

5. LIQUIDATION OF COMPANIES**PROBLEM NO: 1**

Statement of affairs of X Co Ltd as on 1.4.2011

Assets not specifically pledged: As per List A					ERV (Rs.)
Cash in hand					3000
Investments					12,000
Debtors					1,40,000
Stock					6,000
Machinery					180,000
					3,41,000
Assets Specifically Pledged: As per List-B					
	(a)	(b)	(c)	(d)	
	E.R.V	Due to secured creditors	Deficiency ranking as unsecured	Surplus carried to last column	
Lease hold property	218000	54,000	-	164,000	
	Estimated surplus from assets specifically pledged				164,000
	Estimated total assets available for preferential creditors, debenture holders secured by floating charge and unsecured creditors				5,05,000
	<u>Summary of Gross Assets</u>				
	Gross realizable value of Assets				
			Rs.218000		
			Rs.3,41,000		
			<u>5,59,000</u>		
	Gross Liabilities (to be deducted from surplus or added to deficiency as the case may be)				
54,000	Secured creditors to the extent to which claims are estimated to be covered by Assets specifically pledged (as per list B)				
3000	Preferential Creditors (as per List C)				3000
	Estimated balance of Assets available for debenture holders secured by a floating charge and Unsecured creditors				502,000
1,50,000	Debentures (as per List-D)				150,000
	Estimated surplus as regard debenture holders				352,000
60,000	Creditors (as per List-E)				60,000
2,67,000	Estimated Surplus as regards creditors (Diff b/w the Gross Assets & Gross Liabilities)				292,000
	Issued and Called up Capital:				
	24,000 Equity shares of Rs.10 each				240,000
	Estimated surplus as regard members				52,000

PROBLEM NO: 2Statement of affairs as on 31st December 2012

Assets	E.R.V (Rs.)
Assets not specifically pledged (As per List A)	
Trade Debtors	60,000
Stock-in-Trade	74,000
Plant	130,000
Tools	4000
Patents	30,000
Unpaid calls	5000
	3,03,000

Assets specifically Pledged (as per List-B)				
	Estimated Realization	Due to secured Creditors	Deficiency ranking as Unsecured Creditors	Surplus Carried to the Last Column
	Rs	Rs.	Rs.	Rs.
Investments	170,000	190,000	20,000	
Land & Buildings	130,000	80,000	-	50,000
	3,00,000	2,70,000		
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 realizable value of				
- Assets specifically pledged				3,00,000
- Other Assets				3,03,000
				6,03,000
Estimated total assets available for preferential creditors, debenture holders, bank OD, and unsecured Creditors brought forward				3,53,000
Gross Liabilities	Liabilities			Amount (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 + (5000 x 4)] Estimated balance of assets available for Debenture holders, Bank & Unsecured Creditors			22,000
				3,31,000
1,02,500	Debenture holders secured by floating charge (as per List-D) Surplus as regards debenture holders			(1,02,500)
				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
	• O/S Expenses (1000+6000)			7,000
2,92,500				2,92,500
	Estimated deficiency as regards creditors being difference b/w Gross Liabilities and gross Assets			64,000
6,67,000				
	Issued & Called up Capital:- 3000 Equity shares of Rs.100 each, Rs. 80 paid 6%,1,000 Preference shares of Rs.100 each Fully called Estimated Deficiency as regards members(as per List-H)			2,40,000
				1,00,000
				3,40,000
				4,04,000

List – H Deficiency Account

A		Items Contributing to Deficiency	Amount (Rs.)
1		Excess of Capital & Liabilities over Assets as on 1-1-2010	Nil
2		Net dividend & bonuses during the period	29,700

		(Jan to Dec 2010) [(95000 x 6%) + (240,000 x 10%)]	
3		Net Trade losses after charging depreciation, taxation, interest on debentures etc (109000+131,300)	2,40,300
4		Losses other than Trading losses (stock loss)	40,000
5		Estimated losses now w/o or for which provision has been made for the purpose of preparing the statement	
		• Plant → 70,000	
		• Tools → 16,000	
		• Patents → 20,000	
		• Stock → 13,000	
		• Investments → 10,000	
		• Debtors → 30,000	159,000
6		Other reducing items contributing to deficiency	Nil
			469,000
B		Items reducing deficiency:-	
7		Excess of Assets over Capital & Liabilities on 1 st Jan 2008 (40,000-25,000)	15,000
8		Net Trading profit during the period 1 st Jan 2006 to 31 st December 2008	40,000
9		Profit & Incomes other than Trading Profit during the same period	-
10		Other Items reducing deficiency - Profit expected on Land & Building (130,000 – 120,000)	10,000
			65,000

