LIQUIDATION OF COMPANY Corporate AccountingB.Com (H)
By : Dr. PRAKASH CHANDRA SWAIN, M.COM, M.PHILL, PHD. IN COMMERCE

Meaning: Liquidation or winding up is a legal term and refers to the procedure through which the affairs of a company are wound up by law. A company is the creation of law, it cannot die itself as an natural death. So it comes to its end by law through the process of liquidation.

The Liquidation or winding up a company is a process through which life of company and it's all affairs are wound up and its property administered for benefits of its creditors and members. An administrator, who is called liquidator, is appoint to take control of company, collect its assents, pay its debts and finally if any surplus assents are left, they are divided among the members of the company in proportion to their rights under the articles. This being done the company is dissolved on compliance within the requisite formalities prescribed by the companies' ordinance.

Process of winding up:

1. Selling of the assets of the company
2. Paying off the liabilities of the company
3. If there is any deficiency to pay to the creditors and the shareholders are called upon to pay unpaid amount on their articles.
4. In case of surplus, after paying off the liabilities, it may be distributed to the contributories according to their rights under the articles.
5. At the end, the Registrar of Companies removes the name of the company from the Register of Companies which is maintained by his office.

Modes of Winding Up:

There are three modes of winding up of the company:
1. Compulsory winding up by the court
2. Voluntary winding up by members or creditors
3. Winding up under the supervision of the court

1. Compulsory winding up by the court

A company formed and registered under the ordinance, may be wound up by the court. This kind of winding up is also called compulsory winding up.

Explanations:
1) A company needs to pass a special resolution and also court orders for winding up on the basis of some specific grounds
2) When company is unable to pay its debts
3) If company is carrying any illegal business
4) In case of non-maintenance of accounts
5) When the statutory meaning is not conducted then the Court may give orders to wind up the company
6) In case of non-submission of Statutory Report to the Registrar

7) if company unable to start its business within a year after incorporation
8) If company is not having minimum number of members
In case of public: minimum 7 members
In case of private: minimum 2 members
9) If company doesn't follow the directions of the court or registrar or commission etc.

2. *Voluntary winding up by members or creditors*

The main object of a voluntary winding is that the company and its creditors shall be leftto settle their affairs without going to Court, but they may apply to the court for any directions and order if and when necessary.

Explanations:
A) When the period fixed for the duration of the company has expired.

B) If the company passes the special resolution of its winding up by voluntary.

C) When the event occurs and the articles provide information that when this event willoccur then company has to be wound up.

3. *Winding up under the supervision of the court*

When company has passed special or extra-ordinary resolution for its liquidation or winding up, court can pass an order on application of creditors, contributors or other persons for conducting of liquidation or winding up of company under supervision ofcourt.

Q.1. Give the meaning of Liquidation of a Company or Winding up of a company. Answer: Liquidation of a company means the termination of the legal existence of acompany. Under the circumstances, the assets of the company are disposed off anddebts are paid, out of the amount realised from assets or from the contributions made by the members and the surplus, if any, is distributed among members in proportion to their holding.

Q.2. **Mention the methods of winding up of companies. Answer:** The methods of winding up of companies are:

- Compulsory winding up by the court
- Voluntary winding up:
  - Member's Voluntary winding up
  - Creditor's voluntary winding up
- Voluntary winding up under the supervision of the court.

Q.3. **Who is a Liquidator?**

Answer: When there is liquidation of a company, one or more persons are required to be appointed specially for conducting the liquidation or winding up proceedings of the company. Such a person's are called Liquidator's. He is required to realise the assets, discharge the liabilities and distribute the surplus, if any among shareholders.

Q.4. **Who are Contributories?**

Answer: Contributories are all the present and past members of the company who are liable to jointly contribute to the assets of the company an amount sufficient for payment of its debts and liabilities, to meet the cost of liquidation and adjust the rights of contributories among themselves, in the event of liquidation of a company.

Q.5. What are the functions of Liquidators?

Answer: The liquidator performs certain main functions at the time of liquidation are:

- To realise the assets of the company.
- To collect money due from the contributories.
- To distribute the amount realised from the sale of assets and amount received from contributories in the order of preference as per Rule 329 of Companies Act.
- To maintain and submit the record of receipts and payments of cash to the members in the case of voluntary winding up and to the court in the case of compulsory winding up.

Q.6. Give the meaning of Liquidators Remuneration?

Answer: A fixed amount paid to liquidator or it is paid as a percentage on assets realised by the liquidator and / or amount paid to unsecured creditors.

Q.7 What is Liquidators Final Statement of Account?

Answer: At the time of Liquidation of a company, the liquidator realises all the assets and discharge the liabilities and capital. The statement prepared to record to such receipts and payments is called Liquidator’s Final Statement of Account. This statement is prepared after the affairs of the company are fully wound –up .

Q.8. Give the meaning of Preferential Creditors.

Answer: Creditor’s to whom following are due, as preferential creditors under Sec. 530 of the Companies Act.

