

LIQUIDATION OF COMPANIES

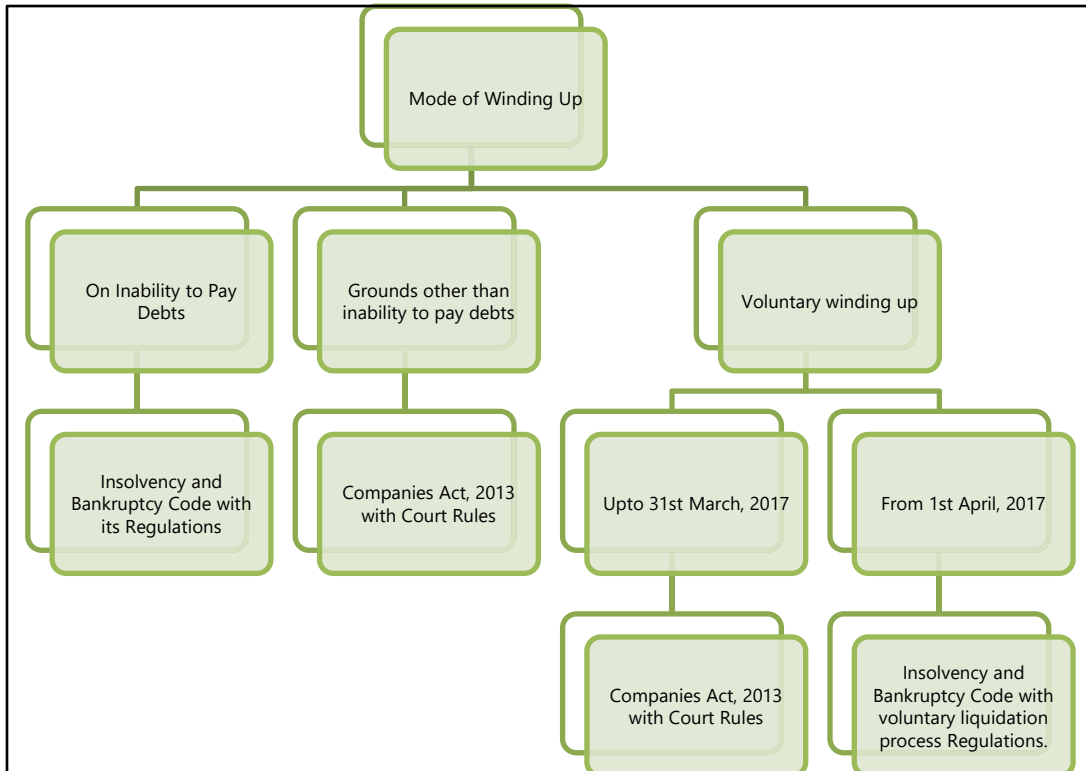


LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Understand the definition of Winding up and its types.
- Prepare Statement of Affairs as per the format prescribed by the Act.
- Draw Deficiency account and will be able to point out the reasons for deficiency.
- Distinguish between preferential payments and over-riding preferential payments.
- Set an order of payment of all obligations.
- Prepare Liquidator's Final Statement of account.

CHAPTER OVERVIEW



1. LIQUIDATION - INTRODUCTION

A company comes into being through a legal process and also comes to an end by law. Liquidation is the legal procedure by which the company comes to an end. Thus a company being a creation of law cannot die a natural death. A company, when found necessary, can be liquidated.



2. DEFINITION OF WINDING UP

As per Section 2 (94A) of the Companies Act, 2013, winding up means winding up under this Act or liquidation under the Insolvency and Bankruptcy Code, 2016, as applicable.

Winding Up Includes	Winding up under Companies Act, 2013
	Liquidation under Insolvency and Bankruptcy Code, 2016

3. WINDING UP BY TRIBUNAL

As per section 270, the provision of Part I should apply to the winding up of a company by the Tribunal under this Act.

Circumstances in Which Company May be Wound Up by Tribunal

Circumstances

- (a) The company has resolved that the company be wound up by the Tribunal. The company has require to pass special resolution.
- (b) The company has acted against the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality
- (c) The Registrar or any other person authorised by the Central Government by notification under this Act can make an application to tribunal. The Tribunal is of the opinion that the affairs of the company have been conducted in a fraudulent manner or the company was formed for fraudulent and unlawful purpose or the persons concerned in the formation or management of its affairs have been guilty of fraud, misfeasance or misconduct in connection therewith and that it is proper that the company be wound up.
- (d) The company has made a **default** in filing with the Registrar its **financial statements or annual returns** for immediately preceding **5 consecutive financial years**.
- (e) The Tribunal is of the opinion that it is just and equitable that the company should be wound up.

4. PETITION FOR WINDING UP

Petition for Winding Up to Tribunal can be made by	The Company
	Any Contributory or Contributories
	The registrar
	Any person authorized by Central Government in that behalf
	In case affairs of the company have been conducted in a Fraudulent manner, by the Central Government or a State Government.

Petition by Contributory

- ✓ A contributory should be entitled to present a petition for the winding up of a company.
- ✓ Shares in respect of which he is a contributory were either originally allotted to him or have been held by him for at least 6 months during the 18 months immediately before the commencement of the winding up and registered in his name or have transferred to him through the death of a former holder.

Contributory can file petition ignoring the following points

- He may be the holder of fully paid-up shares.
- The company may have no assets at all.
- The company may have no surplus assets left for distribution among the shareholders after the satisfaction of its liabilities.

Petition by Registrar

The Registrar should be entitled to present a petition for winding up under section 271, except on the grounds specified in the section.

The Registrar should obtain the previous sanction of the Central Government to the presentation of a petition. The Central Government should not accord its sanction unless the company has been given a reasonable opportunity of making representations.

Petition by Company

A petition presented by the company for winding up before the Tribunal should be admitted only if accompanied by a statement of affairs in such form and in such manner as may be prescribed.

A copy of the petition made under this section should also be filed with the Registrar and the Registrar should, without prejudice to any other provisions, submit his views to the Tribunal within 60 days of receipt of such petition.

 **5. VOLUNTARY WINDING UP**

After knowing about the modes of compulsory winding up of a company let us now discuss the modes of voluntary winding up.

Provisions under Companies Act, 2013 relating to voluntary winding up stand omitted due to section 255 of Insolvency & Bankruptcy Code, 2016 and section 59

covered under Chapter V of Insolvency & Bankruptcy Code, 2016 which has been notified on 01.04.2017. Thus the provisions of the Companies Act are applicable until 31 March 2017; with effect from 1 April 2017 Insolvency and Bankruptcy Code, 2016 is applicable.

Provisions of the Insolvency and Bankruptcy Code, 2016

- (1) A corporate person who intends to liquidate itself voluntarily and has not committed any default may initiate voluntary liquidation proceedings under the provisions of the Chapter V- Voluntary liquidation of corporate persons of the Insolvency and Bankruptcy Code, 2016.
- (2) The voluntary liquidation of a corporate person shall meet such conditions and procedural requirements as may be specified by the Board.
- (3) Voluntary liquidation proceedings of a corporate person registered as a company shall meet the following conditions, namely:—
 - (a) a declaration from majority of the directors of the company verified by an affidavit stating that—
 - (i) they have made a full inquiry into the affairs of the company and they have formed an opinion that either the company has no debt or that it will be able to pay its debts in full from the proceeds of assets to be sold in the voluntary liquidation; and
 - (ii) the company is not being liquidated to defraud any person;
 - (b) the declaration under sub-clause (a) shall be accompanied with the following documents, namely:—
 - (i) audited financial statements and record of business operations of the company for the previous two years or for the period since its incorporation, whichever is later;
 - (ii) a report of the valuation of the assets of the company, if any prepared by a registered valuer;
 - (c) within four weeks of a declaration under sub-clause (a), there shall be—
 - (i) a special resolution of the members of the company in a general meeting requiring the company to be liquidated voluntarily and appointing an insolvency professional to act as the liquidator; or
 - (ii) a resolution of the members of the company in a general meeting requiring the company to be liquidated voluntarily as a result of

expiry of the period of its duration, if any, fixed by its articles or on the occurrence of any event in respect of which the articles provide that the company shall be dissolved, as the case may be and appointing an insolvency professional to act as the liquidator:

Provided that the company owes any debt to any person, creditors representing two-thirds in value of the debt of the company shall approve the resolution passed under sub-clause (c) within seven days of such resolution.

- (4) The company shall notify the Registrar of Companies and the Board about the resolution under sub-section (3) to liquidate the company within seven days of such resolution or the subsequent approval by the creditors, as the case may be.
- (5) Subject to approval of the creditors under sub-section (3), the voluntary liquidation proceedings in respect of a company shall be deemed to have commenced from the date of passing of the resolution under sub-clause (c) of sub-section (3).
- (6) The provisions of sections 35 to 53 of Chapter III(Liquidation process) and Chapter VII (Offences and penalties) shall apply to voluntary liquidation proceedings for corporate persons with such modifications as may be necessary.
- (7) Where the affairs of the corporate person have been completely wound up, and its assets completely liquidated, the liquidator shall make an application to the Adjudicating Authority for the dissolution of such corporate person.
- (8) The Adjudicating Authority shall on an application filed by the liquidator under sub-section (7), pass an order that the corporate debtor shall be dissolved from the date of that order and the corporate debtor shall be dissolved accordingly.
- (9) A copy of an order under sub-section (8) shall within fourteen days from the date of such order, be forwarded to the authority with which the corporate person is registered.

6. LIQUIDATOR'S STATEMENT OF ACCOUNT

In case of Compulsory wound-up, the Company Liquidator should keep proper books in such manner, as may be prescribed, in which he should cause entries or minutes to be made of proceedings at meetings and of such other matters as may be prescribed.

Any creditor or contributory may, subject to the control of the Tribunal, inspect any of such books, personally or through his agent.

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 case 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 of creditors.
- (d) Amounts received from calls to contributories made at the time of winding up are shown on the Receipts side.
- (e) Receipts per Trading Account are also included on the Receipts side.
- (f) Payments made to redeem securities and cost of execution and payments per Trading Account are deducted from total receipts.

Payments are made and shown in the following order :

- (a) Legal charges;
- (b) Liquidator's expenses;
- (c) Debenture holders (including interest up to the date of winding up if the company is insolvent and to the date of payment if it is solvent);
- (d) Creditors:
 - (i) Preferential (in actual practice, preferential creditors are paid before debenture holders having a floating charge);
 - (ii) Unsecured creditors;
- (e) Preferential shareholders (Arrears of dividends on cumulative preference shares should be paid up to the date of commencement of winding up); and
- (f) Equity shareholders.

Illustration 1

In which sequence the following payments will be made while preparing the liquidator's statement of account?

1. *Debenture holders*
2. *Unsecured creditors*
3. *Legal charges*
4. *Equity shareholders.*
5. *Preference shareholders.*

Solution

Payments will be made in the following order while preparing the liquidator's statement of account:

1. Legal charges
2. Debenture holders
3. Unsecured creditors
4. Preference shareholders
5. Equity shareholders



7. COMMENCEMENT OF WINDING UP BY TRIBUNAL

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

In any other case, the winding up of a company by the Tribunal should be deemed to commence at the time of the presentation of the petition for the winding up.

Exclusion of Certain Time in Computing Period of Limitation [Section 358]:

Notwithstanding anything in the Limitation Act, 1963, or in any other law for the time being in force, in computing the period of limitation specified for any suit or application in the name and on behalf of a company which is being wound up by the Tribunal, the period from the date of commencement of the winding up of the company to a period of one year immediately following the date of the winding up order should be excluded.

8. STATEMENT OF AFFAIRS

In case of winding up by Tribunal, Section 272(5) of the Companies Act, 2013 provides that a petition presented by the company for winding up before the Tribunal shall be admitted only if accompanied by a statement of affairs in such form and in such manner as may be prescribed.

In accordance with Section 274(1), where a petition for winding up is filed before the Tribunal by any person other than the company, the Tribunal shall, if satisfied that a prima facie case for winding up of the company is made out, by an order direct the company to file its objections along with a statement of its affairs within thirty days of the order in such form and in such manner as may be prescribed. The Tribunal may allow a further period of thirty days in a situation of contingency or special circumstances.

The broad lines on which the Statement of Affairs is prepared are the following —

- (1) Include assets on which there is no fixed charge at the value they are expected to realise. Students should note to include calls in arrear but not uncalled capital.
- (2) Include assets on which there is a fixed charge. The amount expected to be realised would be compared with the amount due to the creditor concerned. Any **surplus** is to be extended to the other column. A **deficit** (the amount owed to the creditor exceeding the amount realisable from the asset) is to be added to unsecured creditors.
- (3) The total of assets in point (1) and any surplus from assets mentioned in point (2) is available for all the creditors (except secured creditors already covered by specifically mortgaged assets).
- (4) From the total assets available, the following should be deducted one by one:-
 - (i) Preferential creditors,
 - (ii) Debentures having a floating charge, and
 - (iii) Unsecured creditors.

If a minus balance emerges, there would be deficiency as regards creditors, otherwise there would be a surplus.

- (5) The amount of total paid-up capital (giving details of each class of shares) should be added and the figure emerging will be deficiency (or surplus) as regards members.

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.

9. DEFICIENCY ACCOUNT

The official liquidator will specify a date for period (minimum three years) beginning with the date on which information is supplied for preparation of an account to explain the deficiency or surplus. On that date, either assets would exceed capital plus liabilities, that is, there would be a reserve or there would be a deficit or debit balance in the Profit and Loss Account. The Deficiency account is divided into two parts:

1. The first part starts with the deficit (on the given date) and contains every item that increases deficiency (or reduces surplus such as losses, dividends etc.).
2. The second part starts with the surplus on the given date and includes all profits.

If the total of the first exceeds that of the second, there would be a deficiency to the extent of the difference, and if the total of the second part exceeds that of the first, there would be a surplus.

10. OVERRIDING PREFERENTIAL PAYMENTS

In the winding up of a company, the following debts should be paid in priority to all other debts, as per section 326:

