



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

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MAIN EXAMINATION

JANUARY – APRIL 2017 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

O DEL PROGRAMME

CAC 325: BANKRUPTCY AND INSOLVENCY ACCOUNTS

Date: April 2017

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and any other TWO Questions

- Q1. a) Distinguish between bankruptcy and insolvency. **(4 marks)**
- b) Describe five acts of bankruptcy on which a petition may be founded **(10 marks)**
- d) Juma carrying on a business as a trader in Nairobi finds himself insolvent and on 15 August 2016 he files his petition in bankruptcy. The following balances are extracted from the books of his business on that date:

	Sh'000		Sh'000
Juma's Capital	1,200	Shop(land & buildings)	4,000
Mortgage on shop(land & buiding)	3,000	Furniture and fittings	1,000
Loan I.C.D.C. Ltd.	1,200	Stock of goods	575
Loan – Barclays Bank Ltd.	600	Debtors	641.3
Loan – Co-operative Bank Ltd.	200	Juma's drawings	1,314
Loan – Paul Nkobei	100	Cash on hand	2,000
Loan – MutisoKuria	20		
Trade creditors	1,140		

N.H.I.F., N.S.S.F. and P.A.Y.E.	36	
Salaries and wages payable	18	<u>7,532</u>
Bank overdraft	<u>18</u>	
		<u>7,532</u>

Additional information

- i) The trade creditors includes Sh.30,000 owing to Nairobi county government in respect of rates in for the current period and a loan from Juma's friend Waititu for Sh. 10,000.
 - ii) The amount owing for salaries and wages and statutory payroll deductions are for 2016.
 - iii) There is sh210,000 interest unpaid on the mortgage as at 15 August 2016, which has not been recorded in the books.
 - iv) The loan from I.C.D.C. Ltd. is secured by a second mortgage on the shop (land and buildings). The unrecorded interest owing as at 15 August 2016 was Sh.96,000.
 - iv) The loan from the Co-operative Bank Ltd. was obtained when Juma pledged his land valued at sh 300,000 as security.
 - v) Mutiso Kuria is Juma's brother-in-law.
 - vi) The value of the assets is estimated to be:
Sh.
- | | |
|---------------------------|-----------|
| Shop – land and buildings | 4,200,000 |
| Furniture and fittings | 800,000 |
| Stock of goods | 200,000 |
- viii) The debtors of Sh.400,000 are good and Sh.200,000 doubtful of which Sh.150,000 should be collectable.
 - ix) Juma's uncle died recently and he will be receiving Sh.50,000 as an inheritance.
 - x) Juma has other personal assets comprising of a piece of land amounting to Sh.60,000.

Required:

- i) A statement of affairs for Juma as at 15 August 2016 **(12 marks)**
 - ii) A deficiency account as at that date. **(4 marks)**
- Q2. a) Explain the order of payments in which the bankrupts estate must be distributed. **(10 marks)**
- b) Discuss three methods of winding up a company in Kenya **(10 marks)**

Q3. a) Explain the meaning of Compositions and schemes of arrangement and describe the circumstances under which the court may refuse to approve it.

(10 marks)

b) Hasara Ltd makes its accounts each year 31 October and has been trading at a loss. On 31 October 2016, a resolution for a voluntary liquidation was passed. The statement of financial as at that date was as follows.

	Sh. '000'	Sh. '000'	Sh. '000'
Non Current assets			
Freehold property			11,000
Plant and machinery			<u>2,750</u>
			13,750
Current assets			
Stock		8,750	
Debtors		13,375	
Cash		<u>125</u>	
		22,250	
Current liabilities:			
Bank overdraft	3,750		
Creditors	11,250		
Interest payable (5% debentures)	<u>500</u>	<u>(15,500)</u>	<u>6,750</u>
			<u>20,500</u>
Paid up capital:			
10,000 10% cumulative preference shares of Sh.500 each fully paid			5,000
25,000 Ordinary shares of Sh.500 each fully paid			<u>12,500</u>
10,000 Ordinary shares of Sh.500 each. Sh.250 paid.			<u>2,500</u>
Revenue reserves: profit and loss account			20,000
Non Current liabilities:			(9,500)
5% debentures			<u>10,000</u>
			<u>20,500</u>

Additional information

- i) The debentures are secured by a floating charge on the asset and undertaking of the company.
- ii) The bank overdraft is secured by a fixed charge on the company's freehold property.
- iii) The preference shares carry a right to a fixed cumulative dividend of 10% per annum up to the date of liquidation and a repayment of Sh.500 per share in priority to all other classes of shares. No dividend has been paid on the preference shares for two years.

iv) The creditors include:

	Sh. '000'
Directors fees for one year	1,000
Rates for six months to 31 October 2002	125
Manager's salary for October 2002	
Wages for 15 employees	
Pay As You Earn (PAYE)	

v) The assets realized the following amounts:

Freehold property	12,500
Plant and machinery	2,000
Stock	6,250
Debtors	12,250

vi) The expenses of liquidation amount to Sh.125,000 and the liquidator's remuneration was fixed at Sh.500,000.

Required:

The liquidator's statement of account showing in order of the payments made
(15 marks)

Q3. a) Describe five consequences of a winding-up order to a company **(10 marks)**

b) Explain briefly FIVE the powers of liquidator **(10 marks)**

Q4. a) Explain four causes of business financial distress in Kenya **(8 marks)**

b) Four companies in the fruit processing industry in Kenya have the following financial characteristics;

Company	Working capital	Retained earnings	Earnings before interest and tax	Market value of equity	Total assets	Total liabilities	Sales
Abel Ltd	80,000	1,200,000	200,000	4,000,000	4,000,000	2,400,000	400,000
Bet Ltd	40,000	400,000	0	100,000	2,000,000	1,600,000	2,400,000
Cab Ltd	120,000	400,000	(600,000)	960,000	1,600,000	1,540,000	1,800,000

Dar Ltd	800,000	400,000	600,000	200,000	3,600,000	2,000,000	2,000,000
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Using Altman's model of predicting bankruptcy, determine the Z-score index for each company. On the basis of these indexes, which companies are likely to go into bankruptcy and why? **(12 marks)**

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