**CHAPTER 16-BANKRUPTCY**

**TRUE/FALSE**

1. Under all chapters of the Bankruptcy Code, most of the debtor’s assets are distributed to creditors and the debtor has no obligation to share future earnings with creditors.

2. Peggy’s credit card debts are mounting as her costs of insurance and fuel have dramatically increased and her income, from sporadic free-lance jobs, has dropped. Chapter 13 of the Bankruptcy Code will allow her to reorganize her debt while she keeps most of her assets.

3. Generally, filing bankruptcy stops the collection activity of creditors.

4. Brad was having financial difficulties and thought bankruptcy might be in his future. He transferred his sports car to his brother with the agreement that if he didn’t file for bankruptcy within the next 18 months, his brother would return the car to him. Brad did file for bankruptcy in ten months. The bankruptcy trustee can bring the car back into Brad’s estate for the purpose of providing assets for Brad’s creditors.

5. Bankruptcy is regulated by federal law.

6. Chapter 7 bankruptcy petitions may only be filed voluntarily..

7. In Chapter 11 only the debtor may propose plans of reorganization.

8. Creditor claims are divided into classes and the highest class must be satisfied in full before going to the next category.

9. The Bankruptcy Code uses the term “bankrupt” to refer to a person who cannot pay his debts.

10. Chapters 11 and 13 are liquidation chapters.

11. Alimony and child support obligations are considered priority claims.

12. Individual debtors are allowed to keep some assets in a Chapter 7 bankruptcy.

13. Francesca cannot serve as a trustee in a bankruptcy case because she is not a lawyer.

14. Shoe Sunshine, Inc. filed for bankruptcy protection under Chapter 11 and submitted a plan of reorganization within 120 days after filing for relief. Two of the classes of creditors voted against the plan. However, the bankruptcy judge considered the plan to be reasonable, achievable, and fair, and approved it in spite of these creditors' objections. This action by the judge is called a "cramdown."

15. In a Chapter 13 bankruptcy, creditors cannot force a debtor into bankruptcy; nor can they vote to confirm or reject a plan of reorganization.

**MULTIPLE CHOICE**

1. Which of the following of the bankruptcy process occurs first:

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| a. | the submission of a plan of repayment. |
| b. | the bankruptcy court’s issuance of an order for relief. |
| c. | a meeting of creditors. |
| d. | the appointment of a trustee. |

2. Which of the following is a primary goal of bankruptcy:

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| a. | to preserve as much of the debtor's property as possible. |
| b. | to divide the debtor's assets fairly between the debtor and the creditors. |
| c. | to divide the debtor's assets fairly among the creditors. |
| d. | All of the above. |

3. Debts that cannot be discharged in bankruptcy include all EXCEPT:

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| a. | alimony. |
| b. | income taxes. |
| c. | negligence judgments. |
| d. | fraud judgments. |

4. Chapter 13 bankruptcy:

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| a. | is used by businesses to reorganize their financial situations. |
| b. | is an involuntary bankruptcy. |
| c. | can be used only by individuals with a regular source of income. |
| d. | is used by businesses to liquidate their debts. |

5. Andy's business is not able to pay its debts, and the prospects for its finances to improve are slim. Andy decides not to continue the business. In this case, Andy should file a voluntary petition for which type of bankruptcy?

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| a. | Chapter 7. |
| b. | Chapter 11. |
| c. | Chapter 13. |
| d. | Chapter 12. |

6. The bankruptcy Chapter designed only for individuals:

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| a. | Chapter 7. |
| b. | Chapter 9. |
| c. | Chapter 11. |
| d. | Chapter 13 |

7. Link negligently ran his car into John, causing $50,000 in injuries. Link was intoxicated at the time of the accident. Can Link discharge this debt in bankruptcy?

