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**KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2019/2020 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)**

Date: 15th April, 2019
Time: 2.30 – 4.30pm

KAC 305 – BANKRUPTCY AND REORGANIZATION

INSTRUCTIONS TO CANDIDATES

ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS

QUESTION ONE (30 MARKS)

- a) Explain any three recognized petitioners under bankruptcy act and the conditions under which they may petition (6 Marks)
- b) Explain any four circumstances under which a company may be compulsorily wound up (8 Marks)
- c) Kariuki, a business man filed his own petition in bankruptcy. His balance sheet at the time was as follows:

ASSETS	KSH	KSH
Free hold building	600,000	
25000 shares	<u>500,000</u>	1,100,000
Current Assets		
Stock	200,000	
Debtors	200,000	
Bank balance	<u>50,000</u>	<u>450,000</u>
Total Assets		<u>1,550,000</u>
<u>Financed By:</u>		
Creditors	840,000	
Loan	400,000	
Retained Profit	100,000	
Less Drawings	<u>90,000</u>	10000
Capital	<u>300,000</u>	<u>1,550,000</u>

Note:

- i) Included in the creditors is Ksh 25,000 relating to preferential creditors
- ii) The loan is secured against the free hold building
- iii) The realizable values for the assets are:

Building	700,000
Shares	10,000
Stock	150,000
Debtors	175,000
- iv) Kariukis personal assets are as follows:

Car	100,000
Current account	20,000
Gold watch	5,000
Personal liabilities	3,000

Required: Prepare a statement of affairs (8 Marks)

Deficiency account (8 Marks)

QUESTION TWO (20 MARKS)

- a) Explain any five differences between a statement of affairs and a balance sheet (10 Marks)
- b) Explain the recommended treatment of each of these during bankruptcy
 - i) Personal property in a bankrupt partnership (2 Marks)
 - ii) PAYE due at the time of bankruptcy (2 Marks)
 - iii) 12 Months rent arrears at time of bankruptcy (2 Marks)
 - iv) Creditors with partial security (2 Marks)
 - v) NHIF Contributions due at the time of bankruptcy (2 Marks)

QUESTION THREE (20 MARKS)

- a) S Kamau is insolvent. He has supplied you with the following information as at 31st Dec 2018

Creditors for goods	525,000
Salaries Accrued	7,000
Taxes Due	21,000
Bank Loan with lien on stock	175,000
Cash in Hand	1,000
Furniture (Expected to realize 35,000)	70,000
Stock (Expected to realize 60%)	525,000
Good debts	70,000
Doubtful debts (Expected to realize 40%)	175,000
Bills receivable (Ksh 52,000)	87,500
Bills discounted	105,000
Loan from Mrs Kamau	175,000

Mr. Kamau had invested capital amounting to ksh 437,000 with his annual drawings amounting to ksh 87,500 p.a for the last four years. Mrs Kamau gave up jewelry that had cost ksh 55,000 but currently valued at ksh 70,000 to the receiver.

Required:

- i) Prepare a statement of affairs Account (7 Marks)
 - ii) Prepare a deficiency account as at that date (8 Marks)
- b) Explain the meaning and objectives of sale and leaseback arrangement. (5 Marks)

QUESTION FOUR (20 MARKS)

- a) Someni Ltd has been under receivership. Its balance sheet as at 31st Dec 2018 was as follows:

FA		
Land	2,500,000	
Buildings	3,200,000	
Total		5,700,000
C.A		
Stock	500,000	
Debtors	1,400,000	
Cash	300,000	
Total		<u>2,200,000</u>
Total Assets		<u>7,900,000</u>
Financed By:		
Current Liabilities	4,600,000	
Loan	6,200,000	
Retained Earnings	(7,900,000)	
Capital	<u>5,000,000</u>	
		<u>7,900,000</u>

Notes

The following proposals have been made

- i) 50% of holders of current liabilities have agreed to convert their claims to long term loan at 12% p.a
 - ii) Holders of 60% of L/T Debt have agreed to convert that to shares at ksh 10 per share
 - iii) The Land and buildings will be disposed off at ksh 6.5 million to settle claims of ksh 2.5 for current liabilities and ksh 1.5 for long term debt
 - iv) The shareholders have agreed to inject an additional ksh 2 million to boost the working capital
- Required: Prepare a statement of financial position as it would appear after the changes (10 Marks)
- b) Explain the options available to a firm under insolvency. (10 Marks)

QUESTION FIVE (20 MARKS)

- a) Explain the following terms;
 - i) Contributory (2 Marks)
 - ii) Deficiency / surplus account (3 Marks)
 - iii) Liquidator (2 Marks)
 - iv) Composition agreement (3 Marks)
- b) Explain the steps under voluntary winding up (10 Marks)