Chapter 8

Liquidation of Companies

Solution 1

Statement of Affairs of X Co. Ltd. on the 1st day of April, 1999

Assets not specifically pledged:	Estimated realisable values
Cash in Hand	3,000
Investments	12,000
Debtors	1,40,000
Stock	6,000
Machinery	1,80,000
	3,41,000

Assets specifically pledged:

	(*a*) *Estimated Realisable Value Rs.*	(*b*) *Due to Secured Creditors Rs.*	(*c*) *Deficiency ranking as unsecured Rs.*		*Surplus carried to last column Rs.*
Lease hold property	2,18,000	1,54,000	—		1,64,000
	Estimated surplus from assets specifically pledged				1,64,000
	Estimated total assets available for preferential creditors, debentures holders secured by floating charged, and unsecured creditors				5,05,000
	Summary of Gross assets				
	Gross realised value of assets specifically, pledged			Rs. 2,18,000	
	Other assets			Rs. 3,41,000	
	Gross Assets			Rs. 5,59,000	
Rs.	Gross Liabilities (to be deducted from surplus or added to Deficiency as the case may be)				
	Secured creditors to the extent to which claims				

	are estimated to be covered by assets				
54,000	Specifically pledged				
3,000	Preferential creditors				3,000
	Estimated balance of assets available for debenture holders secured by a floating charge and unsecured creditors				5,02,000
1,50,000	Debentures				1,50,000
	(*a*) *Estimated Realisable Value Rs.*	(*b*) *Due to Secured Creditors Rs.*	(*c*) *Deficiency ranking as unsecured Rs.*		*Surplus carried to last column Rs.*
	Estimated surplus as regard debenture holders				3,52,000
60,000	Creditors				60,000
2,67,000					2,92,000
	Estimated surplus as regards creditors [being difference between gross assets (d) and gross liabilities (e)]				
	Issued and called up capital:				
2,40,000	24,000 equity shares of Rs. 10each				2,40,000
52,000	Estimated surplus as regard members				52,000

Note: Statement of affairs should accompany eight lists:

List A Full particulars of every description of property not specifically pledged and included in any other list are to be set forth in this list.

List B Assets specifically pledged and creditors fully or partly secured.

List C Preferential creditors for rates, taxes salaries, wages and otherwise.

List D List of debenture holders secured by a floating charge.

List E Unsecured creditors.

List F List of Preference shareholders.

List G List of equity shareholders.

List H Deficiency or surplus account.

Solution 2

Overriding preferential payments under Section 529A of the Companies Act, 1956:

The Companies (Amendment) Act, 1985 introduced Section 529A which states that 'certain dues are to be settled in the case of winding up of a company even before the payments to preferential creditors under, Section 530.Scclion 529A states that in the event of winding up of a company, workmen's dues and debts due to secured creditors, to the extent such debts rank under Section 529(l)(c), shall be paid in priority to all other debts. The workmen's dues and. debts to secured creditors shall be paid in full, unless the assets arc insufficient to meet them, in which case they shall abate in equal proportions.

Workmen's dues, in relation to a company, means the aggregate of the following sums:

1. all wages or salaries including wages payable for time or piece work and salary earned wholly or in part by way of commission of any workman, in respect of services rendered to the company, and any compensation payable to any workman under any of the provisions of the Industrial Disputes Act, 1947;
2. all accrued holiday remuneration becoming payable to any workman, or in the case of his death to any other person in his right, on the termination of his employment before, or by the effect of, the winding up order or resolution;
3. all amounts due in respect of any compensation or liability for compensation under Workmen's Compensation Act, 1923 in respect of death or disablement of any workman of the company;
4. all sums due to any workman from a provident fund, pension fund, a gratuity fund or any other fund for the welfare of the workmen, maintained by the company.

Solution 3

Statement of Affairs (In liquidation) of × Ltd. on 31 March, 1999

	Estimated Realisable value Rs.
Assets not specifically pledged (as per list A)	
Cash	500
Debtors	20,000
Building	3,00,000
Plant	5,25,000
Fixtures	10,000
Goodwill	1,000
	8,56,500

Assets specifically pledged (as per list B)

	(*a*) *Estimated Realisable value Rs.*	(*b*) *Due to secured creditors Rs.*	(*c*) *Deficiency ranking as unsecured Rs.*	(*d*) *Surplus carried to the last column Rs.*
Stock	31,000	25,000	—	6,000

		Rs.
Estimated surplus from assets specifically pledged		6,000
Estimated total assets available for preferential creditors, Debenture holders secured by a floating charge and unsecured creditors (carried forward)		8,62,500
Summary of Gross Assets:		
Gross realised value of assets Specify pledged	31,000	
Other Assets	8,56,500	
Total	8,87,500	

Gross Liabilities Rs.	*Liabilities*	*Rs.*	*Rs.*
25,000	Secured creditors (as per list B) to the extent which claims are estimated to be covered by assets specifically pledged		
18,000	Preferential creditors (as per list 'C' Estimated balance of assets available for Debenture holders secured by a floating charge and unsecured creditors)		18,000
	(6,000+6,000+1,000+5,000)		8,44,500
1,64,000	Debenture holders secured by floating charge (as per list D)		1,64,000
	Estimated surplus as regards debenture holders*		6,80,500
	Unsecured creditors (as per list E)		
	Estimated unsecured balance of claims of creditors partly secured on specific assets brought forward (c)		Nill
	Creditors on Trade Account		
23,000	Amount for unsecured creditors		23,000
2,30,000	Estimated surplus as regards creditors, difference between Gross Assets (D) and Gross Liabilities as per column (E)		6,57,500
	Issued and called up capital:		
10,00,000	1000 Equity Shares of Rs. 100 each fully called up as per list (G)		10,00,000
	Estimated deficiency as regards contributories		3,42,500

*** Note:** This must be read subject to the following:

(1) There is no unpaid capital to the called-up.

(2) The estimate are subject to cost of the winding up and to any surplus or deficiency on trading pending realisation of assets.

Solution 4

Statement of Affaires

Assets Non specifically Pledged				
Plant & Machinery		1,50,000		
Stock		80,000		
Debtors		70,000		
Calls in Arrears		90,000		
Cash in hand		10,000		4,00,000
Assets specifically pledged	ERV	Loan	Deficiency	
Building	1,20,000	30,000	—	90,000

Summary

	Assets Non specifically Pledged	4,00,000	
	Assets specifically Pledged	1,20,000	
		5,20,000	
	Total		4,90,000
30,000	Amount available for Liabilities having Specific charge		Nil
		Balance	**4,90,000**
	Amount available for Preferential Creditors		
6,000	Taxes & Wages		6,000
		Balance	**4,84,000**
2,00,000	Amount available for secured creditors with floating charges		2,00,000
		Balance	**2,84,000**
42,000	Amount available for unsecured creditors		
	Creditor	40,000	
	Misc. expenses	2,000	
	Deficiency	—	42,000
		Balance	**2,42,000**
	Preference Share Capital amount available		Nil
		Balance	**2,42,000**
4,00,000	Equity Share Capital paid up (4,00,000+90,000)		4,90,000
		Balance	**(2,48,000)**

Note: Preference Creditors are not included in current amount

Solution 5

In the matter of Equipment Ltd. (in winding up)

Statement of Affairs on 31 December, 1998, the date of winding up.

	Estimated Realisable Value Rs.
Assets	
Assets not specifically pledged (as pre list A)	
Trade debtors	60,000
Stock in trade	74,000
Plant	1,30,000
Tools	4,000
Patents	30,000
Unpaid calls	5,000
	3,03,000

Assets specifically pledged (as per list B)

	Estimated Realisation Rs.	*Due to Secured Rs.*	*Deficiency Unsecured Rs.*	*Ranking as Creditors Rs.*
Investments	1,70,000	1,90,000	20,000	
Land & Building	1,30,000	80,000		50,000

	Rs.
Estimated surplus from assets specifically pledged	50,000
Estimated total assets available for preferential creditors, debenture holders and unsecured creditors	3,53,000
Summary of Gross Assets:	
Gross realisable value of assets specifically charged	3,00,000
Others assets	3,03,000
	6,03,000
Estimated total assets available for preferential creditors, debenture holders, bank overdraft and unsecured creditors brought forward	3,53,000

Gross Liabilities Rs.	***Liabilities***	***Rs.***	***Rs.***
2,50,000	Secured creditors (as per List B) to the extent to which claims are estimated to be		

	covered by assets specifically pledged		
22,000	Preferential creditors as per list C (20,000+2000)		22,000*
	Estimated balance of assets available for		
	Debenture holders, Bank & unsecured creditors		3,31,000
1,02,500	Debentures holders secured by a floating		
	charge as per list D (1,00,000+2,500)		1,02,500
	Surplus as regards debenture holders		2,28,500
	Unsecured creditors as per list E		
	Estimated unsecured balance of claim of		
	creditors partly secured on		
	specific assets	20,000	
	Trade creditors	2,65,500	
2,93,500	Outstanding expenses	7,000	2,92,500
	Estimated deficiency as regards creditors		
	being the difference between gross		
	liabilities and gross assets		64,000
6,67,000			
Issued & Called up Capital:			
3,000 Equity shares or Rs.100 each, Rs. 80 paid		2,40,000	
6% 1,000 preference shares of Rs.100 each fully called		1,00,000	3,40,000
Estimated Deficiency as regards members as per list H.			**4,04,000**

***Note -** For the purpose of section 530(1) (b) of the Companies Act, 1956, the term "employee" shall include office and other administrative staff members but it shall not include workmen and managing director. In fact, section 530(8)(bb) clearly states that the expression 'employee' does not include a workman. Also section 2(26) read with the explanation to section 269 concludes that a managing director is not an ordinary employee and hence he should not be considered as an employee for the purpose of section 530. The Secretary of a Company, being an officer, is to be included within the definition of 'employee' for the purpose of section 530.

Note: (i) The above is subject to cost to winding up estimated at Rs.15,000 and to any surplus in deficiency on trading realisation of assets.

(ii) There are 3,000 shares unpaid @ Rs. 20 per share liable to be called up.

