

15



(Knowledge for Development)

KIBABII UNIVERSITY
UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR
SECOND YEAR FIRST SEMESTER
MAIN EXAMS

FOR THE DEGREE OF BACHELOR OF COMMERCE

COURSE CODE: BCA448

COURSE TITLE: BANKRUPTCY AND REORGANIZATION

DATE: 4TH FEBRUARY, 2022

TIME: 8.00AM - 10.00AM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30**marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

KIBU observes ZERO tolerance to examination cheating

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QUESTION ONE (COMPULSORY)

Onyango, carrying on a business as a trader in Kibuye Kisumu, 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.'000		Sh.'000
Onyango's Capital	1,200	Shop – land and buildings	4,200
Mortgage on shop (land and buildings)	3,210	Furniture and fittings	1,000
Loan – I.C.D.C. Ltd.	1,200	Stock of goods	641.3
Loan – Barclays Bank Ltd.	600	Debtors	1,314
Loan – Co-operative Bank Ltd.	200	Onyango drawings	2
Loan – Paul	100	Cash on hand	
Loan – Mak'Oduor	20		
Trade creditors	1,140		
N.H.I.F., N.S.S.F. and P.A.Y.E.	36		
Salaries and wages payable	18		
Bank overdraft	<u>18</u>		
	<u>7,532</u>		
			<u>7,532.4</u>

The following information is provided:

1. The trade creditors includes Sh.30, 000 owing to Kisumu City 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 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. Mak'Odour 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 Yeye 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		3,000
Inventories		70,000
Debtors		<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		(450,000)
Creditors		50,000
Bank overdraft		<u>18,000</u>
		<u>418,000</u>

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.

4. 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 Yeye LTD immediately after the capital reduction. (5 marks)
- d) KuindwaPlc filed own petition before the court at the end of June last year .Explain five acts of bankruptcy the court may consider before adjudging Kuindwa bankrupt.(5 marks).

QUESTION THREE

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

Syarikat Sejagat Ltd
Financial Position As At 31 December 2005

Sh.

NON- CURRENT ASSET

Land & Building	175,000
Plant & Machinery	114,000
Vehicle	95,400
Furniture	46,000
R & D Expenses	24,000
Paten	38,000

CURRENT ASSETS:

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

600000 Ordinary Shared@ sh.1.20	720,000
200000 4% Preference Shared @ sh.1.00	200,000
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	920,000
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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
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	672,000
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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 share are then combined and converted into ordinary share 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:

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. (10 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: