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UNIVERSITY EXAMINATIONS 2023/2024

THIRD YEAR SECOND SEMESTER EXAMINATION FOR DEGREE OF BACHELOR OF COMMERCE

BFC 3377: BANKRUPTCY AND INSOLVENCY ACCOUNTS

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer Question ONE and any other TWO questions.

QUESTION ONE (30 MARKS)

- (a) Identify and explain the different ways a debtor could commit an act of bankruptcy as outlined under the bankruptcy act CAP 53 (10marks).
- (b) Mr. Alex is a sole proprietor in Embu town. He runs an electronic shop, and for the last five years he has been struggling to sustain his business. Over the year he has incurred a lot of liabilities and has not been able to discharge them. He has file his own petition of bankruptcy and his most recent financial statement is as follows;

Date 31st December, 2008

	Book value Shs.'000'	realisable value Shs.000
Assets		
Building	800	900
Land	400	500
Quoted investments	1,000	20
Stock	400	300
Debtors	400	350



Cash and bank balance	<u>100</u>	100
	<u>3 100</u>	
Liabilities		
Account payable	1,630	
Accrued liabilities (statutory)	50	
Loan (secured with land& bldg)	800	
Capital	600	
Retained profit	200	
Less drawings	<u>(180)</u>	
	<u>3 100</u>	

Alex personal assets not included above, comprises of motor vehicle valued at Shs. 220,000 a bank account with Shs. 40,000 a gold chain for Shs. 10,000. His personal liabilities is Shs. 6000 owned to a grocer who regularly supplied him with utilities and a liability in related to a betting activity for Shs. 10,000.

Required

To prepare the following accounts as at 31 December, 2008

- (a) Statement of affairs (12 marks)
(b) A deficiency account (8marks)

QUESTION TWO (20MARKS)

Mundu Sacco went into voluntary liquidation on 31st December, 2016 and the following balance sheet was prepared.

Assets	shs'000'
Foothold building	960,000
Plant and machinery	1,310,000
Good will	800,000
Other intangible assets	200,000
Inventory	1,136,000
Due from members	<u>1 296 400</u>



5,702,400

Liabilities

Creditors

Preferential	484,000	
Partly secured by building	1,106,200	
Unsecured	1,995,800	3,586,000
Bank overdraft		<u>240,000</u>

Total net assets **1,876,400**

Financed by

Share capital 390,00 share @10		3,900,000
Retained deficit		<u>(2,023,600)</u>
		<u>1,876,400</u>

The liquidator realized the assets as follows:

Buildings shs.700,000; Plant and machinery shs. 1020,000; Dues from members shs. 1,170,000 Inventory shs. 780,000.

Liquidation expenses was shs. 20,000 and the liquidators remuneration was agreed at 2.5% on the amount realized and 2% on the amount paid to unsecured creditors.

Required

- i. Prepare liquidators final statement of account (12marks)
 - ii. Calculate the liquidators remuneration (2marks)
- (b) Describe the order of payment in the case of a liquidation. (6marks)

QUESTION THREE (20MARKS)

The following is the balance sheet of Mada Ltd as at 31st December 2012

Share capital

Authorize

800,000 ordinary shares off shs.5 each	4,000,000
300,00 7% preference shares of shs.5 each	<u>1,500,000</u>
	<u>5,000,000</u>



Issued and fully paid			
800,000 ordinary shares of shs.3.75			3,000,000
200,00 7% preference shares of shs.5			<u>1,000,000</u>
			4,000,000
Profit and loss balance			<u>(1,600,00)</u>
			<u>2,400,000</u>

Non-current assets	Cost	Acc.Dep	NPV	
Land and building	1,000,000	2,000,000	800,000	
Furniture and fittings	500,000	120,000	380,000	
Plant and machinery	2,000,000	480,000	1,520,000	
Motor vehicles	<u>450,000</u>	<u>150,000</u>	<u>300,000</u>	
	3,950,000	950,000	3,000,000	3,000,000

Current assets

Inventory		400,000		
Accounts receivables		300,000		
Cash and bank balances		<u>100,000</u>		
		800,00		
Current liabilities				
Payables		<u>(1,400,000)</u>		
Total net assets				<u>(600,000)</u>
				<u>2,400,000</u>

Additional information

1. The debit balance in the profit and loss a/c is to be written off
2. The creditors have agreed to take 100,000 new ordinary shares of shs. 5 each fully paid at par in part payment of the debts.
3. The ordinary shares are to be written down to shs. 1.25 per share and converted to new shs. 5 per share fully paid.
4. The preference shareholders are to receive 50,000 ordinary shares of shs. 5 per share, fully paid at par in exchange for their preference shares
5. The preference shareholders have agreed to receive 10,000, new ordinary shares of shs. 5 per share, in final settlement as consideration for their rights to dividend arrears.



6. The following revaluations will be effected

Land and buildings	shs.1,000,0
Machinery and equipment	1,050,000
Motor vehicles	250,000
Inventory	360,000

Required

Show the necessary accounting entries to effect a scheme of capital reorganization and prepare the balance sheet of Mada Ltd. immediately after the reorganization entries have been made. (20marks)

QUESTION FOUR (20 MARKS)

A compulsory winding up order was made on 30 November 2003 against Dakara Ktd. A summary of the company's statement of financial position as at that date was as follows;



	Sh."000"	Sh."000"	Sh."000"
Non-current assets:			
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>	<u>(44,389)</u>	<u>(16,149)</u>
			<u>6,100</u>
Financed by:			
Share capital 5,00,000			
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)			<u>(12,900)</u>
Shareholders' fund			
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 of freehold property and the bank overdraft is secured by a floating charge on the assets.
2. The accruals consisted of;

	Sh.'000'
Directors fee, 6 months to 30 November 2003.	75
Managers salary, 2 months to 30 November 2003	80
Wages of 3 workmen, 4 weeks to 30 November 2003	18
Rates — half year to 30 November 2003	20
Taxes for the year to 30 November 2001	120
Miscellaneous expenses	<u>86</u>
	<u>399</u>

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. Company's assets were estimated to be realized as follows:

	Sh. "000"
Freehold property	4,480
Plant and machinery	14,000
Stocks	18,760

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 statement of financial position.
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 1,800,000 respectively.

Required:

- (a) Statement of affairs as at 30 November 2003. (14marks)
- (b) Deficiency account as at 30 November 2003. (6marks)

QUESTION FIVE (20MARKS)

- (a) Describe the procedure of preparing a statement of affairs in a company receivership (6marks)
- (b) Describe the list of items that should be attached to the statement of affairs in a receivership (8marks)
- (c) Explain the legal formalities that the directors of a company should fulfil in order to effect a capital reduction and reorganization scheme for a company. (6marks)

