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**University Examinations 2015/2016**

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BFC 3377: BANKRUPTCY & INSOLVENCY**

**DATE: AUGUST 2016 TIME: 2HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30MARKS)**

1. Citing relevant examples, distinguish between liquidation and receivership. (4 Marks)
2. What are the duties and responsibilities of the official receiver in bankruptcy? (8 Marks)
3. Discuss the available alternatives which a debtor can explore after a petition for bankruptcy has been filed against him. (6 Marks)
4. Explain different instances under which a debtor is deemed to have committed an act of bankruptcy in Kenya. (4 Marks)
5. In the bankruptcy of Mr. A, the trustee, having obtained the consent of the committee of inspection, has decided to make a first dividend payment to unsecured creditors. Details of the bankruptcy transactions to date are as follows:

Shs.’000’

Business receipts, less payments 1,250

Payments to preferential creditors 340

Court fees and taxed costs 255

Proceeds of sale of assets (including

Business) (gross) 5,300

Auctioneer’s fee for sale of assets 300

Assets remaining unsold are estimated to realize shs.2,760,000. Unsecured creditors (non-preferential) have claims amounting to shs.10m.

The trustee’s remuneration has been agreed at:

1. 4% on realizations;
2. 8% on dividends to unsecured creditors.

On the assumption that the trustee wishes to retain at least shs.75,000 (to cover outgoings), prepare the statement which is required to accompany the dividend payment. (8 Marks)

**QUESTION TWO (20 MARKS)**

Peter Munuve filed his own petition in bankruptcy and the receiving orders were issued by the court on 31 March 2015. The balances extracted from his books of account as at 31 March 2015 were as follows:

Assets Liabilities

Shs.’000’ Shs.’000’

Free hold land 1,250 Loan from bank 1,000

Furniture & fittings 710 Loan from a SACCO 500

Motor vehicle 290 Mortgage on freehold land 1,000

Stock 1,200 Sundry creditors 2,550

Sundry debtors 1,520 Bank overdraft 1,100

Bank balance 20

Drawing 560

Total assets 5,550 Total liabilities 6,150

Additional information

1. The official receiver appointed by the court has established the realizable values of the bankrupt’s assets to be as follows:

Shs.’000’

Freehold land 1,800

Furniture & fittings 500

Motor vehicle 140

Stock 800

Sundry debtors: Good

Doubtful-of which shs.300,000

is estimated as realizable 400

Bad 120

Private assets debtors other than personal effects 28

1. Peter Munuve’s private obligations amounted to shs.12,000.
2. The interest due on the mortgage amounting to shs. 200,000 had not been recorded as at 31 March 2015.
3. The loan from bank and bank overdrafts were secured by a floating charge on assets and no interest was outstanding on 31 March 2015.
4. Sundry creditors as at 31 March 2015 comprise:

Shs.’000’

* Assessed income taxes (2015-shs.100,000, 2004-shs.85,000 and

2005-shs.120,000) 305

* Rent due to Government (Shs.50,000 per annum) 300
* Nairobi City Council rates for the year ended 31 December 2004 20
* 5 months wages due to 5 employees at shs.5,000 per employee 125
* 3 months salary due to Munuve’s uncle 24
* Employees NSSF contributions for 36 months at shs.12,000 per

Annum 36

* Loan from John Kopesha for purchase of trading stock 100

1. The loan from John Kopesha attracted interest of 5% per annum plus 10% interest based on the net profit made by Peter Munuve. The unrecorded interest due as at 31 March 2015 was shs.7,500.
2. During the year ended 31 March 2015, Peter Munuve made business losses of shs.830,000.

Required:

1. A detailed statement showing the order of priority in which the sundry creditors would be paid. (6 Marks)
2. Statement of affairs as at 31 March 2015. (7 Marks)
3. Deficiency accounts as at 31 March 2015. (7 Marks)

**QUESTION THREE (20 MARKS)**

1. List and explain briefly the powers of liquidator. (5 Marks)
2. Hasara Limited 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:

Shs.’000’ Shs.’000’ Shs.’000’

**Non Current assets**

Freehold property 11,000

Plant and machinery 2,750

13,750

**Current assets**

Stock 8,750

Debtors 13,375

Cash 125

22,250

**Current liabilities**

Bank overdraft 3,750

Creditors 11,250

Interest payable (5% debentures) 500

(15,500)

6,750

20,500

**Paid up capital**

10,000 10% cumulative preference shares of shs.500 each fully paid 5,000

25,000 Ordinary shares of sh.500 each fully paid 12,500

10,000 Ordinary shares of shs.500 each. Shs.250 paid 2,500

20,000

Revenue reserves: profit and loss account (9, 500)

Non current liabilities 10,000

5% debentures 20,500

Additional Information

1. 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 free hold 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 shs.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:

Shs.’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)

1. The assets realized the following amounts:

Freehold property 12,500

Plant and machinery 2,000

Stock 6,250

Debtors 12,250

1. The expenses of liquidation amount to shs.125,000 and the liquidator’s remuneration was fixed at shs.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)

**QUESTION FOUR (20 MARKS)**

The Nyamole Company Limited unaudited Balance Sheet as at 31st July, 2016 is shown below;

