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

Date: 9<sup>th</sup> December, 2019

Time: 11.00am – 1.00pm

**KAC 305 - BANKRUPTCY AND RE-ORGANIZATION**

**INSTRUCTIONS TO CANDIDATES**

**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

- a) You are a creditor of a company which has gone bankrupt. The receiver manager has made an offer for a composition agreement. What does this mean to you and what is the effect. (5 Marks)
- b) Explain the process of Bankruptcy. (5 Marks)
- c) According to bankruptcy act the debts of a bankruptcy should be paid priority order. Explain the order. (5 Marks)
- d) Jamii Exporters Ltd. is insolvent and is in process of filing for relief under the provisions of the Bankruptcy Act. The company has no cash and its balance sheet currently shows creditors of Sh.48 million. An additional Sh.8 million is owed in connection with various expenses but these amounts have not yet been recorded. The company's assets with an indication of both book value and anticipated net realizable value as at 30 September 1999 as follows:

Book Value	Expected NRV
Sh. '000'	Sh. '000'

Equipment	110,000	20,000
Accumulated depreciation	(61,000)	-
Investments	10,000	18,000
Stocks	48,000	36,000
Debtors	31,000	9,000
Other assets	<u>5,000</u>	<u>-</u>
	<u>275,000</u>	<u>218,000</u>

Additional information:

- i) Jamii Exporters Ltd. has three debentures payable, each with a different maturity date: Debenture one due in 5 years – Sh.120 million, secured by a mortgage lien on Jamii Exporters land and buildings. Debenture two due in 8 years – Sh.30 million secured by Jamii Exporters investments. Debenture three due in 10 years – Sh.35 million, unsecured.
- ii) Of the creditors owed by Jamii Exporters Ltd. Sh.10 million represents salaries to employees. However, no individual is entitled to receive more than Sh.4,000. An additional Sh.3 million is included in this liability item that is due to the Kenya Government in connection with taxes.
- iii) The shareholders equity balance reported by the company at the current date is Sh.42 million: composed of ordinary share capital of Sh.140 million and a deficit of Sh.98 million.

If the company is liquidated, administrative expenses of approximately Sh.20 million would be incurred.

**Required**

A statement of affairs and deficiency or surplus account for Jamii Exporters Ltd. to indicate the expected availability of funds if the company is liquidated as at 30 September 1999.[15Marks]

**QUESTION TWO (20 MARKS)**

a) Distinguish between balance sheet and statement of affairs.

(5 Marks)

b) 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:

Non-current assets:	Sh. "000"	Sh. "000"	Sh. "000"
Goodwill			
Freehold property			2,689
Plant and machinery			4,940
Shares in subsidiaries			<u>14,620</u>
			22,249
Current assets:			
Stocks		19,180	
Debtors		9,040	
Cash in hand		<u>20</u>	
		28,240	
Current liabilities:			
Bank overdraft	22,790		
Creditors	20,900		
Customs and excise tax	200		
Accruals	399		
Debenture interest due	<u>100</u>	(44,389)	(16,149)
			<u>6,100</u>
Financed by:			
Share capital 5,000,000 ordinary shares of Sh.20 each – fully paid			10,000
400,000 ordinary shares of Sh.20 each- Sh.12.50 paid			<u>5,000</u>
			15,000
Revenue reserves:			
Retained profits (losses)			(12,900)
Shareholders' funds			2,100
Non-current liability:			
10% debentures			<u>4,000</u>
			<u>6,100</u>

Additional information

1. The 10% debentures are secured by a first charge on freehold property and the bank overdraft is secured by a floating charge on the assets.
2. The accruals consisted of:

Sh. "000"

3. A holder of 20,000 of the partly paid shares was bankrupt and it was anticipated that his trustees would be in a position to pay a dividend of 25% to his unsecured creditors.
4. The company's assets were estimated to be realized as follows:

Sh. "000"

Stocks	18,760
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5. The debtors were considered to be good except as to Sh. 520,000 of which Sh. 400,000 were doubtful and were expected to realize Sh.110,000. The remaining Sh.120,000 were considered bad. Goodwill was regarded as valueless.
  6. Legal proceedings for breach of contract were pending against the company as at 30 November 2003. The company was considered to have a poor defense and attempts were being made to settle the claim out of court for Sh.100,000 plus costs estimated at Sh.80,000. No provision for this claim is included in the balance sheet.
  7. The company had incurred losses of Sh.3,040,000, Sh.3,840,000 and 6,020,000 respectively in each of the three years ended 30 November 2003. The aggregate of the sums charged to the profit and loss accounts during the three years in respect of depreciation, debenture interest and directors' remuneration were Sh.2,380,000, Sh.600,000 and Sh.1,800,000 respectively.
- i) Statement of affairs as at 30 November 2003.