- a. workmen's dues; and

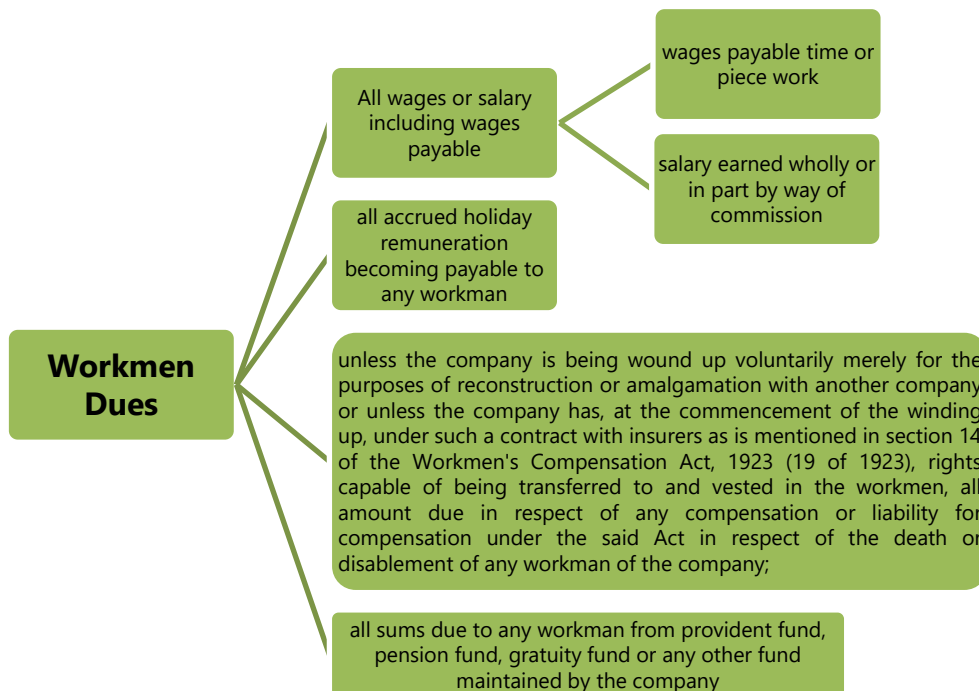
- b. where a secured creditor has realized a secured asset, so much of the debts due to such secured creditor as could not be realized by him or the amount of the workmen's portion in his security (if payable under the law), whichever is less, pari-passu with the workmen's dues:

Example

The value of the security of a secured creditor of a company is ₹ 1,00,000. The total amount of the workmen's dues is ₹ 1,00,000. The amount of the debts due from the company to its secured creditors is ₹ 3,00,000. The aggregate of the amount of workmen's dues and the amount of debts due to secured creditors is ₹ 4,00,000. The workmen's portion of the security is, therefore, one-fourth of the value of the security, that is ₹ 25,000.

Explanation: For the purposes of this section:

- (a) **Workmen**, in relation to a company, means the employees of the company, being workmen within the meaning of Section 2 (s) of the Industrial Disputes Act, 1947;
- (b) **Workmen dues**, in relation to a company, means the aggregate of the following sums due from the company to its workmen, namely:



The following payment should be made in priority to secured creditors.

All wages or salary including wages payable

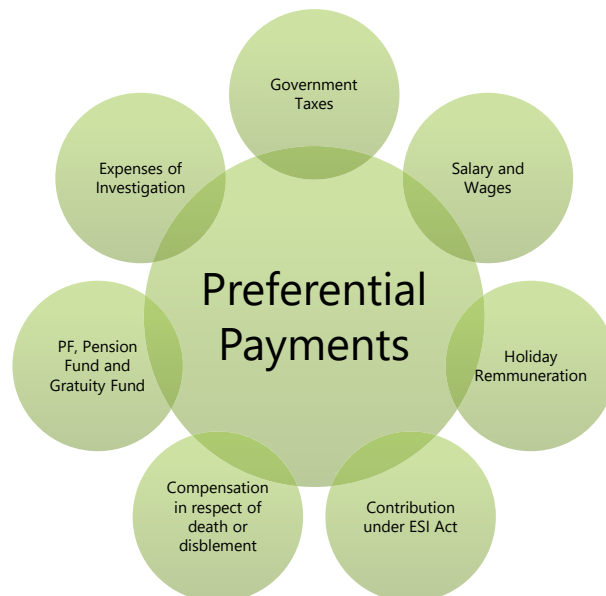
all accrued holiday remuneration becoming payable to any workman

If the above payments are payable for a period of 2 years preceding the winding up order then the same shall be paid in priority to all other debts (including debts due to secured creditors), within a period of 30 days of sale of assets and shall be subject to such charge over the security of secured creditors.

- (c) **Workmen portion**, in relation to the security of any secured creditor of a company, means the amount which bears to the value of the security the same proportion as the amount of the workmen's dues bears to the aggregate of the amount of workmen's dues and the amount of the debts due to the secured creditors.

11. PREFERENTIAL CREDITORS

- ✓ In a winding up there should be paid in priority to all other debts subject to the provisions of section 326.



- (a) **Government Taxes:** All revenues, taxes, cess and rates due from the company to the Central Government or a State Government or to a local

authority at the relevant date, and having become due and payable within the twelve months immediately before that date;

- (b) **Salary and Wages:** 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 12 months immediately before the relevant date, subject to the condition that the amount payable under this clause to any workman should not exceed such amount as may be notified;
- (c) **Holiday Remuneration:** All accrued holiday remuneration becoming payable to any employee, or in the case of his death, to any other person claiming under him, on the termination of his employment before, or by the winding up order, or, as the case may be, the dissolution of the company;
- (d) **Contribution under ESI Act:** Unless the company is being wound up voluntarily merely for the purposes of reconstruction or amalgamation with another company, all amount due in respect of contributions payable during the period of twelve months immediately before the relevant date by the company as the employer of persons under the Employees' State Insurance Act, 1948 or any other law for the time being in force;
- (e) **Compensation in respect of death or disablement:** Unless the company has, at the commencement of winding up, under such a contract with any insurer as is mentioned in section 14 of the Workmen's Compensation Act, 1923, rights capable of being transferred to and vested in the workmen, all amount due in respect of any compensation or liability for compensation under the said Act in respect of the death or disablement of any employee of the company:

Where any compensation under the said Act is a weekly payment, the amount payable under this clause should be taken to be the amount of the lump sum for which such weekly payment could, if redeemable, be redeemed, if the employer has made an application under that Act;

- (f) **PF, Pension Fund or Gratuity Fund:** All sums due to any employee from the provident fund, the pension fund, the gratuity fund or any other fund for the welfare of the employees, maintained by the company; and

(g) **Expenses of Investigation:** The expenses of any investigation held in pursuance of sections 213 and 216, in so far as they are payable by the company.

- ✓ Where any advance payment has been made to any employee of a company on account of wages or salary or accrued holiday remuneration himself by some person for that purpose. The person by whom the money was advanced should have a right of priority in respect of the money so advanced and paid-up to the amount. The sum in respect of which the employee or other person in his right would have been entitled to priority in the winding up has been reduced by reason of the payment having been made.
- ✓ The debts enumerated in this section should—
 - (a) **rank equally among themselves** and be paid in full, unless the assets are insufficient to meet them, in which case they should abate in equal proportions; and
 - (b) so far as the assets of the company available for payment to general creditors are insufficient to meet them, have priority over the claims of holders of debentures under any floating charge created by the company, and be paid accordingly out of any property comprised in or subject to that charge.
- ✓ The debts under this section should be discharged forthwith so far as the assets are sufficient to meet them, subject to the retention of such sums as may be necessary for the costs and expenses of the winding up.
- ✓ Formal proof should not require except the circumstances given in point number D.
- ✓ In the event of a landlord or other person distraining or having distrained on any goods or effects of the company within three months immediately before the date of a winding up order, the debts to which priority is given under this section should be a first charge on the goods or effects so distrained on or the proceeds of the sale thereof:

Provided that, in respect of any money paid under any such charge, the landlord or other person should have the same rights of priority as the person to whom the payment is made.
- ✓ Any remuneration in respect of a period of holiday or of absence from work on medical grounds through sickness or other good cause should be

deemed to be wages in respect of services rendered to the company during that period.

