



MURANGA UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAIN CAMPUS

SPECIAL/SUPPLEMENTARY UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

THIRD YEAR EXAMINATIONS

FOR THE DEGREE

OF

BACHELOR OF COMMERCE

COURSE CODE: HBA 2305

COURSE TITLE: BANKRUPTCY AND INSOLVENCY ACCOUNTS

DATE:

TIME:

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer TWO (2) questions

MRUC observes ZERO tolerance to examination irregularities

QUESTION 1 (COMPULSORY)

- (a) (i) List Six circumstances that lead a debtor to be declared Insolvent (6Marks)
- (ii) Explain the order of payment in the event of a Liquidation of a company (4Marks)
- (b) Describe **three** types of company reorganizations strategies (3 Marks)
- (c) Explain the role of a Receiver –Manager in Bankruptcy proceedings (4 marks)

(d) X and Y are in partnership and filed their petition in Bankruptcy. They presented the following Statements of their Firms' and Individuals' Assets and liabilities as at April 30, 2014.

	Firm	X	Y
	Sh	Sh	Sh
Mortgage on Building	160,000	-	-
Bank Overdraft	200,000	-	-
Sundry Creditors	600,000	40,000	160,000
Preferential Creditors	40,000	-	-
Capitals;			
X	160,000	-	-
Y	120,000	-	-
Excess of Assets over Liabilities	<u>-</u>	<u>240,000</u>	<u>80,000</u>
	<u>1280,000</u>	<u>280,000</u>	<u>240,000</u>
Buildings	280,000	-	-
Plant	400,000	-	-
Furniture	40,000	40,000	40,000
Debtors	120,000	-	-
Stock	400,000	-	-

Investments	-	80,000	80,000
Cash	40,000	-	-
Capital in the Firm	<u>-</u>	<u>160,000</u>	<u>120,000</u>
	<u>1280,000</u>	<u>280,000</u>	<u>240,000</u>

The bank Overdraft was secured by a second mortgage on building and on Y's investments as a collateral security.

Upon disposal, the assets were expected to realize the following respective values;

	Firm	X	Y
	Sh	Sh	Sh
Building	220,000	-	-
Plant	80,000	-	-
Furniture	20,000	20,000	20,000
Stock	160,000	-	-
<u>Debtors</u>			
Good	40,000	-	-
Doubtful (sh 40,000) Realisable Value	20,000	-	-
Bad	40,000	-	-
Investments	-	60,000	40,000

Required;

- (i) Prepare a statement of Affairs and Deficiency Account for Partner "X"(4 Marks)
 - (ii) Prepare a statement of Affairs and Deficiency Account for Partner "Y" (4 Marks)
 - (iii) Prepare a statement of Affairs and Deficiency Account for the Firm. (5Marks)
- (TOTAL; 30MARKS)**

QUESTION 2

- (a) Citing relevant example, differentiate between internal and external reconstruction
(4 Marks)
- (b) The following statement of financial position and income statement relate Shaka industries Limited. The company's ordinary shares are currently priced at sh 8 per share.

Shaka industries Limited

Statement of financial position as at July 31,2014

Assets		Liabilities and Shareholder's Equity	
	Sh		Sh
Cash	200,000	Accounts payable	2,500,000
Accounts Receivable	1,500,000	Notes payable	500,000
Inventories	<u>2,000,000</u>		<u>-</u>
Total Current Assets	<u>3,700,000</u>	Total Current Liabilities	<u>3,000,000</u>
Land	500,000	Mortgage	2,000,000
Plant (NBV)	2,500,000	Debentures	3,000,000
Equipment (NBV)	<u>4,000,000</u>		<u>-</u>
Total Fixed Assets	<u>7,000,000</u>	Total Long Term Debts	<u>5,000,000</u>
		Preference Share Capital (50,000 Shares)	500,000
		Ordinary Share Capital (250,000 Shares)	500,000
		Share Premium	1,000,000
		Retained Earnings	<u>700,000</u>
		Total Shareholders' Equity	2,700,000
			<u>-</u>
Total Assets	<u>10,700,000</u>	Total Liabilities and Equity	<u>10,700,000</u>

