



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATION

2017/2018 ACADEMIC YEAR

THIRD YEAR SECOND SEMESTER

SUPPLIMENTARY/SPECIAL EXAMINATION

FOR THE DEGREE OF BACHELORS OF COMMERCE

COURSE CODE: BCA 448

COURSE TITLE: BANKRUPTCY AND REORGANIZATION

DATE: 17/10/2018

TIME: 9:00 A.M

INSTRUCTIONS TO CANDIDATES

Answer Question **One** and Any other **Two** Questions

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 8 Printed Pages. Please Turn Over.

SECTION A: COMPULSORY

QUESTION ONE

Simiyu filed his own petition in bankruptcy and the receiving orders were issued by the court on 31 March 2016.

The balances extracted from his books of account as at 31 March 2016 were as follows:

Assets		Liabilities	
	Sh.'000'		Sh.'000'
Free hold land	1,250	Loan from 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	560		
Total assets	<u>5,550</u>	Total liabilities	<u>6,150</u>

Additional information:

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

	Sh.'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 s realizable 400	
Bad	120
Private assets debtors other than personal effects	28

- 2 Simiyu's private obligations amounted to Sh. 12,000.
- 3 The interest due on the mortgage amounting to Sh. 200,000 had not been recorded s at 31 March 2016.
- 4 The loan from bank and bank overdrafts were secured by a floating charge on assets and no interest was outstanding on 31 March 2016
- 5 Sundry creditors as at 31 March 2016 comprise:

Sh.'000'

- Assessed income taxes (2003-Sh.100,000, 2004-Sh.85,000 and 2005-Sh.120,000) 305

- Rent due to Government (Sh.50,000 per annum) 300

- Nairobi City Council rates for the year ended 31 December 2014. 20

- 5 months wages due to 5 employees at Sh. 5,000 per employee 125

- 3 months salary due to Munuve's uncle. 24

- Employees NSSF contributions for 36 months at Sh. 12,000 per annum

- 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 Simiyu. The unrecorded interest due as at 31 March 2016 was Sh. 7,500.

- 7 During the year ended 31 March 2016, Simiyu made business losses of Sh.830,000.

Required:

- (a) A detailed statement showing the order of priority in which the sundry creditors would be paid. (6 Marks)
- (b) Statement of affairs as at 31 March 2016. (8 Marks)
- (c) Deficiency accounts as at 31 March 2016. (6 Marks)

(Total: 20 marks)

SECTION B (CHOOSE ANY TWO QUESTIONS)

QUESTION TWO

Kanduyi limited, which has been posting trading losses, has decided to re-organize its capital. On 31 October 2016, a trail balance extracted from the books of the company after the income statement had been prepared, showed the following:

Kshs '000'

Kshs'000'		
6% cumulative preference share capital (Kshs 10 par value)		
150,000		
Ordinary Share capital (kshs 10 par value)		
200,000		
Share premium		40,000
Accumulated losses	114,375	
Preliminary expenses	7250	
Goodwill	55,000	
Trade payables		43,500
Trade receivables	31,200	
Bank overdraft		51,000
Leasehold property: cost	80,000	
Accumulated depreciation		30,000
Plant and machinery: Cost	210,000	
Accumulated depreciation		62,500

Inventory	79,175
Total	577,000 577,000

Approval of the court was obtained for a scheme of capital reduction whose terms were as follows:

- 1) The par value of the preference shares was to be reduced to shs 7.5 per share
- 2) The par value of the ordinary shares was to be reduced to shs 1.25 per share
- 3) One shs 1.25 ordinary shares was to be issued for each shs 10 preference dividend in arrears. The preference dividends had not been paid for the past three financial years (financial year to 31 October 2016 inclusive).
- 4) The balance on the share premium account was to be utilized for purposes of capital reduction
- 5) The value of plant and machinery was to be written down to shs 75 million
- 6) The accumulated losses as well as goodwill were to be written off.
- 7) After the resolution authorizing the scheme of capital reduction had been passed, 50,000,000 ordinary shares were issued at par for cash payable in full upon application.

Assume all the transitions were completed on 31 October 2016.

Required

- a. Capital reduction account as at 31 October 2016 (10 marks)
- b. Members accounts as at 31 October 2016 (5 marks)
- c. Statement of financial position after completion of all the transactions (5 marks)

QUESTION THREE

Joseph and Jacob were in partnership trading under the name 'Medsan Traders' and sharing profits and losses in the ratio of 1:3 respectively. On 31 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:

	Current value	Estimated value
	Sh. '000'	Sh. '000'
Assets		
Freehold property: Medsan Traders	11,000	12,000
Joseph	7,000	10,000

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Plant and machinery: Medsan Traders	3,000	1,500
Furniture and fixtures: Medsan Traders	1,000	800
Joseph	1,500	1,200
Jacob	1,800	1,500
Inventory Medsan Traders	8,000	6,500
Accounts receivable: Medsan Traders	12,000	See (note 1)
Investments: Joseph	1,500	2,400
Jacob	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	
Joseph	700	
Jacob	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, Joseph and Jacob 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 Joseph's investments together with his personal guarantee.

Required:

Using the format laid down in the Bankruptcy Act (Cap 53) and showing the legal position in relation to the double proof. Prepare

- a) Statement of affairs as at 31 December 2014.
- b) Deficiency or surplus accounts as at 31 December 2014

(10 marks)

(10 marks)

(Total: 20 marks)

QUESTION FOUR

State and explain the process of adjudicating a debtor in bankruptcy Act (20 marks)