∴ Deficiency as shown by the statement of Affairs 404,000

Working Notes:

(1) Trail Balance to ascertain the amount of loss for 2012:

Particulars	Debit(Rs)	Credit(Rs)
Land & Building	120,000	-
Plant	200,000	-
Tools	20,000	-
Patents	50,000	-
Stock	87,000	-
Investments	180,000	-
Debtors	90,000	-
Equity share capital	-	2,40,000
6% Preference share capital	-	95,000
5% Debentures	-	100,000
Interest Outstanding	-	2500
Mortgage on Land & Building	-	80,000
Trade Creditors	-	265,500
Owing for wages	-	20,000
Secretary's salary	-	3000
Managing Director's salary	-	6000
Bank OD	-	190,000
Profit & Loss A/c on 1.1.2010	123,700	-
	8,70,700	10,02,00
Loss for the year (b/f)	131,300	
	10,02,000	10,02,000

Reserves & Surplus A/c

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
31.12.2007	To P&L A/c(transfer)	25,000	31.12.2007	By balance b/d	40,000
	To Equity & Preference dividend	29,700	31.12.2008	By profit for the year	40,000
2009	To P&L A/c(Loss)	109,000	31.12.2009	By balance c/d	1,23,700
	To Loss of stock	40,000			
		2,03,700			2,03,700

***Note:-**

1. For the purpose of section 530(1)(b) of the Companies Act, 1956, the term "employee" shall include officers and other administrative staff members but it shall not include workmen and managing director. In fact, section 530(8)(b) 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 with in the definition of 'employee' for the purpose of section 530.
2.
 - i) The above is subject to cost of winding up estimated at 15,000 and to any surplus and deficiency on trading and realisation of assets.
 - ii) There are 3,000 shares unpaid @ Rs.20 per share liable to be called up.

PROBLEM: 3Liquidators Final Statement of A/c

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Cash	413,000	Arrears of preference dividend	33,000
Realisation from:-		Preference share holders	300,000
Calls in arrears	10,000	Calls in advance	5,000
Final call of Rs.5 per equity share (WN)of Rs.50 each (5 x 1000)	5000	Equity share holders of Rs.100 each (3000 x 30)	90,000
	4,28,000		4,28,000

Working Note:-

Particulars	Amount (Rs.)
Cash account balance	4,13,000
(-) Payment for dividend	33,000
Preference share holders	3,00,000
Calls-in-advance	5,000
	75,000
(+) Calls-in-arrears	10,000
	85,000
(+) Amount received from equity share holders of Rs.50 each (1000 x 20)	20,000
Amount disposable	105,000

Number of Equivalent equity shares

3000 shares of Rs.100 each = 6000 shares of Rs.50 each

1000 shares of Rs.50 each = 1000 shares of Rs.50 each
7000 shares of Rs.50 each

Final payment to Equity share holders = $\frac{\text{Amount Left for distribution}}{\text{Total No.of Equivalent Equity shares}}$
 = Rs. 105,000/7000
 = Rs. 15 per share to Equity share holders of Rs.50 each

Therefore for equity share holders of Rs.100 each(15 x 100/50)
 = Rs.30 per share equity share holders of Rs.100 each

Calls-in-advance must be paid first, so as to pay the shareholders on pro-rata basis. Equity share holders of Rs.50 each have to pay net Rs.5 per share.