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| a. | Yes, claims based on negligence are dischargeable. |
| b. | Yes, as long as he didn't intend to hit John's car. |
| c. | No, such claims are not dischargeable in bankruptcy. |
| d. | No, because Link breached a fiduciary duty. |

8. Which of the following cannot file a bankruptcy petition under the Code?

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| a. | Aztec, a foreign corporation doing business in the United States. |
| b. | Milan, a citizen of Bosnia, who owns property in the United States. |
| c. | Debra, a resident of Michigan, whose liabilities do not exceed assets. |
| d. | Stan, an American citizen, who refuses to undergo credit counseling. |
| e. | All of the above. |

9. Which of the following statements concerning a Chapter 11 reorganization plan is true?

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| a. | A reorganization plan will be confirmed by the court only if a majority of each class of creditors votes in favor of the plan. |
| b. | A reorganization plan can be confirmed by the court over objections of some creditors if the court determines that the plan is feasible and fair. |
| c. | Only the bankruptcy court has the authority to confirm or reject the reorganization plan. Creditors do not have a right to vote on the plan. |
| d. | A reorganization plan binds only the debtor and not the creditors. |

10. Creditors of Northern Hydraulics file an involuntary bankruptcy petition against it. What is true of Northern Hydraulics.

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| a. | Northern Hydraulics has at least $10,425 in debts |
| b. | There are at least 12 creditors |
| c. | a custodian has been appointed |
| d. | It must make all the filings necessary under a voluntary petition |

11. Ramona has received a discharge in bankruptcy, but wants to reaffirm a debt to her sister. To be valid, the reaffirmation:

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| a. | will be scrutinized by the court to make sure her sister has not unfairly pressured Ramona. |
| b. | will be automatically disallowed because allowing Ramona to promise to pay a discharged debt would be contrary to the goals of the bankruptcy proceedings. |
| c. | will be automatically allowed if Ramona voluntarily chooses to make it. |
| d. | must clearly disclose that Ramona has the right to rescind at any time since the debt was already discharged. |

12. Iris received a discharge under a Chapter 7 bankruptcy. She cannot receive another discharge under Chapter 7 for at least:

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| a. | six years after the prior filing. |
| b. | eight years after the prior filing. |
| c. | ten years after the prior discharge. |
| d. | She cannot file another Chapter 7, but could file a Chapter 11 or 13 bankruptcy. |

13. Grand Lighting Co. has filed a petition for voluntary bankruptcy under Chapter 7 of the Code. The following property will be exempt from the bankruptcy process:

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| a. | work tools. |
| b. | up to three company cars. |
| c. | up to $20,200 in the value of the company’s real property. |
| d. | All of the above. |
| e. | None of the above. |

14. Kathleen filed for voluntary bankruptcy and the automatic stay went into effect. The automatic stay:

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| a. | acts to automatically discharge Kathleen's debts. |
| b. | stops any and all acts to collect, assess, or recover a claim against Kathleen that arose before she filed bankruptcy. |
| c. | stops only secured creditors from taking any act to collect, assess, or recover a claim against Kathleen that arose before she filed bankruptcy. |
| d. | stops creditors from trying to collect from Kathleen, but it does not stop them from filing lawsuits against her. |

15. Which of the following is a requirement for an involuntary Chapter 7 bankruptcy petition?

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| a. | The debtor must owe at least $150,000 in unsecured claims to the creditors who file. |
| b. | The debtor must have at least three creditors join in the petition if the debtor has 12 or more creditors. If the debtor has fewer than 12 creditors, any single creditor or group can file a petition. |
| c. | The creditors must have tried to help the debtor overcome the financial difficulties. |
| d. | The debtor must have a majority of the creditors file the petition. |

16. Which of the following actions would prevent a discharge of debts under Chapter 7?

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| a. | Discharge under Chapters 7 or 11 within the past eight years. |
| b. | Falsified records presented to bankruptcy court by debtor. |
| c. | Failure to disclose assets. |
| d. | All of the above would prevent a discharge of debts. |

17. Kylie filed a Chapter 7 bankruptcy petition in which she exempted her home, valued at $125,000. Kylie can exempt her entire home from all creditors if:

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| a. | she claims her exemptions under the federal Bankruptcy Code. |
| b. | she lives in a state that allows for an exemption amount of $125,000 or more. |
| c. | she lives in a state that allows an exemption amount of $125,000 or more, she has lived in that state for at least two years prior to the bankruptcy, and there are no secured creditors with perfected liens against the home. |
| d. | None of the above. |

18. Esmeralda is a debtor in a Chapter 7 bankruptcy proceeding. Which of the following is not a duty of Esmeralda under Chapter 7?

