

# Liquidation of Companies

## Format of Liquidators final statement of accounts

Receipts	Amount	Payments	Amount
1) Cash in Hand	xxx	1) Secured Creditors	xxx
2) Cash at Bank	xxx	2) Legal Charges (Liquidation Expenses)	xxx
3) Assets Realised		3) Liquidators Remuneration (Other Liquidation Expenses)	xxx
Marketable Securities	xx	4) Debentures Holders	
Bills Receivable	xx	Debentures	xx
Trade Debtors	xx	Outstanding Debenture Interest	xx
Loans and Advances	xx	5) Preferential Creditors	xxx
Stock in Trade	xx	6) Unsecured Creditors	xxx
Work in Progress	xx	7) Calls in Advance	xxx
Land and Building	xx	8) Arrears of Dividend on Cumulative Preference Shares	xxx
Plant and Machinery	xx	9) Preference Share Holders	xxx
Furniture and Fixtures	xx	10) Equity Share Holders	xxx
Patents, Trade Marks etc	xx		
Investments	xx		
4) Surplus realised from Secured Creditors	xxx		
5) Calls in Arrears	xxx		
6) Amount Received from Call on Shares	xxx		
<b>Total</b>	<b>XXX</b>	<b>Total</b>	<b>XXX</b>

### Problems on calculation of Preferential Creditors

1. Calculate the amount of preferential creditors from the following information: Income tax payable Rs 25,000. Salaries and wages payables to 10 workers at Rs 10,000 per month for last 3 months. Remuneration to officers Rs 2,25,000. Compensation under workman's compensation Act, 1928 in respect of death of an employee Rs 40,000 is due. Amount due to an employee from a provident fund for the welfare of an employee maintained by the company Rs 20,000.

2. Calculate the amount of preferential creditors: income tax payable Rs 25,000. Salaries and wages payable to 10 workers at the rate of Rs 10,000 per month for the last 3 months. Remuneration to officers Rs 2,00,000.

3. A company went into liquidation whose creditors are Rs 36,000 which includes Rs 6,000 on account of wages of, 15 men at Rs 100 per month for 4 months immediately before the date of winding up; Rs 9,000 being the salaries of 5 employees at Rs 300 per month for the past six months. Rent of godown for the last six months amounting to Rs 3,000; income tax deducted out of salaries of employees Rs 1,000 and director's fees Rs 500; in addition it is estimated that the company would have to pay Rs 5,000 as compensation to an employee for injuries suffered by him, which was contingent liability not accepted by the company and not included in the above said creditors figure. You are required to find the amount of preferential creditors.

### Problems on calculation of liquidator's remuneration

1. Find out the commission due to the liquidator, if the commission is 2.5% on the amount available to the equity shareholder after charging such commission. The amount available to equity shareholders before charging such commission is Rs 2,24,000.

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2. Calculate liquidator's remuneration:

- a) Amount to be paid preferential creditors Rs 2,10,000
- b) Other unsecured creditors are Rs 2,50,000
- c) Liquidator's commission is 5% on the amount paid to unsecured creditors

3. Calculate liquidator's remuneration:

- a) Balance of cash after paying preferential creditors Rs 4,10,000
- b) Other unsecured creditors Rs 4,78,000
- c) Liquidator's remuneration is 3% on the amount paid to other secured creditors.

Also state the amount paid to unsecured creditors.

### Problems on Liquidator's Final Statement of Accounts

1. The following particulars relate to a Limited Company which has gone into Voluntary Liquidation, you are required to prepare the liquidators final accounts allowing for the remuneration at 2% on the amount realized, 2% on the amount distributed to the Unsecured Creditors other than Preferential Creditors.