Explanations: For the purposes of this section,

- **Accrued Holiday Remuneration includes**, in relation to any person, all sums which, by virtue either of his contract of employment or of any enactment including any order made or direction given thereunder, are payable on account of the remuneration which would, in the ordinary course, have become payable to him in respect of a period of holiday, had his employment with the company continued until he became entitled to be allowed the holiday;
 - **Employee** does not include a workman; and
 - **Relevant Date** means in the case of a company being wound up by the Tribunal, the date of appointment or first appointment of a provisional liquidator, or if no such appointment was made, the date of the winding up order, unless, in either case, the company had commenced to be wound up voluntarily before that date under the Insolvency and Bankruptcy Code, 2016.
- ✓ Sections 326 and 327 should not be applicable in the event of liquidation under the Insolvency and Bankruptcy Code, 2016.

Effect of Floating Charge [Section 332]

Where a company is being wound up, a floating charge on the undertaking or property of the company created within the 12 months immediately preceding the commencement of the winding up, should be invalid unless it is proved that the company immediately after the creation of the charge was solvent except for the amount of any cash paid to the company at the time of and in consideration for or subsequent to the creation of the charge together with interest on that amount at the rate of 5 per cent per annum or such other rate as may be notified by the Central Government in this behalf.

Illustration 2

Amounts payable in winding-up of a company are as follows:

- Secured Creditors ₹ 1,25,000
- Workmen's Due ₹ 2,50,000

Show the payments made and treatment of balance in the following two instances :

- (i) If the security realized is ₹ 2,00,000
(ii) If the security realized is ₹ 1,00,000

Solution

(i) If the value of the security (realized) is ₹ 2,00,000:

Particulars	Secured creditors	Workmen compensation	Total
Amount payable	1,25,000	2,50,000	3,75,000
Less: security realized and paid in pro rata 1:2	66,667	1,33,333	2,00,000
Balance treated as overriding pref. creditors	58,333	1,16,667	1,75,000
Balance treated as unsecured creditors	-	-	-

(ii) If the value of the security (realized) is ₹ 1,00,000:

Particulars	Secured creditors	Workmen compensation	Total
Amount payable	1,25,000	2,50,000	3,75,000
Less: security realized and paid in pro rata 1:2	33,333	66,667	1,00,000
Balance treated as overriding pref. creditors	66,667	1,83,333	2,50,000
Balance treated as unsecured creditors	25,000	-	25,000

Note: Unsatisfied portion of secured creditors to the extent which could not be paid because of their security being used for workmen's dues, is to be treated as overriding preferential payment and the remaining portion is to be treated as unsecured.

Illustration 3

A company went into liquidation whose creditors are ₹ 36,000. This amount of ₹ 36,000 includes ₹ 6,000 on account of wages of 15 men at ₹ 100 per month for 4 months, immediately before the date of winding up, ₹ 9,000 being the salaries of 5

employees at ₹ 300 per month for the previous 6 months, Rent for godown for the last six months amounting to ₹ 3,000; Income-tax deducted out of salaries of employees ₹ 1,000. In addition it is estimated that the company would have to pay ₹ 3,000 as compensation to an employees for injuries suffered by him, which was contingent liability not accepted by the company and not included in above said creditors figure.

Find the amount of Preferential Creditors.

Solution

Calculation of Preferential Creditors

Tax deducted at source on salaries	1,000
Wages (15 men for 4 months at ₹ 100 each)	6,000
Salaries (5 men for 4 months at ₹ 300 each)	6,000
Workmen's compensation	3,000
Total	16,000

Note:

- (i) Wages or Salaries payable to any employee due for the period not exceeding 4 months within the twelve months next before commencement of winding up subject to maximum 20,000 per claimant are preferential creditors.
- (ii) Rent for godown is not included in preferential creditors.



12. B LIST CONTRIBUTORIES

- (a) **Persons:** Shareholders who had 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 to pay off such Creditors as existed on the date of transfer of shares. These Transferors are called as B List Contributories.
- (b) **Liability:** Their liability is restricted to the amount not called up when the shares were transferred. They cannot be called upon to pay more than the entire face value of the share. For example, if Shares having Face Value ₹ 100 were paid up ₹ 60, the B List Contributory can be called up to pay a maximum of ₹ 40 only.

- (c) **Conditions:** Liability of B List Contributories will crystallize only (a) when the existing assets available with the liquidator are not sufficient to cover the liabilities; (b) when the existing shareholders fail to pay the amount due on the shares to the Liquidator.

Illustration 4

In a liquidation which commenced on April 2, 20X2 certain creditors could not receive payments out of the realisation of assets and out of the contributions from "A" list contributories. The following are the details of certain transfers, which took place in 20X1 and 20X2.

Shareholders	Number of shares transferred at the date of ceasing to be member	Date of ceasing to be member	Creditors remaining unpaid and outstanding
X	1,500	1st March 20X1	4,000
A	1,000	1st May 20X1	6,000
B	1,500	1st July 20X1	7,500
C	300	1st Nov. 20X1	8,000
D	200	1st Feb. 20X2	9,500

All the shares were ₹ 10 each, ₹ 6 paid up ignoring expenses of and remuneration to liquidators, etc., show the amount to be realised from the various persons listed above.

Solution

X will not be liable since he transferred his shares prior to one year preceding the date of winding up. The amount of ₹ 6,000 outstanding on 1st May 20X1 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 ₹ 2,000: B ₹ 3,000, C ₹ 600 and D ₹ 400. Similarly, the further debts incurred between 1st May, 20X1 and 1st July 20X1, viz. ₹ 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 ₹ 1,125. C will have to contribute ₹ 225 and D will contribute ₹ 150. The further increase from ₹ 7,500 to ₹ 8,000, viz. ₹ 500 occurring between 1st July and 1st Nov. will be shared by C and D who will be liable for ₹ 300 and ₹ 200 respectively. The increase between 1st Nov. and 1st Feb., is solely the responsibility of D. Against D's liability of ₹ 2,250, he can be called upon to pay ₹ 800, the loss of ₹ 1,450 will have to be suffered by these creditors.

The following statement makes the position clear:

Statement of Liabilities of B list contributors

<i>Creditors Outstanding on the date of ceasing to be member</i>	<i>A</i> <i>1,000</i> <i>Shares</i> <i>₹</i>	<i>B</i> <i>1,500</i> <i>Shares</i> <i>₹</i>	<i>C</i> <i>300</i> <i>Shares</i> <i>₹</i>	<i>D</i> <i>200</i> <i>Shares</i> <i>₹</i>	<i>Amount to be paid to the Creditors</i> <i>₹</i>
(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
(4) 1,500	-	-	-	1,500	50
Total (a)	2,000	4,125	1,125	2,250	8,050
(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	

13. LIQUIDATOR'S FINAL STATEMENT OF ACCOUNT

In case of voluntary winding up, the statement prepared by the Liquidator showing receipts and payment of cash is called "Liquidator's Statement of Account". In case of compulsory winding up, the statement is known as "Official Liquidator's Final Account". While Preparing the Statement of Account, the following points should be noted :

- (i) Assets are included in the prescribed order of liquidity.
- (ii) In case of assets specifically charged in favour of creditors, only the surplus from it, if any, is recognised as "Surplus from Securities".
- (iii) Net result of trading entered on the receipts side, profits being added and losses being deducted.
- (iv) Payments made to redeem securities and cost of execution, *i.e.* cost of collecting debts, are deducted from the total receipts.

