



# PIONEER INTERNATIONAL UNIVERSITY

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**ACADEMIC YEAR:** 2021/2022

**UNIT NAME:** BANKRUPTCY AND INSOLVENCY ACCOUNTS

**SEMESTER:** SEPT- DEC 2021

**UNIT CODE:** ACCT 3211

**DATE:** DEC 2021

**TIME:** 2 HOURS

**Instructions: Answer SECTION A (Compulsory) and Any Other Two Questions**

## **SECTION A (30Marks)**

### **QUESTION ONE [30Marks]**

- Define a scheme of arrangement as it relates to the law of bankruptcy. [4Marks]
- What is the difference between an assignee and a trustee in a liquidation? [2Marks]
- Why may it be important to use an assignee and not a trustee in a liquidation? [2 marks]
- State two reasons why businesses fail [2 Marks]
- According to section 21 of the Act, the creditors can appoint a trustee of the property of the bankrupt after an adjudication order has been made by the court. Explain the duties of trustee and mention three situations how he or she may be released from his duties [10 Marks]
- Section 138(1) of the Act states that a bankrupt shall be guilty of in various cases. Briefly explain any five such cases [10 Marks]

## **SECTION B (40MARKS)**

### **QUESTION TWO (20 MARKS)**

- State four importance of predicting corporate failure. [4 Marks]
- Distinguish between Balance Sheet and statement of affairs in the context of bankruptcy accounts [8 Marks]
- Explain the main components of the bankruptcy accounts [12 Marks]

**QUESTION THREE (20 MARKS)**

- (a) A partnership can be liquidated if a partner dies or if there is mutual agreement by partners to dissolve the partnership or if the partnership becomes bankrupt. To liquidate a partnership, there are generally four sequential steps that must be followed. State and explain these steps. [8 marks]
- (b) The following three partners: Kamau, Kaloki and Otieno have been trading selling school supplies. The partnership has been experiencing financial distress due to inflated prices of products they import to distribute, and the partners have voluntarily filed for bankruptcy liquidation. The following is the statement of financial position of the partnership for the year ended 31 December 2014.

<b>Assets</b>	<b>Kshs.</b>	<b>Liabilities and Owners' Equity</b>	<b>Kshs.</b>
Bank	200,000	Notes payable	3,000,000
Debtors	3,000,000	Creditors	3,200,000
Stock	3,600,000	Capital:	
Non-current assets (NBV)	5,400,000	Kamau	3,000,000
		Kaloki	2,760,000
		Otieno	<u>240,000</u>
	<u>12,200,000</u>		<u>12,200,000</u>

The partners have agreed to sell the partnership to Wendani Traders for Kshs. 15,000,000. The partners will settle liabilities first before settling themselves. The partners have been sharing their losses and gains in the ratios of 3:2:1.

**Required:**

Draw up T-Accounts to reflect the movements on the bank account and all other accounts including: disposal of assets, payments for liabilities, partners' capital accounts indicating how losses or profits on sale of assets is shared and also the foreclosure of the partnership as it pays off the partners. [12 marks]



**QUESTION TWO (15 MARKS)**

- a) Distinguish between disallowable expenses and allowable expenses giving examples in each case [6 Marks]
- b) Discuss the factors that affects the tax shifting in Kenya giving relevant examples where applicable [9 Marks]

**QUESTION THREE (15 MARKS)**

- a) Tax can be distinguished from other payments. Explain giving any four differences (4 Marks)
- b) Discuss the benefits of being a resident person as regard to taxations of “persons” (8 Marks)
- c) State the reasons why individuals evade taxes (3Marks)

**QUESTION FOUR (15 MARKS)**

Explain the following terms in taxation

- i. Direct taxes (3marks)
- ii. Indirect taxes (3marks)
- iii. Tax incidence and impact (3marks)
- iv. Progressive taxes (3marks)
- v. Proportional taxes (3marks)

**IMPORTANT NOTICE !!!!!!!!!!!!!**

**The following are the possible consequences if found guilty of an Examination Offence:**

- a) Expulsion from the University.**
- b) Academic Leave.**



