Chapter 1

Liquidation of Companies

MEANING OF LIQUIDATION

A Company is an artificial person and it is created by law therefore the law alone can close it. Liquidation of company refers to a process in which a company's existence is brought to an end. On liquidation the affairs of a company are wound up and its name is struck off from the Register of the Registrar of Companies and this fact is published in the Official Gazette.

Modes of Winding Up

Circumstances	Provisions Applicable
On Inability to Pay Debts	Insolvency and Bankruptcy code 2016
Reasons Other than Inability to pay Debts	Companies Act 2013
Voluntary Winding Up – Upto 31/3/2017	Companies Act 2013
– After 1/4/2017	Section 59 of the Insolvency and Bankruptcy code 2016

As per section 270 of the Companies Act 2013, the procedure for winding up of a company can be initiated either:

(a) By the tribunal or,

(b) Voluntary. (However section 304 of companies act has been omitted, therefore section 59 of the Insolvency and Bankruptcy code 2016 is applicable from 1/4/2017)

I. Winding up of a Company by a Tribunal

As per section 271 of the Companies Act 2013, a company can be wound up by a tribunal in the following circumstances:

1. If the company has by special resolution resolved that the company be wound up by the tribunal.
2. If the company has acted against the interest of the integrity or morality of India, security of the state, or has spoiled any kind of friendly relations with foreign or neighbouring countries.

3. If the company has not filed its financial statements or annual returns for preceding five consecutive financial years.
4. If the tribunal by any means finds that it is just and equitable that the company should be wound up.
5. If the company in any way is indulged in fraudulent activities or any other unlawful business, or any person or management connected with the formation of company is found guilty of fraud, or any kind of misconduct.

II. Filing of Winding Up Petition

Section 272 provides that a winding up petition is to be filed in the prescribed form in 3 sets. The petition for compulsory winding up can be presented by the following persons:

- The company
- The creditors; or
- Any contributory or contributories
- By the central or state govt.
- By the registrar of any person authorized by central govt., for that purpose

The winding up petition has to be accompanied with a Statement of Affairs.

The tribunal after hearing the petition has the power to dismiss it or to make an interim order as it think appropriate or it can appoint the provisional liquidator of the company till the passing of winding up order.

III. Voluntary Winding Up of a Company

The company can be wound up voluntarily by the mutual agreement of members of the company, if:

(i) The company passes a Special Resolution stating about the winding up of the company.

(ii) The company in its general meeting passes a resolution for winding up as a result of expiry of the period of its duration as fixed by its Articles of Association or at the occurrence of any such event where the articles provide for dissolution of company.

Member's Voluntary Winding Up under the Insolvency and Bankruptcy Code, 2016

The Procedure of Voluntary Winding up of solvent company section 304 is now omitted from the Companies Act, 2013. Therefore making section 59 of Insolvency and Bankruptcy Code, 2016 applicable from 1st April, 2017.

Some of Key features of section 59 of Insolvency and Bankruptcy Code, 2016 are as follows:

(a) Shifting of Powers from Official Liquidator to Insolvency Professional.

(b) Jurisdictional Authority has been shifted from High Court to National Company Law Tribunal (NCLT).

(c) Timeline for carrying out the Voluntary Winding up process under the Insolvency and Bankruptcy Code is of 12 months.

(d) The shifting of Jurisdictional Authority from High Court to NCLT will result into faster execution as Insolvency Professionals have been entrusted with powers of completing the winding up process and reporting to NCLT.

(e) With the passing of special resolution at the Members meeting and declaration of solvency, the company can commence with the winding up proceedings.

Steps for Voluntary Winding up Process of Company as per Section 59 of the Insolvency and Bankruptcy Code, 2016

1. Declaration of Solvency duly verified by an Affidavit by Majority of Directors of the Company Affidavit to be accompanied by:
   (i) Audited Financial Statement of past two years/Since Incorporation whichever is later.
   (ii) Records of Business Operations of past two year/Since Incorporation whichever is later.
   (iii) Report by the Registered Valuer about the valuation of the assets of the Company.
   (iv) Latest Financial Position of the Company, if any.
2. Within 4 weeks of Declaration of Solvency, Voluntary Winding up of the Company shall happen and there shall be an appointment of Insolvency Professional to act as Liquidator subject to the approval of the Members in General Meeting and creditors owing 2/3rd of the Value of the Debt of the Company through Special Resolution within 7 days of approval of liquidation of Company. Intimation of the same has to be made to the Registrar of Companies.
3. Company has to intimate Insolvency and Bankruptcy Board of India (IBBI) regarding initiation of Voluntary Winding up within 7 days of approval of liquidation of Company/subsequent approval by the creditors.
4. Within 5 days of Appointment of Insolvency Professional as Liquidator:
   (i) A Public Announcement to be made in one English Newspaper and one Regional Language Newspaper having wide circulation where the registered office and the principal office if any, of the Company is situated.
   (ii) Public Announcement to be updated on website of the Company, if any.
5. Liquidator has to open a Bank Account in the Name of the Company followed by the words "in voluntary liquidation" in a scheduled bank within one month of passing of Special Resolution.
6. Intimate the Income Tax Department within One month of passing resolution regarding Voluntary Winding up of the Company and to obtain NOC for the same.
7. Prepare a Preliminary Report to be submitted within 45 days from the commencement of the liquidation process consisting details of:
   (i) Capital Structure of the Company
   (ii) Estimates of assets and liabilities as on the liquidation commencement
   (iii) Any further inquiry relating to promotion/formation/conduct of the business
   (iv) Proposed plan of action by liquidator including the timeline within in which he proposes to carry it out and the estimated liquidation costs.
8. The liquidator shall verify the claims submitted within 30 days from the last date for receipt of claims and may either admit or reject the claim.

9. Liquidator has to prepare list of stakeholders within 45 days from the last date for receipt of claims and also has to maintain Particulars/Minutes about any consultation with Stakeholders.
10. Liquidator has to value and sell the assets in the manner and mode approved by the Company and have to deposit proceeds of distribution in Bank Account
11. Liquidator has to distribute the Proceeds to the stakeholders within 6 months from the receipt of amount.
12. Liquidator has to maintain accounts for liquidation period and conduct audit for the same.
13. The entire process to be completed within 12 months from the date of commencement of liquidation.
14. If the liquidation process extends for more than 12 months, the liquidator shall – Within 15 days from the end of 12 months hold meeting of contributories and Present a Annual Report indicating:
    (i) Settlement of List of Stakeholders
    (ii) Details of Assets remaining to be sold
    (iii) Distribution made to the stakeholders
15. To prepare Final Report with details of Audited Accounts of Liquidation and send it to:
    (i) The Registrar of Companies
    (ii) The Insolvency and Bankrutpcy Board of India
    (iii) The Adjudicating Authority, i.e., NCLT (National Company Law Tribunal)

Commencement of Winding Up by Tribunal after Resolution has been Passed by the Company for Voluntary Winding up (Section 357)

1. Where, before the presentation of a petition for the winding up of a company by the Tribunal, a resolution has been passed by the company for voluntary winding up, the winding up of the company shall be deemed to have commenced at the time of the passing of the resolution, and unless the Tribunal, on proof of fraud or mistake, thinks fit to direct otherwise, all proceedings taken in the voluntary winding up shall be deemed to have been validly taken.
2. In any other case, the winding up of a company by the Tribunal shall be deemed to commence at the time of the presentation of the petition for the winding up.

Contributory

According to the Companies Act a contributory is "every person liable to contribute to the assets of a company in event of its being wound up, and includes a holder of fully paid-up shares and also any person alleged to be contributory". In the event of liquidation of a company, the liquidator prepares two lists of contributories:

(i) **List 'A':** This list consists of those persons who are members of the company on the date of the winding up. In simple, List 'A' contributories is the list of the present members of the company. They are liable to contribute the amount remaining unpaid on the shares held by them if the amount is needed to make payment to legal claimants.

The holders of fully paid-up shares are also treated as contributories even though they are not required to contribute anything to the company. This is necessary because in such a case, the court will know, not only those who will contribute but also who will share the surplus, if any.

(ii) **List 'B':** This list consists of those persons who were the members of the company during the 12 months preceding the date of winding up. In case the assets of the company are not sufficient to pay the liabilities of the company in the event of company's winding up liquidator can ask List 'B' contributories to contribute towards the assets of the company, subject to certain conditions. However their liability is restricted to the amount not called up when the shares were transferred.

Liquidator

The person appointed for conducting the liquidation proceedings of the company is called 'Liquidator'. (In case of Voluntary winding up an Insolvency Professional). The company must submit a statement of affairs to the liquidator. The general duties of the liquidator are to take into his custody all the property of the company and actionable claims and make the payments as per the order laid down in the Companies Act.

Preferential payments: Preferential creditors are those creditors who are paid in priority to creditors having a floating charge and other (non-preferential) unsecured creditors. As per Sec. 326 of the Companies Act, 2013, preferential creditors include the following:

1. All revenues, taxes, cesses and rates due to the Central, State Government or to a local authority which have become due and payable within twelve months before the date of winding up order.
2. All wages or salaries of any employee not exceeding ₹ 20,000 per claimant, in respect of services rendered to the company and due for a period not exceeding four months within the said twelve months before the date of winding up order.
3. All amounts due in respect of contribution payable during the twelve months under the Employees' State Insurance Act, 1948 or any other law.
4. Compensation due under Workmen's Compensation Act, 1923 in respect of death or disablement of any employee of the company.
5. Any amount due to any employee from provident fund, pension fund, gratuity fund for the welfare of the employees maintained by the company.
6. Accrued holiday remuneration becoming payable to the employee or in case of his death, to any other person in his right, on termination of his employment before, or by the effect of the winding up.
7. The expenses of any investigation held in pursuance of Sec. 213 or 216 in so far as they are payable by the company.

Overriding Preferential Payments (Section 326)

Overriding preferential payments are to be paid in priority to all other debts as per the said Act. They include:

(a) Dues to workmen, and

(b) Debts due to secured creditors to the extent such debts rank to the security of every creditor shall be deemed to be subject to pari passu charge in favor of the workmen to the extent of workmen's portion therein.

Preparation of Statement of Affairs

In case of Winding up by Tribunal, section 272(5) of the companies Act states that a petition will be admitted only if it is accompanied by a Statement of Affairs in the form prescribed.

Proforma of Statement of Affairs

Assets not specially pledged (as per list 'A')	*Estimated realisable value* ₹
Balance at Bank	
Cash in Hand Marketable	
Securities Bills Receivable	
Trade Debtors	
Loans and Advances	
Unpaid Calls	
Stock-in-Trade	
Work-in-Progress	
Freehold Property, Land and Buildings	
Leasehold Property	
Plant and Machinery	
Furniture, Fittings, Utensils, etc.	
Investments other than Marketable Securities	
Livestock	
Other Property, *viz*.,	

*Assets specially **pledged (as per List 'B')**	**(a) Estimated Realizable Values ₹**	**(b) Due to Secured Creditors ₹**	**(c) Deficiency Ranking as Unsecured ₹**	**(d) Surplus Carried to Last Column ₹**
Freehold Property				

Estimated surplus from assets specially pledged

Estimated total assets available for preferential creditors, debenture-holders secured by a floating charge, and unsecured creditors (carried forward)

Summary of Gross Assets

	₹
Gross realisable value of assets specially pledged	–
Other Assets	–

Gross Assets

Gross	**Liabilities**	**₹**	**₹**
₹	Liabilities (to be deducted from surplus or added to deficiency as the case may be)		
	Secured creditors (as per list 'B') to the extent to which claims are estimated to be covered by assets specially pledged item (a) or (b) whichever is less		
	[(Insert in 'Gross Liabilities' column only)	–	
	Preferential Creditors (as per list 'C')]	–	
	Estimated balance of assets available for debenture holders		
	secured by a floating charge and unsecured creditors)**		
	Debenture holders secured by a floating charge		
	(as per list 'D')	–	
	Estimated Surplus/Deficiency as regards Debenture holders		
	Unsecured Creditors (as per list 'E')		
	Estimated unsecured balance of claims of creditors partly secured on specific assets, brought from preceding page		
	Trade Accounts –		
	Bills payable –		
	Outstanding Expenses –		
	Contingent liabilities (state nature) –		

Estimated Surplus/Deficiency as regards
Creditors (being difference between
Gross Assets and Gross
Liabilities) –

₹

₹

Issued and Called-up Capital:
Preference Shares of .... each
Called-up (as per list 'F')
Equity Shares of .... each
.... Called-up (as per list 'G')

Estimated Surplus/Deficiency as regards Members
(as per list 'H')

* **Notes 1:** All assets specially mortgaged, pledged, or otherwise given as security should be included under this head. In the case of goods given as security, those in possession of the company and those not in possession, should be separately set out.

** **2:** The figures must be read subject to the following:

(a) There is no unpaid capital liable to be called up or the nominal amount of unpaid capital liable to be called up is ₹ .... estimated to produce ₹ .... which is not charged in favour of Debenture holders.

(b) The estimates are subject to costs of the winding up and to any surplus or deficiency on trading pending realisation of assets.

Procedure of Preparation of Statement of Affairs

For the preparation of Statement of Affairs, the following points are to be followed:

1. First of all, take all assets which are not specifically pledged. These assets are taken at their realisable values. It may be noted that calls in arrears are also treated as an asset not specifically pledged to the extent of estimated realisable amount, but uncalled capital is not shown as an asset.
2. Add to the realisable value of the assets not specifically pledged, any surplus from assets specifically pledged.
3. From the total as obtained by adding (1) and (2) first deduct the amount of preferential creditors, then the amount of creditors having a floating charge (e.g., debentures) and the result will be surplus or deficiency as regards debenture holders.

4. Deduct the amount of unsecured creditors from the figure as obtained in (3) above; the resultant figure will be either surplus or deficiency as regards unsecured creditors.
5. Deduct the amount of paid-up share capital to the figure as obtained in (4) above; the result will be either surplus or deficiency as regards members or contributories.
6. Any unrecorded assets or liability should be shown both in the Statement of Affairs and the Deficiency or Surplus Account to make double entry complete.

Lists to be Attached to the Statement of Affairs

Following lists are attached to the Statement of Affairs:

- **List A** gives a complete list of assets not specifically pledged in favour of secured creditors. Creditors having a floating charge on the assets are considered as having assets not specifically pledged with them; so such assets are included in the list.
- **List B** gives the list of assets which are specifically pledged in favour of fully secured and partly secured creditors.
- **List C** gives the list of preferential creditors.
- **List D** gives the list of debenture holders and other creditors having a floating charge on the assets.
- **List E** gives the names, addresses and occupations of unsecured creditors and the amount due.
- **List F** gives the names and number and value of shares held by various preference shareholders.
- **List G** gives the names and holdings of equity shareholders.
- **List H** shows how Deficiency or Surplus in the Statement of Affairs has been arrived at, i.e., it explains the reasons responsible for the surplus or deficiency. According to the law, the period covered by Deficiency or Surplus must commence on a date not less than 3 years before the winding up order, or if the company has not been incorporated for the whole of that period, the date of incorporation of the company, unless the official Liquidator otherwise agrees.

Deficiency/Surplus Account (List H)

Statement of Affairs shows the Deficiency/Surplus as regards creditors and members. This account explains how the deficiency or surplus has arose. This statement must cover at least a 3 year period preceeding the date of winding up order.

This statement starts with capital and liabilities in excess of assets as on a given date. To this are added items contributing to deficiency (or reducing surplus) such as Net trading Losses, Losses other than trading losses written off, etc. From the total, items reducing deficiency (or contributing to surplus) such as excess of assets over capital and liabilities, Net trading profit made during the period, profits and income other than trading profits etc., are deducted. The resultant Net surplus/deficiency must tally with the figure shown in the Statement of Affairs.

The proforma of Deficiency or Surplus Account (List H) is given below:

Form of Deficiency or Surplus Account (List H)

Items contributing to Deficiency or Reducing Surplus:	₹
1. Excess (if any) of Capital and Liabilities over Assets on the as shown by Balance Sheet (copy annexed)	–
2. Net dividend and bonus declared during the period from to the date of statement.	–
3. Losses on realization of assets	–
4. Net trading losses (after charging items shown in note below) for the same period.	–
5. Losses other than trading losses written off or for which provision has been made in the books during the same period (give particulars or annex schedule)	–
6. Estimated losses not written off or for which provision has been made for purposes of preparing the statement (give particulars or annex schedule)	–
7. Other items contributing to Deficiency or reducing Surplus:	–
Items reducing Deficiency or Contributing to Surplus:	
8. Excess (if any) of assets over capital and liabilities on the as shown in the Balance Sheet (copy annexed)	–
9. Net trading profit (after charging items shown in note below) for the period, and from to date of statement	
10. Profit on realization of assets	–
11. Profits and income other than trading profits during the same period (give particulars or annex schedule)	–
12. Other items reducing Deficiency or contributing to Surplus:	–
Deficiency/Surplus as shown by the Statement	

Note: In case the company in liquidation has not maintained proper books of accounts after a certain date, a trial balance should be prepared with the available information by taking items at their book values. Any difference found in the trial balance is the profit or loss made by the company during that period.

Illustration 1:

Shri A.B. Govindan is appointed liquidator of a company in liquidation on 1st July, 2016 and the following balances are extracted from the books on that date.

	₹		₹
Capital:		Machinery	30,000
8,000 shares of ₹ 10 each	80,000	Leasehold Properties	40,000
Debentures Bank	50,000	Stock-in-trade	1,000
Overdraft Liabilities for	18,000	Book Debts	60,000
Purchases Provision for	20,000	Investments	6,000
Bad Debts	10,000	Calls in Arrear	5,000
		Cash in hand	1,000
		Profit and Loss Account	35,000
	1,78,000		**1,78,000**

Prepare a statement of affairs to be submitted to the meeting of the creditors. The Machinery is valued at ₹ 60,000, the Leasehold Properties at ₹ 73,000, Investments at ₹ 4,000, Stock-in-trade at ₹ 2,000; bad debts are ₹ 2,000, doubtful debts are ₹ 4,000 estimated to realise ₹ 2,000. The Bank Overdraft is secured by deposit of title deeds of Leasehold Properties. Preferential creditors for taxes and wages are ₹ 1,000. Telephone rent owing is ₹ 80.

Solution:

Statement of Affairs of A.B. Govindan as at July 1, 2016

					Estimated realisable value ₹
Assets not specifically pledged (as per List 'A')					
Cash in hand		1,000			
Trade Debtors		56,000			
Calls in Arrear		5,000			
(Marketable) Investments		4,000			
Stock		2,000			
Machinery		60,000			
		1,28,000			

Assets specifically pledged (as per List 'B')

	Estimated Realizable value ₹	Due to secured creditors ₹	Deficiency ranking as unsecured ₹	Surplus carried to last column ₹	
Leasehold Properties	73,000	18,000	–	55,000	
	73,000	18,000	–	55,000	
Estimated surplus from assets specifically pledged					55,000
Estimated total assets available for preferential creditors, debentureholders secured by a floating charge, and unsecured creditors (carried forward)					1,83,000

Summary of Gross Assets

	₹
Gross realisable value of assets specifically pledged	73,000
Other Assets	1,28,000
Gross Assets	**2,01,000**

	₹
Estimated total assets available for preferential creditors, debenture holders secured by a floating charge, and unsecured creditors (brought forward)	1,83,000

Gross Liabilities ₹	Liabilities		
18,000	Secured creditors (as per List 'B') to the extent to which claims are estimated to be covered by assets specifically pledged.		
1000	Preferential creditors (as per List 'C')		1,000
	Estimated balance of assets available for debenture holders secured by a floating charge and unsecured creditors.		1,82,000
50,000	Debenture holders secured by a floating charge (as per List 'D')		50,000
	Estimated surplus as regards debenture holders		1,32,000
20,080	Unsecured creditors (as per List 'E')	₹	
	Liabilities for purchases	20,000	
	Telephone rent outstanding	80	20,080
89,080	Estimated surplus as regards creditors being the difference between Gross Assets and Gross Liabilities		1,11,920

Illustration 2:

The following particulars were extracted from the books of X Ltd. on 1st April, 2016 on which day a winding up order was made.

	₹
Equity Share Capital	
20,000 shares of ₹ 10 each, ₹ 5 paid up	1,00,000
14% Preference Share Capital	
20,000 shares of ₹ 10 each, fully paid	2,00,000
14% First Mortgage Debentures, secured by a floating charge upon the whole of the assets of the company, exclusive of the uncalled capital	1,50,000
Fully Secured Creditors (value of securities, ₹ 35,000)	30,000
Partly Secured Creditors (value of securities, ₹ 10,000)	20,000
Preferential Creditors for rates, taxes, wages, etc.	6,000
Bills Payable	1,00,000
Unsecured Creditors	70,000
Bank Overdraft	10,000
Bills Receivable in hand	15,000
Bills Discounted (one bill for ₹ 10,000 known to be bad)	40,000

Book Debts — Good	10,000
— Doubtful (estimated to produce 50%)	7,000
— Bad	6,000
Land and Building (estimated to produce ₹ 1,00,000)	1,50,000
Stock in Trade (estimated to produce ₹ 40,000)	50,000
Machinery, Tools, etc. (estimated to produce ₹ 2,000)	5,000
Cash in hand	100

Make out (1) Statement of affairs as regards creditors and contributories, and (2) Deficiency Account.