Shaka industries Limited

Statement of income for the year ended July 31,2014

	Shs
Sales	3,000,000
Cost of goods sold	(1,750,000)
Selling and Administration Expenses	<u>(500,000)</u>
Earnings before interest and tax	750,000
Interest Paid	<u>(550,000)</u>
Earnings before taxes	200,000
Less Taxes 30%	<u>(60,000)</u>
Net Income	<u>140,000</u>

Required;

Compute

$Y_1 = \text{Working capital} / \text{Total Assets}$ (2 Marks)

$Y_2 = \text{Retained Earnings} / \text{Total Assets}$ (2 Marks)

$Y_3 = \text{EBIT} / \text{Total Assets}$ (2 Marks)

$Y_4 = \text{Market Value of Equity} / \text{Book value of total liabilities}$ (2 Marks)

$Y_5 = \text{Sales} / \text{Total Assets}$ (2 Marks)

If the Z-Score = $1.2 Y_1 + 1.4 Y_2 + 3.3 Y_3 + 0.6 Y_4 + 0.999 Y_5$

- (i) Evaluate the Altman's Z' Score and interpret its meaning (3 Marks)
(Cut-off Z-Score= 2.675)
- (ii) Critically evaluate the applicability of the Altman's Z-Score in the context of your country (3 Marks)

(TOTAL 20MARKS)

QUESTION 3

Mr Opiyo , a businessman filed his own petition in bankruptcy. The balance sheet of his business as on 30st September 2013 ,the due date of the receiving order was as follows,

sh	sh	sh
Capital Account	Book	Net Realizable
As on October 1,2012	Value	Value
600,000	Assets	
	Freehold shop	1,400,000
Add: Profit for the year	1,200,000	
Ended September30,2013	50,000 shares of	
<u>200,000</u>	sh20 each in ABC	
800,000	Ltd	20,000
Deduct : Drawings during	1,000,000	
the year	stock in trade	300,000
<u>(180,000)</u>	400,000	
620,000		
Trade creditors		
(Including sh50,000		
Preferential in bankruptcy)	Debtors	350,000
1,680,000	400,000	
Loan, Secured on		
Freehold shop building	Balance at Bank	<u>100,000</u>
<u>800,000</u>	<u>100,000</u>	
<u>3,100,000</u>		<u>3,100,000</u>

Mr. Opiyo's personal assets ,not including the above ,comprised of a Motor car valued at

sh 400,000 ,current account with a bank balance of sh 40,000 and a gold watch watch valued at sh 75,000,His only personal liabilities outside the business were sh 30,000 due to his Mechanic. The value of personal assets and liabilities had remained unchanged since September30,2012.

Required

Prepare as at September30,2013 ;

- (i) A Statement of Affairs (8 Marks)
- (ii) A Deficiency Account (6 Marks)

(TOTAL 20MARKS)

QUESTION 4

- (a) (i) Differentiate between Receivership and Liquidation (2Marks)
- (ii) Explain the order of payment in the event of a Liquidation of a company (4Marks)

- (b) On 31st December 2005,a compulsory order for winding up was made against XYZ Ltd. The following particulars were disclosed:

	<u>Book value</u>	<u>Estimated to produce</u>
	Sh	sh
Cash in hand	10,000	10,000
Debtors	40,000	36,000
Land and building	600,000	480,000
Furniture and fixtures	200,000	200,000
Unsecured Creditors	200,000	-
Debentures:		
Secured on land and buildings	420,000	-
Secured by floating charges	100,000	-

Preferential creditors	60,000	-
Share capital (3,200 shares at sh100 each)	320,000	-

Estimated liability for bills discounted was sh60,000, estimated to rank at sh60,000. Other contingent liabilities were sh120,000 estimated to rank sh120,000

The company was formed on 1st January 2003; and had made losses sh 250,0000.

Required;

Prepare a statement of Affairs and Deficiency Account

(14 marks)

(TOTAL 20MARKS)