UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
FOURTH YEAR SECOND SEMESTER
MAIN EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE.

COURSE CODE: BCA 448 E

COURSE TITLE: BANKRUPTCY AND REORGANIZATION ACCOUNTING

DATE: *14.12.2023* ***TIME:*** ***8.00 - 11.00 am.***

INSTRUCTIONS TO CANDIDATES

Answer Question One in Section A and Any other TWO (2) Questions in Section B

QUESTION ONE (COMPULSORY)

SECTION A

QUESTION ONE (COMPULSORY)

a) Differentiate between bankruptcy and liquidation (2mks)

b) There are compulsory grounds for a company to wind up. Explain three reasons that a company may be wound up by the court (6mks)

c) Discuss two reasons why firms opt for reorganization of their business activities (2mks)

d) Mr. Taabu carrying out business in Bungoma found himself insolvent and on 30th November 2012 and filed a petition in bankruptcy. The following balances were extracted from the books of his business on that date.

Description	Kshs.	Description	Kshs.
Taabu capital	4,800,000	Shop land and building	16,000,000
Mortgage on shop (land and building)	12,000,000	Furniture and fittings	4,000,000
Loan I.C.D.C. Ltd	4,800,000	Stock of goods	3,300,000
Loan- Equity	2,400,000	Debtors	2,565,200
Loan – Commercial Bank of Africa	800,000	Taabu drawings	5,256,000
Loan- Paul Zawadi	400,000	Cash in hand	8,000
Loan-Peter Hasara	80,000		
Trade Creditors	4,560,000		
N.H.I.F, N.S.S.F and P.A.Y.E	144,000		

Salaries and wages payable	72,000		
Bank overdraft	73,600		
	30,129,600		30,129,600

Additional information

(i) The trade creditors includes kshs. 120,000 owing to Bungoma County in respect of rates in for the current period and a small loan from Taabu's friend Kopesha for Kshs. 40,000

(ii) The amount owing for salaries and wages and statutory deductions are for 2006.

(iii) There is a Kshs. 840,000 interest unpaid on the mortgage as at 30th November 2012 which was not recorded in the books.

(iv) The loan from I.C.D.C. Ltd was secured by a second mortgage on the shop (land and building). The unrecorded interest owing as at November 2012 was kshs. 384,000

(v) The loan from Commercial Bank of Africa was obtained when Taabu pledged his wholly owned piece of land as security. The value of the piece of land was kshs. 1,200,000. There was no interest outstanding on his loan

(vi) The interest on Paul Zawadi was to vary with profits, since the business was operating a loss, there was no interest due.

(vii) There was no interest outstanding on the loan from Equity Ban

(viii) Peter Hasara is Taabu's brother in law

(ix) The value of the assets was estimated to be: Shop – Land and Building Kshs. 16,800,000 Furniture and fittings Kshs. 3,200,000 Stock of goods Kshs. 800,000

(x) Of the debtors kshs. 1,600,000 were thought to be goods and kshs.800,000 doubtful of which kshs. 600,000 was collectable

(xi) Taabu's uncle died recently and he was to receive kshs. 200,000 as inheritance.

(xii) Taabu has no personal creditors outside the business but he had other personal assets beside the piece of land amounting to kshs. 240,000, exclusive of households and personal effects.

Required:

a) Prepare a statement of affairs for Taabu as at 30th November 2012. (10mks)

b) Prepare a deficiency or surplus account (10mks)

SECTION B

QUESTION TWO

a) A trustee may vacate office through removal either by the creditors or by ordinary resolution, or by court. Explain **four** reasons which may lead to this action. (8mks)

b) A trustee is the person who administers a bankruptcy. The trustee can be either the Accountant in Bankruptcy or a private insolvency practitioner. Discuss **six** powers of a trustee with the permission of the committee of inspection or the court. (12 mks)

QUESTION THREE

Butieli Ltd has been posting trading losses, it was decided to reorganize its capital. On 31October 2016, a trial balance extracted from the books of the company after the income statement had been prepared, showed the following:

	Kshs. ' 000'	Kshs. '000'
6 % cumulative preference share capital(kshs. 10 par value)		150,000
Ordinary Share capital (kshs. 10 par value)		200,000
Share premium		40,000
Accumulated losses	114,375	
Preliminary expenses	7,250	
Goodwill	55,000	

Trade payables		43,500
Trade receivables	31,200	
Bank overdraft		51,000
Leasehold property: cost	80,000	
Leasehold property: accumulated depreciation		30,000
Plant and machinery: cost	210,000	
Plant and machinery: accumulated depreciation		62,500
Inventory	79,175	
	577,000	577,000

Approval of the court was obtained for a scheme of capital reduction whose terms were as follows:

1. The par value of the preference shares was to be reduced to shs. 7.5 Per share.
2. The par value of the ordinary shares was to be reduced to shs. 1.25 per share
3. One shs. 1.25 ordinary shares was to be issued for each shs. 10 preference dividend in arrears. The preference dividends had not been paid for the past tree financial years (financial year to 31 October 2016 inclusive).
4. The balance on the share premium account was to be utilized for purposes of capital reduction.
5. The value of plant and machinery was to be written down to shs. 75 million
6. The accumulated losses as well as goodwill were to be written off.
7. After the resolution authorizing the scheme of capital reduction had been passed, 50,000,000 ordinary shares were issued at par for cash payable in full upon application.

