREE
- Show all the workings clearly
- All questions carry equal marks



QUESTION ONE

- a) Discuss the need for preparation of a statement of affairs and deficiency accounts for individuals. (7.5 marks)
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- b) Describe the procedure of discharge of an insolvent person. (10 marks)
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- c) Discuss the various ways in which a company may be wound up. (10marks)

QUESTION TWO

- a) Under the Bankruptcy Act Cap 53, discuss any five ways in which a debtor may commit an act of bankruptcy. (10 marks)
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- b) Examine any three duties of an official receiver as regards the estate of a debtor. (7.5 marks)

QUESTION THREE

James Borabu, carrying on a business as a trader in MwembeTayari, Kisii, finds himself insolvent, and on 15 September 2014 files his petition in bankruptcy. The following balances are extracted from the books of his business on that date:

	Sh		Sh
J. Borabu Capital	1,200,000	Shop - land andbuld	4,000,000
Mortgage on shop	3,000,000	Furniture and fitt	1,000,000
Loan – I.C.D.C. Ltd.	1,200,000	Stock of goods	575,100
Loan – Barclays Bank Ltd.	600,000	Debtors	641,300
Loan – Co-op Bank Ltd.	200,000	J. Mwanikidrawings	1,314,000
Loan – Paul Nkobei	100,000	Cash in hand	2,000
Loan – MutisoKuria	20,000		
Trade creditors	1,140,000		
N.H.I.F., N.S.S.F. and	36,000		
P.A.Y.E.	18,000		
Salaries and wages payable	18,000		
	<u>7,532,400</u>		<u>7,532,400</u>

The following additional information is provided;

1. The trade creditors includes Sh.30,000 owing to Kisii Municipal Council in respect of rates in for the current period and a small loan from Borabu's friend Waititu for Sh. 10,000.
2. The amount owing for salaries and wages and statutory payroll deductions are for 2014.
3. There is 210,000 interest unpaid on the mortgage as at 15 September 2014, which has not been recorded in the books.
4. The loan from I.C.D.C. Ltd. is secured by a second mortgage on the shop (land and buildings). The unrecorded interest owing as at 15 September 2014 was Sh.96,000.
5. The loan from the Co-operative Bank Ltd. was obtained when Borabu pledged his wholly owned piece of land as security. The value of the piece of land is sh.300,000. There is no interest outstanding on his loan.
6. The interest on loan from Paul Nkobei was to vary with profits, but since the business has been operating at a loss, there is no interest due.
7. There is no interest outstanding on the loan from Barclays Bank Ltd.
8. MutisoKuria is Borabu's brother-in-law.
9. The value of the assets is estimated to be:

	Sh.
Shop – land and buildings	4,200,000
Furniture and fittings	800,000
Stock of goods	200,000

10. Of the debtors, Sh.400,000 are thought to be good and Sh.200,000 doubtful, of which Sh.150,000 should be collectable.
11. Borabu's uncle died recently and he will be receiving Sh.50,000 as an inheritance.
12. Borabu has no personal creditors outside the business, but he has other personal assets, beside the piece of land, amounting to Sh.60,000, exclusive of household and personal effects.

Required;

- (a) A statement of affairs for James Mwaniki as at 15 August 2014. (12.5 marks)
- (b) A deficiency account as at that date. (5 marks)

QUESTION FOUR

- a) Describe the procedure of assessing an individual when declared bankrupt. (7.5 marks)
- b) Discuss any five ways that shows Acts of Bankruptcy. (10 marks)

QUESTION FIVE

- c) Discuss the terms pre-preferential creditors and preferential creditors as used in Bankruptcy and Insolvency Accounting. (7.5marks)
- d) Examine any five duties of an official receiver as regards the estate of a debtor. (10 marks)

QUESTION SIX

A trading company Booker Ltd. has experienced severe financial difficulties in recent times and is currently insolvent. A voluntary winding up petition will soon be filed and management is considering either liquidation or re-organization. The chief accountant has produced the following balance sheet as if the company were a going concern;

Balance Sheet as at 31 March 2014

	Sh. '000'		Sh. '000'
Ordinary share capital	200,000	Fixed assets:	
Retained earnings (deficit)	(64,000)	Land	100,000
	36,000	Building (NBV)	110,000
		Equipment (NBV)	80,000
Long term liabilities:		Intangible assets	15,000
Note payable (secured by lien on land and buildings)	200,000	Investments in securities	305,000
	70,000	Current assets:	51,000
Current liabilities:	18,000	Stocks	33,000
Creditors	75,000	Debtors	3,000
Accrued expenses		Prepaid expenses	2,000
Note payable (secured by stocks)	<u>499,000</u>	Cash at bank	<u>499,000</u>

Additional information

1. The land and buildings are in the prime location and can be sold for 10% more than their book value. But the equipment may not get a buyer unless the price is reduced. It is expected to fetch only 40% of its current book value.
2. Administrative costs of Sh.21.5 million are projected if liquidation of the company does occur.
3. By spending Sh.5 million for repairs and marketing costs, stocks currently held can be sold for Sh.50 million.
4. Accrued expenses include salaries of Sh.13 million. Of this figure, one executive is owed a total of Sh.3 million but is the only employee whose amount due is in excess of the statutory limit. Payroll taxes withheld from salaries and wages but not yet remitted to the Kenya revenue Authority total Sh.3 million. However, company records currently show only Sh.1 million portion of this liability.
5. The investments reported on the balance sheet have appreciated in value since acquisition and are now worth Sh.20 million. Dividends of Sh.500,000 are currently due from these investments, but not yet recognised.
6. Interest of Sh.5,000,000 on the long-term liabilities has not been accrued for the current financial year.
7. Debtors are estimated to be collectible for Sh.12 million.
8. A refund of Sh.1 million will be received from the various prepaid expenses but the company's intangible assets have no resale value.

Required;

Prepare a statement of affairs in accordance with the requirements of the company's act for the period ended 31st, march 2014. (17.5marks)