



**MURANGA UNIVERSITY COLLEGE**

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

**MAINCAMPUS**

**ORDINARY UNIVERSITY EXAMINATIONS**

**2014/2015 ACADEMIC YEAR**

**THIRD YEAR SECOND SEMESTER EXAMINATIONS**

**FOR THE DEGREE**

**OF**

**BACHELOR OF COMMERCE**

**COURSE CODE: HBA 2305**

**COURSE TITLE: BANKRUPTCY AND INSOLVENCY ACCOUNTS**

**DATE: WEDNESDAY; APRIL 22, 2015**

**TIME: 9.00A.M.-11.00 A.M.**

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**INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is compulsory  
Answer TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities

**QUESTION 1(COMPULSORY)**

(a) State the importance of the following terms as applied in Bankruptcy

(i) Receiving order (2 marks)

(ii) Scheme of arrangement (2 marks)

(iii) Statement of Affairs (2 marks)

(iv) Discharge of Bankrupt (2 marks)

(v) Deferred Members (2 marks)

(b) Define the term “bankruptcy” as stated in Bankruptcy Act (cap.53) (2 marks)

(c) Differentiate between “Balance sheet” and “Statement of Affairs” (4 marks)

(d) Mr Kariuki, a businessman filed his own petition in bankruptcy. The balance sheet of his business as on 31<sup>st</sup> March 2014, the due date of the receiving order was as follows,

Sh	sh	sh
Capital Account	Book	Net Realizable
As on April 1, 2013	Value	Value
300,000	Assets	
	Freehold shop	700,000
	600,000	
Add: Profit for the year		
Ended March 31 <sup>st</sup> , 2014 <u>100,000</u>	25000 shares of	
400,000	Ltd	10,000
sh20 each in ABC	500,000	
Deduct : Drawings during		
The year <u>(90,000)</u>	stock in trade	150,000
310,000	200,000	
Trade creditors		
(Including sh25,000		
Preferential in bankruptcy) 840,000	Debtors	175,000
	200,000	

Loan, Secured on		
Freehold shop building <u>400,000</u>	Balance at Bank <u>50,000</u>	50,000
<u>1,550,000</u>		<u>1,550,000</u>

Mr. Kariuki's personal assets, not including the above, comprised of a Motor car valued at sh 100,000, current account with a bank balance of sh 20,000 and a gold watch valued at sh 5,000. His only personal liabilities outside the business were sh 3,000 due to his tailor and sh 5,000 for the unsuccessful football forecast due to his bookmaker. The value of personal assets and liabilities had remained unchanged since April 2013.

Twelve (12) years ago, Mr. Kariuki had made a voluntary settlement of sh 250,000 in favour of his disabled sister Lucy.

### Required

Prepare as at 31<sup>st</sup> March 2014;

- (i) A Statement of Affairs
- (ii) A Deficiency Account

(8 Marks)  
(6 Marks)

**(TOTAL; 30 MARKS)**

### QUESTION 2

- (a) (i) Differentiate between Receivership and Liquidation (2 Marks)
- (ii) Explain the order of payment in the event of a Liquidation of a company (4 Marks)
- (b) On 31<sup>st</sup> December 2014, a compulsory order for winding up was made against XYZ Ltd. The following particulars were disclosed:

	<u>Book Estimated value</u> <u>produce</u>	<u>to</u>
	Shsh	
Cash in hand	10,000	10,000
Debtors	40,000	36,000
Land and building	600,000	480,000
Furniture and fixtures	200,000	200,000
Unsecured Creditors	200,000	-

Debentures:

Secured on land and buildings	420,000	-
Secured by floating charges	100,000	-
Preferential creditors	60,000	-
Share capital (3,200 shares at sh100 each)	320,000	-

Estimated liability for bills discounted was sh60,000, estimated to rank at sh60,000. Other contingent liabilities were sh120,000 estimated to rank sh120,000

The company was formed on 1<sup>st</sup> January 2012; and had made losses sh 250,0000.

**Required;**

Prepare a statement of Affairs and Deficiency Account

**(14 marks)**

**(TOTAL 20MARKS)**

### QUESTION 3

P and Q are in partnership and filed their petition in Bankruptcy. They presented the following Statements of their Firms' and Individuals' Assets and liabilities as at December 31, 2014.

