



# MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

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## University Examinations 2024/2025

THIRD YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR  
OF COMMERCE

### BFC 3377: BANKRUPTCY AND INSOLVENCY ACCOUNTS

DATE: JANUARY 2025

TIME: 2 HOURS

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INSTRUCTIONS: Answer question *one* and any other *two* questions

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#### QUESTION ONE (30 MARKS)

Mr. P. Patel commenced business on 1<sup>st</sup> January 1990 with a capital of KShs. 1,300,000. Mr P. Patel maintained proper books of account for each of three years up to 31<sup>st</sup> December 1992. His total profits for the 3 years were Kshs. 708,000. He however did not prepare proper books of account for the year 1993 and 1994. His drawings for the first five years averaged Kshs. 96,000 per annum.

On 31<sup>st</sup> December 1994 an order of adjudication was made against him when his financial affairs were as follows:

	Shs.
Buildings (cost Kshs. 1,200,000) estimated to rains	400,000
Plant and machinery (cost Kshs. 560,000) estimated to realise	200,000

Book debts: Good Kshs. 240,000, Doubtful Kshs. 80,000 These were estimated to realise	
- Doubtful	20,000
- Good	200,000
Bills receivable discounted and expected to rank	100,000
Preferential creditors	20,000
Creditors partly secured (security life policy estimated to be worth shs, 160,000)	460,000
Mortgage on Buildings	200,000
Unsecured creditors	800,000
Household furniture	60,000
Household debts	40,000
Furniture cost — sh. 40,000 estimated to realise	16,000
Stock cost — sh. 320,000 estimated to realise	220,000
Cash in hand	4,000

Mr. P. Patel handed over jewelley valued at sh. 50,000 to the official receiver.

**Required:**

A statement of affairs and deficiency account for Mr. Patel (30 marks)

**QUESTION TWO (20 MARKS)**

- a) Explain the following terms:
- i. Receivership. (2 marks)
  - ii. Administration. (2 marks)
  - iii. Liquidation. (2 marks)
- b) Highlight FOUR powers of an administrator in corporate administration. (4 marks)

- c) Describe the process of appointing a receiver during the winding up of a company. (10 marks)
- d) Examine THREE legal consequences that may befall a foreign company operating in your country if it fails to comply with the legal requirements as provided for in the Companies Act. (6 marks)

**QUESTION THREE (20 MARKS)**

- a) A company can be wound up for failure to pay its debts. Explain to Edna Makena, one of the creditors of Ushindi Co. Ltd, THREE circumstances under which a company may be deemed unable to pay its debts. (6 marks)
- b) Highlight SIX offences relating to liquidation of companies. (6 marks)
- c) In relation to corporate restructuring, explain the following terms:
- i. Compromises. (2 marks)
  - ii. Merges (2 marks)
  - iii. Arrangements (2 marks)
  - iv. Reconstructions (2 marks)

**QUESTION FOUR (20 MARKS)**

The following is the balance sheet of nchiru ltd. as on December, 31 2010

Liabilities	Shs	Assets	Shs.
Paid-up Capital:		Land and building	2,00,000
1,000 6% Preference Shares of Rs.100 each	1,00,000	Plant and Machinery	2,0,000
2,000 Equity shares of Rs.100 each fully paid	2,00,000	Current Assets:	
3,000 Equity Shares of Rs.100 each Rs.50 Paid	1,50,000	Stock	1,00,000
Secured Loan:		Debtors	1,00,000
6% Debentures (floating charge on all assets)	1,00,000	Cash at Bank	30,000

Others (Mortgage on Land and Building)	1,00,000	Misc.	
Current Liabilities:		Expenditure:	
Sundry Creditors	90,000	Profit and Loss	1,00,000
Income-tax	10,000	a/c	
	7,50,000		7,50,000

The company went into liquidation of January 1,2011.

The Preference dividends were in arrears for 3 years and payable on liquidation. The assets realized as follows: Land and Building sh.2,40,000; Plant and Machinery sh. 1,80,000; stock sh.70,000; Debtors sh.60,000.

The expenditure of liquidation amounted to sh.8,000

The liquidator is entitled to a commission of 2% on all assets realized and 3% on amounts distributed to unsecured creditors.

All payments were made on June 30,2011. Prepare liquidator's statement of account

### QUESTION FIVE (20 MARKS)

Discuss the following

- (a)
  - i. Company's voluntary arrangements (3 marks)
  - ii. Scheme of arrangement (3 marks)
  - iii. Creditors voluntary liquidation (3 marks)
- b) Describe the order of payment on liquidation (11 marks)