- (v) Payments are made as shown in the following order:
- (a) Legal Charges;
 - (b) Liquidator's Remuneration;
 - (c) Liquidation Expenses;
 - (d) Debenture holders (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;
 Preferential (in actual practice, preferential creditors are paid before debenture holders having a floating charge). Unsecured creditors, shareholders for dividends declared but not yet paid;
 - (f) Preference shareholders; and
 - (g) Equity shareholders.
- (vi) Arrears of dividends on cumulative preference shares should be paid up to the **date of winding up**.
- (vii) In case of partly paid shares, it should be seen whether any amount is to be **called up** on such shares.
 Firstly, the equity shareholders should be called up to pay the necessary amount (not exceeding the amount of **uncalled** capital) if creditors' claims of preference shareholders cannot be satisfied with the amount. Preference shareholders would be called upon to contribute (not exceeding the amount as yet uncalled on the shares) for paying off creditors.
- (viii) The loss suffered by each class of shareholders, *i.e.* the amount that cannot be repaid, should be **proportionate** to the nominal value of the share. The loss per shares have nominal value of ₹ 100, and one set of shareholders has paid ₹ 80 per share and other set has paid ₹ 60 per share. Suitable adjustment will have to be made in cash in such a case; the latter set must contribute ₹ 20 first or the first set must be paid ₹ 20 first.

Illustration 5

Sky Ltd. went into Liquidation on 1st April, 20X1. Following are the details regarding share capital of the company:-

- I. 20,000 Equity shares of ₹ 100 each, ₹ 75 paid up.
- II. 30,000 Equity shares of ₹ 100 each, ₹ 40 paid up.
- III. 80,000 Equity shares of ₹ 100 each, ₹ 65 paid up.

Surplus available with the Liquidator, after discharging all the liabilities is ₹ 20,00,000. Distribute this surplus money among different categories of shareholders.

Solution

Particulars	I	II	III	Total
No. of shares	20,000	30,000	80,000	1,30,000
Equity share capital (@ ₹ 100)	20,00,000	30,00,000	80,00,000	1,30,00,000
Paid up share Capital (A)	15,00,000	12,00,000	52,00,000	79,00,000
Loss due to Liquidation (B) (₹ 59,00,000 in 2:3:8)	(9,07,692)	(13,61,538)	(36,30,770)	(59,00,000)
Surplus amount distributed among different categories of shareholders (A) – (B)	5,92,308	(1,61,538)	15,69,230	20,00,000

Note: Shareholders of category I and III will get surplus amount, while category II shareholders will pay ₹ 1,61,538.

Illustration 6

Wind Ltd. went into liquidation on 31st March, 20X1. Following details regarding share capital of the company:-

- I. 15,000 Equity shares of ₹ 100 each, ₹ 90 paid up.
- II. 40,000 Equity shares of ₹ 50 each, ₹ 25 paid up.
- III. 2,00,000 Equity shares of ₹ 10 each, fully paid up.

Surplus available with the liquidator after payment of all the liabilities ₹ 12,00,000. Distribute this surplus money among different categories of shareholders.

Solution

Particulars	I	II	III	Total
No. of shares	15,000	40,000	2,00,000	2,55,000
Equity share capital (@ ₹ 100/50/10)	15,00,000	20,00,000	20,00,000	55,00,000
Paid up share capital (A)	13,50,000	10,00,000	20,00,000	43,50,000
Loss due to Liquidation (B) (₹ 31,50,000 in the ratio of 15:20:20)	(8,59,090)	(11,45,455)	(11,45,455)	(31,50,000)
Surplus amount distributed among different categories of shareholders (A) – (B)	4,90,910	(1,45,455)	8,54,545	12,00,000

Note:- Shareholders of category I and III will get surplus amount, while category II shareholders will pay ₹ 1,45,455.

Illustration 7

The position of Neha Ltd. on its liquidation is as under:

5,000, 10% Preference Shares of ₹ 100 each ₹ 60 paid up

2,000, Equity shares of ₹ 75 each, ₹ 50 paid up

Unsecured Creditors ₹ 99,000

Liquidation Expenses ₹ 1,000

Liquidator is entitled to a commission of 2% on the amount realized from calls made on contributories

You are required to prepare Liquidator's Final Statement of Account if the total assets realized ₹ 3,80,400.

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

Receipts	₹	Payments	₹
Assets realized	3,80,400	Liquidation Expenses	1,000
Call on contributories: 2,000	20,000	Liquidator's Remuneration	400
Equity Shares @ ₹ 10 per share (W.N.)	_____	Unsecured Creditors	99,000
		Preference Shareholders	<u>3,00,000</u>
	<u>4,00,400</u>		<u>4,00,400</u>

Working Notes:

(i) Calculation of Shortage of funds	₹
Total Amount Available	3,80,400
Less: liquidation Expenses	<u>(1,000)</u>
Balance	3,79,400
Less: Unsecured Creditors	<u>(99,000)</u>
Balance	2,80,400
Less: Pref. Shareholders	<u>(3,00,000)</u>
Shortage of Funds	<u>19,600</u>

- (ii) Calculation of funds required to meet shortage and commission payable on Calls to be made (to be called from equity shareholders)

$$\begin{aligned} \text{Shortage of funds} \times \frac{100}{100 - \text{Rate of Commission}} &= ₹ 19,600 \times \frac{100}{100 - 2} \\ &= \frac{₹ 19,600 \times 100}{98} = ₹ 20,000 \end{aligned}$$

- (iii) Uncalled Capital @ ₹ 25 on 2,000 shares = ₹ 50,000
 (iv) Amount of Calls to be made from equity shareholders (least of funds required and uncalled capital) i.e. ₹ 20,000 i.e. ₹ 10 per Share
 (v) Commission on Call = ₹ 20,000 × 2/100 = ₹ 400

Illustration 8

Omega Ltd. resolved on 31st March, 20X1 that the company be wound up voluntarily. The following was the trial balance extracted from its books as on that date:

	₹	₹
<i>Property, plant and equipment</i>	2,00,000	
<i>Inventory</i>	1,20,000	
<i>Book debts</i>	2,40,000	
<i>Cash in hand</i>	40,000	
<i>Profit and loss A/c (Dr. balance)</i>	3,00,000	
<i>1,000, 6% Pref. Shares of ₹ 100 each, fully paid</i>		1,00,000
<i>2,000 Equity shares of ₹ 100 each, fully paid</i>		2,00,000
<i>2,000 Equity shares of ₹ 100 each ₹ 75 paid up</i>		1,50,000

Loan from bank (on security of stock)		1,00,000
Trade Payables		<u>3,50,000</u>
	<u>9,00,000</u>	<u>9,00,000</u>

The assets realized the following amounts (after all costs of realization and liquidator's commission amounting to ₹ 5,000 paid out of cash in hand).

	₹
Property, plant and equipment	1,68,000
Inventory	1,10,000
Trade Receivables	2,30,000

Calls on partly paid shares were made but the amounts due on 200 shares were found to be irrecoverable.

You are required to prepare Liquidator's final statement of account.

Solution

Liquidator's Final Statement Account

	₹	₹		₹
To Cash in hand		40,000	By Liquidator's remuneration and expenses	5,000
To Assets realized:			By Trade Payables	3,50,000
Property, plant and equipment	1,68,000		By Preference shareholders	1,00,000
Inventory (1,10,000 – 1,00,000)	10,000		By Equity shareholders @ ₹ 10 on 2,000 shares	20,000
Book debts	<u>2,30,000</u>	4,08,000		
To Cash - proceeds of call on 1,800 equity shares @ ₹ 15*		27,000		
		<u>4,75,000</u>		<u>4,75,000</u>

Working Note:**Return per equity share**

	₹
Cash available before paying preference shareholders (₹ 4,48,000 – ₹ 3,55,000)	93,000
Add: Notional calls 1,800 shares (2,000-200) × ₹ 25	<u>45,000</u>
	1,38,000
Less: Preference share capital	<u>(1,00,000)</u>
Available for equity shareholders	<u>38,000</u>
Return per share = $\frac{\text{₹ } 38,000}{3,800 (4,000 - 200)} = \text{₹ } 10$	
and Loss per Equity Share ₹ (100-10) = ₹ 90	

*Calls to be made @ ₹ 15 per share (₹ 90-75) on 1,800 shares.