Solution:

Statement of Affairs of X Ltd. as at April 1, 2016

	Estimated realisable value ₹
Assets not specifically pledged (as per List 'A')	
Cash	100
Bills Receivable	15,000
Sundry Debtors	13,500
Stock	40,000
Land and Buildings	1,00,000
Machinery and Tools	2,000
	1,70,600

Assets specifically pledged (as per List 'B')

	Estimated Realizable Value ₹	**Due to Secured Creditors** ₹	**Deficiency Ranking as Unsecured** ₹	**Surplus Carried to Last Column** ₹	
Securities	35,000	30,000	–	50,000	
Securities	10,000	20,000	10,000	–	
	45,000	50,000	10,000	5,000	
Estimated surplus from assets specifically pledged					5,000
Estimated total assets available for preferential creditors, debentureholders secured by a floating charge, and unsecured creditors (carried forward)					1,75,600

Summary of Gross Assets

	₹	
Gross realisable value of assets specifically pledged	45,000	
Other Assets	1,70,600	
Gross Assets	**2,15,600**	
		₹
Estimated total assets available for preferential creditors, debentureholders secured by a floating charge, and unsecured creditors (brought forward)		1,75,600

Gross Liabilities ₹	Liabilities		
40,000	Secured creditors (as per List 'B') to the extent to which claims are estimated to be covered by assets specifically pledged.		
6,000	Preferential creditors (as per List 'C')		6,000
	Estimated balance of assets available for debentureholders secured by a floating charge, and unsecured creditors		1,69,000
1,50,000	Debentureholders secured by a floating charge (as per List 'D')		1,50,000
	Estimated surplus as regards debentureholders		19,600
2,00,000	Unsecured Creditors as per list 'E'	₹	
	Unsecured Creditors	70,000	
	Estimated unsecured balance of claims of creditors partly secured on specific assets brought forward	10,000	
	Bills Payable	1,00,000	
	Bank Overdraft	10,000	
	Bills Discounted	10,000	2,00,000
3,96,000	Deficiency as regards creditors (being the difference between Gross Liabilities and Gross Assets)		1,80,400
	Issued and called-up capital		
	20,000 Preference Shares of ₹ 10 each, fully as per List 'F'	2,00,000	
	20,000 Equity Shares of ₹ 10 each, ₹ 5 called-up and paid-up as per list 'G'	1,00,000	3,00,000
	Estimated deficiency as regards members		**4,80,400**

List 'H' – Deficiency Account

Items Contributing to Deficiency		
Excess of Capital and Liabilities over Assets on 1st April, 2016 as shown by the Balance Sheet		3,97,900
Net dividends and bonuses declared during the period		Nil
Net trading losses for the same period		Nil
Losses other than trading losses written off or for which provision has been made in the books during the same period		Nil
Estimated losses now written off or for which provision has been made for the purposes of preparing the statement	₹	
Bills Discounted	10,000	
Sundry Debtors	9,500	
Land and Buildings	50,000	
Stock	10,000	
Machinery	3,000	82,500
Deficiency as shown by the Statement of Affairs		**4,80,400**

Working Note:

Balance Sheet of X Lid. as at 1st April 2016.

Liabilities	₹	Assets	₹
Preference Share Capital	2,00,000	Land and Buildings	1,50,000
Equity Share Capital	1,00,000	Machinery	5,000
Debentures	1,50,000	Securities in the hands of creditors	45,000
Secured Creditors	50,000	Stock	50,000
Preferential Creditors	6,000	Sundry Debtors	23,000
Bills Payable	1,00,000	Cash	100
Unsecured Creditors	70,000	Bills Receivable	15,000
Bank Overdraft	10,000	Excess of liabilities and capital over assets (balancing figure)	3,97,900
	6,86,000		**6,86,000**

Illustration 3:

Not So Well Ltd. went into liquidation on 1st July, 2016. The following particulars are available.

	₹	₹
Share Capital		
20,000 8% preference shares of ₹ 100 each fully paid	20,00,000	
10,00,000 Equity Shares of ₹ 5 each fully called	50,00,000	
Less: Calls in Arrears	20,000	
		69,80,000

Liabilities		
Secured Loans		
(on mortgage of Land and Buildings)	3,00,000	
Secured Loans		
(floating charge on assets)	16,00,000	
Unsecured creditors		
(including preferential creditors ₹ 1,20,000)	43,20,000	62,20,000
		1,32,00,000

Assets	**Estimated to Realize** ₹	**Book Value** ₹
Land and Building	3,60,000	6,00,000
Plant	24,00,000	30,00,000
Other Fixed Assets	2,00,000	80,000
Stock	8,00,000	16,00,000
Sundry Debtors		
Good		16,56,000
Bad		80,000
Doubtful	2,00,000	3,00,000
Bills Receivable	90%	40,000
Advances (considered bad)		2,00,000
Cash		24,000
Bank		20,000

On 1st January, 2013 the company had a credit balance of ₹ 2,00,000 in its Profit and Loss Account During 2014, it made a profit of ₹ 15,00,000 after tax and paid dividends to Preference shareholders @ 8% and Equity shareholders @ 10%. In 2015 the company suffered a trading loss of ₹ 10,00,000, speculation loss of ₹ 5,00,000 besides imposition of penalty by Excise Authorities of ₹ 5,00,000. In 2016 it suffered a loss of ₹ 46,42,000. You are required to prepare a Statement of Affairs and a Deficiency Account.

Solution:

Not So Well Ltd.

Statement of Affairs as on 1st July, 2016

	Estimated realisable value ₹
Assets not specifically pledged (as per List 'A')	
Balance at Bank	20,000
Cash in hand	24,000

Bills Receivable	36,000
Debtors	18,56,000
Unpaid calls (assumed likely to be collected)	20,000
Stock	8,00,000
Plant	24,00,000
Other Fixed Assets	2,00,000
	53,56,000

Assets specifically pledged (as per list B)

	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency Ranking as Unsecured ₹	Surplus Carried to Last Column ₹	
Land and Buildings	3,60,000	30,000	–	60,000	
Estimated Surplus from Assets specifically pledged					60,000
Estimated surplus from assets specifically pledged					54,16,000

Creditors secured by floating charge and unsecured creditors (carried forward)

Summary of Gross Assets

Gross realisable value of assets specifically pledged	3,60,000
Other Assets	53,56,000
	57,16,000

Gross Liabilities	(liabilities to be deducted from surplus or added to deficiency)		
3,00,000	Secured Creditors (as per list B) to the extent to which claims are estimated to be covered by assets specifically pledged		
1,20,000	Preferential Creditors as per list 'C'		1,20,000
	Balance available		52,96,000
16,00,000	Creditors secured by floating charge (as per list D)		16,00,000
			36,96,000
	Unsecured Creditors (as per list E)		
	Creditors	42,00,000	
	Contingent Liabilities (Bills discounted)	20,000	
42,20,000			42,20,000
62,40,000	Estimated Deficiency as regards creditors being the difference between the gross liabilities and gross assets		5,24,000
	Issued and paid up capital 20,000 Preference shares	20,00,000	

of ₹ 100 each, fully paid (as per list F)		
10,00,000 Equity Shares of ₹ 5 each fully called (as per list G)	50,00,000	70,00,000
Estimated Deficiency as regards members as per list H		**75,24,000**

Deficiency Account (List H)