- ✓ all revenues, taxes, cesses and rates due from the company to the Central or a State Government or to a local authority at the relevant date and having become due and payable within the twelve months next before that date;
- ✓ all wages or salary (including wages payable for time or piece work and salary earned wholly or in part by way of commission) of any employee, in respect of services rendered to the company and due for a period not exceeding four months within the

twelve months next before the relevant date, and any compensation payable to any workman under any provisions of Chapter V A of the Industrial Disputes Act, 1947, provided the amount payable to any one claimant does not exceed ₹ 20,000.

- ✓ Expenses of investigation
- ✓ Holiday remuneration
- ✓ Contribution under ESI
- ✓ Workmen compensation Act
- ✓ PF, Pension fund, Gratuity Fund

Q.9. Mention any two examples of Preferential Creditors.

Answer:

(a) **Company employees**, whose unpaid wages are considered the highest priority since these people have given their time and skills to a company that is no longer solvent. Included in this is any holiday pay accrued.

(b) **Tort victims** – In a situation where the insolvent company has a lawsuit filed against them for wrongful action against another, the victim is often assigned a position of a preferential creditor.

Q.10. Who are Secured Creditors?

Answer: A secured creditor is generally a bank or other asset-based lender that holds a fixed or floating charge over a business asset or assets. When a business becomes insolvent, sale of the specific asset over which security is held provides repayment for this category of creditor.

Secured creditors rank highly when it comes to receiving payment. This is because secured creditors have a charge over assets held by the company. These assets can include property, as well as vehicles, machinery and fixtures and fittings. A secured creditor stands a higher chance than most of receiving payment following liquidation. Examples of secured creditors are banks, asset-based lenders, and finance and agreement providers.

Secured creditors are then divided into two sub-categories, those with a fixed charge, and those with a floating charge.

Q.11. Give the meaning of Unsecured Creditors.

Answer: Unsecured creditors rank below secured creditors when it comes to receiving payment following the liquidation of a company. Unsecured creditors do not have the benefit of having a claim over a particular asset, and can include suppliers, contractors, landlords and customers.

Q.12. Give the meaning of Voluntary Liquidation of a company.

Answer: A company can be wound up voluntarily under the following Circumstances:

- ✓ By an ordinary resolution:
  - ➢ Where the duration of the company was fixed by the articles and the period has expired and
  - ➢ Where the articles provided for winding up on the occurrence of any event and the specified event has occurred.
- ✓ By a Special Resolution:

When a resolution is passed by the members in all other cases for voluntary winding up, it must be notified to the public by an advertisement in the official Gazette and in newspapers.

Q.13. Give the types of Voluntary Liquidation of a company. Answer: The Types of Voluntary winding up are:

- ➢ **Member's voluntary winding up**: at the time of winding up, if the company is a solvent company that is able to pay its debts and Directors make a declaration to that effect, it is called a Member's

Voluntary Winding up.

- **Creditor's Voluntary winding up** : when the declaration of solvency is not made and filed with the Registrar, it may be presumed that the company is insolvent. In that case, the company must call a meeting of its creditors for passing the resolution for winding up.

FORM OF LIQUIDATOR'S FINAL STATEMENT OF ACCOUNT

Receipts	₹	Payments	₹
Cash in hand	**Xxx**	Secured creditors	**xxx**
Cash at Bank	**Xxx**	Legal Charges (Liquidation expenses)	**xxx**
Assets Realised:		Liquidator's Remuneration	**xxx**
Marketable Securities	**Xxx**	Other Expenses on Liquidation	**xxx**
Bills Receivables	**Xxx**	**Debenture Holders:**	
Trade Debtors	**Xxx**	Outstanding interest on debentures	**xxx**
Loans and Advances	**Xxx**	Debentures	**xxx**
Stock in Trade	**Xxx**	Preferential Creditors	**xxx**
Work in progress	**Xxx**	Unsecured Creditors	**xxx**
Land and Building	**Xxx**	Calls in advance, if any	**xxx**
Plant & Machinery	**Xxx**	Arrears of dividend on cumulative Preference shares	**xxx**
Furniture and Fixture	**Xxx**	**Preference shareholders**	**xxx**
Patents, Trade marks	**Xxx**	**Equity Shareholders**	**xxx**
Investments	**Xxx**		
Surplus realised from secured Creditors (if any)	**Xxx**		
Calls in arrears	**Xxx**		

Amount received from calls onshares	**Xxx**		
Total	**Xxx**	**Total**	**xxx**

Points to be kept while preparing the LIQUIDATOR'S FINAL STATEMENT OF ACCOUNT:

- ✓ **Complete format need to be memorised as the sequence has to be maintained.**
- ✓ The words 'To' and 'By ' not to be used, as it is a statement and not an Account.
- ✓ **Liquidator's Remuneration is normally a fixed amount paid to liquidator or it is paid as a percentage on assets realised by the liquidator and/ or amount paid to unsecured creditors.**
- ✓ Liquidator's Remuneration calculation method to be applied:

A. **Where the remuneration is to be paid on assets realised:**

I. **Exclude the cash as it is in realised form, if the problem has instruction of including then include with assets realised.**

II. **No remuneration should be paid to liquidator on calls in arrears and call money realised.**

III. **Surplus received from secured creditors must be considered in calculating liquidator's remuneration.**

IV. **If the problem states that remuneration to be paid as a percentage on "Total assets realised" in such case total receipts need to be considered.**

B. **Where the Remuneration is to be paid on payments made, the following points to be considered are:**

I. **For calculating remuneration on payment made to**

unsecured creditors, preferential creditors must be considered as part ofunsecured creditors.