Illustration 9

M. Ltd. resolved on 31st December, 20X0 that the company be wound up voluntarily. The following were the ledger balances extracted from its books as on that date:

	₹
<i>Equity shares of ₹ 10 each</i>	<i>2,00,000</i>
<i>9% Preference shares of ₹ 10 each</i>	<i>1,00,000</i>
<i>Plant (less depreciation w/o ₹ 85,000)</i>	<i>2,15,000</i>
<i>Stock in trade</i>	<i>2,50,000</i>
<i>Trade receivables</i>	<i>55,000</i>
<i>Trade payables</i>	<i>75,000</i>
<i>Bank balance</i>	<i>74,000</i>
<i>Preliminary Expenses</i>	<i>6,000</i>
<i>Profit & Loss A/c (Dr. balance on 1st January, 20X0)</i>	<i>30,000</i>
<i>Outstanding Expenses (including mortgage interest)</i>	<i>25,000</i>
<i>4% Mortgage loan (secured by floating charge)</i>	<i>2,00,000</i>

On 1st January, 20X1 the liquidator sold M. Ltd.'s Plant for ₹ 2,05,000 and stock in trade for ₹ 2,00,000. The sale was completed in January, 20X1 and the consideration

satisfied as to ₹ 2,62,200 in cash and as to the balance in 6% Debentures of the purchasing company issued to the liquidator at a premium of 2%.

The remaining steps in the liquidation were as follows:

- (1) The liquidator realized ₹ 52,000 out of the book debts and the cost of collection amounted to ₹ 2,000.
- (2) The loan mortgage was discharged on 31st January, 20X1 along with interest from 31st July, 20X0. Trade payables were discharged subject to 2% and outstanding expenses excluding mortgage interest were settled for ₹ 2,000;
- (3) On 30th June 20X1 six month's interest on debentures was received from M. Ltd.
- (4) Liquidation expenses amounting to ₹ 3,000 and liquidator's remuneration of 3% on disbursements to members were paid on 30th June, 20X1 when:
 - (a) The preference shareholders were paid out in cash; and
 - (b) The debentures on M. Ltd. and the balance of cash were distributed rateably among the equity shareholders.

Prepare the Liquidator's Statement of Account showing the distribution.

Solution

Liquidator's Final Statement of Account

Receipts	₹	Payments	₹
Balance at Bank	74,000	Liquidator's Remuneration (2,50,700 X 3/103)	7,302
Sundry Assets Realized:			
Trade Receivables 52,000		Liquidation Expenses	3,000
Less: cost of Collection (2,000)	50,000	Mortgage Loan	2,00,000
		Interest on Loan	4,000
6% Debentures	1,42,800	Trade payables:	73,500
Cash	2,62,200	(75,000X98%)	
Interest on Debentures (6 months)	4,200	Outstanding Expenses	2,000
		Preference Shareholders:	
		Preference Capital	

		Equity Shareholders:	1,00,000
		6% Debentures	1,42,800
		Cash (Balancing Figure)	598
Total	5,33,200	Total	5,33,200

Working Notes:

	₹
1. Assets sold including stock in trade (2,05,000+2,00,000)	4,05,000
Consideration received:	
By way of Cash	2,62,200
By ₹ 1,40,000, 6% Debentures (at a premium of 2%)	1,42,800
2. Total Amount with the Liquidator	5,33,200
Less: Payments	
(3,000+2,00,000+4,000+73,500+2,000)	<u>2,82,500</u>
Amount available for disbursement to shareholders	<u>2,50,700</u>
3. Disbursement to Shareholders	
Preference Shareholders	1,00,000
Equity Shareholders:	1,43,398
(By way of 6% Debentures, ie, ₹ 1,42,800 & the remaining amt in cash ₹ 598)	

Illustration 10

Prakash Processors Ltd. went into voluntary liquidation on 31st December, 20X1. It gives you the following ledger balances as on this date:

	₹
<i>Issued and subscribed capital:</i>	
<i>5,000 10% cumulative preference shares of ₹ 100 each, fully paid</i>	5,00,000
<i>2,500 equity shares of ₹ 100 each, ₹ 75 paid</i>	1,87,500
<i>7,500 equity shares of ₹ 100 each, ₹ 60 paid</i>	4,50,000
<i>15% Debentures secured by a floating charge</i>	2,50,000
<i>Interest outstanding on Debentures</i>	37,500
<i>Creditors</i>	3,18,750

Land and Building	2,50,000
Machinery and Plant	6,25,000
Patents	1,00,000
Stock	1,37,500
Trade receivables	2,75,000
Cash at Bank	75,000
Profit and Loss A/c (Dr. balance)	2,81,250

Preference dividends were in arrears for 2 years and the creditors included Preferential creditors of ₹ 38,000.

The assets realised as follows :

Land and Building ₹ 3,00,000; Machinery and Plant ₹ 5,00,000; Patents ₹ 75,000; Stock ₹ 1,50,000; Trade receivables ₹ 2,00,000.

The expenses of liquidation amounted to ₹ 27,250. The liquidator is entitled to a commission of 3% on assets realised except cash. Assuming the final payments including those on debentures is made on 30th June, 20X2 show the liquidator's Statement of Account.

Solution

Prakash Processors Limited Liquidator's Statement of Account

Receipts		₹	Payments		₹
To	Assets realised -		By	Liquidation expenses	27,250
	Bank	75,000	By	Preferential creditors	38,000
			By	Liquidator's Remuneration (W.N.1)	36,750
	Other assets:		By	Debenture holders:	
	Land etc.	3,00,000		Debentures	2,50,000
	Machinery etc.	5,00,000		Interest payable	37,500
	Patents	75,000		Interest 1-1-X2/30-6-X2	<u>18,750</u>
	Stock	1,50,000			3,06,250
	Trade receivables	<u>2,00,000</u>			
		12,25,000			
To	Call on equity shareholders (7,500 × ₹ 2.65)	19,875	By	Unsecured creditors	2,80,750
			By	Preference shareholders:	

		Preference capital	5,00,000	
		Arrear of Dividend	<u>1,00,000</u>	6,00,000
				12,89,000
		By Equity shareholders - ₹ 12.35 on 2,500 shares		<u>30,875</u>
	<u>13,19,875</u>			13,19,875

Working Notes:

- (1) Liquidator's remuneration $12,25,000 \times 3/100 = ₹ 36,750$
- (2) As the company is solvent, interest on the debentures will have to be paid for the period 1-1-20X2 to 30-6-20X2
- $$2,50,000 \times \frac{15}{100} \times \frac{1}{2} = ₹ 18,750$$
- (3) Total equity capital - paid up ₹ 6,37,500
- Less : Balance available after payment to unsecured and preference shares (13,00,000 — 12,89,000) ₹ (11,000)
- Loss to be born by 10,000 equity shares ₹ 6,26,500
- Loss per share ₹ 62.65
- Hence, amount of call on ₹ 60 paid share ₹ 2.65
- Refund to share on ₹ 75 paid ₹ 12.35

Illustration 11

Confidence Builders Ltd. gives the following ledger balances as on 30th September, 20X3:

	₹
<i>Land and Building</i>	1,20,000
<i>Sundry Current Assets</i>	3,95,000
<i>Profit and Loss Account (Dr. balance)</i>	38,500
<i>Debenture Issue expenses not written off</i>	2,000
<u><i>Share Capital</i></u>	
<i>Issued: 11% Pref. Shares of ₹ 10 each</i>	1,00,000
<i>10,000 equity shares of ₹ 10 each, fully paid up</i>	1,00,000