**Assets:** Shs. Shs.

Land 130,000

Buildings less accumulated depreciation 900,000

Machinery less accumulated depreciation 1,200,000

Goodwill 200,000 2,430,000

**Current Assets:**

Cash 120,000

Debtors and prepayments 950,000

Investments 200,000

Stock –Finished good 600,000

-Raw Materials 400,000

**Current Liabilities** 2,270,000

Creditors 942,000

Accrued wages 150,000

Other payables 1,350,000

2,442,000

Net current liabilities 72,000

2,258,000

Financed by:

Share capital 1,000,000

Mortgage payable 1,300,000

Profit & Loss Account (42,000)

2,258,000 The following additional information is available:

1. The company is facing bankruptcy proceedings.
2. Cash includes a shs.5,000 travel advance which has been spent.
3. Debtors and prepayments of shs.400,000 have been pledged in support of other payables in the amount of shs.300,000. Debit balances of shs.50,000 are to be netted in the debtors and prepayments total on account of being bad debts.
4. Investments consist of Treasury bills costing shs.100,000 and 500 ordinary shares of Osense Company shares. The market value of the Treasury Bills costing shs.100,000 and the market value of the shares is sh.18 per share. The investments are collateral for a bank loan of shs.200,000 included in other payables.
5. The creditors balances include accrued interest on mortgages of shs.2,000.
6. The investments are collateral for a shs.200,000 loan payable to the bank. The bank loan is included in other payables balance.
7. Estimated realizable value of finished goods is shs.500,000 and of raw material is shs.300,000. For additional out-of-pocket cost of shs.100,000 the raw material would realize shs.599,000 as finished goods.
8. The market value of land, buildings and machinery is as follows:

Land – Shs.250,000

Buildings – shs.1,100,000

Machinery – shs.650,000

1. Creditors include shs.150,000 P.A.Y.E deductions and shs.60,000 due to the creditors who have been reassured by the Managing Director that they would be paid. There are unrecorded P.A.Y.E deductions amounting to shs.5,000.
2. Mortgage payable consist of shs.1,000,000 on Land and Buildings and shs.300,000 in connection with a hire purchase agreement on machinery. Total unrecorded interest for these liabilities amounts to shs.24,000. Interest on land and buildings mortgage is shs.20,000 while that of the machinery mortgage is shs.6,000.
3. Probable judgement on a pending damage suit is estimated at shs.500,000.
4. Expenses in connection with the liquidation are estimated at shs.100,000.
5. The auditors have not submitted a fee note for shs.50,000 in connection with the annual audit for the year ended 30th April, 2016.
6. The receiver estimate the liquidation work to cost shs.10,000.

Required:

1. A Statement of Affairs for Nyamole Company Limited as at 31st July, 2016. (15 Marks)
2. A Deficiency account of Nyamole Company Limited, in respect of unsecured creditors. (5 Marks)

**QUESTION FIVE (20 MARKS)**

Korir carrying out a business as a trader in Nairobi finds himself insolvent and on 15 March 2001, files his own petition in bankruptcy. The following balances are extracted from the books of his business on that date:

Shs. Shs.

Capital 180,000 Shop, loan and buildings 600,000

Mortgage on shop-land and building 450,000 Furniture and fittings 150,000

Loan ICDC 180,000 Stock of goods 81,405

Loan – Barclays Bank 90,000 Debtors 96,195

Loan – Co-operative Society 30,000 Korir – drawings 197,100

Loan – A. Kariuki 15,000 Cash in hand 300

Loan – W. Kuria 3,000

Trade creditors 171,000

Salaries, wages payable 2,700

NHIF, NSSF, PAYE 540

Bank overdraft 27,600

1,125,000 1,125,000

The following additional information is available:

1. Trade creditors include shs. 4,500 owing to Nairobi City Council in respect of rates for the current period and a small loan from his friend Macharia shs. 1,500.
2. The amount owing for salaries, wages and payroll deductions are for 2001.
3. There is shs.31,500 interest unpaid on the mortgage as at 15 March 2001 which has not been recorded in books.
4. The loan from ICDC is secured by a second mortgage on the shop, land and building. The unrecorded interest owing as at 15 March 2001 is shs.14,400.
5. The loan from the co-operative Society was obtained when Korir pledged his wholly owed farm as security. The farm is valued at shs.45,000. There is no interest outstanding on his loan.
6. The interest on the loan from A Kariuki was to vary with profits, but since the business has been operating at loss, there is no interest due.
7. There is no interest outstanding on the loan from Barclays Bank.
8. W. Kuria is Korir’s brother-in-law.
9. The value assets are estimated to be:

Shs.

Shop, land and building 630,000

Furniture and fittings 120,000

Stock of goods 30,000

1. Of the debtors, shs.60,000 are thought to be good and shs.30,000 doubtful of which shs.22,500 should be collectable.
2. Korir’s uncle died recently and he will be receiving shs.7,500 as an inheritance.
3. Korir has no personal creditors outside the business but he has other personal assets as well as the small piece of land amounting to shs.9,000 exclusive of household and personal effects.

Required:

1. A statement of affairs for Korir as at 15 March 2001 in good form. (10 Marks)
2. A deficiency account (8 Marks)
3. A detailed listing of the amounts you have include as unsecured preferential creditors. (2 Marks)