Solution 6

**Statement of Affairs of Insol Ltd. (in Liquidation)
as on 30 Sep., 1998**

	Estimated Realisable Value (Rs.)
Assets not specifically pledged: (As per list A)	
Other fixed assets	18,00,000
Current assets	35,00,000
	53,00,000

Assets specifically pledged (As per List B)

	Estimated realisable value *Rs.*	*Due to secured creditors* *Rs.*	*Deficiency* *Rs.*	*Surplus* *Rs.*
Land & Buildings	11,00,000	10,00,000		1,00,000
Estimated total assets available to unsecured creditors				54,00,000

Summary of Gross Assets

	Rs.
Gross realisable value of assets specifically pledged	11,00,000
Other assets	53,00,000
Gross Assets	Rs. 64,00,000

Gross liabilities Rs.	*Liabilities*	
10,00,000	Secured Creditors (as per list B) to the extent to which claims are estimated to be covered by assets Specifically pledged	
1,50,000	Preferential creditors (as per list C)	1,50,000
		52,50,000
	Unsecured creditors (as per list E)	
Gross liabilities *Rs.*	*Liabilities*	
20,00,000	Unsecured Loans	20,00,000
35,00,000	Trade creditors	35,00,000
1,00,000	Contingent Liability on Bills Discounted	1,00,000
67,50,000	Estimated deficiency as regards creditors (67,50,000 - 64,00,000)	3,50,000
2,50,000	Equity Shares of Rs. 10 each: (as per list G)	25,00,000
	Estimated deficiency as regards members	28,50,000

Solution 7

Statement of Affaires

Assets Non specifically Pledged				
	Plant & Machinery		1,74,000	
	Debtors(31,500+6,450)		37,950	
	Calls in Arrears		1,500	
	Cash		825	
	Stock		33,900	2,48,175
Assets specific pledged	ERV	Loan	Deficiency	
Freehold Premises	3,75,000	4,12,500	37,500	
	Summary			
Assets Non specifically Pledged	2,48,175			
Assets specifically Pledged			3,75,000	
			6,23,175	
Total				**2,48,175**
3,75,000	Amounts available for Liabilities having Specific charge			Nil
			Balance	**2,48,175**
25,275	Amount available for Preferential Creditors			
	Salary		16,050	
	Taxes & Wages (for last 12 months)		2,700	18,750
			Balance	**2,29,425**
1,53,000	Amount available for secured creditors			
	8% Debentures		1,50,000	
	Interest		3,000	1,53,000
			Balance	**76,425**
4,58,400	Amount available for unsecured creditors			
	Income Tax (97 & 98)		6,525	
	Deficiency on free hold premises		37,500	
	MD's Salary		22,500	
	Bank overdraft		58,125	
	Creditor		2,96,250	
	Contingency Liability		18,000	4,38,900
			Balance	**(3,62,475)**
	Amount available for Preference Shareholders			Nil
			Balance	**(3,62,475)**
	Amount available for Preference Shareholders			Nil

Deficiency Account

Item Increasing year Loss (2,48,325+7,500)			2,55,825
	Revaluation loss on Free Hold Premises	75,000	
	Debtors (72,750+6,450)	79,200	
	Stock (50,850 - 33,900)	16,950	
	Contingent Liabilities	18,000	
	Plant & Machinery	73,500	2,62,650
			5,18,475
Item decreasing			
	Reserve	7,500	(7,500)
			5,10,975

Working Note 1

Balance Sheet

Liability	*Amount*	*Assets*	*Amount*
Equity Share Capital	1,47,000	Cash	825
Creditors	2,96,250	Stock	50,850
Ist Mortgage	3,00,000	Free Hold Premium	4,50,000
2nd Mortgage	1,12,500	Debtors (31,500+12,900+72750)	1,17,150
8% Debenture	1,50,000	Plant & Machinery	2,47,500
Interest	3,000	Profit & Loss Account	2,48,325
MD's Salary	22,500	(Balancing Figure)	
Staff Salary	16,050		
Bank overdraft	58,125		
Income Tax Liability	9,225		
	11,14,650		11,14,650

Solution 8

Liquidator Final Statement of A/c

	Rs.	*Rs.*		*Rs.*	*Rs.*
To opening Cash			By Liquidator expenses	3,750	
To Assets Not Specifically					
Pledged			By LR (2.5% × 12,09,000)	30,225	
Free hold prop	7,00,000		By payment to preference credit		
P & Machinery	2,40,000		By payment to secure credit		
Motor Vehicles	59,000		Deb:	100,000	
Stock	1,50,000		Interest:	2,500	
Debtors	60,000	12,09,000	Interest:	+1250	1,03,750
To calls on contributory		25,000	By payment to unsecured		
			Creditors	1,15,000	
			(-) discount	5,750	
			Directors & o/d	58,000	1,67,250
			By payment to PSH		
			6,000 × 112.5	6,75,000	
			6,00,000 × 5% × 4	1,20,000	7,95,000
			By payment to ESH		1,34,025
		12,34,000			12,34,000

* Sometimes additional appointment is done for payment to certain creditor's – such person is called OFICIAL RECEIVER. He works in addition to Liquidator. he is entitled to remuneration for person for whom he is to receive payment. Company does not pay remuneration to such receiver but his expenses are considered as company expense.

Following statement of A/c's are prepared.

