

## Paper two

### Bankruptcy and Insolvency

#### Question one

The following is the summarized balance sheet of Tabuba Ltd. as at 30 June 2012:

	Sh.'000	Sh. '000'	Sh.'000'
<b>Non-current assets</b>			
Tangible:			
Freehold property			85,000
Plant			<u>10,000</u>
			95,000
Intangible:			
Patents		10,500	
Goodwill		<u>28,000</u>	<u>38,000</u>
			133,500
<b>Current assets:</b>			
Stock		85,000	
Debtors		97,000	
Investments (market value Sh.25 million)		11,000	
Deferred advertising		<u>20,000</u>	
		213,000	
<b>Current Liabilities:</b>			
Bank overdrafts	39,000		
Creditors	50,000		
Debenture interest	4,500		
Accruals	10,000		
Directors loans	<u>20,000</u>	(123,500)	<u>89,500</u>
			<b><u>223,000</u></b>
<b>Financed by:</b>			
<b>Share capital:</b>			
6% 8 million cumulative preference shares of Sh.10 each			80,000
15 million ordinary shares of Sh.10 each			<u>150,000</u>
			230,000
<b>Revenue reserves:</b>			
Profit and loss account			<u>(82,000)</u>
Shareholders' funds			148,000
<b>Non-current liabilities:</b>			
6% Debentures			<u>75,000</u>
			<b><u>223,000</u></b>

1. The court approved a scheme of re-organization submitted by the debenture holders and agreed upon by other interested parties to take effect on July 2012 as follows:
2. The preference shares to be written down to Sh.7.50 each and the ordinary shares to Sh.2.00 each; each class of shares then to be consolidated into shares of Sh.10 each. The rate of dividend on preference shares to be increased 10%.
3. The preference dividends are four years in areas of which three-quarters are to be waived and ordinary shares are to be allocated at par the balance. The debenture holders to have their interest paid in cash, to take over freehold property (book value Sh.20 million) at a valuation of sh.24 million secured by a floating charge on the company's assets at an interest rate of Sh.12% per annum.
4. Patents, goodwill and deferred advertising to be written off, Sh.15 million to be written off stock.
5. Investments to be realized.
6. The directors to accept settlement of their loans as to 90% thereof by allotment of ordinary shares at par and so to 5% in cash, the balance of 5% being waived.
7. The trade creditors to be paid Sh.0.10 in every shilling to maintain and obtain an extension of the credit period
8. The bank has sanctioned an overdraft limit of Sh.10 million to provide working capital.
9. There are capital commitments amounting to Sh.75 million, which are to be cancelled on payment of 3 1/3% of the contract price as penalty.
10. The authorized capital was restore to its original amount.

### Required

- a) The capital reduction account to record the scheme of capital re-organization.
- b) The balance sheet of Tabuba Limited as at 1 July 2012 immediately after effecting the scheme.

**(30Marks)**

### Question two

Kamau and Mataa are in partnership trading as Kamataa and they present their petition in Bankruptcy. The following statement have been presented to you

	KAMATAA	KAMAU	MATAA		KAMATAA	KAMAU	MATAA
	KSHS	KSHS	KSHS		KSHS	KSHS	KSHS
Mortgage on Freehold Property	9,000	6,400		Freehold	12,000	8,000	
Bank Overdraft	6,000			pro Plant	4,000		

Sundry Creditors	35,000	1,600	5,400	Furniture etc.	2,000	2,400	2,800
Capital Kamau	2,000			Stocks	12,000		
Mataa Surplus	2,000			Debtors	24,000		
		6,000	600	Partnership and other investment		3,600	3,200
	<b><u>54,000</u></b>	<b><u>14,000</u></b>	<b><u>6,000</u></b>		<b><u>54,000</u></b>	<b><u>14,000</u></b>	<b><u>6,000</u></b>

Additional information:

- (i) The bank overdraft was secured by a second mortgage on the freehold property and by the deposit of Kamau's investments and his personal guarantee.
- (ii) The estimated realizable value of the assets was as follows:

	<b>Kamataa</b>	<b>Kamau</b>	<b>Mataa</b>
	<b>KSHS</b>	<b>KSHS</b>	<b>KSHS</b>
Freehold property	13,000	9,400	
Plant	1,600		
Furniture etc.	1,000	1,600	2,200
Stock	8,600		
Debtors, Good	14,000		
Doubtful, estimated recoverable	6,000		
Bad	4,000		
Investments		3,400	2,600
Of the sundry creditors the following amounts were preferential	1,000	400	200

Required:

- a) Prepare the Statement of Affairs of the Joint and separate estates and
- b) Deficiency Account of the Joint and separate estates.

**(20Marks)**

### Question three

Due to the serious problems with the export market, Makadara Stores on 31<sup>st</sup> December 2005 received a compulsory order for winding up. The following particulars were disclosed:-

<b>Book value</b>	<b>Estimated to produce</b>
Sh.	Sh.

Cash in hand	10,000	10,000
Debtors	40,000	36,000
Land and buildings	600,000	480,000
Furniture and fixtures	200,000	200,000
Unsecured creditors	200,000	-
Debentures:		
Secured on land and buildings	420,000	
Secured by floating charge	100,000	
Preferential creditors	60,000	
Share capital (3,200 shares of sh.100 each)	320,000	

### Additional information

1. Estimated liability for bills discounted was Sh.60, 000 estimated to rank at Sh.60, 000.
2. Other contingent liabilities were Sh.120, 000 estimated to rank Sh.120, 000.
3. The company was formed on 1<sup>st</sup> January 2003; and had made losses of Sh.250, 000.

### Required:

- a) Prepare a Statement of Affairs as at 31<sup>st</sup> December 2005. (10marks)
  - b) Deficiency Account as at 31<sup>st</sup> December 2005. (10marks)
- (20Marks)**

### Question four

The following information is extracted from the books of Lucky Ltd. On 31<sup>st</sup> July, 2008 on which date a winding up order was made.

	Kshs.
Unsecured Creditors	350,000
Salaries due for five months	20,000
Managing Director's Remuneration due	30,000
Bills payable	106,000
Debtors	430,000
- Good	430,000
- Doubtful (estimated to produce Kshs.62,000)	130,000
- Bad	88,000
Bills received (Good Kshs. 10,000)	16,000
Bank Overdraft	40,000
Land (estimated to produce Kshs.500,000)	360,000
Stock (estimated to produce Kshs.580,000)	820,000
Furniture and Fixtures	80,000
Cash in hand	4,000
Estimated liabilities for bills discounted	60,000
Secured creditors holding first mortgage on land	400,000
Partly secured creditors holding second mortgage on land	200,000
Weekly wages unpaid	6,000
Liabilities under Workmen's Compensation Acts, 1925	2,000
Income-tax due	8,000
5,000 9% Mortgage Debentures of Kshs.100 each interest payable	

To 30 <sup>th</sup> June and 31 <sup>st</sup> December, paid to 30 <sup>th</sup> June, 2008	500,000
Share Capital:	
20,000 10% preference shares of Kshs. 10 each	200,000
50,000 Equity Shares of Kshs 10 each	500,000
General Reserve since 31 <sup>st</sup> December, 2004	100,000

In 2004, the company earned profit of Kshs.450, 000 but thereafter it suffered trading losses totaling Kshs.584, 000. The company also suffered a speculation loss of Kshs.50, 000 during the year 2005. Excise authorities imposed a penalty of Kshs. 350,000 in 2006 for evasion of tax which was paid in 2007.

Required

- a) Prepare the Statement of Affairs and
- b) The Deficiency Account as at 31<sup>st</sup> July, 2008.

**(20Marks)**

### **Question five**

- a) Define receivership and state the functions of a receiver?
- b) Section 212 (1) of the Companies Act provides that a company can be liquidated in any three ways, state and distinguish these ways?
- c) The amounts realized from the assets not specifically pledged and the amounts contributed by the contributories must be distributed by the liquidator in a certain order, which is this order of payment?

**(20Marks)**