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**University Examinations 2014/2015**

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**BCB 2304: BANKRUPTCY AND INSOLVENCY**

 **DATE: JULY 2015 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

Kabesty filed her own bankruptcy petition, the balance sheet of her business as on 31st March 2012, the date of receiving order showed:

|  |  |  |
| --- | --- | --- |
|  | Book Values | Realizable Values |
| Capital | Sh.  | Sh. |
| Capital account as on 1st April 2011 |  600,000 |  |
| Add: Profit for the year to 2012 |  200,000 |  |
| Deduct drawings during the year |  (180,000) |  |
|  |  620,000 |  |
| Liabilities | - |  |
| Trade creditors including 50,000 preferential | 1,680,000 |  |
| Loans secured on free-hold building |  800,000 |  |
| Total liabilities | 2,480,000 |  |
| Total capital and liabilities | 3,100,000 |  |
|  | - |  |
| Assets | - |  |
| Freehold building | 1,200,000 | 1,400,000 |
| 25000 shares of shs.40 each in Tamiko Ltd | 1,000,000 |  20,000 |
| Stock in trade |  400,000 |  300,000 |
| Debtors |  400,000 |  350,000 |
| Balance at bank |  100,000 |  100,000 |
| **Total assets** | **3,100,000** | **12,400,000** |

Kabesty’s personal assets, not including above, comprised of a motor car valued as shs.200,000, a current account with a bank shs.40,000 and a disco watch valued as shs.10,000. Her only personal liabilities outside the business were sh.6,000 due to her songster shs.10,000 owed to chemist Musene arising from unpaid bill of unauthorized drug Viagra.

**QUESTION TWO (20 MARKS)**

The following information was extracted from the financial statements of Maiga Company Ltd for the year ended 30th September 2014

Turnover sh.20,000,000

Profit after taxation at 50% sh. 4,000,000

Ordinary dividend declared

80% of profit after taxation sh.

Market price of ordinary shares sh. 64

Issued share capital sh. -

14% preference shares of sh.8 each sh. 4,800,000

Ordinary shares of sh.16 each sh. 12,800,000

**Required:**

1. Calculate the following ratios:
2. Divided yield on the ordinary shares
3. The cover for the preference and ordinary shares dividends
4. The earning yield
5. the price earnings (P/E) ratio (10 Marks)
6. Explain the usefulness and shortcomings of each of the above ratios (10 Marks)

**QUESTION THREE (20 MARKS)**

Chapter 53 of the Bankruptcy Act requires a debtor to provide Debtor’s Statement of Affairs. What are the major differences between the balance sheet and the statement of affairs?

 (20 Marks)

**QUESTION FOUR (20 MARKS)**

Using clear formulas and explanations discuss any two techniques used to predict financial distress in companies (20 Marks)