Receiver Final Statement o/A/c

To opening balance	xxx	By Receiver expenses	xxx
To ANSP	xxx	By payment to preferred	xxx
(to the extent realised		By payment for secured	
by receiver		Creditor	xxx
To ASP	xxx		
(to the extent realised		By amount transfer o LFSA/c	xxx
by receiver)		(balancing figure)	
(-) Liabilities	xxx		xxx

Liquidator Financial Statement Affairs A/c

To amount transfer		By Liquidator expenses	xxx
for RRSA/c	xxx		
To ANSP	xxx	By Liquidator remuneration	xxx
(realised by Liquidator)		By payment to unsecured credit	xxx
To ASP	xxx	By payment to PSH	xxx
(realised by Liquidator)		By payment to FSH	xxx
(-) Liability	xxx		xxx
To calls on contributory	xxx		

Solution 9

Liquidation final Statement A/c

Particulars		*Amount*	*Particulars*		*Amount*
To Opening Cash		75,000	By Liquidation exp.		27,250
To Realization assets SP			By Liq. Remuneration		
— Land & building	3,00,000		5% of 10,50,000	52,500	
— Bank overdraft	1,00,000	2,00,000	1% of 2,00,000	2,000	54,500
To realization of ANSP			By pay to Pref. creditors		
— Plant & mach.	5,00,000		— Due taxes	12,500	
— Stock	1,50,000		— Salary & wages	60,000	72,500
— Sundry debtors	2,00,000	8,50,000	By P/to secured creditors		
To calls from contributory		66,938	5% Deb.	2,50,000	

(8.925 × 7500)		+ Int.	12,500	2,62,500
		By pay to unsecured creditors		2,00,000
		By preference share holder		
		Pref. share	5,00,000	
		Out standing	60,000	5,60,000
		By equity share holder		
			2,500 × 6.075	15,188
	11,91,938			11,91,938

Working Note 1

Assets available		**= 5,08,250**
+ Notional calls		
Equity share I 2,500 × 25		= 62,500
Equity share II 7,500 × 40		= 3,00,000
		8,70,750
— Payment to pref. share holder		
— P.S.H. capital	5,00,000	
— Dividend in arrears	60,000	5,60,000
		3,10,750
— Payment to share holders		3,10,750
(10,000 × 31.075)		

	Notional calls	*Refund*	*Net*
Equity share I	25	31.075	6.075(Refund)
Equity share II	40	31.075	8.925 (calls)

Solution 10

Liquidator's Final Statement of Account

	Rs.			*Rs.*
To Assets Realised	20,00,000	By Liquidator's remuneration		
To Receipt of call money on	29,000	2.5% on 23,20,000*	58,000	
equity shares @ 2 per share	58,000	2% on 50,000	1,000	
		2% on 13,12,745	26,255	85,255
		(W.N.3)		
		By Liquidation Expenses		10,000
		By Debenture holders having a		

		floating charge on all assets	6,00,000
		By Preferential creditors	50,000
		By Unsecured creditors	13,12,745
	20,58,000		20,58,000

(ii) Percentage of amount paid to unsecured creditors to total unsecured creditors

= 13,12,745 ÷ 18,30,000 ×100 = 71.73%

Working Notes

1. Unsecured portion in partly secured creditors=Rs.3,50,000-Rs.3,20,000 = Rs.30,000
2. Total unsecured creditors = 18,00,000 + 30,000 (W.N.1) = Rs.18,30,000
3. Liquidator's remuneration on payment to unsecured creditors

   Cash available for unsecured creditors after all payments including payment to preferential creditors & liquidator's remuneration on it = Rs.13,39,000

* Total assets realised = Rs.20,00,000 + Rs.3,20,000 = Rs.23,20,000

Liquidator's remuneration on unsecured creditors = (2×13,39,000 ÷ 102) = Rs. 26,255

or on Rs. 13,12,754 × 2 ÷100 = Rs. 26,255

Solution 11

Liquidators Final Statement of Account

		Rs.			*Rs.*
To Opening Cash		2600	By Liquidators Expenses		1500
To Assets Non specifically pledged			By Liquidator Remuneration		
Plant & Machinery		51,000	2% × 1,83,000		3660
Stock		39,000	2% × 1,42,588		2852
Debtors		58,000	By Payment to Pref. Creditors		24,200
To Assets Specifically Pledged			By Payment to Secured Creditor		—
Lease hold Property	35,000		By Payment to unsecured Creditor		—
(-) Secured Creditors	35,000	—	Deficiency	20,310	
			+ Other	99,970	
			Bank Overdraft	12,000	1,18,388
		1,50,600			1,50,600

Working Note 1

Liquidators Remuneration

X be Payment to unsecured Creditors

X+.02(X+24,200) = 1,21,240

1.02X = 1,21,240 – 484 = 1,18,388

Liquidators Remuneration = .02(1,18,388+24,200) = 2852/-

Solution 12

X Ltd. Liquidator's Final Statement of Account

Receipts	*Value*	*Payments*	*Payment*	*Realised*
Assets Realised				
Cash at Bank	60,000	Liquidator's Remuneration (W.N. 1)		25,556
Sundry Debtors	2,00,000	Liquidator Expenses		29,434
Stock	1,60,000	**Debenture holders:**		
Plant and Machinery	5,00,000	14% Debentures	2,30,000	
Patents	50,000	Interest Accrued (W.N.2)	40,250	2,70,250
Surplus from Securities		**Creditors:**		
(W.N. 3)	1,30,000	Preferential	30,000	
		Unsecured	87,800	1,17,800
		Preference Shareholders:		
		Preference Share		
		Capital	4,00,000	
		Arrears of Dividend	56,000	4,56,000
		Equity Shareholders (W.N.4)		
		Rs. 25.12 per share on 8,000 shares		2,00,960
	11,00,000			11,00,000