(5 Marks)

- ii) Deficiency account as at 30 November 2003.

(10 Marks)

**QUESTION THREE ( 20 MARKS)**

a) There are several means of detecting business failure tendencies. Explain any four such measures. (5 Marks)

b) Nagala supermarket Ltd. deals in imported goods which are paid for in foreign exchange. Following the recent depreciation of the Kenyan shilling the company has incurred exchange losses on trade debtors and its business has become generally uncompetitive and consequently forcing the company into a voluntary liquidation on 1 November 1997:

As at 1 November 1997:

The company had a bank loan of Sh.625,000 which was secured on furniture and fittings.

The furniture and fittings realised Sh.1,000,000.

Assets not specifically pledged realised Sh.4,250,000.

Liquidation expenses amounted to Sh.187,500.

Salaries payable to messengers for the last three months amounted to Sh.22,500, Sh.60,000 was four months salary payable to clerks.

Unsecured trade creditors were Sh.1,092,500.

The share capital comprised of 10,000 8% preference shares of Sh.100 each and 25,000 ordinary shares of Sh.100 each.

Calls in arrears were: Sh.25 on 10,000 ordinary shares

: Sh.40 on 8,000 ordinary shares

: Sh.50 on 7,000 ordinary shares

The liquidator's statement of receipts and payments with the appropriate support schedule (15 Marks)

**QUESTION FOUR ( 20 MARKS)**

Chege, a trader, filed his own petition in bankruptcy. The balance sheet of his business as on 30<sup>th</sup> June 20X1, the date of the Receiving Order, showed:

		Net Realisable
	000'	000' 000'

800

3,100

3,100

Chege's personal assets, not included above, comprised of a motor car valued at Shs. 20,000, a current account with his bank of Shs.40,000 and a gold watch valued at Shs.50,000.

His personal liabilities outside the business were Shs.6,000 due to his butcher and Shs.10,000 for unsuccessful horse-racing forecasts due to his bookmaker.

The value of personal assets and liabilities had remained unchanged since 1st July 20X0.

In 20V9 (i.e. 12 years previously), Chege had made a voluntary settlement of Shs.200,000 in favor of his invalid sister, Mary.

You are required to prepare, as on 30th June 20X1:

- a) A Statement of Affairs (10 Marks)
- b) A Deficiency Account (10 Marks)

**QUESTION FIVE ( 20 MARKS)**

- a) List and explain briefly the powers of liquidator. (5 Marks)
- b) Hasara Ltd makes its accounts each year 31 October and has been trading at a loss. On 31 October 2002, a resolution for a voluntary liquidation was passed. The balance sheet as at that date was as follows.

	Sh. '000'	Sh. '000'	Sh. '000'
Non Current assets			
Freehold property			11,000
Plant and machinery			<u>2,750</u>
			13,750
Current assets:			
Stock		8,750	
Debtors		13,375	
Cash		<u>125</u>	
		22,250	
Current liabilities:			
Bank overdraft	3,750		
Creditors	11,250		
Interest payable (5% debentures)	<u>500</u>	(15,500)	<u>6,750</u>
			<u>20,500</u>
Paid up capital:			
10,000 10% cumulative preference shares of Sh.500 each fully paid			5,000
25,000 Ordinary shares of Sh.500 each fully paid			12,500
10,000 Ordinary shares of Sh.500 each. Sh.250 paid.			<u>2,500</u>
			20,000
Revenue reserves: profit and loss account			(9,500)
Non Current liabilities:			<u>10,000</u>
5% debentures			<u>20,500</u>

**Additional information:**

The debentures are secured by a floating charge on the asset and undertaking of the company.

2. The bank overdraft is secured by a fixed charge on the company's freehold property.
3. The preference shares carry a right to a fixed cumulative dividend of 10% per annum up to the date of liquidation and a repayment of Sh.500 per share in priority to all other classes of shares. No dividend has been paid on the preference shares for two years.

4. The creditors include:

	Sh. '000'
Directors fees for one year	1,000
Rates for six months to 31 October 2002	125
Manager's salary for October 2002	
Wages for 15 employees	
Pay As You Earn (PAYE)	

5. The assets realized the following amounts:

Freehold property	12,500
Plant and machinery	2,000
Stock	6,250
Debtors	12,250

6. The expenses of liquidation amount to Sh.125,000 and the liquidator's remuneration was fixed at Sh.500,000.

Required;

The liquidator's statement of account showing in order of priority, the payments made and the computation of any calls to be made.

(15 Marks)