



TECHNICAL UNIVERSITY OF MOMBASA
SCHOOL OF BUSINESS
DEPARTMENT OF ACCOUNTING AND FINANCE
UNIVERSITY EXAMINATIONS
MAY 2016 SERIES

BAC 4402 BANKRUPTCY AND INSOLVENCY ACCOUNTS
BACHELOR OF COMMERCE/ BUSINESS ADMINISTRATION

TIME: 2 HOURS.

ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS.

Question one

Hassan Otieno, carrying on a business as a trader in Nairobi, finds him-self insolvent, and on 15th March, 2014 files his own petition in bankruptcy. The following balances are extracted from the books of his business on that date.

	kshs		kshs
H. Otieno i capital	12,000	Shop, land & Building	40,000
Mortgage on shop land & Building	30,000	Furniture and Fittings	10,000
Loan – I.C.D.C.	12,000	Stock of Goods	5,427
Loan Barclays Bank	6,000	Debtors	6,413
Loan Co-operative Society	2,000	J. Otieno Drawings	13,140
Loan A. Kariuki	1,000	Cash on hand	20
Loan W. Kuria	200		
Trader Creditors	11,400		
Salaries Wages Payable	180		
N.H.I.F., N.S.S.F. & P.A.Y.E	36		
Bank Overdraft	184		
	75,000		75,000

The following additional is also available:

1. Trade creditors include kshs300 owing to Nairobi City Council in respect of rates for the current period, and a small loan from Otieno's friend Waititu for kshs100.
2. The amount owing for salaries wages and payroll deductions are for 2014.

3. There is kshs2,100 interest unpaid on the Mortgage as at March 15, 2014, which has not been recorded in the books.
4. The loan from I.C.D.C. is secured by a second mortgage on the Shop Land and Building. The unrecorded interest owing as at 15th March, 2014 is kshs960.
5. The loan from the Co-operative Society was obtained when Otieno pledged his wholly owned farm as security. The farm is valued at kshs3,000. There is no interest outstanding on his loan.
6. The interest on the loan from A Kariuki 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.
8. W. Kuria is Otieno's brother-in-law.
9. The value of the assets are estimated to be:

	kshs
Shop, land and building	42,000
Furniture and Fittings	8,000
Stock of Goods	2,000
10. Of the debtors kshs4,000 are thought to be good and kshs2,000 doubtful, of which kshs1,500 should be collectable.
11. Otieno's uncle died recently and he will be receiving kshs500 as an inheritance.
12. Otieno has no personal creditors outside the business, but he has other personal assets as well as the farm amounting to kshs600 exclusive of household and personal effects.

Required:

- (a) A statement of Affairs for Hassan Otieno as at 15th March, 1977 in good form.
- (b) A detailed listing of the amounts you have included as unsecured creditors.
- (c) Do you think any of the creditor are "Deferred Creditors?" If so, why?
- (d) How much may the ordinary creditors be expected to receive in the kshs?

(30marks)

Question two

Deflation Ltd, which had experienced trading difficulties, decided to reorganize its finances.

On 31 December 2005, a final trial balance extracted from the books showed the following position:

	Kshs	Kshs
Share Capital, authorized and issued:		
150,000 6 per cent Cumulative Preference Shares of Kshs1 each		
150,000		
200,000 Ordinary Shares of Kshs1 each		
200,000		
Share Premium Account		40,000
Profit and Loss Account	114,375	
Preliminary Expenses	7,250	
Goodwill (at cost)	55,000	
Trade Creditors		43,500
Debtors	31,200	
Bank Overdraft		51,000

Leasehold Property (at cost)	80,000	
Leasehold Property (provision for depreciation)		30,000
Plant and Machinery (at cost)	210,000	
Plant and Machinery (provision for depreciation)		62,500
Stock in Hand	79,175	
	577,000	577,000

Approval of the Court was obtained for the following scheme for reduction of capital:

1. The preference shares to be reduced to Kshs0.75 per share.
2. The ordinary shares to be reduced to Kshs0.125 per share
3. One Kshs0.125 ordinary share to be issued for each Kshs1 of gross preference dividend arrears; the preference dividend had not been paid for three years.
4. The balance on share premium account to be utilized.
5. Plant and machinery to be written down to Kshs75,000.
6. The profit and loss account balance, and all intangible assets, to be written off.