		₹	₹
Items contributed to Deficiency			
Excess of Capital and Liabilities over Assets		–	
Dividends paid			
On Preference Shares		1,60,000	
On Equity Shares		4,98,000	6,58,000
Trading losses	2015	10,00,000	
	2016	46,42,000	56,42,000
Losses other than Trading losses			
Speculation			5,00,000
Penalty by Excise Authorities			5,00,000
loss on realisation of assets			
Bills discounted		20,000	
Land and Buildings		2,40,000	
Plant		6,00,000	
Stock		8,00,000	
Debtors		1,80,000	
Bills Receivable		4,000	
Advances		2,00,000	20,44,000
			93,44,000
Items reducing Deficiency			
Excess of Assets over Capital and Liabilities		–	2,00,000
Trading Profit			15,00,000
Profit on realisation of other fixed assets		1,20,000	
Deficiency as per Statement of Affairs			75,24,000
			93,44,000

Illustration 4:

The following information was extracted from the books of a limited company on 31st March, 2016 on which date a winding up order was made:

	₹
Equity Share Capital	
2,00,000 shares of ₹ 10 each	20,00,000

14% Preference Share Capital	
3,00,000 shares of ₹ 10 each	30,00,000
Calls in arrear (estimated to produce ₹ 20,000)	40,000
14% First Mortgage Debentures secured by a floating charge on the whole of the assets of the company (interest paid to date)	20,00,000
Creditors fully secured (value of securities, ₹ 4,00,000)	3,50,000
Creditors partly secured (value of securities, ₹ 2,00,000)	4,00,000
Preferential creditors for wages, rates and taxes, etc.	75,000
Unsecured Creditors	27,00,000
Bank Overdraft, secured by a second charge on the whole of the assets of the company	2,00,000
Cash in hand	12,000
Book Debts — Good	3,80,000
— Doubtful (estimated to produce ₹ 30,000)	80,000
— Bad	45,000
Stock in Trade (estimated to produce ₹ 6,00,000)	7,20,000
Freehold Land and Buildings (estimated to produce ₹ 18,50,000)	21,00,000
Plant and Machinery (estimated to produce ₹ 6,30,000)	6,00,000
Fixtures and Fittings (estimated to produce ₹ 80,000)	1,20,000

You are required to prepare a statement of affairs of the company.

Solution:

Statement of Affairs of ………….. Ltd. as on 31st March, 2016

	Estimated realisable value ₹
Assets not specifically pledged (as per List 'A')	
Cash in hand	12,000
Sundry Debtors	4,10,000
Calls in Arrear	20,000
Stock	6,00,000
Freehold Land and Buildings	18,50,0000
Plant and Machinery	6,30,000
Fixtures and Fittings	80,000
	36,02,000

Assets specifically pledged (as per List 'B')

	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency Ranking as Unsecured ₹	Surplus Carried to Last Column ₹	
Securities	4,00,000	3,50,000	–	50,000	
Securities	2,00,000	4,00,000	2,00,000		
	6,00,000	7,50,000	2,00,000	50,000	
Estimated surplus from assets specifically pledged					50,000
Estimated total assets available for preferential creditors, debentureholders and Bank overdraft secured by a floating charge, and unsecured creditors (carried forward)					**36,52,000**

Gross Liabilities ₹	Liabilities	₹	
5,50,000	Secured creditors (as per List 'B') to the extent to which claims are estimated to be covered by assets specifically pledged.		
75,000	Preferential creditors (as per List 'C)		75,000
	Estimated balance of assets available for debenture holders and bank overdraft secured by a floating charge, and unsecured creditors.*		35,77,000
20,00,000	Debenture holders (as per List 'D')		20,00,000
			15,77,000
2,00,000	Bank overdraft (as per List 'D')		2,00,000
	Estimated surplus as regards Debenture holders and Bank Overdraft*		13,77,000
29,00,000	Unsecured creditors (as per List 'E')		
	Unsecured creditors	27,00,000	
	Estimated unsecured balance of claims of creditors partly secured on specific assets brought from the preceding page	2,00,000	29,00,000
57,25,000	Estimated deficiency as regards creditors (being the difference between Gross Liabilities and Gross Assets)		15,23,000
	Share Capital		
	3,00,000 14% Pref. Shares of ₹ 10 each fully paid as per List 'F'		30,00,000
	2,00,000 Equity Shares of ₹ 10 each fully paid less calls in arrear as per List 'G'		19,80,000
	Deficiency as regards contributories		**65,03,000**

LIQUIDATORS FINAL STATEMENT OF ACCOUNT

The main duty of the liquidator is to collect the assets of the company and realize them and distribute the amounts realized among the right claimants. He is required to prepare a statement and submit the same to registrar of companies, IBBI, and NCLT after the company is completely wound-up. In case of voluntary winding up such statement is called "Liquidators Statement Account". In case of winding up by Tribunal it is called as "Official Liquidators Final Account". It is a statement of receipts and payments which is prepared in the form of an account.

The form of the Liquidator's Final Statement of Account is given below.

Liquidator's Statement of Account

Receipts	₹	Payments	₹
To Assets:		By Legal charges	
Cash at Bank		By Liquidator's remuneration:	
Cash in hand			
Marketable Securities		When applicable —	
Bills Receivable		% on ₹ …… realized	
Trade Debtors		% on ₹ ….. distributed	
Loans and Advances Stock in Trade Work in Progress Freehold Property Leasehold Property		Total (By whom fixed…..)	________ ________
Plant and Machinery Furniture, Fittings, Utensils, etc. Patents, Trademarks etc. Investments other than Marketable Securities To Surplus from Securities To Unpaid Calls at commencement of winding up Amounts received from calls on contributories made in the winding up Receipts per Trading Account Other Property, *viz.*, Total *Less:* Payments to redeem Securities Costs of execution Payments per Trading Account		By Auctioneers' and valuers' charges Costs of possession and maintenance of estate Costs of notices in Gazette and Newspapers Incidental outlay (establishment charges and other expenses of liquidation) Total costs and charges: 1. By Debenture holders Payment of ₹ ….. per ₹…. debenture Payment of ₹….. per ₹….. Debenture 2. By Creditors ….. * Preferential By Unsecured Dividend (s)….. P. in the rupee on ₹ — (The estimate	

		of the amount expected to rank for dividend was ₹…..) 3. By Returns to Contributories ….. P. per rupee….. ** share….. P. per rupee….. ** share….. P. Per rupee ….. ** share	

* State the number; Preferential creditors need not be separately shown if all creditors have been paid in full.

** State nominal value and class of shares:

1. Following assets estimated to be of the value of ₹ .... have proved to be unrealizable (Give details of the assets which have proved to be unrealisable).
2. Amount paid into the Companies Liquidation Account in respect of:
   (a) Unclaimed dividends payable to creditors in the winding up ₹ ....
   (b) Other unclaimed distributions in the winding up ₹ ....
   (c) Moneys held by the company in trust in respect of dividends or other sum due before the commencement of the winding up to any person as a member of the company. ₹ ....
3. Add here any remarks the Liquidator thinks desirable (Sd.)

Dated this............ day of............ 20............ Liquidator

I declare that the above statement is true and contains a full and accurate account of the winding up from the commencement to the close of the winding up. (Sd.)