Firm	P		Q	
	Sh''000''		Sh''000''	Sh''000''
Mortgage on Building	60,000		-	-
Bank Overdraft	60,000		-	-
Sundry Creditors	248,000		30,000	58,000
Preferential Creditors	2,000		-	-
Capitals;				
P	60,000		-	-
Q	40,000		-	-
Excess of Assets over Liabilities	<u>-</u>		<u>100,000</u>	<u>22,000</u>
	<u>470,000</u>		<u>130,000</u>	<u>80,000</u>

Buildings	120,000	-	-
Plant	130,000	-	-
Furniture	8,000	20,000	24,000
Debtors	100,000	-	-
Stock	110,000	-	-
Investments	-	50,000	16,000
Cash	2,000	-	-
Capital in the Firm	<u>-</u>	<u>60,000</u>	<u>40,000</u>
	<u>470,000</u>	<u>130,000</u>	<u>80,000</u>

The bank Overdraft was secured by a second mortgage on building and on Q's investments.

Upon disposal, the assets were expected to realize the following respective values;

	Firm	P	Q
	Sh''000''	Sh''000''	Sh''000''
Building	90,000	-	-
Plant	60,000	-	-
Furniture	3,000	12,000	16,000
Stock	62,000	-	-
Debtors	61,500	-	-
Investments	-	40,000	6,000

**Required;**

- (i) Prepare a statement of Affairs and Deficiency Account for Partner "P" (6 Marks)
- (ii) Prepare a statement of Affairs and Deficiency Account for Partner "Q" (6 Marks)
- (iii) Prepare a statement of Affairs and Deficiency Account for the Firm. (8Marks)

**(TOTAL 20MARKS)**

#### QUESTION 4

- (a) Describe **three** types of company reorganizations strategies (3 Marks)  
(b) The following statement of financial position and income statement relate Migingo industries Limited. The company's ordinary shares are currently priced at sh 6 per share.

#### Migingo industries Limited

#### Statement of financial position as at December 31,2014

Assets	Liabilities and Shareholder's Equity
ShSh	
Cash 400,000	Accounts payable 5,000,000
Accounts Receivable 3,000,000	Notes payable 1,000,000
Inventories <u>4,000,000-</u>	
Total Current Assets <u>7,400,000</u>	Total Current Liabilities <u>6,000,000</u>
Land 1,000,000	Mortgage 4,000,000
Plant(NBV) 5,000,000	Debentures 6,000,000
Equipment(NBV) <u>8,000,000-</u>	
Total Fixed Assets <u>14,000,000</u>	Total Long Term Debts 10,000,000
Preference Share Capital (100,000 Shares) 1,000,000	
Ordinary Share Capital (500,000 Shares) 1,000,000	
	Share Premium 2,000,000
	Retained Earnings <u>1,400,000</u>
	Total Shareholders' Equity 5,400,000
Total Assets <u>21,400,000</u>	Total Liabilities and Equity <u>21,400,000</u>

**Miging industries Limited**

**Statement of income for the year ended Dec 31, 2014**

Shs

Sales	6,000,000
Cost of goods sold	(3,500,000)
Selling and Administration Expenses	<u>(1,000,000)</u>
Earnings before interest and tax	1,500,000
Interest Paid	<u>(1,100,000)</u>
Earnings before taxes	400,000
Less Taxes 30%	<u>(120,000)</u>
Net Income	<u>280,000</u>

**Required;**

Compute

$X_1 = \text{Working capital} / \text{Total Assets}$  (2 Marks)

$X_2 = \text{Retained Earnings} / \text{Total Assets}$  (2 Marks)

$X_3 = \text{EBIT} / \text{Total Assets}$  (2 Marks)

$X_4 = \text{Market Value of Equity} / \text{Book value of total liabilities}$  (2 Marks)

$X_5 = \text{Sales} / \text{Total Assets}$  (2 Marks)

If the Z-Score =  $1.2 X_1 + 1.4 X_2 + 3.3 X_3 + 0.6 X_4 + 0.999 X_5$

(i) Evaluate the Altman's Z' Score and interpret its meaning (3 Marks)

(ii) Critically evaluate the applicability of the Altman's Z-Score in the context of your country (4 Marks)

**(TOTAL 20MARKS)**