At the same time as the resolution to reduce capital was passed, another resolution was approved restoring the total authorized capital to Kshs350,000, consisting of 150,000 6 per cent cumulative preference shares of Kshs0.75 each and the balance in ordinary shares of Kshs0.125 each. As soon as the above resolutions had been passed 500,000 ordinary shares were issued at par, for cash, payable in full upon application.

You are required:

- (a) To show the journal entries necessary to record the above transactions in the company's books, and
- (b) To prepare a Balance Sheet of the company, after completion of the scheme.

(20Marks)

Question three

Pumzika Ltd went into voluntary liquidation on 31st March 2015 and the following Balance Sheet was prepared.

Balance Sheet As at 31st March 2015

Sh.		Sh.	
Assets:		Share capital:	
		195,000 ordinary shares	
		of	1,950,000
		Sh.10 each fully paid	
Goodwill	400,000		
Patents	100,000		
Freehold buildings	480,000	Sundry creditors:	
Plant	655,000	Preferential	242,000

Stock	568,000	Partly secured against Freehold building	553,100	
		Unsecured	997,900	1,793,000
Debtors	648,200			
Profit and Loss account	986,800	Bank overdraft (unsecured)		120,000
	<u>3,863,000</u>			<u>3,863,000</u>

The liquidator realized the assets as follows:-

- i. Freehold building Sh.350, 000;
- ii. Sundry debtors Sh.585, 000;
- iii. Plant Sh.510, 000;
- iv. Bills receivable Sh.25, 000;
- v. Stock Sh.390, 000.

The expenses of liquidation amounted to Sh.10, 000 and the liquidator's remuneration was agreed at 3 ½% on the amount realized and 3% on the amount paid to the unsecured creditors.

Required:

Prepare the following:

- (a) Liquidators Final Statement of Account.
- (b) Calculation of Liquidation's Remuneration.

(20Marks)

Question four

Din Dayal of Wajir commenced business on 1st January, 2002 with a capital of Kshs.65, 000. His profits for three years were Kshs.35, 400; he did not prepare proper accounts for the next two years. His drawings averaged Kshs.4, 800 per annum.

On 31st December, 2006 an order of adjudication was made against him when his affairs were as follows:

	Kshs.
Building; Cost Kshs.60,000 estimated to realize	20,000
Plant and Machinery: Cost Kshs. 28,000 estimated to realize	10,000
Book Debts: Good Kshs.12, 000;	
Doubtful Kshs.4, 000 estimated to realize Kshs.1, 000 and	
Bad debts of Kshs.10, 000	
Bills Receivable discounted and expected to rank	5,000
Preferential Creditors	1,000

Creditors partly secured (security: life policy estimated to be worth Kshs.8, 000) 23,000

	Insolvency Accounts
Mortgage on Buildings	10,000
Unsecured Creditors	40,000
Household Furniture	3,000
Household Debts	2,000
Furniture: Cost Kshs.2, 000 estimated to realize	800
Stock: Cost Kshs. 16,000 estimated to realize	11,000
Cash in hand	200

Mrs. Din Dayal gave up jewellery valued at Kshs. 2,500 to the Official Receiver.

Required

- a) Prepare the trial balance as on 31st December, 2006. **(4marks)**
 - b) Prepare a Statement of Affairs as at 31st December, 2006 **(6marks)**
 - c) Deficiency Account as at 31st December, 2006 **(6marks)**
- (20Marks)**

Question five

- a) Explain the terms Receivership and liquidation. (6 Marks)
 - b) Describe the order of payment in case of liquidation. (7 marks)
 - c) What is internal reconstruction and what is its purpose. (7 marks)
- (20Marks)**