



TECHNICAL UNIVERSITY OF MOMBASA

SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

UNIVERSITY EXAMINATION FOR:

DEGREE

BAC4402: BANKRUPTCY AND INSOLVENCY

END OF SEMESTER EXAMINATION

SERIES: DECEMBER 2016

TIME: 2 HOURS

DATE: Pick Date Dec 2016

Instructions to Candidates

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt question ONE (Compulsory) and any other TWO questions.

Do not write on the question paper.

Question ONE

The following is the summarized balance sheet of UCHUMI LTD. as at 30 June 2016:

	Sh. '000'	Sh. '000'	Sh. '000'
Non-current assets			
Tangible:			
Freehold property			85,000
Plant			10,000
			<u>95,000</u>
Intangible:			
Patents		10,500	
Goodwill		28,000	38,000
			<u>133,500</u>
Current assets:			
Stock		85,000	
Debtors		97,000	
Investments (market value Sh.25 million)		11,000	
Deferred advertising		<u>20,000</u>	

213,000

Current Liabilities:

Bank overdrafts	39,000		
Creditors	50,000		
Debenture interest	4,500		
Accruals	10,000		
Directors loans	20,000	(123,500)	89,500
			<u>223,000</u>

Financed by:

Share capital:

6% 8 million cumulative preference shares of Sh.10 each	80,000
15 million ordinary shares of Sh.10 each	150,000
	<u>230,000</u>

Revenue reserves:

Profit and loss account	(82,000)
Shareholders' funds	148,000
Non-current liabilities:	
6% Debentures	75,000
	<u>223,000</u>

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 2016 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.20,000,000) at a valuation of sh.24,000,000 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, 000, 000 to be written off stock.
5. Investments to be realized at the market value.
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, 000,000 to provide working capital.
9. There are capital commitments amounting to Sh.75, 000,000 which are to be cancelled on payment of 3 1/3% of the contract price as penalty.
10. The authorized capital was restored to its original amount.

Required

- a) The capital reduction account to record the scheme of capital re-organization.
- b) The balance sheet of UCHUMI LTD as at 1 July 2016 immediately after effecting the scheme.

Question TWO

Botswana Enterprises on 31st December 2015 received a compulsory order for winding up due to serious problems with the Comesa market. The following particulars were disclosed:-

	Book value	Estimated to produce
	Sh.	Sh.
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	
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	-

Additional information

1. Estimated liability for bills discounted was Sh.70, 000 estimated to rank at Sh.70, 000.
2. Other contingent liabilities were Sh.110, 000 estimated to rank Sh.110, 000.
3. The company was formed on 1st January 2013; and had made losses of Sh.250, 000.

Required:

- a) Prepare a Statement of Affairs as at 31st December 2015. (10marks)
- b) Deficiency Account as at 31st December 2015. (10marks)

(20Marks)

Question THREE

Motswakhumo Ltd went into voluntary liquidation on 31st March 2016 and the following Balance Sheet was prepared.

Balance Sheet as at 31st March 2016

Fixed assets:	Sh.	
Goodwill	400,000	
Patents	100,000	
Freehold buildings	480,000	
Plant	<u>655,000</u>	
		1,635,000

Current assets:

Stock	568,000	
Debtors	648,200	
Bank	<u>25,000</u>	
	1,241,200	

Less current liabilities:

<u>Sundry creditors:</u>		
Preferential	242,000	
Partly secured against Freehold building	553,100	
Unsecured	997,900	
Bank overdraft (unsecured)	<u>120,000</u>	<u>(696,800)</u>
		<u>963,200</u>

Share capital:

195,000 ordinary shares of Sh.10 each fully paid		1,950,000
Profit and Loss account		<u>(986,800)</u>
		<u>963,200</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.

Question FOUR

Bamaigay, runs a barber shop, filed his own petition in bankruptcy. The Balance Sheet of his business as on 31st March, 2016, the date of the Receiving Order, showed:-

	KSHS		KSHS	Net Realisable Values KSHS
Capital Account as on 1 st April 2015	6,000	Free shop building	12,000	14,000
Add: Profit for year to 31 st March 2016	<u>2,000</u> 8,000	10,000 shares of @Ksh1 in Reprint Ventures Ltd	10,000	200
Deduct:				
Drawings in year to 31 st March 2016	<u>1,800</u> 6,200	Stock of books, Furniture etc	4,000	3,000
		Trade Debtors	4,500	3,500
Trade Creditors (including Kshs. 500 Preferential in Bankruptcy) Loan, secured on Freehold shop building	16,800 <u>8,000</u>	Balance at Bank	500	500
	31,000		31,000	

Bamaigay's personal assets, not including above, comprised of a motorcar valued at Kshs. 200, a current account with a bank of Kshs. 400 and a gold watch valued at Kshs. 50. His only personal liabilities outside the business were Kshs. 60 due to his tailor and Kshs. 100 for unsuccessful football forecast due to his bookmaker. The value of personal assets and liabilities had remained unchanged since 1st April, 2015.

In 2001 Bamaigay had made a voluntary settlement of Kshs. 15,000 in favour of his invalid sister, Lamina.

You are required to prepare, as on 31st March, 2016:

- (a) A Statement of Affairs, and
- (b) A Deficiency Account as at 31 March, 2016.

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)