



**UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR**

FOURTH YEAR SECOND SEMESTER

**MAIN EXAMINATION FOR THE DEGREE OF BACHELOR
OF COMMERCE**

COURSE CODE: BCA 448 E

COURSE TITLE: BANKRUPTCY AND REORGANIZATION

DATE: 3rd AUGUST, 2021.

TIME: 2.00-4.00PM

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

QUESTION ONE (COMPULSORY)

Onyango, carrying on a business as a trader in Likoni, Mombasa, finds himself insolvent, and on 15 August 1997 files his petition in bankruptcy. The following balances are extracted from the books of his business on that date:

	Sh.		Sh.
Onyango's Capital	1,200,000	Shop – land and buildings	4,000,000
Mortgage on shop (land and buildings)	3,210,000	Furniture and fittings	1,000,000
Loan – I.C.D.C. Ltd.	1,200,000	Stock of goods	200,000
Loan – Barclays Bank Ltd.	600,000	Debtors	1,532,000
Loan – Co-operative Bank Ltd.	200,000	Onyango drawings	2,000
Loan – Paul Nkobei	100,000	Cash on hand	2,000
Loan – MutisoKuria	20,000		
Trade creditors	1,140,000		
N.H.I.F., N.S.S.F. and P.A.Y.E.	36,000		
Salaries and wages payable	18,000		
Bank overdraft	<u>18,400</u>		
			<hr/>
	<u>7,324,400</u>		<u>7,324,400</u>

The following information is provided:

1. The trade creditors includes Sh.30,000 owing to Mombasa Municipal Council in respect of rates in for the current period and a small loan from Onyango's friend Waititu for Sh. 10,000.
2. The amount owing for salaries and wages and statutory payroll deductions are for 1997.
3. There is 210,000 interest unpaid on the mortgage as at 15 August 1997, which has not been recorded in the books.
4. The loan from I.C.D.C. Ltd. is secured by a second mortgage on the shop (land and buildings). The unrecorded interest owing as at 15 August 1997 was Sh.96,000.
5. The loan from the Co-operative Bank Ltd. was obtained when Onyango pledged his wholly owned piece of land as security. The value of the piece of land is sh.300,000. There is no interest outstanding on his loan.
6. The interest on loan from Paul Nkobei was to vary with profits, but since the business has been operating at a loss, there is no interest due.
7. There is no interest outstanding on the loan from Barclays Bank Ltd.
8. MutisoKuria is Onyango's brother-in-law.
9. The value of the assets is estimated to be:

	Sh.
Shop – land and buildings	4,200,000
Furniture and fittings	800,000
Stock of goods	200,000

10. Of the debtors, Sh.400,000 are thought to be good and Sh.200,000 doubtful, of which Sh.150,000 should be collectable.
11. Onyango's uncle died recently and he will be receiving Sh.50,000 as an inheritance.
12. Onyango has no personal creditors outside the business, but he has other personal assets, beside the piece of land, amounting to Sh.60,000, exclusive of household and personal effects.

Required:

- (a) A statement of affairs for Onyango as at 15 August 1997 in good form. (15 marks)
- (b) A deficiency account as at that date. (4 marks)
- (c) A profit and loss account for the period ended 15 August 1997. (3 marks)
- (d) Explain the key roles of official receiver bankruptcy (8 marks)

SECTION B
QUESTION TWO

Below is the balance sheet of YALALA LTD as at 31 December 2009.

	Sh.	Sh.
Assets		
Land & Building	280,000	
(-) Acc. Depreciation	<u>80,000</u>	200,000
Plant & Machinery	80,000	
(-) Acc. Depreciation	<u>10,000</u>	70,000
Goodwill	30,000	
Preliminary expenses		
Inventories		3,000
Debtors	70,000	
		<u>45,000</u>
<u>418,000</u>		
Equity and Liabilities		
500,000 ordinary shares @ sh.1.00		500,000
200,000 preference shares @ sh.1.00		200,000
Premium shares	100,000	
Accumulated losses		
Creditors		(450,000)
Bank overdraft		50,000
<u>418,000</u>		<u>18,000</u>

The Company approved a special resolution to do the restructuring of the company and a court permission was obtained. Restructuring scheme consists of the following:

1. The ordinary shares to be reduced to 30 cent per share and preference shares will be reduced to 75 cent per share.
2. Share premium account to be utilized for the scheme
3. Assets were revalued as follows:

Land & Building	sh.220,000
Plant & Machinery	sh.60,000
Inventories	sh.50,000
Debtors	sh.38,000

4. All intangible assets and accumulated losses are to be written off.
5. The Board of Director has agreed to subscribe for 200,000 ordinary shares of 30 cent per share paid in cash and partly used to pay the bank overdraft.

You are required to prepare:

- a) Journal entries to record the capital reduction 5 marks
- b) The capital reduction account 5 marks
- c) The Statement of Financial Position of Yalala LTD immediately after the capital reduction. 5 marks
- d) Explain five acts of bankruptcy the court may consider before adjudging an insolvent person bankrupt.