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| a. | To undergo credit counseling with an approved agency before filing. |
| b. | To provide a repayment schedule for the debt owed to each creditor listed on the creditor list. |
| c. | To provide a list of all her assets and debts. |
| d. | To provide a schedule of all her income and expenditures. |

19. Forever Yours, Inc. has a secured and perfected security interest in Sally's big-screen TV. On the filing date of Sally's Chapter 7 petition, the balance of the debt owed to Forever Yours is $2,000. The value of the TV is estimated at $1,500. This means that Forever Yours:

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| a. | is secured for the entire debt, $2,000. |
| b. | is unsecured for $500, the excess of the debt over the value of the TV. |
| c. | has a high priority claim of $500. This means that Forever Yours, Inc. will be allowed $500 worth of other unsecured property before other unsecured creditors get anything. |
| d. | is unsecured for the entire debt. |

20. The correct order of payment of claims from the debtor's estate would be:

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| a. | secured claims, priority claims, unsecured claims. |
| b. | secured claims, unsecured claims, priority claims. |
| c. | priority claims, secured claims, unsecured claims. |
| d. | priority claims, unsecured claims, secured claims. |

21. A Chapter 7 debtor's agreement to pay a creditor on a debt after receiving a discharge in bankruptcy is called a:

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| a. | voidable preference. |
| b. | reaffirmation. |
| c. | fresh start. |
| d. | redemption. |

22. Under what circumstances might the court reject a debtor's Chapter 13 plan?

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| a. | The plan requires future earnings to pay off debts. |
| b. | The plan promises to pay all secured and priority claims. |
| c. | The plan anticipates paying the unsecured creditors less than what they would get under Chapter 7. |
| d. | The plan treats all unsecured classes equally. |

23. Which of the following would not be considered a fraudulent conveyance or a voidable preference under the provisions of the Code? Immediately prior to filing bankruptcy:

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| a. | debtor sells assets well below fair market price to Freddie, a friend. |
| b. | debtor sells his car at a public auction, thinking that it would bring a decent price, but the car brings an amount well below fair market value. |
| c. | debtor's corporation transfers assets to stockholders in lieu of cash dividends. |
| d. | debtor pays $650 to "Nation on Line" for the past ten months of Internet service. |

24. Agnes plans to file for bankruptcy under Chapter 7. One month prior to filing, Agnes gives Joe's Filling Station $700 to apply to her gas bill. Joe has been so kind to let her charge the gas she needed for her car over the past year. The bankruptcy trustee appointed to the case:

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| a. | can cancel the payment to Joe as a fraudulent transfer. |
| b. | cannot cancel the payment to Joe because it is payment for an existing debt. |
| c. | cannot cancel the payment to Joe because he is not an insider. |
| d. | can cancel the payment to Joe as a voidable preference. |

25. Under the federal Bankruptcy Code, the exemption amount for the debtor's personal residence is:

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| a. | $20,200. |
| b. | $37,100. |
| c. | unlimited. |
| d. | $50,000. |

**ESSAY**

1. Mark and Cynthia work for Bryson Supply Co. If the company files for Chapter 7 bankruptcy before paying their last month of wages and benefits, will they be able to recover anything from the company?

2. What are the three main purposes of the federal Bankruptcy Code? How are these purposes supported and fostered in the Code?

3. Artistic Framing, a business with $120,000 of unsecured debt, needs to file for bankruptcy, but wants to continue in business. Discuss what chapter of the Bankruptcy Code should be used, and discuss the effect of the 2005 amendment to the Code on the proceedings.

4. When Dudley files his Chapter 7 petition, he lists the following debts:

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| a. | $25,000 in back child support and alimony. |
| b. | $15,000 for liabilities incurred after drinking and driving. |
| c. | $10,000 for past-due student loans. |
| d. | $5,000 for past-due rent to his landlord. |
| e. | $550 for a past-due phone bill. |

How will each of these debts be treated by the bankruptcy court.

5. Karen has filed for bankruptcy. Who has the authority to confirm or reject a plan of payment, and what factors will be considered when deciding whether to approve a repayment plan under Chapter 13?