MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR FIRST SEMESTER EXAMINATION FOR BACHELOR OF COMMERCE

BAC 306: BANKRUPTCY AND REORGANIZATION

DATE: 1/8/2017 **TIME: 8:30 – 10:30 AM**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

SECTION ONE-COMPULSORY

QUESTION ONE (COMPULSORY) (30MARKS)

1. a) i) Differentiate between bankruptcy and reorganization (2 marks)

ii) Describe the main provisions of bankruptcy Act (cap 53) of Kenya (8 marks)

b) i) Distinguish between balance sheet and statement of affairs (8 marks)

ii) Define the following:

i) Receivership

ii) Liquidation

iii) Scheme of arrangement (12 marks)

QUESTION TWO (20 MARKS)

A compulsory winding up order was made on 30 November 2003 against Hasara Ltd. A summary of the company's balance sheet 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			14,620
			22,249
Current assets:			
Stocks		19,180	
Debtors		9,040	
Cash in hand		20	
		28,240	
Current liabilities:			
Bank overdraft	22,790		
Creditors	20,900		
Customs and excise tax	200		
Accruals	399		
Debenture interest due	100	(44,389)	(16,149)
			6,100
Financed by:			
Share capital 5,000,000 ordinary shares of Sh.20 each – fully paid			10,000
400,000 ordinary shares of Sh.20 each- Sh.12.50 paid			5,000
			15,000
Revenue reserves:			
Retained profits (losses)			(12,900)
Shareholders' funds			2,100
Non-current liability:			
10% debentures			4,000
			6,100

Additional information:

The 10% debentures are secured by a first charge on freehold property and the bank overdraft is secured by a floating charge on the assets.

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	86
	399

A holder of 20,000 of the partly paid shares was bankrupt ~~and~~ it was anticipated that his trustees. The company's assets were estimated to be realized as follows:

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

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.

Legal proceedings for breach of contract were pending against the company as at 30 November 2003. The company was considered to have a poor defence 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 balance sheet.

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 Sh.1,800,000 respectively.

Required:

(a) Statement of affairs as at 30 November 2003. (10 marks)

(b) Deficiency account as at 30 November 2003. (10 marks)

QUESTION THREE (20 MARKS)

a) The process of bankruptcy is not only a necessary evil but a beneficial one. Briefly compare and contrast this statement as far the law of bankruptcy is concerned. (10 marks)

b) As any law, one becomes convicted by this law if he or she commits any acts of specific provisions of bankruptcy. In your own words, you are required to explain any five acts a debtor may contravene. (10 marks)

QUESTION FOUR (20 MARKS)

a) Explain any four consequences of making a receiving order (10 marks)

b) State and list any five-priority order of paying debts of a bankrupt. (10 marks)

QUESTION FIVE (20 MARKS)

a) A company may be wound up by various ways. Briefly explain three ways in which a company can be liquidated. (10 marks)

b) Discuss grounds on which a company may compulsorily be wound up. (10 marks)