



**MASINDE MULIRO UNIVERSITY OF SCIENCE AND
TECHNOLOGY**

(MMUST)

MAIN/WEBUYE CAMPUS

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

FOURTH YEAR SECOND SEMESTER EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: BCA 448

**COURSE TITLE: BANKRUPTCY & REORGANIZATION
ACCOUNTING**

DATE: Thursday 13th April 2023

TIME: 12.00–2.00 pm

INSTRUCTIONS TO CANDIDATES

Answer **QUESTION ONE** and **ANY OTHER TWO** questions.

TIME: 2 HOURS

MMUST observes ZERO tolerance to examination cheating

This Paper Consists of 4 Printed Pages. Please Turn Over.

QUESTION ONE

a) Debt restructuring is an alternative to liquidation for companies experiencing financial difficulties and liquidity distress in Kenya. Briefly discuss five key considerations that such companies must analyze before pursuing a debt restructuring proposal with their lenders.

(5 marks)

b) Briefly explain two principal reasons why insolvent company opt to undertake capital reconstruction as an alternative to liquidation.

(4 marks)

c) Based on the Insolvency Act (2015), Briefly explain the key stages of bankruptcy proceeding.

(7 marks)

d) Introduction of the Insolvency Act (2015) marked a paradigm shift in Kenya, introducing a corporate rescue mechanism for insolvent companies. In light of this statement,

i) Briefly list and explain three key objectives of administration as a corporate rescue mechanism available to insolvent companies

(6 marks)

ii) Distinguish between administration and company voluntary arrangements. **(4 marks)**

e) In context of insolvent individuals, distinguish between insolvent and bankrupt persons

(4 marks)

QUESTION TWO

a) High Tone Ltd went into a compulsory winding up on 31 December 2019, following several years of turbulent business environment. The liquidator provided the following information as at 30th Sept 2022:

1. Assets of the company including land & Building realized sh 5250,000 (included is Land & building that realized Ksh (1006,250)

2. Liquidation expense amounted to sh 187,500

3. The company had outstanding debenture of sh 800,000 secured by a first charge against land & building.

4. Due to liquidation problems, the company had outstanding Preferential liabilities amounting to sh 87,500 and other unsecured liabilities amounting to sh 50,000.

5. Creditors worth sh 1092,500 were outstanding

6. Share capital was composed as follows;

20, 000 class A ordinary shares of sh 250each (sh 187.50 paid up)

8, 000 class B ordinary shares of sh 250each (sh 150 paid up)

7, 000 class C ordinary shares of sh 250 each (sh 125 paid up)

10, 000 8% preference shares of sh 300 each (fully paid up)

Required: Liquidator's final statement of account as at 30th September 2022. **(14 marks)**

b) An insolvent individual does not have to wait for bankruptcy proceeding to be brought against him. In light of this statement, discuss three alternatives to bankruptcy available to insolvent individuals

(6 marks)

QUESTION THREE (20 MARKS)

a) Briefly list and explain five distinguishing characteristics between a statement of affairs and the statement of Financial position. **(5marks)**

b) Kiboko, a sole proprietor, became insolvent and filed for bankruptcy petition on 31st March 2020, resulting from a turbulent business environment as well as poor management skills, His statement of financial position as at 31st March 2020 was as follows;

<u>Assets</u>	Book value (sh)	Net realizable value (sh)
Freehold building	12,000,000	14,000,000
2 million of KCB Ltd	10,000,000	200,000

Inventory	4,000,000	3,000,000
Accounts receivable	4,000,000	3,500,000
Cash at bank	<u>1,000,000</u>	1,000,000
	31,000,000	

Liabilities and capital:

Capital (1st April 2019)	6,000,000
Profit for the year	2,000,000
Drawings	<u>(1,800,000)</u>
	6,200,000

(Trade creditors including sh 500,000 Preferential in bankruptcy)	16,800,000
Loan secured on building	<u>8,000,000</u>
	31,000,000

Additional information:

1. Kiboko's personal assets included: Fixtures & fittings sh 2,000,000; bank account balance sh 400,000 and Luxury painting sh 100,000.
2. His personal liabilities; sh 60,000 owed to his personal assistant and sh 100,000 owed to a friend.
3. The value of personal assets remained unchanged throughout the year

Required:

- i) Statement of affairs and Deficiency account as at 31st March 2017, assuming: Kiboko did not retain any personal asset or cash **(7 marks)**
- ii) Deficiency account as at the same date **(4 marks)**
- iii) Indicate amount realizable by each category of creditors. **(4 marks)**

QUESTION FOUR (20 MARKS)

The following is a statement of financial position of Kilimani limited as at 31st December 2020.

Details	kshs	kshs
Non-current assets		11,960,000
Current assets		
inventory		3397,000
accounts receivable		4,150,000

Capital and liabilities

Non-current liabilities

15% debentures	5,300,000
Current liabilities	
Accounts payables	4,456,000
Interest on debentures	2,710,000
Bank overdraft	3,341,000
1,000,000 ordinary shares of shs 7.5 each	7,500,000
1,000,000 12% preference shares of kshs 5.5 each	5,500,000

Profit and loss account balance (4,300,000)

On January 2021, a scheme of reconstruction was agreed among shareholders as follows.

- i The ordinary shares to be reduced by kshs 1 per share
- ii The preference shares to be reduced to kshs 2.50 per share. An amount of 700,000 of preference share value to be converted to 18% debentures after the reduction
- iii The debit balance in the profit and loss account to be written off
- iv A provision for doubtful debts of kshs 2,900,000 is to be created.
- v The interest due on debentures is to be waived
- vi Non current assets are to be revalued to shs, 13,000,000
- vii To issue additional 180,000 ordinary shares at par value

Required:

a) Capital reduction account for Kilimani ltd (8marks)

b) Statement of Financial Position for Kilimani ltd after the reconstruction

12 marks)