II. Where the balance amount available in sufficient to pay unsecured creditors completely, liquidator's remuneration on payment to unsecured creditors will be calculated using the following formula:

$$= \frac{\boldsymbol{Amount\ payable\ to\ unsecured\ creditors\ X\ Percentage\ of\ commission}}{\mathbf{100}}$$

III. **When the balance amount available is not sufficient enough to pay unsecured creditors completely, liquidator's remuneration on payment to unsecured creditors will be calculated using the following formula:**

$$= \frac{Amount\ availble\ X\ Percentage\ of\ Commission}{100 + Percentage\ of\ Commission}$$

IV. **Where the liquidator has to be paid remuneration on final amount payable to shareholders, then the amount of remuneration must be calculated using the following formula:=**

$$\frac{Balance\ amount\ available\ before\ making\ payment\ to\ shareholders\ X\ Percentage\ of\ Commission}{100 + Percentage\ of\ Commission}$$

Question paper 2019

Section B

Ali Ltd went into liquidation on 31-03-2018 with the following liabilities:

a) **Secured Creditors ₹ 2,00,000 (securities realised ₹ 2,50,000)**

b) **Preferential creditors ₹ 6,000**

c) **Unsecured Creditors ₹ 3,05,000**

The liquidator met liquidation expenses amount to ₹ 2,520. The liquidator entitled for remuneration @ 3 % on amount realised including secured asset held by secured creditors and 1.5 % on amount distributed to unsecured creditors. Assets (other than secured asset realised) ₹ 2, 60,000.

Prepare Liquidators Final statement of Account.

Solution: **Liquidator's Final Statement of Account**

Receipts	**₹**	**Payments**	**₹**
Assets Realised	**2,60,000**	**Liquidation expenses**	**2,520**
Surplus from secured creditors[₹ 2,50,000 - ₹ 2,00,000]	**50,000**	**Liquidator's Remuneration** **a) 3 % on assets realised with secured asset held (3,10,000) = 9,300** **b) Working Note : 1: 4,317**	**13,617**
		Preferential creditors	**6,000**

		Unsecured Creditors (Balance amount) =2,87,863/3,05,000 = 0.9438 in a Rupee	**2,87,863**
	3,10,000		**3,10,000**

Note: if the problem is silent on preferential creditors then we have to exclude preferential creditors while taking total payments amount, which means including preferential creditors.

Working Note: 1

Calculation of Liquidators Remuneration including preferential creditors :

Total Receipts = ₹ 3,10,000

(-) Total payments [₹ 2,520 + ₹ 9,300 + ₹ 6,000] = ₹ 17,820

Amount available to unsecured creditors before remuneration 2,92,180

Liquidators Remuneration = ₹ 2,92,180×1.5 = ₹ 4,317

100 + 1.5

= amount available to unsecured creditors x 1.5/100+ 1.5 = ₹ 4,317

Amount available to Unsecured Creditors after Liquidator's = ₹ 2,87,863 Remuneration

Question paper 2018 ---Section B

Problem 1: Unlucky Limited went into liquidation. Its assets realised by ₹ 2, 10,000 excluding the amount realised by the sale of securities held by secured creditors. From the following prepare Liquidator's Final Statement of Account.

Secured creditors ₹ 17,500 (security realised ₹ 20,000), Preferential creditors ₹ 3,000,

Unsecured Creditors ₹ 1,00,000,

Debentures (having floating charges on assets) ₹ 1, 25,000. Liquidation expenses ₹ 2,500,

Liquidator's Remuneration is 3 % on amount paid to unsecured creditors. Solution: Liquidator's Final Statement of Account

Receipts	**₹**	**Payments**	**₹**
Assets Realised	**2,10,000**	**Liquidation expenses**	**2,500**
Surplus from secured creditors [₹ 20,000 - ₹ 17,500]	**2,500**	**Liquidator's Remuneration Working Note : 1**	**2,476**
		Debentures having Floating charge	**1,25,000**
		Preferential creditors	**3,000**
		Unsecured Creditors (Balance amount)79,524/1,00,000= 0.7952 in a Rupee	**79,524**
	2,12,500		**2,12,500**

Note: if the problem is silent on preferential creditors then we have to exclude preferential creditors while taking total payments

amount.

Working Note: 1

Calculation of Liquidators Remuneration excluding preferential creditors :

Total Receipts = ₹ 2,12,500

(-) Total payments upto secured charges [₹ 2,500 + ₹ 1,25,000] = ₹ 1,27,500 Amount available to unsecured creditors before remuneration

85,000

Liquidators Remuneration = ₹ 85,000×3 = ₹ 2,476

100 + 3

= amount available to unsecured creditors x 3/100+3

Question paper 2017- Section B

Problem 2: The following particulars related to Prasad Ltd, which went into voluntary liquidation.

- **Preferential creditors ₹ 40,000**
- **Unsecured Creditors other than preferential creditors ₹ 3,20,000**
- **Debentureholders ₹ 1,00,000**
- **Assets realised ₹ 3,96,500**
- **Liquidation expenses ₹ 10,000**

You are required to prepare Liquidator's Final Statement of Account allowing for his remuneration at 2 % on assets realised and 2 % on amount distributed to unsecured creditors including preferential creditors.

Solution: Liquidator's Final Statement of Account

Receipts	₹	Payments	₹
Assets Realised	**3,96,500**	**Liquidation Expenses**	**10,000**
		Liquidator's Remuneration a) **2 % on assets realised** **₹ 3,96,500 = 7,930** b) **2% on Preferential creditors ₹ 40,000** **= 800** c) **2% on amount distributed to Unsecured**	**13,392**

		Creditors (Refer working note :1) = 4,662	
		Debentures	**1,00,000**
		Preferential Creditors	**40,000**
		Unsecured Creditors (Balance Amount) = ₹ 2,33,108 / ₹ 3,20,000 = 0.72 per ₹ Rupee	**2,33,108**
	3,96,500		**3,96,500**

Working Note : 1

Particulars	**₹**
Total Receipts	**3,96,500**
Less: Total Payments upto preferential creditors [₹ 10,000 + ₹ 7,930 +₹ 800 **+ ₹ 1,00,000 + ₹ 40,000]**	**1,58,730**
Amount available to unsecured creditors before remuneration	**2,37,770**
Liquidators remuneration = Amount available x Rate / 100 + Rate **= ₹ 2,37,770 x 2/ 100 + 2** **= ₹ 2,37,770 x 2 / 102 = ₹ 4,662**	

Question paper 2016

Section B

Arya Ltd. Went into liquidation on 31-03-2016. Following information is available with the liquidation.

Creditors amounting to ₹ 75,660 of which ₹ 8,000 are preferential, 6 % Debentures having a floating charge on the assets of the company amounted to ₹ 80,000. Debenture holders to be paid interest upto 30-09-2015.

The assets realised as follows:

Stock: ₹ 84,000

Plant and Machinery: ₹ 60,600

Cash in hand stood at ₹ 500. Debentures were paid off on 30-09-2015 with interest. Liquidators expenses amounting ₹ 1,902 and he is to be given a remuneration at 3 % on the amount realised and 2 % on the amount distributed to unsecured creditors excluding preferential creditors.

Prepare Liquidator Final Statement of Account.

Solution: Liquidator's Final Statement of Account

Receipts	**₹**	**Payments**	**₹**
Cash in hand	**500**	**Liquidation Expenses**	**1,902**
Assets Realised : **Stock**	 **84,000**	**Liquidator's Remuneration** a) 3% on amount realised ₹ 1,45,100 = 4,353 b) 2% on amount distributed to unsecured	 **5,303**

		creditors (refer working note 1)= 950	
Plant and Machinery	**60,600**	**6 % Debentures**	**80,000**
		o/s Debentures Interest(30-9-15 to 31-03-2016 = 6 months) = ₹ 80,000 x 6/100 x 6/12	**2,400**
		Preferential Creditors	**8,000**

		Unsecured Creditors (Balance Amount) = ₹ 47,495 / 67,660 (75,660 - 8000) = 0.7019 per Rupee	47,495
	1,45,100		1,45,100

Working Note : 1

Particulars	₹
Total Receipts	1,45,100
Less: Total Payments [₹ 1,902 + ₹ 4,353 + ₹ 80,000 + ₹ 2,400 + ₹ 8,000]	96,655
Amount available to unsecured creditors before remuneration	48,445
Liquidators remuneration = Amount available x Rate / 100 + Rate = ₹ 48,445 x 2 / 102 = ₹ 950	950

Question paper 2015

Section B

Anu Ltd. Went into liquidation on 31-03-2015, when the state of affairs was as follows: Unsecured Creditors was ₹ 8,00,000 including ₹ 1,00,000 preferential claims. Secured Creditors secured by plant and machinery stood at ₹ 4,00,000. Cash in hand was ₹ 20,000. The liquidator realised plant and machinery for ₹ 3,00,000 and other assets realised ₹2,00,000. The liquidation expenses came to ₹ 20,000 and liquidator's remuneration was fixed at 4 % of the amount realised including cash balance and 2 % of the amount distributed to unsecured creditors including preferential creditors.

Prepare Liquidator's final statement of Account.

Solution: Liquidator's Final Statement of Account

Receipts	**₹**	**Payments**	**₹**
Cash in hand	**20,000**	**Secured creditors**	**3,00,000**
		Liquidation Expenses	**20,000**
Assets Realised: Plant & machinery	**3,00,000**	**Liquidator's Remuneration** a) **4 % of amount realised including cash** **₹ 5,20,000 = 20,800** b) **2 % of amount distributed to unsecured creditors (Refer**	**24,314**

		working note : 1) = ₹ 3,514	
Other assets realised	**2,00,000**	**Preferential Creditors**	**1,00,000**
		Unsecured Creditors (Balance Amount) = 75,686 / 7,00,000= 0.1081	**75,686**
	5,20,000		**5,20,000**

Working Note : 1

Particulars	₹
Total Receipts	**5,20,000**
Less: Total Payments upto preferential creditors **[₹ 3,00,000 + ₹ 20,000 + ₹ 20,800]**	**3,90,800**
Amount available to unsecured creditors before remuneration	**1,79,200**
Liquidators remuneration = Amount available x Rate / 100 + Rate **= ₹ 1,79,200 x 2 / 102 = ₹ 3,514**	

Question paper 2014

Section B

A co. ltd went into voluntary liquidation with the following liabilities. Secured creditors ₹ 40,000 (Security realised by the liquidator ₹ 50,000) Preferential creditors ₹ 12,000

Unsecured Creditors ₹ 61,000

Liquidation expenses ₹ 500

The liquidator is entitled to a remuneration of 3 % on amount realised and 1.5 % on amount paid to unsecured creditors other than preferential creditors.

The remaining assets realised ₹ 52,000. Prepare Liquidators Statement of Account.

Solution: Liquidator's Final Statement of Account

Receipts	₹	Payments	₹
Assets Realised	**52,000**	**Liquidation Expenses**	**500**
Surplus on secured creditors [50,000 – 40,000]	**10,000**	**Liquidator's Remuneration** a) **3 % on amount realised 62,000 = 1,860** b) **1.5 % on amount paid to unsecured creditors excluding Preferential creditors [Refer working**	**2,564**

		note 1] = 704	
		Preferential Creditors	**12,000**
		Unsecured Creditors (Balance Amount) = ₹ 46,936 /61,000 = 0.77 per Rupee	**46,936**
	62,000		**62,000**

Working Note : 1

Particulars	₹
Total Receipts	62,000
Less: Total Payments upto preferential creditors [₹ 500 + ₹ 1,860 + ₹ 12,000]	14,360
Amount available to unsecured creditors before remuneration	47,640
Liquidators remuneration = Amount available x Rate / 100 + Rate = ₹ 47,640 x 1.5 /101.5	704

Question Paper 2019

Section C

Ramana Ltd went into voluntary liquidation on 1-4-2018. The details regarding the liquidation is as follows:

The liquidators remuneration is 3% on assets realised and 2% on amount distributed among shareholders.

Particulars	₹
Cash realised from assets	5,00,000
Expenses of liquidation	9,000
Unsecured Creditors (including salaries & wages for one month prior to liquidation ₹ 6,000)	68,000
1,500 14% Preference shares of ₹ 100 each (Dividend upto 31-3-2017 paid)	1,50,000
10,000 equity shares of ₹ 10 each ₹ 9 per share paid up	90,000
General Reserve as on 31-3-2018	1,20,000
Profit and Loss A/c on 31-3-2018 (cr)	20,000

Under the Articles of Association the preference shareholders have the right to receive 1/3 of surplus remaining after repayment to equity shareholders.

Prepare Liquidator's Final Statement of Account.

Solution: Liquidator's Final Statement of Account

Receipts	**₹**	**Payments**	**₹**
Assets Realised	**5,00,000**	**Liquidation Expenses**	**9,000**
		Liquidator's Remuneration a) 3 % of assets realised ₹ 5,00,000 = ₹ 15,000 b) 2 % on amount distributed to shareholders (Refer working note: 1) = 8,000	**23,000**
		Preferential Creditors-salaries and Wages	**6,000**
		Unsecured Creditors	**62,000**
		Contributories: Preference Shareholders	**2,17,333**
		Equity Shareholders	**1,82,667**
	5,00,000		**5,00,000**

Working Note : 1: Calculation of additional remuneration to liquidator.

Particulars	₹
Total Receipts	**5,00,000**
Less: Total Payments [₹ 9,000 + ₹ 15,000 + ₹ 62,000 + ₹ 6,000]	**92,000**
Amount available to unsecured creditors before remuneration	**4,08,000**
Liquidators remuneration = Amount available x Rate / 100 **When Unsecured creditors are fully paid = ₹ 4,08,000 x 2/100 = ₹ 8,000**	

Working Note : 2 : Calculation of Amount of Surplus **Step : 1: Surplus**

Particulars		**₹**
Assets realised		**5,00,000**
Less: Liquidation expenses	**9,000**	
Liquidator's Remuneration [₹ 15,000 + ₹ 8,000]	**23,000**	
Preferential Creditors	**6,000**	
Unsecured Creditors	**62,000**	
Preference Shareholders	**1,50,000**	
O/s Preference Dividend **= ₹ 1,50,000 x 14%**	**21,000**	
Equity Share capital	**90,000**	**3,61,000**
Surplus after paying to Equity Shareholders		**1,39,000**

Step: 2: Sharing the Surplus ₹ 1,39,000 to Preference shareholders and Equity shareholders:

Particulars	**₹**
Share Of Preference Shareholders = ₹ 1,39,000 x 1/3 =	**46,333**
Share of Equity Shareholders = ₹ 1,39,000 - ₹ 46,333 or 1,39,000 x 2/3=	**92,667**
Surplus	**1,39,000**

Step : 3: Total Amount Payable to Preference Shareholders

Particulars	**₹**
Preference Share Capital	**1,50,000**
Arrears of dividend	**21,000**
1/3 share of Surplus	**46,333**

Amount Payable to Preference Shareholders	**2,17,333**

Step : 4: Total Amount Payable to Equity Shareholders

Particulars	₹
Equity Share Capital	**90,000**
Share of Surplus of Equity shareholders	**92,667**
Amount Payable to equity Shareholders	**1,82,667**

Question Paper 2018

Section C

Boss Company Ltd. Went into voluntary liquidation on 31-3-2018 on which date dividends on preference shares were in arrears for 3 years. Following is the position of the company.