- Preferential Creditors Rs. 10,000
  - Unsecured Creditors Rs. 32,000
  - Debentures Rs. 10,000
  - Assets Realized – Land and Building Rs. 20,000, Plant and Machinery Rs. 18,650, Fixtures and Fitting Rs. 1,000.
  - Liquidation Expenses amounted to Rs. 1,000.
- Prepare Liquidators Final Statement of Accounts

2. Prakash Limited went into Liquidation on 31/03/2022. Following information is available for the Liquidation.

- Creditors amount to Rs. 75,660 of which Rs. 8,000 are Preferential
- 6% Debentures having floating charge on the assets of the company amounted to Rs. 80,000. Debentures to be paid interest up to 30-09-2021
- The Assets realized as follows: Stock Rs. 84,000, Plant and Machinery Rs. 60,600, Cash in Hand Rs. 500
- Debentures were Paid of on 30-09-2021 with Interest.
- Liquidator's Expenses amounting to Rs. 1,902 and he is to be given a remuneration at 3% on the amount realized and 2% on the amount distributed to unsecured creditors excluding preferential creditors.

Prepare Liquidator's Final Statement of Accounts

3. X Limited Company went into voluntary winding up on 31/03/2022 when the state of affairs was as below:

- Unsecured Creditors Rs. 4,00,000 including Rs. 50,000 is Preferential Claims
- Secured Creditors, secured on Plant and Machinery stood at Rs. 2,00,000
- Cash in Hand was Rs. 10,000
- The Liquidator realized Plant and Machinery for Rs. 1,50,000 and other assets realized Rs. 1,00,000
- The Liquidation Expenses came to Rs. 10,000
- The Liquidators Remuneration was Fixed at 4% of the amount realized including cash balance and 2% of the amount distributed to unsecured creditors including Preferential Creditors

Prepare Liquidators Final Statement of Accounts

## Liquidation of Companies

4. The following was the Balance Sheet of Unsound Limited as at 31/03/2022 when it was windup voluntarily

Liability	Amount	Assets	Amount
50,000, Equity Shares of Rs. 10 Each	5,00,000	Plant and Machinery	4,00,000
2,000, 6% Cumulative Preference Shares of Rs. 100 Each	2,00,000	Furniture	1,000
7% Debentures	1,00,000	Investments	50,000
<b>Sundry Creditors</b>		Stock	50,000
Trade Creditors	3,00,000	Debtors	2,00,000
Cash Paid	48,000	Cash	1,200
Outstanding	2,000	Profit and Loss Account	4,47,800
	<b>11,50,000</b>		<b>11,50,000</b>

- Preference dividends are in arrears for 1 year, Debenture interest is also due for 1 year.
- All the outstanding creditor are preferential
- The Assets realized are Plant and Machinery Rs. 2,80,000, Furniture Rs. 400, Debtors Rs. 1,50,000, the stock and investment realized nothing
- The expenses of liquidation amounted to Rs. 2,000
- The Liquidator is entitled to a Commission of 4% on the assets realized and 2% on the amount paid to unsecured creditors. Prepare the liquidators final statement of account.

5. Y Limited Company went into Voluntary Liquidation on 1/4/2022 on which date its position was as under

Liabilities	Amount	Assets	Amount
2,500 Shares of Rs 100 each Rs 80 paid up	2,00,000	Land, Building and Machinery	40,000
Secured Loan (Land, Building and Machinery)	50,000	Other Fixed Assets	1,30,000
Unsecured Loan	95,000	Stock	52,500
Preferential Creditors	5,000	Debtors	50,000
		Loans	20,000
		Cash	2,500
		Profit and Loss Account	55,000
	<b>3,50,000</b>		<b>3,50,000</b>

- Land, Building and Machinery were realized by secured creditors for Rs 60,000. Other fixed assets realized Rs. 20,000, Debtors Rs. 10,000. Stock Rs. 5,000. Loans were completely bad.
- Liquidator is to be paid a fixed commission of Rs. 500 plus 1% of the Amount paid to Unsecured creditors excluding Preferential Creditors.
- Liquidator's out of pocket expenses amount to Rs. 500.
- Company decides to make call on shares and received in full.

Prepare Liquidators Final Statement of Accounts.

6. Z Company Limited went into Voluntary Liquidation on 31/3/2022 on which date the position of the company was as follow.

- 2,000 Preference Shares of Rs. 10 Each, 5,000 A Equity Shares of Rs. 10 Each Rs. 9 Paid up. 5,000 B Equity Shares of Rs. 10 Each Rs. 8 per share Paid up. Under the Articles of Association, the Preference shares have priority as to the repayment of Capital over the Equity Shares.

