



# MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR SPECIAL/ SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 306: BANKRUPTCY AND LIQUIDATION/REORGANIZATION

DATE: 23/3/2021

TIME: 8.30-10.30 AM

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## INSTRUCTIONS:

*Answer question one and any other two questions.*

### QUESTION ONE (30 MARKS)

- a) Explain the difference between the two terms: receivership and liquidation (6 marks)
- b) Explain how the following costs/debts are paid in the distribution of the intestate according to the Bankruptcy Act :
- i. Pre-preferential creditors
  - ii. Unsecured creditors
  - iii. Deferred creditors
  - iv. Secured creditors
  - v. Preferential creditors
  - vi. Costs and expenses (12 marks)
- c) Norieta Co. Ltd sold its enterprise to John & Co. several years ago. Its financial position on 1st January 2020 was as follow:  
Stock in Trade:Kes.18,000, Debtors:Kes.15,000, Furniture and Fixtures:Kes.17,500, Cash at Bank:Kes.12,500, Sundry Creditors:Kes.13,500, Outstanding Salaries:Kes.2,200.  
The financial position of the firm on 31st December 2020 was as follows:  
Stock in Trade:Kes.24,000; Debtors:Kes.19,500, Furniture and Fixtures:Kes.15,000, Plant:Kes.10,000, Sundry Creditors:Kes.12,000, Bank Overdraft:Kes.8,000.  
During the year, John withdrew Kes.3, 500 for his personal expenses. Charge interest on capital @ 5% p.a.

**Required:**

- i. A statement of affairs for John & Co for the years ended December 31, 2019 (10 marks)
- ii. A statement of affairs for John & Co for both the years ended December 31, 2020 (10 marks)
- iii. A profit and loss account for the period ended December 31, 2020 (10 marks)

**QUESTION TWO (20 MARKS)**

- a) Distinguish between balance sheet and statement of affairs (12 marks)
- b) Define the following:
  - i. Receivership
  - ii. Scheme of arrangement (8 marks)

**QUESTION THREE (20 MARKS)**

- a) Contrast the two terms: bankruptcy and liquidation. (8 marks)
- b) Explain the following terms:
  - i. Assignment of property to trustee
  - ii. Fraudulent conveyance
  - iii. Fraudulent preference
  - iv. Absenting
  - v. Execution against goods
  - vi. Petition by debt (12 marks)

**QUESTION FOUR (20 MARKS)**

- a) Explain any four consequences of making a receiving order (10 marks)
- b) State and list any five-priority order of paying debts of a bankrupt. (10 marks)

**QUESTION FIVE (20 MARKS)**

- a) The process of bankruptcy is not only a necessary evil but a beneficial one. Briefly compare and contrast this statement as far the law of bankruptcy is concerned. (10 marks)
- b) As any law, one becomes convicted by this law if he or she commits any acts of specific provisions of bankruptcy. In your own words, you are required to explain any five acts a debtor may contravene. (10 marks)