



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 306: BANKRUPTCY AND REORGANISATION

DATE: 9/8/2021

TIME: 8.30-10.30 AM

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE (30 MARKS)

- Explain briefly the powers of a liquidator. (3 marks)
- Explain the consequences of bankruptcy. (3 marks)
- Explain the distinction between bankruptcy and liquidation. (2 marks)
- Explain the distinction between bankruptcy and insolvency. (2 marks)
- Peter Munuve filed his own petition in bankruptcy and the receiving orders were issued by the court on 31st March 2018.

The balances extracted from his books of account as at 31st March 2018 were as follows:

| Assets | Shs(000) | Liabilities | Shs(000) |
|------------------------|--------------|---------------------------|--------------|
| Freehold land | 1,250 | Loan from a bank | 1,000 |
| Furniture and fittings | 710 | Loans from a SACCO | 500 |
| Motor vehicle | 290 | Mortgage on freehold land | 1,000 |
| Stock | 1,200 | Sundry creditors | 2,550 |
| Sundry debtors | 1,520 | Bank overdraft | 1,100 |
| Bank balance | 20 | | |
| Drawings | <u>560</u> | | |
| Total assets | 5,550 | Total liabilities | 6,150 |

Additional information:

1. The official receiver appointed by the court has established the realizable values of the bankrupt's assets to be as follows:

| | Shs(000) |
|--|----------|
| Freehold land | 1,800 |
| Furniture and fittings | 500 |
| Motor vehicle | 140 |
| Stock | 800 |
| Sundry debtors: | |
| Good | 1,000 |
| Doubtful of which Sh.300,000 is estimated as realizable. | 400 |
| Bad | 120 |
| Private assets other than personal effects | 28 |

2. Peter Munuve's private obligations amounted to Sh.12,000.
3. The interest due on the mortgage amounting to Sh.200,000 had not been recorded as at 31st March 2018.
4. The loan from bank and the bank overdrafts were secured by a floating charge on assets and no interest was outstanding on 31st March 2018.
5. Sundry creditors as at 31st March 2018 comprise:

| | Sh.(000) |
|--|----------|
| i. Assessed income taxes (2015-Sh.100,000, 2016-Sh.85,000 and 2017-Sh.120,000) | 305 |
| ii. Rent due to government (Sh.50,000 per annum) | 300 |
| iii. Nairobi city council rates for the year ended 31 st December 2016 | 20 |
| iv. 5 months wages due to 5 employees at Sh.5,000 per employee. | 125 |
| v. s3 months salary due to Munuve's uncle. | 24 |
| vi. Employees NSSF contributions for 36 months at Sh.12,000 per annum. | 36 |
| vii. Loan from John Kopesha for purchase of trading stock. | 100 |
| 6. The loan from John Kopesha attracted interest of 5% per annum plus 10% interest based on the net profit made by Peter Munuve. The unrecorded interest due as at 31 st March 2018 was Sh.7,500. | |
| 7. During the year ended 31 st March 2018, Peter Munuve made business losses of Sh.830,000. | |

Required:

- I. A detailed statement showing the order of priority in which the sundry creditors would be paid. (6 marks)
- II. Statement of affairs as at 31st March 2018. (8 marks)
- III. Deficiency account as at 31st March 2018 (6 marks)

QUESTION TWO (20 MARKS)

Hamed and Hassan were in partnership trading under the name 'Medsan Traders' and sharing profits and losses in the ratio of 1:3 respectively. On 31st December 2014 a winding up petition was lodged against the firm, on which date the balances extracted from the books of the firm and the partners' separate estates were as follows:

| Assets: | Current value Sh.(000) | Estimated values Sh.(000) |
|--|-------------------------------|----------------------------------|
| Freehold property: Medsan Traders | 11,000 | 12,000 |
| Hamed | 7,000 | 10,000 |
| Plant and machinery: Medsan Traders | 3,000 | 1,500 |
| Furniture and fixtures: Medsan traders | 1,000 | 800 |
| Hamed | 1,500 | 1,200 |
| Hassan | 1,800 | 1,500 |
| Inventory: Medsan Traders | 8,000 | 6,500 |
| Accounts receivable: Medsan Traders | 12,000 | (see note 1) |
| Investments: Hamed | 1,500 | 2,400 |
| Hassan | 2,000 | 1,900 |