Share Capital :

6,000 Equity shares of ₹ 100 each, ₹ 50 per share paid up ₹ 3, 00,000

3,000 6 % preference shares of ₹ 100 each fully paid

₹ 3, 00,000 Liabilities:

Secured Loans against machinery

₹ 30,000 Unsecured Creditors ₹

70,000

Bills payable ₹

40,000 Preferential

Creditors ₹ 8,100 Assets

Realised:

Machinery ₹ 70,000

Other Assets ₹ 3, 44,000

The liquidation expenses and legal expenses amounted to ₹ 3,000 and ₹ 1,000 respectively. The liquidator is entitled to a remuneration of ₹ 12,000 and a commission at 5 % on the amount paid to the preference shareholders as capital and dividend and 5 % on the amount of assets realised and also collected by him.

Prepare Liquidators Final Statement of Account.

Solution:

Liquidator’s Final Statement of Account

Receipts	₹	Payments	₹
		Secured loans against machinery	**30,000**
Assets Realised		**Legal Expenses**	**1,000**
Machinery	**70,000**	**Liquidation Expenses**	**3,000**
Other assets	**3,44,000**	**Liquidator’s Remuneration-fixed**	**12,000**
Amount collected from equity Shareholders (Refer Working Note : 1) **₹ 5,56,500 - ₹ 3,44,000 – 70,000** **= ₹ 1,42,500** **95%----142500** **100% -** **□ 142500 x 100/95 =** **1,50,000**	**1,50,000**	**Commission** **a) 5 % on asset realised [70,000 + 3,44,000]** **₹ 4,14,000 =20,700** **b) 5 % on Preference share capital and dividend** **[3,00,000 + (3,00,000 x 6/100 x 3 years) [3,00,000 + 54,000]** **₹ 3,54,000 = 17,700** **c) 5 % on amount collected from equity shareholders** **₹ 1,50,000** **= 7,500**	**45,900**
		Preferential Creditors	**8,100**

		Unsecured Creditors	**70,000**
		Bills Payable	**40,000**
		Arrears for Preference dividend6% x 3,00,000 =18,000 x 3 years =54,000	**54,000**
		Preference share capital	**3,00,000**
	5,64,000		**5,64,000**

Working Note : 1

Amount collected from Equity Shareholders

Total Payments[₹ 30,000 + ₹ 1,000 + ₹ 3,000 + ₹ 12,000 + ₹ 20,700 + ₹ 17,700 + ₹ 8,100 + ₹ 70,000 + ₹ 40,000 + ₹ 54,000 + ₹ 3,00,000] = ₹ 5,56,500

Less: Total Receipts

[70,000 + 3,44,000] = ₹ 4,14,000

Amount collected from Equity shareholders 1,42,500

(this amount ascertained is excluding the commission of 5 %, hence the ascertained value is 100 – 5 = 95 %)

As per the instructions given in the problem we need to calculate 100% and then charge the commission.

Hence, the calculation of total amount collected from Equity shareholders is :

95%---- 142500

100% -

** 142500 x 100/95 = 1,50,000**

Question Paper: Question No .11 - Sec C 2017

Bhavya Ltd went into voluntary liquidation on 31-3-16. As at this date, its Balance Sheetwas as under:

Particulars	₹
Equity and Liabilities	
12% preference shares of ₹ 100	4,00,000
20,000 Equity shares of ₹ 10 each fully paid	2,00,000
50,000 equity shares of ₹ 10 each ₹ 8 paid	4,00,000
30,000 Equity shares of ₹ 10 each ₹ 6 paid	1,80,000
Creditors (including secured creditors ₹ 60,000 and Preferential creditors ₹ 15,000)	2,20,000
Total	**14,00,000**
Assets	
Freehold Property	5,80,000
Plant and Machinery	2,90,000
Motor Vehicles	60,000
Stock	1,90,000
Debtors	1,00,000
Cash in Hand	30,000
P & L A/c	1,50,000
Total	**14,00,000**

Additional information:

1) **The preference dividend is in arrears for 2 years and is payable on liquidation.**
2) **The liquidator realises the asset as follows: Freehold property ₹ 7,00,000; Plant and Machinery ₹ 2,50,000; Motor Vehicles ₹ 40,000; Stock ₹ 1,75,000; Debtors ₹ 80,000.**
3) **The liquidation expenses amounted to ₹ 5,000 and the liquidator is entitled to a remuneration of 3 % on assets realised**

(excluding cash) and 2 % on the amount paid to unsecured creditors including preferential creditors .

You are required to prepare Liquidator’s Final Statement of Account and calculate the final payment per each category of equity share.

