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**University Examinations 2015/2016**

THIRD YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE

OF

BACHELOR OF COMMERCE

**BFC 3377: BANKRUPTCY AND INSOLVENCY**

**DATE: APRIL 2016 TIME: 2 HOURS**

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

**QUESTION ONE (30 MARKS)**

1. List and explain briefly the powers of liquidator (5 marks)
2. How is a trustee appointed? Discuss the powers and duties of such a trustee (6 marks)
3. Discuss instances under which a bankrupt is deemed to have committed a criminal offence under the Bankruptcy Act in Kenya (4 marks)
4. Matatizo Ltd. went into voluntary liquidation on 30 November 2014. Its balance sheet as at that date was as follows:

|  |  |
| --- | --- |
|  | Shs. |
| Assets: | 5,000,000 |
| Land and buildings | 12,500,000 |
| Plant and machinery | 2,000,000 |
| Patents | 2,750,000 |
| Stock | 5,500,000 |
| Sundry debtors | 1,500,000 |
| Cash at bank |  |
| Profit and loss account balance |  |

Equity and liabilities:

Issued and subscribed capital

100,000 10% cumulative preference shares of Sh.100 each, fully paid 10,000,000

50,000 equity shares of Sh.100 each, Sh.75 paid 3,750,000

150,000 equity shares of Sh.100 each, Sh.60 paid 9,000,000

15% debentures secured by floating charge 5,000,000

Interest outstanding on debentures 750,000

Creditors 



**Additional information:**

1. Preference dividends were in arrears for two years and the creditors included preferential creditors of Sh.760, 000.
2. The assets were realized as follows:

Land and building 6,000,000

Plant and machinery 10,000,000

Patents 1,500,000

Stock 3,000,000

Sundry debtors 4,000,000

1. The final payments (including those relating to debentures) were made on 31 May 2004.

Liquidation expenses amounted to Sh 545,000. They liquidator is entitled to a commission of 3% on assets realized sundry debtors.

**Required:**

The liquidator’s final statement of account as at 31 May 2014. (15 marks)

**QUESTION TWO (20 MARKS)**

Msoto 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 the 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 2009 as follows:

|  |  |  |
| --- | --- | --- |
|  | **Current Value** | **Estimated Value** |
|  | **Sh. ‘000’** | **Sh. ‘000’** |
| Assets |  |  |
| Freehold property: Medsan Traders | 11,000 | 12,000 |
| Hamed | 7,000 | 10,000 |
| Plant and machinery : Medsan Traders | 3,000 | 1,500 |
| Furniture and fixtures: Medsan Traders | 1,000 | 800 |
| Hamed | 1,500 | 1,200 |
| Hassan | 1,800 | 1,500 |
| Inventory: Medsan Traders | 8,000 | 6,500 |
| Accounts receivable: Medsan Traders | 12,000 | See (note1) |
| Investment: Hamed | 1,500 | 2,400 |
| Hassan | 2,000 | 1,900 |
| Liabilities |  |  |
| Mortgage on freehold property: Medsan Traders | 6,000 |  |
| Hamed | 5,000 |  |
| Bank overdraft: Medsan Traders | 7,000 |  |
| Accounts payables: Medsan Traders | 19,000 |  |
| Hamed | 700 |  |
| Hassan | 2,400 |  |

**Additional Information:**

1. Of the accounts receivable, Sh. 9 million is estimawtd to be good while Sh. 1 million is estimated to be bad. 50% of the remaining debts are expected to be paid.
2. The preferential accounts payables for Medsan Traders, Hamed and Hassan were Sh.1,100,000. Sh.300,000 and Sh.500,000 respectively.
3. Medsan Traders bank overdraft was secured by a second mortgage on the partnership freehold property and by the deposit of Hamed’s investments together with his personal guarantee.

**Required:**

1. Statement of affairs as at 31 December 2004 (10 marks)
2. Deficiency or surplus accounts as at 31 December 2004 (10 marks)

**QUESTION FOUR (20 MARKS)**

1. In the bankruptcy of Mr. Amenya, 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 Sh. 10m.

The trustee’s remuneration has been agreed at:

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

**Required:**

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. (10 marks)

1. Later, the trustee realizes the remaining assets for Shs. 2,450,000 (gross), and agents’ fees and other outgoings (excluding the trustee’s remuneration) total Shs. 160,000.

The trustee now wishes to obtain his discharge.

**Required:**

Prepare the summary of the trustee’s cash book giving details of the receipts and payments for the whole trusteeship (including the final dividend paid to creditors). (10 marks)

**QUESTION FIVE (20 MARKS)**

1. Explain the consequences of a liquidation order having issued by the court on bankruptcy grounds. (5 marks)
2. Chege, a trader, filed his own petition in bankruptcy. The balance sheet of his business as on 30th June 2011, the date of the Receiving Order, showed:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  | **Net Realizable Value** |
|  | **Khs** |  | **Kshs** | **Kshs** |
|  | **‘000’** |  | **‘000’** | **‘000’** |
| Capital Account as on 1st July 2010 | 600 | Freehold shop building | 1,200 | 1,400 |
| Add: Profit for year to 30th June 2011 |  | 10,00 shares of shs. 100 each at cost in Ivory Ventures Ltd. | 1,000 | 20 |
|  | 800 |  |  |  |
| Deduct: Drawings in year 30th June 2011 | 180 | Stock | 400 | 300 |
|  | 620 | Trade Debtors | 450 | 350 |
| Trade Creditors (including Shs.50,000 preferential in bankruptcy) | 1,680 | Balance at Bank | 50 | 50 |
| Loan, secured on freehold shop building |  |  |  |  |
|  |  |  |  |  |

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 forecast due to his bookmaker.

The value of personal assets and liabilities had remained unchanged since 1st July 2010.

In 1999 (12 years ago), Chege had made a voluntary settlement of Shs. 200,000 in favour of his invalid sister, Mary.

You are required to prepare, as on 30th June 2011:

1. A statement of Affairs, and
2. A Deficiency Account (15 marks)