QUESTION THREE

- a) Differentiate between receivership and liquidation. 2 marks
- b) Kulola Ltd has been operating for 10 years in financial difficulties and has suffered business losses for four years in a row. This caused the company not to declare or pay any dividends for four consecutive years. In the 2005 general meeting of shareholder they agreed to implement the capital restructuring plan. The following is the balance sheet of Kulola Ltd as at 31.12.2005

KULOLA Ltd
Financial Position As At 31 December 2015

	Sh.
<u>NON- CURRENT ASSETS</u>	
Land & Building	175,000
Plant & Machinery	114,000
Vehicle	95,400
Furniture	46,000
R &D Expenses	24,000
Patent	38,000

CURRENT ASSETS:

Bank	(32,000)
Debtors	75,000
Inventories	136,600
	672,000

AUTHORIZED CAPITAL:

600000 Ordinary Shared @ sh.1.20	720,000
200000 4% Preference Shared @ sh.1.00	200,000
	920,000

ISSUED CAPITAL:

450 000 Ordinary Shared @ sh. 1.20	540,000
100 000 4% Preference Shared @ sh.1.00	100,000
Retained Profit	(185,000)
Shared Premium	42,000
Director Loan	60,000
Creditor	115,000
	672,000

The company passed a special resolution to reduce its capital and approval of the court was duly obtained. The following is the scheme of reduction of capital:

- i Preference share to be reduced at sh.0. 25 per unit and ordinary share are to be reduced by sh. 0.70 per unit. Both classes of shares are then combined and converted into ordinary shares of sh.1.00 each.
 - ii Share premium account and profit and loss account shall be fully eliminated.
 - iii Bank overdrafts will be paid by issued of 5% debentures.
 - iv Creditor amounting to sh.80 000 agreed to settle the debts by issuing ordinary share @sh.1.00 for every 4 unit ordinary share held for every sh.5.00 due. The balance is paid in cash
 - v Directors agreed to eliminate the debt on the company by received 4 unit of ordinary share @sh. 1.00 for every sh. 5.00 owed
 - vi Intangible assets are eliminated in full
 - vii Assets were revalue are eliminated in full:
sh.
- | | |
|-----------------|---------|
| Land& building | 205,000 |
| Plant&machinery | 75,000 |
| Vehicle | 50,000 |
| Furniture | 26,000 |
- viii Stock revalue to the value of sh.112,000 and bad debts increased to 10%
 - ix Preference shareholder, agree to receive two units of ordinary share of sh1.00 each for every sh.5.00 of the scheme above and fully paid.
 - x The cost to fiancé this scheme amounting to sh. 12,000
 - xi The company has received approval to increase authorized capital of 800 000 ordinary shares unit @sh. 1.00

Required:

- a) Journal entry for the transaction above. (18 marks)

QUESTION FIVE

- a) Explain the evidence that must prevail for a registrar to declare a company defunct. (10 marks)

A compulsory winding up order was made on 30 November 2003 against Hasara Ltd. A summary of the company's balance sheet as at that date was as follows:

Non-current assets:	Sh. "000"	Sh. "000"	Sh. "000"
Goodwill			
Freehold property			2,689
Plant and machinery			4,940
Shares in subsidiaries			<u>14,620</u>
			22,249
Current assets:			
Stocks		19,180	
Debtors		9,040	
Cash in hand		<u>20</u>	
		28,240	
Current liabilities:			
Bank overdraft	22,790		
Creditors	20,900		
Customs and excise tax	200		
Accruals	399		
Debenture interest due	<u>100</u>	(44,389)	(16,149)
			<u>6,100</u>
Financed by:			
Share capital 5,000,000 ordinary shares of Sh.20 each – fully paid			10,000
400,000 ordinary shares of Sh.20 each- Sh.12.50 paid			<u>5,000</u>
			15,000
Revenue reserves:			
Retained profits (losses)			(12,900)
Shareholders' funds			2,100
Non-current liability:			
10% debentures			<u>4,000</u>
			<u>6,100</u>

Additional information:

- The 10% debentures are secured by a first charge on freehold property and the bank overdraft is secured by a floating charge on the assets.
- The accruals consisted of:

	Sh. "000"
Directors fee, 6 months to 30 November 2003.	75
Managers salary, 2 months to 30 November 2003	80
Wages of 3 workmen, 4 weeks to 30 November ,2003	18
Rates – half year to 30 November 2003	20
Taxes for the year to 30 November 2001	120

Miscellaneous expenses

86
399

3. A holder of 20,000 of the partly paid shares was bankrupt and it was anticipated that his trustees would be in a position to pay a dividend of 25% to his unsecured creditors.
4. The company's assets were estimated to be realized as follows:

	Sh. "000"
Freehold property	4,480
Plant and machinery	14,000
Stocks	18,760

5. The debtors were considered to be good except as to Sh. 520,000 of which Sh. 400,000 were doubtful and were expected to realize Sh.110,000. The remaining Sh.120,000 were considered bad. Goodwill was regarded as valueless.
6. Legal proceedings for breach of contract were pending against the company as at 30 November 2003. The company was considered to have a poor defence and attempts were being made to settle the claim out of court for Sh.100,000 plus costs estimated at Sh.80,000. No provision for this claim is included in the balance sheet.
7. The company had incurred losses of Sh.3,040,000, Sh.3,840,000 and 6,020,000 respectively in each of the three years ended 30 November 2003. The aggregate of the sums charged to the profit and loss accounts during the three years in respect of depreciation, debenture interest and directors' remuneration were Sh.2,380,000, Sh.600,000 and Sh.1,800,000 respectively.

Required:

Statement of affairs as at 30 November 2003.

(10 marks)