5,000 equity shares of ₹ 10 each, ₹ 7.50 per share paid up	37,500
13% Debentures	1,50,000
Mortgage Loan	80,000
Bank Overdraft	30,000
Creditors for Trade	32,000
Income-tax arrears: (assessment concluded in July 20X3)	
Assessment year 20X1-20X2	21,000
Assessment year 20X2-20X3	5,000

Mortgage loan was secured against land and buildings. Debentures were secured by a floating charge on all the other assets. The company was unable to meet the payments and therefore the debenture holders appointed a Receiver for the Debenture holders, he brought the land and buildings to auction and realised ₹ 1,50,000. He also took charge of Sundry assets of value of ₹ 2,40,000 and realised ₹ 2,00,000. The Bank Overdraft was secured by a personal guarantee of two of the Directors of the Company and on the Bank raising a demand, the Directors paid off the due from their personal resources. Costs incurred by the Receiver were ₹ 2,000 and by the Liquidator ₹ 2,800. The Receiver was not entitled to any remuneration but the liquidator was to receive 3% fee on the value of assets realised by him. Preference shareholders had not been paid dividend for period after 30th September 20X1 and interest for the last half year was due to the debenture holders. Rest of the assets were realised at ₹ 1,00,000.

Prepare the accounts to be submitted by the Receiver and Liquidator.

Solution

Receiver's Receipts and Payments Account

Receipts		₹ Payments		₹
Sundry Assets realised		2,00,000	Costs of the Receiver	2,000
Surplus received from			Preferential payments:	
Mortgage:			Paid Taxes	
Sale Proceeds of land			raised within 12 months	26,000
and building	1,50,000		Debentures holders:-	
Less: Applied to				

Discharge of mortgage loan	(80,000)	70,000	Principal	1,50,000	
			Interest for half year	<u>9,750</u>	1,59,750
			Surplus transferred to the Liquidator		82,250
		<u>2,70,000</u>			<u>2,70,000</u>

Liquidator's Final Statement of Account

Receipts	₹	Payments		₹
Surplus received from Receiver	82,250	Cost of Liquidation		2,800
Assets Realised	1,00,000	Remuneration to Liquidator (1,00,000x 3%)		3,000
Calls on Contributories:		Unsecured Creditors:		
On holder of 5,000 at the rate of ₹ 2.17 per share	10,850	For Trade	32,000	
		Directors for payment of Bank O/D	<u>30,000</u>	62,000
		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
	<u>1,93,100</u>			<u>1,93,100</u>

Working Note :

Call from partly 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 (a) 4,950

No. of shares deemed fully paid		(b) 15,000
Refund on fully paid shares	$\frac{4,950}{15,000}$	= 33p
Calls on partly paid share (2.50 — 0.33)		= ₹ 2.17

Illustration 12

X Ltd. went into voluntary liquidation on 1st April, 20X1. The following balances are extracted from its books on that date:

	₹
Machinery	90,000
Leasehold properties	1,20,000
Stock	3,000
Debtors	1,50,000
Investments	18,000
Cash in hand	3,000
Profit and loss account (Dr. balance)	1,20,000
Share Capital: 24,000 Equity Shares of ₹ 10 each	2,40,000
Debentures (Secured by Floating charge)	1,50,000
Bank overdraft	54,000
Creditors	60,000

The following assets are valued as under:

	₹
Machinery	1,80,000
Leasehold properties	2,18,000
Investments	12,000
Stock	6,000
Debtors	1,40,000

The bank overdraft is secured by deposit of title deeds of leasehold properties. There were preferential creditors amounting ₹ 3,000 which were not included in creditors of ₹ 60,000.

Prepare a statement of affairs to be submitted to the meeting of members/creditors.

Solution

Statement of Affairs of X Co. Ltd. on the 1st day of April, 20X1

Assets not specifically pledged :					Estimated realisable values
Cash in Hand					3,000
Investments					12,000
Debtors					1,40,000
Stock					6,000
Machinery					<u>1,80,000</u>
					3,41,000
Assets specifically pledged :					
	(a)	(b)	(c)	(d)	
	Estimated Realisable Value	Due to Secured Creditors	Deficiency ranking as unsecured	Surplus carried to last column	
	₹	₹	₹	₹	
Lease hold property	2,18,000	54,000	—	1,64,000	
	Estimated surplus from assets specifically pledged				<u>1,64,000</u>
	Estimated total assets available for preferential creditors, debentures holders secured by floating charge, and unsecured creditors				5,05,000
	Summary of Gross assets				
	Gross realisable value of assets				
	specifically pledged				₹ 2,18,000
	Other assets				<u>₹ 3,41,000</u>
	Gross Assets				<u>₹ 5,59,000</u>
₹	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	<u>3,000</u>
	Estimated balance of assets available for debenture holders secured by a floating charge and unsecured creditors	5,02,000
1,50,000	Debentures	<u>1,50,000</u>
	Estimated surplus as regard debenture holders	3,52,000
<u>60,000</u>	Creditors	<u>60,000</u>
<u>2,67,000</u>		2,92,000
	Estimated surplus as regards creditors [being difference between gross assets (d) and gross liabilities (e)]	
	Issued and called up capital :	
	24,000 equity shares of ₹ 10 each	<u>2,40,000</u>
	Estimated surplus as regard members	<u>52,000</u>

Illustration 13

Insol Ltd. is to be liquidated. The following balances are extracted as at 1st April 20X1 from its books:

	₹
<i>2,50,000 equity shares of ₹ 10 each</i>	<i>25,00,000</i>
<i>Secured debentures (on land and buildings)</i>	<i>10,00,000</i>
<i>Unsecured loans</i>	<i>20,00,000</i>
<i>Trade creditors</i>	<i>35,00,000</i>
<i>Land and Building</i>	<i>5,00,000</i>
<i>Other Property, plant and Equipment</i>	<i>20,00,000</i>
<i>Current assets</i>	<i>45,00,000</i>
<i>Profit and Loss A/c (Dr. balance)</i>	<i>20,00,000</i>
<i>Contingent liabilities are :</i>	
<i>For bills discounted</i>	<i>1,00,000</i>
<i>For excise duty demands</i>	<i>1,50,000</i>

On investigation, it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realised as follows:—

	₹
<i>Land & Buildings</i>	11,00,000
<i>Other Property, plant and Equipment</i>	18,00,000
<i>Current assets</i>	35,00,000

Taking the above into account, prepare the statement of affairs.