## Liquidation of Companies

- Fixed Assets realized Rs. 18,000. Current Assets realized Rs. 10,000.
- Liquidator called on 5,000 B Equity shares holders to pay Re. 1 which was duly paid except on 200 shares which was irrecoverable.
- The cost of liquidation amounted to Rs. 1,650, Preferential Creditors Rs, 1,000, Secured Creditors Rs. 1,000 and Unsecured Creditors Rs. 6,000. The Liquidator's remuneration is 12% on the amount paid to Secured and Unsecured Creditors including Unsecured Creditors.

Prepare Liquidator's Final Statement of Accounts

7. A Limited Company went into Voluntary Liquidation with the following liabilities

- Trade Creditors – Rs. 12,000.
- Bank Overdraft – Rs. 20,000.
- 10,000, Preference shares of Rs. 10 each, Rs. 7 called up (with Prior rights) – Rs. 70,000.
- 10,000, Equity shares of Rs. 10 each, Rs. 9 called up (Calls in Arrears Rs. 2,000) – Rs. 88,000.
- Cash received in anticipation of calls: (on Preference shares Rs. 24,000 and on Equity shares Rs. 4,000) – Rs. 28,000.
- The Assets realized Rs. 2,00,000.
- Expenses on Liquidation amounted to Rs. 2,000 and Liquidator's remuneration Rs. 3,000.

Prepare Liquidator's Final Statement of Accounts.

8. The AB Mining Company Limited went into Voluntary liquidation on 1/4/2022 as its mines reached such a state of Depletion, that it becomes too costly to extract further minerals. The Liquidator's whose Remuneration is 3% on Realization of Assets and 2% on the total final amount distributed to all shareholders. The following was the position as on 31-3-2022.

- Assets realized (Including assets given as security) – Rs. 5,00,000
- Liquidation Expenses - Rs. 9,000.
- Creditors (including salaries and wages due, treated as preferential Rs. 6,000 and loans of Rs. 25,000 for which Assets offered as Security realized Rs. 18,000) - Rs. 68,000.
- 5,000, 6% Preference Shares of Rs. 30 each (Dividend paid up to 31-3-2021) - Rs. 1,50,000.
- 10,000 Equity Shares of Rs. 10 Each, Rs. 9 paid up - Rs. 90,000.
- General Reserves – Rs. 1,20,000.
- Profit and Loss account Balance – Rs. 20,000.

Under the Articles of Association, the Preference Shareholders have the right to receive 1/3 of the surplus remaining after repayment of the Equity Share Capital, and any arrears of Dividend.

Prepare the Liquidator's Final Statement of Accounts, showing necessary calculations and working.

9. Quick Company Limited voluntary liquidation on 31-3-2021. The Balance sheet as on that date was:

Liabilities	Amount	Assets	Amount
<b>Share Capital:</b>		Land and Buildings	2,50,000
5,000, 6% Cumulative Preference shares of Rs. 100 each fully paid	5,00,000	Machinery	6,25,000
2,500 Equity shares of Rs. 100 each		Patents	1,00,000
Rs. 75 paid up	1,87,500	Stock	1,37,500
7,500 Equity shares of Rs. 100 each		Debtors	2,75,000
Rs. 60 paid up	4,50,000	Cash at Bank	75,000
5% Mortgage Debentures	2,50,000	Profit and Loss Account	3,00,000
Interest outstanding on Debentures	12,500		
Creditors	3,62,500		

## Liquidation of Companies

	<b>17,62,500</b>		<b>17,62,500</b>
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- The Liquidator is entitled to a commission of 3% on all assets realized except cash and 2% on amounts distributed to unsecured creditors.
- Creditors include Rs. 17,500 for income tax due to Government, Rs. 5,000 Outstanding Salaries of Employees and an award of Rs. 15,000 made under Workmen's Compensation Act. It also includes a loan for Rs. 1,25,000 secured by mortgage on Land and Buildings.
- The preference dividends were in arrears for two years.
- The assets realized as follows: Land and Buildings Rs. 3,00,000, Machinery Rs. 5,00,000, Patents Rs. 75,000, Stock Rs. 1,50,000, Debtors Rs. 2,00,000.
- Expenses of Liquidation amounted to Rs. 27,250.