Working Notes

1. Liquidators

2% on assets realised (2,00,000+1,60,000+5,50,000+2,80,000)	23800
2% on payments to unsecured creditors (2% on Rs. 87,800)	1,756
	25,556

2. Interest accrued on 14% Debentures:

Interest accrued as on 31, 1998	32,200
Interest accrued upto the date of payment i.e. 30.6.98	8,050
	40,250

3. Surplus from Securities:

Amount realised from Land and Buildings	
(Rs. 80,000 + Rs. 2,00,000)	2,80,000
Less: Mortgage Loan	1,50,000
	1,30,000

4. Amount payable to Equity Shareholders:

Equity share capital (paid up)	4,86,000
Less: Amount available for equity shareholders	2,00,960
Loss to be borne by equity shareholders	2,79,040
Loss per equity share (Rs. 2,79,040/8,000)	34.88
Amount payable to equity shareholders for each equity share	**25.12**

Notes: (1) Commission due to the liquidator has been calculated on the total realisation on the supposition that the securities (land and buildings) are realised by the liquidator on behalf of the lender.

(2) Preference shares have been taken as cumulative.

Solution 13 (i)

The statement prepared by the liquidator showing receipts and payments of cash in case of voluntary winding up, is called "Liquidator's statement of accounts" (Form No. 156-Rule 329 of the Companies Act, 1956). There is no double entry involved in the preparation of liquidator's statement of account. It is only a statement though presented in the form of an account.

While preparing the liquidator's statement of account receipts are shown in the following order:

(a) Amount realised from assets are included in the prescribed order.

(b) In cases of assets specifically pledged in favour of creditors, only the surplus from it, if any, is entered as 'surplus from securities'.

(c) In case of partly paid up shares, the equity shareholders should be called up to pay necessary amount (not exceeding the amount of uncalled capital) if creditors' claims/claims of preference shareholders can't be satisfied with the available amount. Preference shareholders would be called upon to contribute (not exceeding the amount as yet uncalled on the shares) for paying off creditors.

(d) Amounts received from calls on contributories made in the winding up are shown on the Receipts side.

(e) Receipts per Trading Account are also included on the Receipts side. Payments made to redeem securities and cost of execution, and payments per Trading Account are deducted from the total receipts.

Payments are made and shown in the following order:

(a) Legal charges;

(b) Liquidator's remuneration;

(c) Liquidation expense;

(d) Debentureholders (including interest up to the date of winding up if the company is insolvent and to the date of payment if it is solvent).

(e) Creditors:

  (i) Preferential (in actual practice, preferential creditors are paid before debentureholders having a floating charge).

  (ii) Unsecured creditors;

(f) Preferential shareholders (Arrears of dividends on cumulative preference shares should be paid up to the date of commencement of winding up); and

(g) Equity shareholders.

Liquidator's statement of account of the winding up is prepared for the period starting from the commencement of winding up to the close of winding up. If winding up of company is not concluded within one year after its commencement. Liquidator's statement of account pursuant to section 551 of the Companies Act, 1956 (Form No. 153) is to be filed by a Liquidator within a period of two months of the conclusion of one year and thereafter on interval of six months.

Solution 13 (ii)

'B list Contributories'

The shareholders who transferred partly paid shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up may be called upon to pay an amount (not exceeding the amount not called up when the shares were transferred) to payoff such creditor, as existed on the date of transfer of shares.

Their liability will crystallize only (i) when the existing assets available with the liquidator are not sufficient to over the liabilities; (ii) when the existing shareholders fail to pay the amount due on the shares to the liquidator.

Solution 14 (a)

Amount Available		1,25,000
+ Notional Calls		
	3000×20	60,000
	2000×40	80,000
	3000×25	75,000
		3,40,000
(-) Payment to creditors		3,04,000
		36,000
(-) amount for preference share per share 12/-		36,000

		Call	*Refund*	*Net*
Preference Shares	I	20	12	8 (call)
Equity Share	II	40	—	40 (call)
Equity Share	III	25	—	25 (call)

Solution 14(b)

Amount Available		2,20,000
+ Notional Calls		
	3000×20	60,000
	2000×40	80,000
	3000×25	75,000
		4,35,000
(-) Payment to creditors (3,000×100)		3,00,000
		1,35,000
	Divided by No. of Equity Shares	5,000
	Refund per shares	27

		Call	*Refund*	*Net*
Preference Shares		20	100	80 (Refund)
Equity Share	I	40	27	13 (call)
Equity Share	II	25	27	2 (Refund)

Solution 15

Liquidators Final Statement of Affairs

Receipt			*Receipt*	*Payment*
To Opening Cash		50,000	By Liquidators Expenses	4,000
To Assets Non specifically pledged			By Liquidator Remuneration	
Machinery	1,66,000		2% ×3,50,000	7,000
Furniture	8,000		By Payment to Pref. Creditors	10,000
Debtors	2,30,000	4,04,000	By Payment to Secured Creditor	—
To Assets Specific Pledged			By Paid to unsecured Creditor	3,50,000
Stock	1,10,000		By Payment to	
(-) Liability Bank Loan	1,00,000	10,000	Pref. Shareholders	1,00,000
To Calls on Contributory	27,000		Equity Shareholders	20,000
(1080×25)			(2000×10)	
		4,91,000		4,91,000