Assume all the transactions were completed on 31 October 2016.

Required:

a) Capital reduction account as at 31 October 2016 (10mks)

b) Members accounts as at 31 October 2016 (5mks)

c) Statement of financial position after completion of all transactions (5mks)

QUESTION FOUR

a) Explain four key roles of official bankruptcy receiver(8mks)

b) HM ltd has been operating for 10 years of financial difficulties and had suffered business losses a few years in a row. This caused the company cannot declare or pay any dividends for four consecutive years. In the year 2005 general meeting of shareholder have agreed to implement the capital restructuring plan. The following is the balance sheet of HM ltd as at 31.12. 2005

HM ltd

Financial Position as at 31 December 2005

NON-CURRENT	**Shs.**
Land and building	175,000
Plant and Machinery	114,000
Vehicle	95,400
Furniture	46,000
R and D expenses	24,000
Patent	38,000
CURRENT ASSETS	
Bank	(32,000)
Debtors	75,000
Inventories	136,600
	672,000

AUTHORIZED CAPITAL	

600000 Ordinary Shares @ shs.1.20	720,000
200000 4 % Preference Shares @ shs.1.00	200,000
	920,000

ISSUED CAPITAL	
450,000 Ordinary shares @ sh.1.20	540,000
100,000 4 % Preference Shares @ shs.1.00	100,000
Retained profit	(185,000)
Shared Premium	42,000
Director loan	60,000
Creditor	115,000
	672,000

The company passed a special resolution to reduce its capital and approval of the court was duly obtained. The following is the scheme of reduction of capital:

i) *Preference shares to be reduced at shs. 0.25 per unit and ordinary shares are to be* reduced by shs. 0.70 Per unit. Both classes of shares are then combined and converted into ordinary shares of shs. 1.00 each.

ii) Share premium account and profit and loss shall be fully eliminated.

iii) Bank overdrafts will be paid by issued of 5 % debentures

iv) Creditor amounting to shs.80, 000 agreed to settle the debts by issuing ordinary share @ 1.00 for every 4 unit ordinary shares held for every shs.5.00 due. The balance is paid in cash.

v) Directors agreed to eliminate the debt on the company by received 4 unit of ordinary shares @ shs.1.00 for every shs. 5.00 owed.

vi) Intangible assets are eliminated in full.

vii) Assets were revalued are eliminated in full:

Land and building 205,000

Plant and machinery 75,000

Vehicle 50,000

Furniture 26,000

viii) Stock revalue to the value of shs.112,000 and bad debts increased to 10 %

ix) Preference shareholder, agree to receive two units of ordinary share of shs. 1.00 each for every shs.5.00 of the scheme above and fully paid.

x) The cost to finance this scheme amounting to shs. 12,000

xi) The company has received approval to increase authorized capital of 800,000 ordinary shares unit @ shs. 1.00

Required:

Journal entries for the transactions above (12mks)

QUESTION FIVE

a) Explain **three** differences between internal and external reconstruction of a bankrupt enterprise (6mks)

b) Filisika ltd is insolvent and is in the process of filing for relief under the provision 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 shs.'000'	Expected NRV shs. '000'
Land	80,000	75,000
Buildings	90,000	60,000
Accumulated depreciation	(38,000)	-
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	5,000	-
	275,000	218,000

Additional information:

1. Filisika ltd has three debentures payable, each with a difference maturity date;
   i) Debenture one due in 5 years- shs.120 million, secured by a mortgage lien on Filisika's land and buildings.
   ii) Debenture two due in 8 years- shs.30 million secured by Filisika's investments.
   iii) Debenture three due in 10 years- shs. 35 million, unsecured.
2. Of the creditors owed by Filisika ltd, shs. 10 million represents salaries to employees. However, no individual is entitled to receive more than shs. 4,000. An additional shs. 3 million is included in this liability item that is due to the Kenya Government in connection with taxes.
3. The shareholders equity balance reported by the company at the current date is shs. 42 million; composed of ordinary share capital of shs. 140 million and a deficit of shs. 98 million.
4. If the company is liquidated, administrative expenses of approximatelys shs. 20 million would be incurred.

Required:

i) A statement of affairs for Filisika as at 30 September 1999 (9mks)

ii) A deficiency or surplus account for Filisika ltd as at 30 September 1999 to indicate the expected availability of funds if the company is liquidated.(6mks)