Dated this............ day of............ 20............ Liquidator

Explanation for Important Terms

Following are certain matters which require the attention of the students:

1. Order of payment: After receiving the amounts realized on assets, surplus from fully secured creditors and by making calls for the unpaid amount on the shares held by shareholders, the liabilities are paid out by the liquidator in the following order:

(a) Legal expenses
(b) Remuneration of the liquidator
(c) Cost of winding up
(d) Payment to preferential creditors
(e) Payment to debenture holders having floating charge on the assets of the company.
(f) Payment to unsecured creditors
(g) Payment to preference shareholders
(h) Payment to equity shareholders.

2. Liquidator's Remuneration: The liquidator normally gets the remuneration in the form of commission which is usually based as a percentage on the value of assets realized and amount paid to unsecured creditors. In calculating the liquidator's remuneration, the following points may be noted:

(a) On assets realized: The term 'assets realised' does not include cash and bank balances as the liquidator does not realize cash and bank balances. However, in some cases cash and bank balances are given in the list of assets realized by the liquidator, then the remuneration has to be calculated even on cash and bank balances.

Some assets are given as security to secured creditors. If the assets given as security are sold by the liquidator he will get remuneration on the securities sold by him. If the securities are sold by the creditors and the surplus after deducting the amount due to them is given to the liquidator, then remuneration is given to the liquidator on such surplus from securities.

(b) On amount paid to unsecured creditors: Unless otherwise stated, for the purpose of calculating liquidator's remuneration, the term unsecured creditors includes preferential creditors as basically they are also unsecured creditors.

The Commission is calculated as follows:

(i) If the amount available is sufficient to pay unsecured creditors = Preferential Creditors + Unsecured Creditors × Rate/100.

(ii) If the amount available is insufficient to pay Unsecured Creditors in full = Amount available × Rate/100 + Rate.

Note: In some cases, the remuneration is paid on amount paid to shareholders. Commission = Amount available before paying shareholders × Rate/100 + Rate.

3. Interest on Debentures: If the company is solvent, interest due on debentures shall be paid upto the date of actual payment. If the company is not solvent, interest should be paid upto the date of liquidation.

4. Payment of arrears of preference dividend: The question of preference dividend arises only if the preference shares are cumulative. If the Articles of Association provides for the payment of arrears of dividend on the event of winding up and the said arrears should pertain to the period before liquidation, the arrears shall be paid after paying off the liabilities but before returning the preference share capital. Dividends in any case are not payable for any period after the date of winding up.

The question of whether the arrears of dividends to preference shareholders is to be paid first or the repayment of share capital to equity shareholders is to be made first, depends upon the provisions of the Articles of Association.

5. Calls on Contributories: The shareholders in the liquidation of the company are known as contributories. They are liable to pay to the extent of unpaid amount on the shares held by them. In case the liquidator is not in a position to pay the creditors in full, and if there are any partly paid shares, the liquidator will make a call on the contributories to the extent required, not exceeding the amount unpaid on the shares. If there are two or more categories of equity shares on which equal amount is not called up by the company. In such a case, the liquidator will have to adjust the rights of the shareholders in an equitable manner.

Receiver for Debenture Holders

The terms of issue of debentures may give express powers to the debenture holders to appoint a special person called the 'Receiver'. The duty of the receiver is to take such assets, which are specifically or generally charged in their favour. Now the receiver will realize such assets and after meeting his expenses, and remuneration and after meeting the claims of the creditors having priority rights over debenture holders, will make payment to debenture holders. Then any surplus left over shall be passed on to the liquidator of the company. The surplus received from the receiver, the amount received from sale of assets not given as security and the proceeds received if any from calls on contributories, will be used by the liquidator for settlement of the claims of other creditors. Thus, if a Receiver is appointed, then two statements have to be prepared namely Receiver's Statement of Account and Liquidator's Final Statement of Account.

Illustration 5:

A company went into liquidation on 31-3-2015 when the following Balance Sheet was prepared.

Prepare liquidator's final account by taking his remuneration at 2.5% on the amount realized and 2% on the amount paid to unsecured creditors.

The assets realized by liquidator are as follows: Fixed assets ₹ 1,72,000 (including ₹ 70,000 on free hold property); Current assets ₹ 1,95,000 and Cash ₹ 5,000. Liquidation expenses amounted to ₹ 2,000.

Liabilities	₹	Assets	₹
Share Capital (₹ 10 each)	3,90,000	Goodwill and patents	1,00,000
Creditors – Preferential	48,400	Fixed assets (including freehold property)	2,27,000
Partly secured creditors (on freehold property)	1,10,620	Current assets	2,43,240
Unsecured creditors	2,23,580	Cash	5,000
		Profit and Loss A/c	1,97,360
	7,72,600		**7,72,600**

(B.Com., Osmania University)

Solution:

Liquidators Final Statement of Account

Receipts	₹	Payments	₹
To Fixed Assets	1,02,000	By Liquidators remuneration On amount realized 9,175 On pref crs 968 On un sec crs 4,735	14,878
To Current Assets	1,95,000	By Liquidation expenses	2,000
To Surplus from securities ERV 70,000 Due 1,10620			
Deficiency ranking as unsecured 40,620			
To Cash	5,000	Preferential creditors	48,400
		Unsecured creditors	2,36,722
	3,02,000		**3,02,000**

Working Notes:

Calculation of Liquidators Remuneration

Particulars		**₹**
Assets realized		
Fixed Assets	1,72,000	
Current Assets	1,95,000	
	3,67,000	
2 ½% on 3,67,000		9,175
Amount available for unsecured creditors. Total amount available	3,02,000	
Less: Liquidation expenses	2,000	
	3,00,000	
Less: Paid to preferential creditors	48,400	
	2,51,600	
Less: Remuneration on amount realised	9,175	
	2,42,425	
Less: Commission Amount paid on preferential creditors 2/100 × 48,400	968	968
	2,41,457	
Amount available for remuneration and other creditors (40,620 + 2,23,580)	2,64,200	
As the amount is not sufficient to meet full liabilities, commission is calculated as follows. 2,41,457 × 2/102 =		4,735
Total Commission		**14,878**

Illustration 6:

Bharat Company., went in voluntary liquidation on 31-12-20015 when its Balance Sheet was as follows.

Liabilities	**₹**	**Assets**	**₹**
Share Capital:			
50,000 equity shares of ₹ 10 each, fully paid less calls in arrears amounting to ₹ 25,000	4,75,000	Freehold property	5,80,000
6,000 - 5% cumulative preference shares of ₹ 100 each	6,00,000	Machinery	2,89,000
Share premium	50,000	Motor vehicles	57,500
5% Debentures	1,00,000	Stock	1,86,000
Interest on Debentures due	2,500	Debtors	74,000
Bank overdraft	58,000	Profit and Loss A/c	2,14,000
Creditors	1,15,000		
	14,00,500		**14,00,500**

Additional information:

(a) The preference dividends are in arrears from the year 2012.
According to the articles of the company, these arrears will be paid, if the company is solvent.

(b) The liquidator realized the assets as follows.

Freehold property	7,00,000
Machinery	2,40,000
Motor vehicle	59,000
Stock	1,50,000
Debtors	60,000
Calls in arrears	25,000

(i) Creditors were paid less discount of 5%.
(ii) The debentures were repaid on 31-12-2015 together with interest.
(iii) Liquidation costs were ₹ 3,820.
(iv) Liquidators remuneration was 2% on the amount realized.