Working Note 1

Calculation of Calls on Contributory

Amount available

Payable to Preference Shareholders	93,000
+ Notional Calls = 1800 ×25	45,000
	1,38,000
(-) Payment to Preference Shareholder (100)	1,00,000
	38,000
Divided by No. of Shares (2000+1800)	3,800
Refund	**Rs. 10/- per share.**

	Call	*Refund*	*Net*
Preference Shares	—	100	100 (Refund)
Equity Share I	—	10	10 (Refund)
Equity Share II	25	10	15 (Call)

Solution 16

Prakash Processors Limited
Liquidation Final Statement of Account

Receipts		*Rs.*	*Payment*		*Rs.*
To Assets realised	—		By Liquidation expenses		27,250
Bank		75,000	By Liquidator's Remuneration		36,750
Other assets:			By Debenture holders:		
Land etc.	3,00,000		Debentures	2,50,000	
Machinery etc.	5,00,000		Interest accrued	37,500	
Receipts		*Rs.*	*Payment*		*Rs.*
Patents	75,000		Interest (1-1-99 to 30-6-99)	18,750	3,06,250
Stock	1,50,000				
Sundry Debtors	2,00,000	12,25,000	By Preferential creditors		38,000
		13,00,000	By Unsecured creditors		2,80,750
			By Preferential shareholders:		
To Call on equity shareholders			Preference capital	5,00,000	
(7,500 × Rs.2.65) (1)		19,875	Arrear of Dividend	1,00,000	6,00,000
			By Equity shareholders	—	
			Rs. 12.35 on 2,500 shares		30,875
		13,19,875			13,19,875

Working Notes:

(1) Liquidator's remuneration 12,25,000 × 3/100 = Rs.36,750

(2) As the company is solvent, interest on the debentures will have to be paid for the period 1-1-1999 to 30-6-99 = [2,50,000 × 15/100 × ½] = Rs.18,750

(3)

Total equity capital - paid up	Rs. 6,37,500
Less: Balance available after payment tounsecured and preference share (13,00,000 - 12,89,000)	Rs. 11,000
Loss to be born by 10,000 equity share	6,26,500
Loss per share	Rs. 62,65
Hence, amount of call on Rs. 60 paid share	Rs. 2.65
Refund to share on Rs. 75 paid	Rs. 12.35

Solution 17

Liquidators' Final Statement of Account

Receipts	*Rs.*	*Payments*	*Rs.*
Cash	4,13,000	Return to contributors:	
Realisation from:		Preference dividend	33,000
Calls in arrears	10,000	Preference shareholders	3,00,000
Final call of Rs. 5 per		Calls in advance	5,000
equity share of Rs. 50 each		Equity shareholders of	
(Rs. 5 × 1,000)	5,000	Rs. 100 each (3,000 x Rs. 30)	90,000
	4,28,000		4,28,000

Working Notes

			Amount
Cash account balance			4,13,000
Less:	Payment for dividend	33,000	
	Preference shareholders	3,00,000	
	Calls in advance	5,000	3,38,000
			75,000
Add:	Calls in arrears		10,000
			85,000
Add:	Amount to be received from equity shareholders of Rs. 50 each		
(1,000 × 20)			20,000
Amount			1,05,000

Number of equivalent equity shares:

3,000 shares of Rs. 100 each	=	6,000 shares of Rs. 50 each
1,000 shares of Rs. 50 each	=	1,000 shares of Rs. 50 each
	=	7,000 shares of Rs. 50 each
Final payment to equity shareholders	=	Amount left for distribution
Total nos. of equivalent equity shares	=	Rs. 1,05,000/ 7,000 shares
	=	Rs. 15 per share

to equity shareholders of Rs. 50 each.

Therefore for equity shareholders of Rs. 100 each (Rs. 15 × 100/50)

= Rs. 30 per share to equity shareholders of Rs. 100 each.

Calls in advance must be paid first, so as to pay the shareholders on prorata basis. Equity shareholders of Rs. 50 each have to pay Rs. 20 and receive Rs. 15 each. As a result, they are required to pay net Rs. 5 per share.

Solution 18

M. Ltd. (in liquidation)
Liquidator's Statement of Account
From 1st January, 1999 to 30th June, 1999

	Rs.			Rs.
Balance at Bank	74,000	Liquidator's remuneration		7,302*
Realisation from:		(3% on Rs. 2,43, 398)		
Sundry Debtors	52,000	Liquidation Expenses		3,000
M. Ltd.		Loan on mortgage with		
Rs. 1,40,000 6%		Accrued interest**		2,04,000
Debentures	1,42,800	Creditors including		
Cash	2,62,200	Outstanding Expenses		75,500
		(73,500 + 2,000)		
	4,05,000	Return contributors:		
6 months' interest		6% Preference shareholders		
on debentures	4,200	Rs. 10 per share		1,00,000
Equity shareholders	5,35,200	6% Debentures	1,42,800	
Less: Cost of Collection		Cash (03 P. approx.)		
of Debts	2,000	Per share	598	1,43,398
Total	**5,33,200**			**5,33,200**