PROBLEM NO: 4

Liquidator's Final statement of A/c

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Cash and Cash equivalents	75,500	Liquidators Remuneration	
Assets realized:-		3%(200,000+30,000+60,000 +80,000 + 120,000)	14,700
* Plant & Machinery	200,000	2%(145000-15,000-50,000) (Note-1)	1600
* Patents	30,000	Liquidation Expenses	10,900
* Stock	60,000	Debenture holders	100,000
* Sundry Debtors	80,000	O/s interest	14,000
Land & Building 120,000		Interest from the B/s date (100,000x14%x6/12)	7000
(-)Mortgage loan(50000)	70,000	Preferential Creditors	15,000
		Unsecured Creditors	80,000
		Preference share capital	200,000
		Arrears of preference dividend(200,000x14%x2)	56,000
		Equity share holders:-	
		Refund of 3,000 equity shares @ 0.325 (Note 2)	975
		Refund of 1000 Equity shares @ 15.325 (Note 2)	15,325
	5,15,500		5,15,500

Note:

1. Liquidator's Commission

2% on amount distributed among unsecured creditors
 2% (Total creditors – Preferential creditors-Mortgage loan on Land & Buildings)
 = 2% (145,000 – 15,000 – 50,000)
 = 2% (80,000)
 = Rs.1600

2. Refund to Equity shareholders:-

Total Equity share capital paid up (75,000+180,000) = 2,55,000
 (-) Balance available to Equity shareholders = (16,300)
 Loss to be borne by 4000 Equity share holders = 2,38,700
 Loss per share = Rs.59.675

Hence, amount of refund on 3,000 Equity shares

@ 0.325 (60-59.675) = 975/-

Amount of refund on 1000 Equity shares @ 15.325 = 15,325/-
(75-59.675)

PROBLEM NO: 5

Liquidator's statement of Account

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Land & Building	620,000	Liquidator's Remuneration	46,000
Inventory	3,10,000	Liquidator's expenses	86,000
Plant & Machinery	7,10,000	10% Debentures	2,10,000
Book debts	6,60,000	Preferential creditors	1,05,000
		Income Tax payable	67,000
		Bank overdraft	4,85,000
		Trade creditors	6,00,000
		Preference shareholders:-	
		Capital	5,00,000
		Arrears of preference dividend for 3 years	150,000
		Equity shareholders :-	
		Refund on 5000 shares of Rs.60 paid up @ 10.10 per shares (WN)	50,500
		Refund on 5,000 shares of Rs.50 paid up @ 0.10 per share (WN)	500
	23,00,000		23,00,000

Working Note: Computation of amount refundable to Equity share holders

Particulars	Amount (Rs.)
Total Equity share capital paid up	5,50,000
(-) Balance available after payment to secured, unsecured, preferential creditors and preference shareholders (23,00,000-46,000-86,000-210,000-105,000-67,000-485,000-600,000-5,00,000-150,000)	(51,000)
Loss to be borne by 10,000 Equity shareholders	4,99,000
Loss per share	Rs.49.90
Hence, amount of refund on Rs.50 per share paid up (50-49.90)	Rs.0.10
Amount of refund on Rs.60 paid up (60-49.90)	Rs.10.10

PROBLEM NO: 6

M Ltd (in Liquidation)

Liquidator's statement of account

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Balance at Bank	74,000	Liquidator's Remuneration (3% on 2,43,398) (Note 1)	7302
Realisation from:		Liquidation expenses	3000
Trade Receivables	52,000	Loan on Mortgage with accrued interest (Note 2)	2,04,000
M Ltd - (140,000, 6% Debentures - 142,800 Cash - 262,200)	4,05,000	Outstanding expenses	75,500
		6% pref. shareholders @10 per share	100,000
		6% Debentures 142,800	

6 month's interest on Debentures	4,200	Cash Per share ----- 598 $\left[\frac{598}{20,000 \text{ shares}} = \text{Rs.0.3(app)} \right]$	143,398
Equity share holders	5,35,200		
(-) cost of collection of debts	(2000)		
	5,33,200		5,33,200

Note:-

1) $2,50,700 \times 3/103 = \text{Rs. } 7302$

(i.e 5,32,000 Less payment made to all creditors)

2) It is assumed that loan is secured by a floating charge.

