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**MASINDE MULIRO UNIVERSITY OF
SCIENCE AND TECHNOLOGY
(MMUST)**

MAIN CAMPUS

**UNIVERSITY EXAMINATIONS
2021/2022 ACADEMIC YEAR**

FOURTH YEAR SECOND SEMESTER EXAMINATIONS

**FOR THE DEGREE
OF
BACHELOR OF COMMERCE/
BACHELOR OF SCIENCE (ACCOUNTING)**

COURSE CODE: BCA448

COURSE TITLE: BANKRUPTCY AND REORGANIZATION

DATE: Friday 29TH APRIL 2022 TIME: 12-2PM

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer FOUR (3) questions

TIME: 2 Hours

MMUST observes ZERO tolerance to examination cheating

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QUESTION ONE.(30 MARKS)

- a) State any FIVE instances where insolvent person commits an act of bankruptcy (5 Marks)
 b) Briefly explain the main objectives of bankruptcy proceedings (6 Marks)
 c) State any two instances in which a receiving order may be rescinded (4 Marks)
 d) Unexpected Ltd went into involuntary liquidation on 31st March 2018. The statement of financial position was as follows.

	Sh.
Liabilities	
Issued and researched capital	
15000 10% cumulated preference shares @ Sh.100 each fully paid	1,500,000
7500 equity shares of Sh. 100 each paid sh. 75 paid	562 500
22 500 equity shares of Sh 100 each paid sh. 60 paid	1,350 000
15% Debenture secured by a floating charge	750 000
Interest outstanding on debenture	112 500
Creditors	956 250
Asset	
Land and buildings	750 000
Machinery and plant	1,875 000
Patents	300 000
Stock	402 000
Sundry debtors	825 000
Cash at Bank	225 000
Profit and loss A/C	853 750

Preference dividends were in arrears for 2 years and creditor included preferential creditors of Sh. 38 000.

The assets were realised as follows

Land and Buildings	900 000
Machinery and plant	1,500 000
Patents	225 000
Stock	450 000
Sundry debtor	600 000

The expenses of liquidation amounted to Sh. 27,250. The liquidator is entitled to a commission of 3% on assets realized except cash. The final payment including those on debentures were made on 30th September 2018.

Required

Prepare the Liquidators final statement of accounts (15 marks)

QUESTION TWO (20 MARKS)

- (a) Briefly explain what is meant by a scheme of composition and arrangement 'under insolvency.'
 (b) Under what conditions is it prudent to agree to a scheme?
 (c) The following balances were extracted from the books of Wepukulu, a sole-proprietor who concludes that his Wepukulu & Sons Enterprise is in Bankruptcy insolvency state on 31/12/2020.

	Sh. 000	Sh. 000
Capital		40,000
Mortgage on shop land & Building	12,000	10,000
Loan - ICDC	30,000	5427
- Barclays Bank	12,000	6413
- SACCO	6,000	13140
- Wafula	2,000	20
- Nafula	1,000	
	200	
	30,000	
	12,000	
	Furniture & Fittings	
	Inventory	
	Accounts Receivable	
	Drawings	
	Cash	

Trade creditors	11,400
Salaries/ wages payables	180
NHIF.NSSF, PAYE	36
Bank overdraft	184
	75,000

75,000

Additional information

1. Wages, salaries and payroll deductions accrued evenly over 2020. The firm defaulted in payments for six months
2. Loan from ICDC is secured by a second charge on shop land and building. Both mortgage loan and ICDC loans have accrued interest not recorded amounting to sh. 2,100,000 and sh. Sh. 960,000 respectively.
3. Lon from Wafula had variable interest conditional on profit earned in each year. No interest is due since the business has been making losses.
4. The value of assets are estimated as:

i. Shop land & Building	sh. 000
ii. Furniture & Fittings	42,000
iii. Stock	8,000
	2,000
5. Of the debtors, sh 4000,000 are thought to be good, sh. 2,000,000 doubtful of which 1,500,000 is thought collectible
6. Wepukulu has no personal creditors outside of business but has other personal assets including a farm amounting to sh.600,000 excluding personal car sh. 300,000, household and personal effects amounting to sh. 400,000

Required

- (i) Wepukulu & Sons' statement of affairs
- (ii) Deficiency statement
- (iii) How much dividends will the creditors receive?

QUESTION THREE (20 MARKS)

- a) Briefly explain means through which a company can re-organize its capital through capital reduction as provided in the companies act? (12 mks)
- b) Differentiate internal capital reconstruction and external capital reconstruction (2mks)
- c) Based on the provision of the insolvent act (2015) briefly explain alternatives to bankruptcy proceedings against an insolvent entity (6mks)

QUESTION FOUR (20 MARKS)

- a) State briefly any FIVE duties of a bankrupt person (5mks)
- b) BOMU partnership was declared bankrupt on 30th November 2020. The partnership had obtained a bank loan secured by the business' freehold building, as well as by Mukaya's (one of the partners) personal property.

Extracts from the accounts of the partnership were as follows;

Deficit as per the Partnership's Statement of Affairs (as at 30 th June 2016)	Ksh	5,000,000
Mortgage secured by floating charge of assets:		
Bank loan		7,000,000
Building (net realizable value)		1,200,000
Other unsecured creditors		5,000,000
		3,000,000

Required:

- Calculate the amount that will rank as Mike's personal liability with respect to the bank loan. **(6marks)**
- b) Mr Mwafondo, a newly appointed CEO of a newly formed company is concerned with enhancing the success of the firm and is therefore keen on identifying internal factors that may lead to the collapse of a company. Briefly explain to him five internal factors that may indicate business failure

(5 marks)