Solution: Liquidators Final Statement of Account

Receipts	₹	Payments	₹
Cash In hand	30,000	Secured Creditors	60,000
Assets Realised:		Liquidation Expenses	5,000
Freehold Property	7,00,000	Liquidator's remuneration:	
Plant and machinery	2,50,000	a) 3 % on assets Realised(Excluding cash) ₹ 12,45,000 = ₹ 37,350	
Motor Vehicles	40,000	a) 2 % on Unsecured Creditors including Preferential creditor [Total Creditors ₹ 2,20,000 -Secured Creditors ₹ 60,000 = ₹ 1,60,000 x 2 % = ₹ 3,200	40,550
Stock	1,75,000		
Debtors	80,000	Preferential creditors	15,000
		Unsecured Creditors[2,20,000 – preference creditor 15,000- secured creditors 60,000]	1,45,000

		Preference shareholder: **2 years Arrears of Preference Dividend** **₹ 4,00,000 x 12 % = ₹ 48,000 x 2years** **= ₹ 96,000** **Preference share capital** **=₹ 4,00,000**	**4,96,000**
		Equity Shareholders: **Refer Working Note : 1 and 2**	

		=20,000 E.S @ ₹ 7.3345 = = 50,000 E.S @ ₹ 5.3345 = = 30,000 E. S @ ₹ 3.3345 =	1,46,690 2,66,725 1,00,035
	12,75,000		12,75,000

Working Note : 1 : Final Payment per share to Equity Shareholders is ascertained as follows:

Particulars	₹
Total amount due to equity shareholders [2,00,000 + 4,00,000 + 1,80,000]	7,80,000
Less : amount available after payment made to preference shareholders [Total Receipts – Total Payments] 12,75,000 - [60,000 + 5,000 + 37,350 + 3,200 + 15,000 + 1,45,000 + 4,96,000]	5,13,450
Total Loss to Equity Shareholders	2,66,550

Working Note : 2: Calculation of Amount to be paid to or received from equity shareholders

Particulars	Type I	Type II	Type III
Equity Shares	20,000 E. Shares @ ₹ 10 each fully paid	50,000 E. Shares @ ₹ 10 each, Paid up ₹ 8	30,000 E. Shares @ ₹10 each, Paid up ₹ 6
Paid up amount	₹ 10	₹ 8	₹ 6

Less: Loss Per Equity Share **= ₹ 2,66,550/ 1,00,000 Equity** **shares(20,000 + 50,000 + 30,000) 2.** **= ₹ 2.6655**	**₹ 2.6655**	**₹ 2.6655**	**₹ 2.6655**
Amount to be paid per Equity share	**₹ 7.3345**	**₹ 5.3345**	**₹ 3.3345**

Question paper Section C ---2016

Ramu Ltd went into Voluntary liquidation on 31-03-2014 when their liabilities and assets were as follows:

Liabilities	₹	Assets	₹
Issued and Subscribed Capital:		Land and Buildings	5,00,000
10,000 , 10 % Cumulative Preference shares of ₹ 100 each fully paid	10,00,000	Machinery and Plant	18,12,500
5,000 Equity Shares of ₹ 100 each ₹ 75 paid	3,75,000	Patents	2,00,000
15,000 Equity Shares of ₹ 100 each ₹ 60 paid	9,00,000	Stock	2,75,000
15 % Debentures secured by Floating charge	5,00,000	Debtors	5,50,000
Interest o/s on debentures	75,000	Cash at bank	1,50,000
Creditors	6,37,500		
	34,87,500		34,87,500

Preference Dividends were in arrears for 2 years and the creditors included preferential creditors of ₹ 76,000.

The assets realised as follows:

Land and building ₹ 6,00,000

Machinery and Plant ₹

10,00,000 Patents ₹ 1,50,000

Stock ₹ 3,00,000

Sundry Debtors ₹ 4,00,000

The expenses of liquidation amounted to ₹ 54,500. The liquidator is entitled to a commission of 3 % on assets realised.

Assuming the final payments including those on debentures is made on 30-9-2014. Show Liquidator's Final Statement of Account.

Solution: **Liquidators Final Statement of Account as on 30-9-2014**

Receipts	₹	Payments	₹
Cash at Bank	1,50,000	Liquidation Expenses	54,500
Assets Realised:		Liquidator's remuneration:	
Land and Building	6,00,000	a) 3 % on assets Realised ₹ 24,50,000	73,500
Machinery and Plant	10,00,000	15 % debentures	5,00,000
Patent	1,50,000	Interest o/s on debentures = 75,000 Interest o/s on debentures 31-03-2014 Upto 30-09-2014 5,00,000 x 15% x 6/12 = 37,500	1,12,500
Stock	3,00,000	Preferential creditors	76,000
Sundry Debtors	4,00,000	Unsecured Creditors [6,37,500 – 76,000]	5,61,500
Amount collected from Equity Shareholders refer working note :1 15,000 E.Sh @ ₹ 2.65	39,750	Preference shareholder: 2 years Arrears of Preference Dividend ₹10,00,000 x 10 % = ₹ 1,00,000 x 2years = ₹ 2,00,000 10 % Cumulative Preference shareholders =₹ 10,00,000	12,00,000
		Equity Shareholders: Refer Working Note : 1 and 2 =5,000 E.S @ ₹ 12.35=	61,750