Liabilities:

| | |
|---|--------|
| Mortgage on freehold property: Medsan Traders | 6,000 |
| Hamed | 5,000 |
| Bank overdraft: Medsan Traders | 7,000 |
| Accounts payables: Medsan Traders | 19,000 |
| Hamed | 700 |
| Hassan | 2,400 |

Additional information:

1. Of the accounts receivable, sh.9 million is estimated to be good while Sh.1 million is estimated to be bad, 50% of the remaining debts are expected to be paid.
2. The preferential accounts payables for Medsan Traders, Hamed and Hassan were Sh.1,100,000, Sh.300,000 and Sh.500,000 respectively.
3. Medsan Traders' bank overdraft was secured by a second mortgage on the partnership freehold property and by the deposit of Hamed's investments together with his personal guarantee.

Required:

- a) Determine Capitals for Medsan, Hamed and Hassan.
- b) Statement of affairs of Hamed.
- c) Surplus account for Hamed.
- d) Statement of affairs for Hassan.
- e) Surplus account for Hassan.
- f) Statement of affairs for Medsan.
- g) Surplus account for Medsan.

QUESTION THREE (20 MARKS)

- a) List and explain briefly the powers of a liquidator. (5 marks)
- b) Hasara Ltd makes its accounts each year 31 October and has been trading at a loss. On 31 October 2002, a resolution for a voluntary liquidation was passed. The balance sheet as at that date was as follows.

| | Sh. '000' | Sh. '000' | Sh. '000' |
|---|------------|------------|---------------|
| Non Current assets | | | |
| Freehold property | | | 11,000 |
| Plant and machinery | | | <u>2,750</u> |
| | | | 13,750 |
| Current assets: | | | |
| Stock | | 8,750 | |
| Debtors | | 13,375 | |
| Cash | | <u>125</u> | |
| | | 22,250 | |
| Current liabilities: | | | |
| Bank overdraft | 3,750 | | |
| Creditors | 11,250 | | |
| Interest payable (5% debentures) | <u>500</u> | (15,500) | <u>6,750</u> |
| | | | 20,500 |
| Paid up capital: | | | |
| 10,000 10% cumulative preference shares of Sh.500 each fully paid | | | 5,000 |
| 25,000 Ordinary shares of Sh.500 each fully paid | | | 12,500 |
| 10,000 Ordinary shares of Sh.500 each. Sh.250 paid. | | | <u>2,500</u> |
| | | | 20,000 |
| Revenue reserves: profit and loss account | | | (9,500) |
| Non-current liabilities: | | | <u>10,000</u> |
| 5% debentures | | | <u>20,500</u> |

Additional information:

1. The debentures are secured by a floating charge on the asset and undertaking of the company.
2. The bank overdraft is secured by a fixed charge on the company's freehold property.

3. The preference shares carry a right to a fixed cumulative dividend of 10% per annum up to the date of liquidation and a repayment of Sh.500 per share in priority to all other classes of shares. No dividend has been paid on the preference shares for two years.

4. The creditors include:

| | Sh. '000' |
|---|--------------|
| Directors fees for one year | 1,000 |
| Rates for six months to 31 October 2002 | 125 |
| Manager's salary for October 2002 | 175 |
| Wages for 15 employees | 50 |
| Pay As You Earn (PAYE) | 325 |

5. The assets realized the following amounts:

| | |
|---------------------|--------|
| Freehold property | 12,500 |
| Plant and machinery | 2,000 |
| Stock | 6,250 |
| Debtors | 12,250 |

6. The expenses of liquidation amount to Sh.125,000 and the liquidator's remuneration was fixed at Sh.500,000.

Required:

The liquidator's statement of account showing in order of priority, the payments made and the computation of any calls to be made.