Prepare the Liquidators Final Statement of Account.

Solution:

Liquidators Final Statement of Account

Receipts	₹	Payments		₹
To Assets realized:				
Freehold property	7,00,000	By Liquidation expenses		3,820
Machinery	2,40,00	By Liquidators remuneration (2% of 12,34,000)		24,680
Motor vehicles	59,000	By 5% Debentures (1,00,000 + 2,500)		1,02,500
Stock	1,50,000	By Unsecured creditors		
		Bank OD	58,000	
		Creditors (1,15,000 – 5,750)	1,09,250	1,67,250
Debtors	60,000	By Repayment of capital:		
Calls in arrears	25,000	Preference Shareholders		
		5% cumulative preference	6,00,000	
		Dividend arrears	1,20,000	7,20,000
		Equity Shareholders 50,000 equity shares @ ₹ 4.315		2,15,750
	12,34,000			**12,34,000**

Illustration 7:

The following particulars relate to a limited company which has gone into liquidation. You are required to prepare the Liquidator's Final Account, allowing for his remuneration @ 2% on the amount realized and 2% on the amount distributed amount unsecured creditors other than preferential creditors.

	₹
Preferential Creditors	10,000
Creditors	32,000
Debentures	10,000

The assets realized the following sums:

Land and Buildings	20,000
Plant and Machinery	18,650
Fixture and Fittings	1,000

The liquidation expenses amounted to ₹ 1000.

Solution:

Liquidator's Statement of Account

Receipts	₹	Payments		₹
To Assets realized:		By Liquidators remuneration:		
Land and Buildings	20,000	2% on ₹ 39,650 realised	793	
Plant and Machinery	18,650	2% on ₹ 17,507 paid to unsecured creditors	350	1,143
Fixture and Fittings	1,000	By Liquidation Expenses		1,000
		By Debentureholders having a floating charge		10,000
		By Creditors:		
		Preferential	10,000	
		Unsecured Creditors (54.7 paise in the rupee)	17,507	27,507
	39,650			**39,650**

Working Notes:

	₹	₹
Total amount realized by selling assets		39,650
Less: Liquidator's Remuneration		
@ 2% on assets realized	793	
Liquidation Expenses	1,000	
Payment to Debentureholders	10,000	
Payment to Preferential Creditors	10,000	21,793
Balance		17,853

Less: Commission to Liquidator @ 2% on the amount to be paid to unsecured creditors = ₹ 17,853 × 2/102	350
Amount that can be paid to unsecured creditors	**17,503**

Illustration 8:

The Sunny Valley Mining Co. Ltd. went into liquidation on 1st April, 2015, as its mines reached such a state of depletion that it became too costly to excavate further minerals. The Liquidator, whose remuneration is 3% on realization of assets and 2% on distribution among shareholders, realized all the assets. The following was the position of the company on 31st March, 2015.

	₹
Cash on realization of assets	5,00,000
Expenses of Liquidation	9,000
Unsecured Creditors (including salaries and wages for one month prior to liquidation ₹ 6,000)	68,000
1,500 14% preference shares of ₹ 100 each (dividend paid upto 31st March, 2014)	1,50,000
10,000 equity shares of ₹ 10 each, ₹ 9 per share called and paid-up	90,000
General Reserve as on 31st March, 2015	1,20,000
Profit and Loss Account as on 31st March, 2015	20,000

Under the Articles of Association of the company, the preference sharedolders have the right to receive one-third of the surplus remaining after repaying the equity share capital.

Solution:

Liquidator's Statement of Account

Receipts	₹	Payments		₹
To Assets Realized:	5,00,000	By Liquidators Remuneration:		
		3% on ₹ 5,00,000	15,000	
		2% on ₹ 4,00,000 paid to shareholders*	8,000	23,000
		By Expenses of Liquidation		9,000
		By Preferential Creditors		6,000
		By Unsecured Creditors:		62,000
		By Returns to contributories:		
		Preference Shareholders **		2,17,333
		Equity Shareholders		1,82,667
	5,00,000			**5,00,000**

Working Notes:

(i) The amount left after paying off outsiders and the commission on assets is ₹ 4,08,000. The liquidator will get ₹ 4,08,000 × 2/102 or ₹ 8,000 as additional commission.

		₹	₹
(ii)	Calculation of surplus:		
	Amount realized on sale of assets		5,00,000
	Less: Liquidator's Remuneration	23,000	
	Expenses of Liquidation	9,000	
	Preferential Creditors	6,000	
	Unsecured Creditors	62,000	
	Preference Share Capital	1,50,000	
	Preference Dividend Payable	21,000	
	Equity Share Capital	90,000	3,61,000
Surplus			1,39,000

Preference Shareholder's share = ₹ 1,39,000 × 1/3 = ₹ 46,333

Equity Shareholder's share = ₹ 1,39,000 – ₹ 46,333 = ₹ 92,667

(iii)	** Calculation of amount payable to Preference Shareholders.		
	Preference Share Capital	1,50,000	
	Arrears of Dividend for one year	21,000	
	One-third of Surplus [Working Notes (ii)]	46,333	
			2,17,333
(iv)	Calculation of amount payable to Equity Shareholders:		
	Equity Share Capital (paid up amount)	90,000	
	Tow-third of Surplus [Working Notes (ii)]	92,667	
			1,82,667

Illustration 9:

Following is the Balance Sheet of M/s. Unfortunate Limited as on 31st December, 2015.

Liabilities		₹	Assets	₹
Share Capital:			Land & Buildings	2,00,000
Authorised & Subscribed:			Plant & Machinery	5,00,000
4,000 6% Preference			Patents	80,000
Shares of ₹ 100 each	4,00,000		Stock at Cost	1,10,000
2,000 Equity shares of ₹ 100 each, ₹ 75 paid-up	1,50,000		Sundry Debtors	2,20,000
6,000 Equity shares of ₹ 100 each, ₹ 60 Share paid-up	3,60,000	9,10,000	Cash at Bank	60,000
5% Debentures (having a floating charge on all assets)		2,00,000	Profit & Loss Account	2,40,000
Interest Outstanding on Debentures (also secured as above)		10,000		
Creditors		2,90,000		
		14,10,000		**14,10,000**

On that date, the company went into Liquidation. The dividends on preference shares were is arrear for two years. The arrears are payable on liquidation as per the Articles of the company.

Creditors include a loan of ₹ 1,00,000 on Mortagage on Land and Building. The assets realized as under.

	₹
Land & Buildings	2,40,000
Plant & Machinery	4,00,000
Patents	60,000
Stock	1,20,000
Sundry Debtors	1,60,000

The expenses of liquidation amounted to ₹ 21,800. The liquidator is entitled to a commission of 3 per cent on all assets realized (except cash at bank) and a commission of 2 per cent on amount distributed among unsecured creditors. Preferential creditors (included in creditors) amount to ₹ 30,000. All payments were made on 30th June, 2016.

Prepare the Liquidator's Statement of Account.