PROBLEM NO:7**Liquidator final statement of Accounts**

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To net receipts from collection of realization of unsecured assets (W.N.1)	1,37,540	By legal expenses	780
To collection from equity shareholders for unpaid capital (W.N.2)	19,500	By remuneration	6500
		By preference creditors	
		- Employee salary (W.N.3)	10640
		- Income tax (W.N.3)	17550
			28190
		By debentures	26000
		Add: interest	303
			26303
		By unsecured creditors (B/F) (Refer Note)	95,267
	<u>1,57,040</u>		<u>1,57,040</u>

WORKING NOTES:**1. Realization of assets:**

Cash	11,700
Add: Insured policy (15,600 – 585)	15,015
Add: debtors (1,04,000 – 975)	1,03,025
Add: sale of furniture	7800
	1,37,540

2. Assumed that the final realization from equity share holders = $(6500 - 2600) \times 5 = \text{Rs. } 19,500$.

3. Preference creditors:

Income tax (3,250 + 14,300)	17,550
Employee salary (15,590 + 4950)	28,190

4. Debenture interest for 1 month = $26,000 \times 14\% \times 1/12 = 303$

5. Total amount due to unsecured creditors

Managing director salary	4,950
(+) Trade payable (1,07,000 – 1,625)	1,05,375
(+) director salary	39,000
	1,49,325

Note:

1. A managing director is not an ordinary employee, hence he should not be considered as an employee.

2. As funds are insufficient, so the balance amount is proportionately among unsecured creditors.

PROBLEM NO: 8**Receiver's Receipts and payments Account**

Receipts	Amount (Rs.)	Payments	Amount (Rs.)
Sundry Assets realized	200,000	Cost of the receiver	2000
Surplus received from mortgage:		Preference payments	
Sale proceeds of Land & Building 150,000		Creditors paid Taxes raised within 12 months	26,000
(-) Mortgage loan <u>(80,000)</u>	70,000	Debenture holders:-	
		Principal 150,000	
		(+) Int for half year 9750	159,750
		Surplus transferred to the Liquidator	82,250
	2,70,000		2,70,000

Liquidator's Final Statement of Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
Surplus received from Receiver	82,250	Cost of Liquidation	2,800
Assets Realised	1,00,000	Remuneration to Liquidator	3,000
Calls on Contributories: On holder of 5,000 at the rate of .2.17 per share	10,850	Unsecured Creditors: For Trade 32,000	62,000
		Directors for payment of Bank O/D <u>30,000</u>	
		Preferential Shareholders: Principal 1,00,000 Arrears of Dividends <u>22,000</u>	1,22,000
		Equity shareholder: Return of money to contributors To holders of 10,000 shares at 33 paise each	3,300
	1,93,100		1,93,100

Working Note:

Call from party paid shares

Deficit before call from Equity Shares (1,82,250-1,89,800) = 7,550

Notional call on 5,000 shares @ .2.50 each = 12,500

Net balance after notional call = 4,950

No. of shares deemed fully paid = 15,000

Refund on fully paid shares $\frac{4,950}{15,000}$ = 33p

Calls on party paid share (2.50-0.33) = 2.17

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PROBLEM NO : 9**Statement of Liabilities of B List Contributors**

Creditors o/s on the date of ceasing to be member	A 1000 Shares	B 1500 Shares	C 300 Shares	D 200 Shares	Amount to be paid to the creditors (Rs.)
(1) 6000	2000	3000	600	400	6000
(2) 1500	-	1125	225	150	1500
(3) 500	-	-	300	200	500
(4) 1500	-	-	-	1500	50*
Total (a)	2000	4125	1125	2250	8050
(b) Max.Liability on shares held	4000	6000	1200	800	
Amount paid (a) or (b) which ever is Lower	2000	4125	1125	800	

Note:- X will not be Liable since he transferred his shares prior to one year preceding the date of winding up. The amount of Rs.6000 O/S on 1st may 2010 will have to be contributed by A,B,C and D in the ratio of no.of shares held by them, in the ratio of 10:15:3:2

Rs.1500 (7500-6000) Contributed in the ratio of 15:3:2 (B:C:D)

500 (8000-7500) Contributed in the ratio of (3:2) (C:D)

The increase b/w 1st Nov and 1st Feb is solely the responsibility of D Against D's Liability of Rs.2,250, he can be called upon pay Rs.800, the loss of Rs.1450 will have to be suffered by these creditors.

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THE END