Entitlement to capital repayment

The rights of the shareholders and loan note holders assuming different values are as follows:

	Existing book values Note 1	*Fair values Note 2*	*Forced sale values Note 3*	*Draft proposed scheme Note 4*
	$	$	$	$
Equity shareholders	102,000	–	–	60,000
7% Debenture holders	135,000	135,000	–	160,000
11% Debenture holders	405,000	405,000	280,000	320,000
	√0.5	√0.5	√0.5	√0.5

Note 1: Equity shareholders have an asset backing of 15c per $1 share using book values as shown in the statement of financial position.

Note 2: Equity shareholders have a nil asset backing if fair values are substituted for the book values shown in the statement of financial position.

√2 *Note 3:* Values under forced sale are calculated as follows:

	$	$
Machinery		122,000
Less: Bank charge		(112,000)
		10,000
Vehicles and equipment	35,000	
Less: Hire-purchase creditors	(45,000)	
		(10,000)
		Nil
Premises		100,000
Inventory		150,000
Receivables		100,000
		360,000
Less: Liquidation costs		(55,000)
		305,000
Less: Preferential creditors (wages and related taxation)		(80,000)
Available for floating charge		225,000

Tutorial note

It would be acceptable to use $225,000 as the figure for forced sale values available to the loan note holders.