KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2014/2015

DIGITAL SCHOOL OF VIRTUAL AND OPEN LEARNING

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

BAC 306: BANKRUPTCY AND REORGANISATION

DATE: TUESDAY, 28TH APRIL 2015 **TIME: 11.00 A.M. – 1.00 P.M.**

INSTRUCTIONS: ANSWER ALL QUESTIONS

Question One (20marks)

a) Outline the main bankruptcy offences (5marks)

b) Kopesha Ltd presented the following statement of financial position as at 31st Dec 2012 and subsequently went into voluntary liquidation on 1st January 2013.

Assets	**shs**	**Liabilities**	**shs**
Machinery	190,000	10,000 6% preference shares of shs.10 each	100,000
Furniture	10,000	20,000 equity shares of shs 10 each	200,000
Stock	120,000	20,000 equity shares of sh 10 each (7.50paid)	150,000
Debtors	240,000	Bank loan	100,000
Cash	50,000	Creditors	350,000
Profit and loss	300,000	Income tax payable	10,000
	910,000		910,000

Additional information

i. The bank loan was secured on stock

ii. Liquidation expenses amounted to shs 4,000. The liquidators are entitled to a commission at 2% on amount paid to unsecured creditors

iii. Calls on company paid shares were made by the company

iv. The assets were realized as follows:

Asset	**shs**
Machinery	166,000
Furniture	8,000
Stock	110,000
Debtors	230,000

Required:

Prepare liquidators statement of account (15marks)

Question Two (20marks)

a) What are the circumstances under which a trustee can be released from his duties? (5marks)

b) Juma commenced a retail business on 1st January 2012 with a capital amount of shs 400,000. His profits for the year were sh190, 000. However, due to his inexperience in business, he failed to prepare proper books of accounts for the next 2 years. His drawings averaged shs 40,000 per year. On 31st December 2014, an adjudication order was made against him when his position was as follows:

	Shs
House debts	10,000
Household furniture	20,000
Cash in hand	15,000
Unsecured creditors	400,000
Mortgage on building	280,000
Creditors partly secured	230,000
Preferential creditors	50,000
Bills receivable discounted and expected to rank	50,000
Buildings	550,000
Machinery	250,000
Book debts	40,000
Furniture	100,000
Stock	80,000

Additional information

i. The creditors partly secured are secured on a life policy estimated to be shs 80,000

ii. Assets were realized as follows:

Buildings	400,000
Machinery	150,000
Book debts- Good	15,000
-Doubtful (20,000 estimated to produce)	10,000
- Bad debts	5,000
Furniture	60,000
Stock	135,000

Required: Prepare a statement of affairs and a deficiency account as at 31st December 2014 (15 marks)

Question Three

Briefly discuss the process of bankruptcy (15marks)

Question four

Briefly explain the terms:

a) Receivership and Liquidation (5 marks)

b) Bankruptcy insolvency and equity insolvency (5 marks)

c) Discharged and Undischarged bankrupt (5 marks)