Working Note

(i) Calculation of Liquidators Remuneration
[(3 ÷ 103) × (74,000 + 52,000 + 4,05,000 + 4,200 - 2,000-3,000 - 2,04,000 - 75,500)] = 7302

Solution 19

Receiver's Receipts and Payments Account

		Rs.			Rs.
Sundry Assets realised		2,00,000	Costs of the Receiver		2,000
Surplus receivers from			preferential payments		
mortgage			Creditors paid – Taxes		
Sale Proceeds of land			raised within 12 months		26,000
and building	1,50,000		Debentures holders		
Less: Applied to discharge			Principal Interest for	1,50,000	
of mortgage loan	80,000	70,000	half year	9,750	1,59,750
			Surplus transferred to		
			the Liquidator		82,250
		2,70,000			2,70,000

Liquidator's Final Statement of Account

		Rs.			*Rs.*
Surplus received from			Cost of Liquidation		2,800
Receiver		82,250	Remuneration to Liquidator		3,000
Assets Realised		1,00,000	**Unsecured Creditors:**		
Calls on Contributories:			Trade Creditors	32,000	
On holder of	5,000		Bank O/D cleared	30,000	62,000
at the rate of Rs.					
2.17 per share		10,850	**Preferential Shareholders:**		
			Principal	1,00,000	
			Arrears of Dividends	22,000	1,22,000
			Equity shareholders:		
			Return of money to		
			contributors to holders		
			of 10,000 share at 33 paisa each		3,300
		1,93,100			1,93,100

Working Notes:

Call from partly paid shares	
Deficit before call from Equity Shares (1,82,250 - 1,89,800)	7,550
National call on 5,000 shares @ Rs. 2.50 each	12,500
Net balance after national call (a)	4,950
No. of shares deemed fully paid (b)	15,000
Refund on fully paid shares 4,950/15,000 = 33p	
Calls on party paid share (2.50 - 0.33) = Rs. 2.17	

Solution 20

Liquidator's Final Statement of Account:

Receipt	*Rs.*	*Rs.*	*Payments*	*Rs.*	*Rs.*
Cash at Bank		60,000	Liquidation expenses		4,600
Assets realised:					
Sundry Debtors	1,60,000		Liquidator's		
Stock	1,20,000		remuneration (W.N 1)		30,400
Plant & Machinery	3,60,000	6,40,000	Debentureholders:		
			10% debentures	2,00,000	
Surplus from Land &			Interest accrued	15,000	2,15,000
Buildings:			(W.N. 2)		
Amount realised	3,40,000		Preferential creditors		30,000
Less: Secured Creditors	1,00,000	2,40,000	Unsecured creditors		3,70,000

		Preference shareholders: 10% Preference Share Capital	2,00,000	
		Arrear dividend	40,000	2,40,000
		Equity shareholders (W.N.3): Rs.17.50 per share on 2,000 shares	35,000	
		Rs.2.50 per share on 6,000 shares	15,000	50,000
	9,40,000			9,40,000

Working Notes

(1) Liquidator's remuneration:

3% on Assets realised (3% of Rs.9,80,000)	Rs.29,400
2% of the amounts distributed among Equity Shareholders (2/102 × Rs.51000)	Rs. 1,000
	Rs.30,400

(2) Interest accrued on 10% debentures

Interest accrued as on 31.3.1994	Rs.10,000
Interest accrued upto the date of payment (upto 30th June, 1994)	Rs.15,000

(3) Amount payable to Equity Shareholders

Equity Share Capital	Rs.5,10,000
Less: Surplus available for Equity Shareholders	Rs. 50,000
Loss to be borne by them	Rs.4,60,000
Loss per Equity share (Rs. 4,60,000/8,000)	Rs. 57.50
Each Equity share of Rs.75 paid up	Rs. 17.50
Each Equity share of Rs.60 paid up	Rs. 2.50

Comment

Liquidation of a Company – This question was well attempted. However, the common errors committed by the candidates were calculation of (a) liquidator's remuneration (b) refund to equity shareholders (c) accrued interest on debentures.

Comment 2

Question Repeated in November 1998)

The overall performance was satisfactory. However, the common errors committed by the candidates were in the calculation of (i) Liquidator's remuneration, (ii) accrued interest on debentures, (iii) final payment to equity shareholders. Some candidate confused the liquidator's statement of account with statement of affairs. Many among them did not follow the prescribed order as to the presentation of assets realized and liabilities discharged.

Solution 22

Statement of liabilities of B List Contributories

			Q	*R*	*S*	*T*	*Amount to be paid to creditors*
Creditors outstanding on the date of transfer (ceasing to be member)							
No. of Shares			1,200	1,500	800	500	
Date		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
15.3.99		5,000	1,500	1,875	1,000	625	5,000
18.9.99	9,200						
	-5,000	4,200	—	2,250	1,200	750	4,200
24.12.99	10,500						
	- 9,200	1,300	—	—	800	500	1,300
12.3.2000	11,000						
	10,500	500	—	—	—	500	125*
Total (a)		11,000	1,500	4,125	3,000	2,375	10,625
Maximum liability on shares held (b)			4,800	6,000	3,200	2,000	
Amount paid (a) and (b) whichever is lower			1,500	4,125	3,000	2,000	