	26,39,750		**26,39,750**

Working Note : 1 : Final Payment per share to Equity Shareholders is ascertained as follows:

Particulars	₹
Total amount due to equity shareholders [3,75,000 + 9,00,000]	12,75,000
Less : amount available after payment made to preference shareholders [Total Receipts – Total Payments] 26,00,000 - [54,500 + 73,500 +5,00,000+ 1,12,500+ 76,000+ 5,61,500 + 12,00,000]	22,000
Total Loss to Equity Shareholders	12,53,000

Working Note : 2: Calculation of Amount to be paid to or received from equity shareholders

Particulars	Type I	Type II
Equity Shares	5,000 E. Shares @ ₹ 100 each, Paid up ₹ 75	15,000 E. Shares @ ₹100 each, Paid up ₹ 60
Paid up amount	₹ 75	₹ 60
Less: Loss Per Equity Share = ₹ 12,53,000 / 20,000 Equity shares(5,000 + 15,000) = ₹ 62.65	= ₹ 62.65	= ₹ 62.65
Amount to be paid per Equity shareholders	₹ 12.35	NIL

Amount to be collected from Equity **Shareholders**	**NIL**	**- ₹ 2.65**

Question Paper 2015 Sec C

The Balance sheet of Narayan Ltd as on 31-3-2014 was as follows:

Liabilities	₹	Assets	₹
Paid up capital 2,000, 6% Preference Shares of ₹ 100 each	2,00,000	Land and Buildings	4,00,000
4,000 Equity shares of ₹ 100 each fully paid	4,00,000	Plant and machinery	4,40,000
6,000 Equity Shares of ₹ 100 each, ₹ 50 paid	3,00,000	Stock	2,00,000
6% Debentures (Floating charges on all assets)	2,00,000	S.Debtors	2,00,000
Mortgage on land and buildings	2,00,000	Cash at Bank	60,000
Sundry Creditors	1,80,000	P/L A/c	2,00,000
Income Tax provision	20,000		
	15,00,000		15,00,000

The company went into liquidation on 1-4-2014. The preference dividends were in arrears for 3 years. The arrears are payable on liquidation.

The assets were realized as follows:

Land and Buildings ₹ 4,80,000 Plant and Machinery ₹ 3,60,000

Stock ₹ 1,40,000

Debtors ₹ 1,20,000

Expenses of Liquidation ₹ 16,000

The liquidator is entitled to a commission of 2 % on all assets realized and 3 % on the amount distributed to unsecured creditors (including preferential creditors).

All the payment made on 30th September,2014. Prepare Liquidator's Final Statement of Account.

Solution: Liquidator' Final Statement of Account

Receipts	₹	Payments	₹
Cash At Bank	60,000	Secured Creditors : Mortgage on Land and Buildings	2,00,000
Assets Realised:		Liquidation Expenses	16,000
Land and buildings	4,80,000	Liquidator's Remuneration: a) 2 % on assets Realised ₹ 11,00,000 = 22,000 b) 3% on Preferential Creditors(IT Provision)₹ 20,000 = 600 c) 3% on Unsecured Creditors 1,80,000 = ₹ 5,400	28,000
Plant and machinery	3,60,000	Debenture Holders	2,00,000
Stock	1,40,000	o/s Interest on Debentures(1-4-2014 to 30-9-2014 = 6months)	6,000

		= 2,00,000 x 6% x 6/12 = 6,000	
Debtors	**1,20,000**	**Preferential Creditors (IT Provision)**	**20,000**
		Unsecured Creditors	**1,80,000**
		Preference Shareholders: **Preference share capital**	**2,00,000**
		Preference Dividend- **arrears for 3 years** **= 2,00,000 x 6%**	**36,000**
		= 12,000 x 3 years=	

		Equity shareholders: Refer working Note 1 & 2	
		4,000 shares @ ₹57.4	**2,29,600**
		6,000 shares @ ₹ 7.4	**44,400**
	11,60,000		**11,60,000**

Working Note : 1 : Final Payment per share to Equity Shareholders is ascertained as follows:

Particulars	**₹**
Total amount due to equity shareholders [4,00,000 + 3,00,000]	**7,00,000**
Less : Amount available after payment made to preference shareholders [Total Receipts – Total Payments] **[11,60,000 – [2,00,000 +16,000+ 28,000 + 2,00,000 +6,000+20,000** **+1,80,000+ 2,00,000+36,000]**	**2,74,000**
Total Loss to Equity Shareholders	**4,26,000**

Working Note : 2: Calculation of Amount to be paid to or received from equity shareholders

Particulars	**Type I**	**Type II**
Equity Shares	**4,000** **E. Shares @ ₹** **100 each,**	**6,000 E. Shares @** **₹ 100 each,** **Paid up ₹ 50**
Paid up amount	**₹ 100**	**₹ 50**
Less: Loss Per Equity Share **= ₹ 4,26,000/ 10,000 Equity shares(4,000 +6,000)** **= ₹ 42.6**	**= ₹ 42.6**	**= ₹ 42.6**

Amount to be paid per Equity shareholders	**₹ 57.4**	**7.4**