Solution:

Liquidator's Statement of Account

Receipts	₹	Payments		₹
To Assets Realised		By Secured Creditors Expenses of		1,00,000
Cash at Bank	60,000	By Liquidation Liquidator's Remuneration ₹		21,800
Sundry Debtors	1,60,000	3% on Assets Realised except Cash (3% or ₹ 9,80,000)	29,400	
Stock	1,20,000	2% on Payment made to By Preferential Creditors	600	
Patents	60,000	2 % Unsecured		33,200
Plant & Machinery	4,00,000	Creditors	3,200	
Land & Building	2,40,000	By 5% Debentures	2,00,000	2,15,000
		Add: Interest for 1 ½ Years upto 30^{th} September, 2010 @ 5%	15,000	30,000
		By Preferential Creditors		1,60,000
		By Unsecured Creditors		
		By Preference Shareholders:		
		Capital	4,00,000	
		Arrears of Dividend	48,000	4,48,000
		Equity Shareholders:		
		₹ 15.25 per share on 2,000 shares, ₹ 75 paid-up	30,500	
		Re.0.25 per share on 6,000 shares, ₹ 60 paid-up	1,500	32,000
	10,40,000			**10,40,000**

Working Notes:

Amount refunded to Equity Shareholders is ascertained as follows. Amount available after paying preference shareholders ₹ 32,000.

Deficiency is calculated as follows:

Amount required to repay

2,000 Equity Shares at ₹ 75 per share	1,50,000
6,000 Equity Shares at ₹ 60 per share	3,60,000
	5,10,000
Less: Amount available	32,000
Total Deficiency	**4,78,000**

$$\text{Deficiency per Equity Share} = \frac{\text{Total Deficiency}}{\text{Total No. of equity shares}}$$

$$= \frac{4,78,000}{8,000} = ₹\ 59.75$$

On 2000 Equity shares ₹ 75 per share is paid-up, Deficiency per share is ₹ 59.75. Hence ₹ 15.25 per share is to be returned. On 6000 Equity Shares ₹ 60 per share is paid-up, Deficiency per share is ₹ 59.75. Hence Re. 0.25 per share is to be returned.

Illustration 10:

The following is the Balance Sheet of the Moon Ltd., as on 31-12-2015.

Liabilities	₹	Assets	₹
Share Capital:		Sundry Assets	10,58,000
20,000 7% Non-cumulative preference shares of ₹ 10 each.	2,00,000	Preliminary expenses	20,000
20,000 equity shares of ₹ 10 each fully paid.	2,00,000	Buildings	1,00,000
10,000 equity shares of ₹ 10 each, ₹ 8.50 paid	85,000	Profit & Loss Account	67,000
6% Debentures	5,00,000		
Loan on mortgage	60,000		
Bank overdraft Creditors	50,000		
Creditors	1,10,000		
Preferential Creditors	40,000		
	12,45,000		**12,45,000**

The mortgage was secured by the building and the debenture holders were secured by a floating charge on all assets of the company. The debenture holders appointed a Receiver. A liquidator was also appointed by the company. The receiver realize the assets at ₹ 80,000, and he took charge of the sundry assets amounting to ₹ 8,00,000 and sold them for ₹ 7,40,000. The balance of the assets realize ₹ 2,40,000. The costs or receiver amounted to ₹ 2,000 and his remuneration was ₹ 2,500. The expenses of liquidation was ₹ 4,000 and his remuneration was ₹ 1,500.

Prepare liquidator's final statement of account & Receivers receipts and payments account.

Solution:

Receiver's Receipts and Payment Account

Receipts		₹	Payments	₹
To Assets Realised		7,40,000	By Costs of the receiver	2,000
Surplus received from			By Remuneration of the receiver	2,500
Mortgages:			By Preferential Creditors	40,000
From buildings	80,000		By Debenture holders	5,00,000
Less: Mortgage paid	60,000	20,000	By Balance transferred to liquidator	2,15,500
		7,60,000		**7,60,000**

Liquidators Final Statement of Account

To Surplus received from receiver	2,15,500	By Liquidator's remuneration		1,500
To Sundry assets realized	2,40,000	By Cost of liquidation		4,000
		By Unsecured creditors		1,60,000
		By Pref. shareholders		2,00,000
		By Equity shareholders:		
		On 20,000 shares		
		@ 1.50 per share	30,000	
		On 30,000 shares		
		@ 2 per share	60,000	90,000
	4,55,500			**4,55,500**

Note: To make the paid-up capital equal to ₹ 1.50 ps. per share on 20,000 shares is paid first and the remaining is distributed to all the equity shareholders.

Illustration 11:

Bad Luck Limited went into voluntary liquidation and the proceedings commenced on 2nd July, 2015. Certain Creditors could not receive payment out of the realization of assets and out of the contribution. From the contributories of the 'A' list. Following details of share transfers are made available to you.

Name of the Transferor Shareholder	No. of Shares Transferred	Date of the Transferor Ceasing to be a Member	Creditors Remaining unpaid and Outstanding at the Time of the Transferor Ceasing to be a Member
			₹
(i) A	1,000	1st March, 2014	6,000
(ii) B	1,250	15th August, 2014	8,000
(iii) C	500	1st October, 2014	10,750
(iv) D	2,000	1st December, 2014	13,000
(v) E	250	1st April, 2015	15,000

All the shares were of ₹ 10 each, on which ₹ 5 per share had been paid-up. Ignoring other details like liquidator’s expenses etc., you are required to work out the liability of the individual contributories listed above.

Solution:

Statement of Liability of Individual
(B List) Contributories

Date	Creditors	Incremental Amount of Creditors	Name of Contributory B C D E
			Number of shares held 1,250, 500, 2,000, 250
	₹	₹	₹ ₹ ₹ ₹
15-8-2014	8,000	8,000	2,500, 1,000, 4,000, 500 (Divided among B, C, D & E in proportion to shares)- 500, 2,000, 250 (Divided between C, D & E in proportion to shares) - 2,000, 250 (Divided between D & E in proportion to shares) - 2,000 (The total incremental amount transferred to E because liability was created after E transferred his shares)
1-10-2014	10,750	2,750 (10,750-8,000)	
1-12-2014	13,000	2,250 (13,000-10,750	
1-4-2015	15,000	2,000 (15,000-13,000)	
Maximum amount payable to creditors			2,500 1,500 8,000 3,000
Amount unpaid on shares @ ₹ 5 per share			6,250 (1,250 × 5) 2,500 (500 × 5) 10,000 (2,000 × 5) 1,250 (250 × 5)
Actual liability of contributories being lower of amount payable to creditors or amount unpaid on shares			2,500, 1,500, 8,000 1,250

Notes: Liability of ‘A’ shareholder is nil because he ceased to be a shareholder of the company more than a year before the date of winding up of the company. He does not fall under the category of ‘B’ list of contributories who are required to pay the unpaid amount of creditors if the company is unable to pay.

Questions

Theory Questions

1. What is meant by liquidation of a company? Discuss the different modes of winding up.
2. Who are preferential creditors as per Section 326 of the Companies Act, 2013.
3. Give a *pro forma* of the Statement of Affairs and the Deficiency/Surplus Account with imaginary figures.
4. What do you understand by the Liquidators Final Statement of Account? Give a *pro forma* of such an account with imaginary figures.
5. Give the order of payment followed by a liquidator for settling various claims when a company is liquidated.
6. What do you understand by ‘A’ list and ‘B’ list of contributories.
7. Write short notes on: (a) Liquidator, (b) Overriding preferential payments.