QUESTION FOUR (20 MARKS)

Chandra is appointed liquidator of Sun Co. Ltd in a voluntary liquidation on 1st July 1993.

Following balances are extracted from the books on that date:

| | | | |
|-----------------------------|----------|-------------------------|---------------|
| <i>Capital:</i> | Rs. | | Rs. |
| 24,000 shares of Rs. 5 each | 1,20,000 | Machinery | 45,000 |
| Reserve for Bad Debts | 15,000 | Leasehold Properties | 60,000 |
| Debentures | 75,000 | Stock-in-trade | 1,500 |
| | | Book Debts | 90,000 |
| | | | <i>Contd.</i> |
| | Rs. | | Rs. |
| Bank Overdraft | 27,000 | Investments | 9,000 |
| Liabilities for Purchases | 30,000 | Calls-in-Arrear | 7,500 |
| | | Cash in hand | 1,500 |
| | | Profit and Loss Account | 52,500 |
| | 2,67,000 | | 2,67,000 |

The following assets are valued as:

| | Rs. |
|----------------------|----------|
| Machinery | 90,000 |
| Leasehold Properties | 1,09,000 |
| Investments | 6,000 |
| Stock-in-trade | 3,000 |

Bad Debts are Rs. 3,000 and the doubtful debts are Rs. 6,000 which are estimated to realize Rs. 3,000. The Bank Overdraft is secured by a deposit of title deeds of Leasehold Properties. Preferential Creditors are Rs. 1,500. Telephone rent outstanding is Rs. 120.

Required:

Prepare a Statement of Affairs to the meeting of Creditors.

QUESTION FIVE (20 MARKS)

Akili and Bidii trade in a partnership under the name of Jaribio Enterprises. One of the creditors of the partnership presented a petition in bankruptcy against the partnership and the High Court made out a Receiving Order on 31 October 1996.

The assets and liabilities of the joint and separate estates on that date were as follows:

| Book Value | Estimated Realisable Values | | | | | |
|-------------------------------|-----------------------------|---------------|---------------|-----------|-----------|-----------|
| | Jaribio | Akili | Bidii | Jaribio | Akili | Bidii |
| | Sh. '000' | Sh. '000' | Sh. '000' | Sh. '000' | Sh. '000' | Sh. '000' |
| Land and buildings | 11,750 | 3,000 | 4,500 | 13,500 | 4,800 | 5,000 |
| Plant and equipment | 13,640 | | | 8,500 | | |
| Furniture & household Good | | 600 | 850 | | 200 | 420 |
| Stock | 16,300 | | | 9,700 | | |
| Debtors | 10,790 | | | 4,750 | | |
| Partnership capital | | 4,000 | 6,000 | | | |
| Investments | | 2,000 | 1,000 | | 3,350 | 800 |
| Cash | 200 | 100 | 300 | | | |
| Motor car | | 900 | 1,500 | | 300 | 500 |
| | <u>52,680</u> | <u>10,600</u> | <u>14,150</u> | | | |

| | | | |
|-------------------------------------|---------------|---------------|---------------|
| Capital accounts: A | 4,000 | | |
| Capital accounts: B | 6,000 | | |
| Creditors | 24,320 | 260 | 180 |
| Bank overdraft | 8,360 | | |
| Loans secured on land and buildings | 10,000 | 2,500 | 3,000 |
| Loans secured on cars | | 600 | 1,000 |
| Personal surpluses | | 7,240 | 9,970 |
| | <u>52,680</u> | <u>10,600</u> | <u>14,150</u> |

Additional information:

1. Of Jaribio's creditors, Sh.700, 000 are preferential.
2. Jaribio's bank overdraft was secured by a second mortgage on the partnership, land and buildings and by the personal guarantee of Akili together with the deposit of his investments.
3. Akili and Bidii share profits or losses equally.

Required:

Statements of Affairs and Deficiency or Surplus Accounts for the firm and for the separate personal estates of the partners, using the format laid down in the Bankruptcy Act.