MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FIRST SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF COMMERCE

BAC 306: BANKRUPTCY AND REORGANIZATION

Date: 10/8/2016 **Time: 8:30 – 10:**

INSTRUCTIONS:

Attempt question one and any other two questions

QUESTION ONE

a) A creditor of Polepay Traders, a partnership owned by Peter Ole Lemsio and Patrick Ayimba, presented a petition in bankruptcy against the partnership on 1 April 2001. On 30 April 2001, the High Court made out a Receiving order against the partnership and the two partners.

The balance sheets of the partnership and the individual partners as at 30 April were as follows:

	Polepay	**Lemasio**	**Ayimba**		**Polepay**	**Lemasio**	**Ayimba**
Assets:	**Sh. '000'**	**Sh. '000'**	**Sh. '000'**	**Liabilities:**	**Sh. '000'**	**Sh. '000'**	**Sh. '000'**
Land and building	12,450			Bank overdraft	4,600		
Houses		5,500	4,800	Creditors	27,270	670	450
Plant & Equipment	14,600			Long-term loans	11,200	3,300	3,840
Furniture, etc,		650	400	Car loans		380	600

Inventory	19,600			Excess of assets			
Trade receivables	20,240			Over liabilities	24,000	15,990	15,550
Cash	180	90	140				
Investments		13,600	14,200				
Motor cars	______	500	900		______	______	______
	67,070	20,340	20440		67,070	20,340	20,440

ADDITIONAL INFORMATION:

1. Lemasio and Ayimba have contributed equal amounts of capital to the partnership; always draw the same amount from the partnership and share profits and losses equally. The partners' capital included in their personal assets under the title investments,

2. The estimated realizable values of the assets stated above are as follows:

	Polepay	Lemasio	Ayimba
Assets:	**Sh. '000'**	**Sh. '000'**	**Sh. '000'**
Land and building	8,000		
Houses		4,000	3,500
Plant and Equipment	7,500		
Furniture		180	100
Inventory	13,500		
Trade receivables	13,100		
Other investments		700	1,000
Motor cars		250	300

3. The long term loan in the books of the partnership is secured on the partnership land and buildings. The long-term loan to the individual partners are secured on the individual partner's houses. The partnership overdraft was secured by a second mortgage on the partnership land and building and by the personal guarantee of Ayimba and the deposit of his investments. The car loans are secured on the partners' car individually.

4. Of the sectors of Polepay, Lemasio and Ayimba, preferential creditors amounted to Sh.20,000, Sh.590,000 and Sh.380,000, respectively, and represent amounts due for taxation.

Required:

i) Prepare statements of Affairs and Deficiency or surplus Accounts for the partnership and for the individual partners, using the format laid down in the Bankruptcy Act and showing the legal position. (20 marks)

ii) Discuss the benefits and limitations of merging of organization. (10 marks)

QUESTION TWO

(a) The following is the summarized Balance Sheet of Bahati Mbaya Ltd. as at 30 September 1992.

	Sh.		Sh.
Issued Share Capital		Sundry Assets	3,532,000
8,000 12% Preference		Buildings	800,000
Shares of Sh.100 fully		Preliminary expenses	80,000
Paid	800,000		
12,000 Ordinary shares		Profit and Loss	
of Sh.100 each, Sh.95 paid	1,140,000	Account	568,000
11% Debentures	1,600,000		
Loan on Mortgage	640,000		
Bank Account	200,000		
Creditors (including			
Sh.160,000 for tax)	600,000		
	4,980,000		4,980,000

The mortgage was secured on the buildings and the debentures were secured by a floating charge on the "Sundry Assets". Due to the inability of Bahati Mbaya Ltd. to service its debenture obligations, the debenture holders appointed a receiver who took charge of some of the "Sundry Assets" amounting to Sh.2,520,000. A liquidator was also appointed as the company went into a voluntary liquidation.

The receiver realised the assets for Sh.2,520,000. A liquidator was also appointed as the company went into a voluntary liquidation.

The receiver realised the assets for Sh.2,360,000 and expenses and remuneration were Sh.12,000 and Sh.16,000. Buildings were sold for Sh.720,000 and Sh.1,160,000 was received from the sale of the remaining sundry assets. The bank had the guarantee of Bahati Mbaya Ltd. directors (personal) amounting to Sh.176,000 which was duly honoured by them. The costs of the liquidation were Sh.24,000 and the Liquidators remuneration amounted to Shs. 10,000. All transactions were completed by 31 December 1992.

Required:

i) Receivers Receipts and Payments Account. (5 marks)

ii) Liquidator's Fund Statement of Account (11 marks)

b) State the circumstances in which a company may be voluntarily liquidated in Kenya. (4 marks)

QUESTION THREE

a) What are the duties of an Interim Liquidator? How do they differ from those of a Receiver and Manager? (6 marks)

b) As a result of serious problems with its export market, Nga'aki Stores Limited went into voluntary liquation on 1 May 1992. The interim liquidator provided the following information;

i) The assets of the company including machinery realized Shs.2,100,000.

ii) Liquidation expenses amounted to Shs.75,000.

iii) Ng'aki Stores Limited had borrowed a loan of Shs.250,000 from National Bank. The loan was secured against machinery which realized Shs.402,500 upon disposal..

iv) The company due to liquidity problems had not paid salaries of four clerks for four months.Each clerk was entitled to a salary of Shs.1,500 per month. In addition, salaries of four messengers for three months at the rate of Shs.750 per month was outstanding.

v) Creditors worth shs.437,000 were in the books.

vi) The shares capital was composed as follows:

10,000 Class A ordinary shares of Shs.100 each (Shs 75 paid-up).

8,000 Class B ordinary shares of shs.100 each (Shs.60 paid-up)

7,000 Class C ordinary shares of Shs.100 each (shs.50 paid-up)

10,000 8% preference shares of Shs100 each (fully paid-up)

Required:

The liquidator's Statement of receipts and payments with the appropriate support schedules. (14 marks)

QUESTION FOUR

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	2,7600		
	1,125,000		1,125,000

The following additional information is available:

1. Trade creditors include Sh.4,500 owing to Nairobi City council in respect of rates for the current period and a small loan from his friend Macharia Sh.1,500.
2. The amount owing for salaries, wages and payroll deductions are for 2001
3. There is Sh.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 Sh.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 Sh.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

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

Required:

(a) A statement of affairs for Korir as at 15 March 2001 in good form (10 marks)

(b) A deficiency account. (8 marks)

A detailed listing of the amounts you have included as unsecured preferential creditors.

(2 marks

QUESTION FIVE

(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			
			2,750
			13,750
Current assets:			
Stock			
Debtors		8,750	
Cash		13,375	
		125	
Current liabilities:		22,250	
Bank overdraft			
Creditors	3,750		
Interest payable (5% debentures)	11,250		
	500	(15,500)	6,750
Paid up capital:			20,500
10,000 10% cumulative preference shares of Sh.500 each fully paid			5,000
			12,500
25,000 Ordinary shares of Sh.500 each fully paid			
			2,500
10,000 Ordinary shares of Sh.500 each. Sh.250 paid.			
			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 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)