Prepare the Liquidator's Final Statement of Account.

10. X Limited went into voluntary liquidation on 31/3/2022. The Balance Sheet as on that date was:

Liabilities	Amount	Assets	Amount
<b>Share Capital:</b>		Free hold Properties	5,80,000
6,000, 5% Cumulative Preference share of Rs. 100 Each	6,00,000	Plant	2,89,000
50,000, Equity shares of 10 Each fully called (Calls in Arrears Rs. 25,000)	4,75,000	Motor Vehicles	57,500
Share Premium Account	50,000	Stock	1,86,000
5% Debentures	1,00,000	Debtors	74,000
Interest Outstanding on Debentures	2,500	Profit and Loss Account	2,14,000
Bank Overdraft	58,000		
Creditors (Including Preferential Creditors Rs. 15,000)	1,15,000		
	<b>14,00,500</b>		<b>14,00,500</b>

- Preference Dividends are in Arrears from 1<sup>st</sup> April 2018. The Company's Articles provide for the payment of Premium of Rs. 12.50 per share along with any Arrears of dividend to the Cumulative preference shareholders in the event of Liquidation of the company and payable in priority to the Equity shareholders.
- The bank overdraft was guaranteed by the directors who duly implemented their guarantee.
- Liquidator realized the assets: Property Rs. 7,00,000, Plant Rs. 2,40,000, Motor Vehicles Rs. 50,000, Stock Rs. 1,50,000, Debtors Rs. 60,000.
- Calls in Arrears were duly collected by him.
- The trade creditors agreed to receive 5% less than their claims.
- The Cost of Liquidation Rs. 2,750. The Liquidator's Remuneration was 2.5% on the total amount realized and 1% on the amount paid to unsecured creditors.

Prepare the Liquidation Final Statement of Account, including the amount repaid on each equity share by the liquidator.

11. Ramu Ltd., went into voluntary liquidation on 31-03-2022 when their liabilities and assets were:

Liability	Amount	Assets	Amount
<b>Issued and Subscribed Capital:</b>		Land and Building	5,00,000

## Liquidation of Companies

10,000, 10% Cumulative preference shares of 100 each, fully paid	10,00,000	Plant and Machinery	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 outstanding on Debentures	75,000	Cash at Bank	1,50,000
Creditors	6,37,500		
	<b>34,87,500</b>		<b>34,87,500</b>

- Preference Dividends were in arrears for 2 years and the creditors included Preferential Creditors of 76,000.
- The assets realized as follows: Land and Building 6,00,000, Plant and Machinery 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 the assets realized.

Assuming that payments including those on Debentures were made on September 30, 2022. Show the Liquidator's Final statement of Accounts.

12. The Balance Sheet of Good Luck Co. Ltd. is as follows for the year ended 31-03-2022

Liability	Amount	Assets	Amount
5,000, Equity Share Capital of 100 each, 80 paid up.	4,00,000	Building (Mortgaged for debenture)	2,00,000
2,000, 8% Preference Share Capital of 100 each	2,00,000	Other Fixed Assets	6,20,000
8% Mortgage Debenture	2,00,000	Current Assets	2,00,000
Outstanding interest on Debentures	16,000	Cash	60,000
Creditors	5,50,000	Profit and loss account	2,86,000
	<b>13,66,000</b>		<b>13,66,000</b>

- All assets except cash were realized for 9,80,000 by liquidator, including 2,80,000 for sale of building on 01/11/2022.
- Liquidation Expenses amounted to 20,400.
- Liquidator's remuneration 2% on assets realized except cash, 2% on amount paid to creditors, 2% on amount collected by making calls on shares to the required extent only.
- Dividends on preference shares are in arrears for 4 years and payable on liquidation as per Articles of the company.

Prepare Liquidator's Final Statement of Account.

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