



MURANG'A UNIVERSITY OF TECHNOLOGY

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF COMMERCE

UNIVERSITY ORDINARY EXAMINATION

2023/2024 ACADEMIC YEAR

**THIRD YEAR SECOND SEMESTER EXAMINATION FOR BACHELOR OF
COMMERCE (MARKETING OPTION)**

BCA 305 – BANKRUPTCY AND INSOLVENCY ACCOUNTS

DURATION: 2 HOURS

INSTRUCTIONS TO CANDIDATES:

1. Answer question one and any other two questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

SECTION A: ANSWER ALL QUESTIONS IN THIS SECTION

QUESTION ONE (30 MARKS)

a. Differentiate between:

- i. Univariate and Multivariate Discriminant Analyses (2marks)
 - ii. Partially secured creditors and preferential creditors (2marks)
 - iii. Insolvency and Bankruptcy (2marks)
- b. Explain four factors that indicate that companies are in serious financial distress. (4marks)
- c. State five causes of companies winding up. (5marks)
- d. Highlight six differences between Statement of Affairs and Statement of Financial position. (6marks)
- e. Identify five acts of Bankruptcy. (5marks)
- f. Discuss four consequences after receiving order is issued by a Bankruptcy court. (4marks)

SECTION B – ANSWER ANY TWO QUESTIONS IN THIS SECTION

QUESTION TWO (20 MARKS)

- a. Differentiate between provable and un-provable debts. (2marks)
- b. On 31st Dec 2023, A compulsory order for winding up was made against PQR Ltd. The following information was disclosed.

Cash in Hand	Book value (sh)	Estimated to produce (sh)
Debtors	50,000	50,000
Land and Buildings	200,000	180,000
Furniture and Fixtures	1,000,000	2,400,000
Unsecured Creditors	1,000,000	800,000
Debentures		
Secured on Land and Buildings	2,100,000	
Secured by floating charge	500,000	
Preferential Creditors	300,000	
Share Capital	3,200	
Share of sh 100 each	1,600,000	

Estimates liability for bill discounted was sh. 300,000 estimated to rank at sh.300,000 Other contingent liability amounted to sh.600,000 estimated to rank sh. 600,000. The company was formed on Jan 1, 2021 and had made losses of sh. 1,250,000

Required

A statement of Affairs (9marks)

A Deficiency Account (9marks)

QUESTION THREE (20 MARKS)

- a. Explain the concept of Zeta’s z-score (2marks)
- b. The following Statement of Financial position and the income statement relates to Company ABC Ltd. The Company’s ordinary shares are currently prices at sh 5 per share.

ABC Ltd

Financial statement as at 31st Dec. 2023

Assets (sh)		Liabilities/Equities (sh)	
Cash	200,000	Accounts Payable	2,500,000
Accounts Receivable	1,500,000	Notes Payable	500,000
			3,000,000
Inventions	2,000,000	Mortgage	2,000,000
	3,700,000		
Land	500,000	Preference share capital (50,000 shares)	500,000
		Share premium	1,000,000
Plant (NBV)	4,000,000	Retained Earnings	700,000
			10,700,000

- i. Given that Insert formula Determine Z score for the company as at December 31, 2023. (5marks)
- ii. If the Zetas score is 2.675, state the financial health of the company. (3marks)

QUESTION FOUR (20 MARKS)

Mrs. Wambura commenced business on January with a capital of sh. 800,000. Her profits for the first two years amounted to sh. 380,000. However, she did not prepare proper accounts for the next three years. Her drawings averaged sh, 80,000 per year. On 31st December 2023, receiving order was issued against her when her financial affairs were as follows:

- i. Plant and machinery: cost was sh. 500,000 was estimated to realize sh. 300,000
- ii. Buildings: Cost sh. 1,100,000 was estimated to realize sh. 800,000
- iii. Furniture: cost sh. 200,000 estimate to realize sh. 120,000
- iv. Investors: cost sh. 320,000 estimated to income statement

Sales	3m
Cost of sales	(1.75)
Selling and Distribution	(0.50)
EBIT	0.75
Interest	(0.55)
EBT	0.2
Taxes 30%	(0.06)
Net income	0.14m

Required:

- i. Compute $x_1 = \text{Networking Capital} / \text{Total Assets}$ (5) (2marks)

$$X_2 = \frac{\text{retained earnings}}{\text{Total Assets}} \% \quad (2marks)$$

$$X_3 = \frac{\text{EBIT}}{\text{Total Assets}} \% \quad (2marks)$$

$$X_4 = \frac{\text{MKT value 2 total Equity}}{\text{BK Value 2 Total Liabilities}} \% \quad (2marks)$$

$$X_5 = \frac{\text{Sales}}{\text{Total Assets}} \% \quad (2marks)$$

To realize sh. 270,000

Cash in Hand sh 30,000

Book Debts: Good sh. 80,000, Doubtful sh. 60,000 estimated to realize sh. 20,000 and bad debts sh. 10,000

Bills receivables discounted and expect to rank sh. 100,000

Preferential Creditors	sh. 60,000
Creditors partly secured (life insurance cover estimated to realise sh. 160,000)	sh. 460,000
Mortgage on buildings	sh. 560,000
Unsecured creditors	sh. 800,000
Household furniture	sh. 40,000
Household debts	sh. 20,000

Required:

- i. Determine the profit/loss for the years 2022 and 2023. (8marks)
- ii. Prepare a statement of affairs as on December 31, 2023. (8marks)
- iii. Prepare a Deficiency Account as on 31st December, 2023. (6marks)