Working Note

P will not be liable since he transferred his shares prior to one year preceding the date of winding up. The amount of Rs. 5,000 outstanding on 15th May, 1999 will have to be contributed by Q, R, S and T in the ratio of number of shares held by them, i.e. in the ratio of 12:15: 8: 5; thus Q will have to contribute Rs. 1,500; R Rs. 1,875; S Rs. 1,000; T Rs. 625 Similarly, the further debts incurred between 15th May, 1999 to 18th September 1999, Rs. 4,200 for which Q is not liable will be contributed by R, S and T in the ratio of 15:8:5 will have to contribute Rs. 2,250. S and T will contribute Rs. 1,200 and Rs. 750 respectively the further increase from Rs. 9,200 to Rs. 10,500 viz. Rs. 1,300 occurring between 18th September and 24th December will be shared by S and T Who will be liable for Rs. 800 and Rs. 500 respectively. The increase between 24th December and 12th March is solely the responsibility of T.

Solution 23

3rd April 03
Statement of Call on Contributory

Deficiency		*P*(*1500*)	*a* (*1000*)	*R* (*500*)	*S* (*300*)
	3300	1500	1000	500	300
	1000	—	555	278	167
	300	—	—	187	113
	1400	—	—	—	1400
Total Loss		1500	1555	965	1980
Max Liabilities		3000	20,000	1000	600
Contributory		**1500**	**1555**	**965**	**600**

Solution 24

Case I

Amount Available		5,00,000
+ Notional Calls		
	2000×10	20,000
	6000×30	1,80,000
	1000×10	10,000
		7,10,000
(-) Payment to Preference Shareholder (.50)		50,000
		6,60,000

Case I

Face Value = 2000×100 = 2,00,000

Net Assets = $\frac{(2,00,000\times 6,60,000)}{11,00,000}$

= 1,20,000

Divided by No. of Shares 2,000
Rs. 60 Each

Case II

Face Value = 6000×150=9,00,000

9 × 6,60,000 ÷ 11 = 5,40,000

No. of Shares 6,000
Rs. 90 Each

		Call	*Refund*	*Net*
Preference Shares		10	50	40 (Ref)
Equity Share	I	10	60	50 (Ref)
Equity Share	II	30	90	60 (Ref)

Case II

Amount available		6,60,000
+ Notional Calls	2500×40	1,00,000
	3000×10	30,000
	7500×120	9,00,000
		16,90,000

	Class I	II	III	Total
Face Value	2500×100	3000×50	7500×150	
	(2,50,000)	(1,50,000)	(11,25,000)	(15,25,000)
	(250/16,90,000)/1525	(150/16,90,000)/1525	1125/16,90,000)/1525	
	2,77,050	1,66,230	1,24,6721	
÷ No. of Equity Shares	2500	3000	7500	
Refund	*110.82*	*55.41*	*166.23*	
	Call	*Refund*	*Net*	
I	40	110.82	70.82 (Ref)	
II	10	55.41	45.41 (Ref)	
III	120	166.23	46.23 (Ref)	

Solution 25

X will not be liable since he transferred his prior to one year preceding the date of winding up. The amount of Rs. 6,000 outstanding on 1st May 1996 will have to be contributed by A, B, C & D in the ratio of number of shares held by them, i.e, in the ratio of 10:15:3:2; thus A will have to contribute Rs. 2,000: B Rs. 3,000, C Rs. 6,00 and D Rs. 400. Similarly, the further debts incurred between 1st May, 1996 and 1st July 1996, viz. Rs.1,500 for which A is not liable will be contributed by B, C and D in the ratio of 15:3:2 B will have to contribute Rs. 1,125. C will have to contribute Rs.255 and D will contribute Rs.150.

The further increase from Rs. 7,500 to Rs. 8,000, viz. Rs.500 occurring between 1st July and 1st Nov. will be shared by C and D who will be able liable for Rs.300 and Rs.200 respectively. The increase between 1st Nov. and 1st Feb., is soley the responsibility of D.

The following statement makes the position clear:

Statement of Liabilities of B contributors

		A	*B*	*C*	*D*	
(a)	Amount to Creditors Outstanding on the date of ceasing to be member	1,000 Shares Rs.	1,500 Shares Rs.	300 Shares Rs.	200 Shares Rs.	be paid to the Creditors Rs.
	(1) 6,000	2,000	3,000	600	400	6,000
	(2) 1,500	—	1,125	225	150	1,500
	(3) 500	—	—	300	200	500

		A	B	C	D	
	(4) 1,500	—	—	—	1,500	__50*
	Total (a)	2,000	4,125	1,125	2,250	8,050

		A	B	C	D
(b)	Maximum liability on shares held	4,000	6,000	1,200	800
(c)	Amount paid (a) or				
(b)	Whichever is lower	2,000	4,125	1,125	800

* Against D's liability of Rs. 2,250, he can be called upon to pay Rs. 800, the loss of Rs. 1,450 will have to be suffered by these creditors.

Solution 26

The shareholders who transferred partly paid shares (otherwise than by operation of law or by death) within one year, prior to the date of winding up may be called upon to pay an amount (not exceeding the amount not called up when the shares were transferred) to pay off such creditors as existed on the date of transfer of shares.

Their liability will crystallize only (i) when the existing assets available with the liquidator are not sufficient to cover the liabilities; (ii) when the existing shareholders fail to pay the amount due on the shares to the liquidator.