Solution

Statement of Affairs of Insol Ltd. (in Liquidation) as on 1st April 20X1

					Estimated Realisable Value (₹)
Assets not specifically pledged (As per list A):					
Other Property, plant and Equipment					18,00,000
Current assets					35,00,000
					53,00,000
Assets specifically pledged (As per List B)					
	<i>Estimated realisable value</i>	<i>Due to secured creditors</i>	<i>Deficienc y</i>	<i>Surplus</i>	
	₹	₹	₹	₹	
Land & Buildings	11,00,000	10,00,000		1,00,000	
	Estimated total assets available to unsecured creditors				54,00,000
	<i>Summary of Gross Assets</i>				
	Gross realisable value of assets specifically pledged				11,00,000
	Other assets				<u>53,00,000</u>
	Gross Assets				<u>64,00,000</u>
Gross liabilities ₹	Liabilities				
	Secured Creditors (as per list B) to the extent to which claims are estimated to be covered by assets				

10,00,000	Specifically pledged	
1,50,000	Preferential creditors (as per list C)	1,50,000
		52,50,000
	Unsecured creditors (as per list E):	
20,00,000	Unsecured Loans	20,00,000
35,00,000	Trade creditors	35,00,000
<u>1,00,000</u>	Contingent Liability on Bills Discounted	1,00,000
<u>67,50,000</u>	Estimated deficiency as regards creditors (67,50,000—64,00,000)	3,50,000
	2,50,000 Equity Shares of ₹ 10 each: (as per list G)	25,00,000
	Estimated deficiency as regards members	28,50,000

Illustration 14

X Ltd. was ordered to be wound up on 31st March, 20X2 on which date the following balances were extracted from its books:

	₹
<i>Goodwill</i>	1,00,000
<i>Building</i>	3,50,000
<i>Plant</i>	5,50,000
<i>Fixtures</i>	23,000
<i>Stock</i>	38,000
<i>Debtors</i>	25,000
<i>Cash</i>	500
<i>Profit and loss account (Dr. balance)</i>	1,38,500
<i>Share Capital: 10,000 Equity Shares of ₹ 100 each</i>	10,00,000
<i>5% Debentures (Secured by Floating charge on all assets)</i>	1,60,000
<i>Interest payable on these debentures</i>	4,000
<i>Bank overdraft (secured by hypothecation of stock)</i>	25,000
<i>Creditors</i>	36,000

The amounts estimated to be realized are: Goodwill ₹ 1,000; Building ₹ 3,00,000; Plant ₹ 5,25,000; Fixtures ₹ 10,000; Stock ₹ 31,000; Debtors ₹ 20,000.

Creditors included ₹ 6,000 on account of wages of 15 men at ₹ 100 per month for 4 months immediately before the date of winding up : ₹ 9,000 being the salaries of 5 employees at ₹ 300 per month for the previous 6 months; Rent for godown for the

last six months amounting to ₹ 3,000; Income-tax deducted out of salaries of employees ₹ 1,000 and Directors Fees ₹ 500.

Three years ago, the debit balance in the Profit and Loss Account was ₹ 77,925 and since that date the accounts of the company have shown the following figures:

	Year 31-3-20X0 ₹	Year 31-3-20X1 ₹	Year 31-3-20X2 ₹
Gross Profit	65,000	45,000	40,000
Wages and Salaries	40,500	36,000	34,400
Electricity and Water Tax	5,750	6,380	5,260
Debentures interest	8,000	8,000	8,000
Bad Debts	8,540	7,600	6,700
Depreciation	6,700		
Directors' Fees	1,000	1,000	1,000
Miscellaneous Expenses	10,500	7,265	7,980
Total	80,990	66,245	63,340

In addition it is estimated that the company would have to pay ₹ 5,000 as compensation to an employee for injuries suffered by him which was contingent liability not accepted by the company.

Prepare the Statement of Affairs and the Deficiency account

Solution

Statement of Affairs (In liquidation) of X Ltd. on 31 March, 20X2

Estimated Realisable value:

	₹
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)	(b)	(c)	(d)	
	Estimated Realisable Value	Due to secured creditors	Deficiency ranking as unsecured	Surplus carried to the last column	
	₹	₹	₹	₹	
Stock	31,000	25,000	—	6,000	
	Estimated surplus from assets specifically pledged				<u>6,000</u>
	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 specifically pledged			31,000	
	Other Assets			<u>8,56,500</u>	
	Total			<u>8,87,500</u>	

Liabilities

Gross Liabilities

₹		₹	₹
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
			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)	Nil	
	Creditors on Trade Account	16,500	
23,000	Outstanding Expenses	6,500	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 :		
	1000 Equity Shares of ₹ 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 estimates are subject to cost of the winding up and to any surplus or deficiency on trading pending realisation of assets.

List H Deficiency Account

Items contributing to deficiency:

- | | | |
|-----|-----------------------------------------------------------------------------------------------------------------------|--------|
| (1) | Excess of capital and liabilities over assets three years ago as shown by the balance sheet | 77,925 |
| (2) | Net dividends or bonuses declared during the period | Nil |
| (3) | Net Trading Losses (after charging items shown in Note below) for the same period | 60,575 |
| (4) | Losses other than trading losses written off or for which provision has been made in the books during the same period | Nil |
| (5) | Estimated losses now written off for which provision has been made for the purpose of preparing the statement: | |
| | Bad Debts (Debtors) | 5,000 |
| | Loss on | |

Goodwill	99,000	
Buildings	50,000	
Plant	25,000	
Fixtures	13,000	
Stock	7,000	
Workmen's Compensation	<u>5,000</u>	<u>2,04,000</u>
(6) Other items contributing to deficiency:		3,42,500
Items reducing deficiency:		<u>Nil</u>
Deficiency as shown by the Statement of affairs		<u>3,42,500</u>
Notes as to net trading profits and losses :		
Provision for depreciation on Property, plant and Equipment	6,700	
Charged of Income-tax	Nil	
Interest on Debentures	24,000	
Payment to directors made by the company and required by law to be disclosed in the accounts	3,000	
Balance (being other trading losses)	<u>26,875</u>	
		<u>60,575</u>

Particulars of Creditors for expenses	Unsecured	Preferential
Directors Fees	500	
Income tax on salaries	—	1,000
Rent (not distrained by landlord)	3,000	—
Wages (15 men for 4 months at ₹ 100 each)	—	6,000
Salaries (5 men for 4 months at ₹ 300 each, ₹ 9,000)	3,000	6,000
Workmen's Compensation		5,000
	<u>6,500</u>	<u>18,000</u>

Creditors on trade account are ₹ 16,500 (*i.e.*, ₹ 36,000 less the total of creditors mentioned above, excluding ₹ 5,000 for workmen's compensation).

Working Note:

Balance in Profit & Loss A/c (Dr.)	1,38,500
(Given in Balance Sheet)	

Add: Estimated Losses on Realization of Assets:

Bad Debts (Debtors)	5,000	
Loss on		
Goodwill	99,000	
Buildings	50,000	
Plant	25,000	
Fixtures	13,000	
Stock	7,000	
Workmen's Compensation	5,000	<u>2,04,000</u>
Total Deficiency		<u>3,42,500</u>

Illustration 15

From the following particulars, prepare a Statement of Affairs and the Deficiency of the Equipment Ltd., which went into liquidation on December 31, 20X5::

	₹	₹
3,000 equity shares of 100 each, ₹ 80 paid-up		2,40,000
6% 1,000 preference shares of ₹ 100 each fully paid-up	1,00,000	
Less: Calls in arrear	<u>(5,000)</u>	95,000
5% Debentures having a floating charge on the assets (interest paid upto June 30, 20X5)		1,00,000
Mortgage on Land & Buildings		80,000
Trade Creditors		2,65,500
Owing for wages		20,000
Secretary's salary (@ ₹ 500 p.m.) owing		3,000
Managing Director's salary (@ ₹ 1,500 p.m.) owing		6,000

Assets	Estimated to produce	Book value
	₹	₹
Land & Building	1,30,000	1,20,000
Plant	1,30,000	2,00,000
Tools	4,000	20,000
Patents	30,000	50,000

Stock	74,000	87,000
Investments in the hands of a Bank for an overdraft of ₹ 1,90,000	1,70,000	1,80,000
Book Debts	60,000	90,000

On 31st December, 20X0, the balance sheet of the company showed a general reserve of ₹ 40,000 accompanied by a debit balance of ₹ 25,000 in the Profit & Loss Account.

In 20X1 the company made a profit of ₹ 40,000 and declared a dividend of 10% on equity shares. The company suffered a total loss of ₹ 1,09,000 besides loss of stock due to fire of ₹ 40,000 during 20X2, 20X3 and 20X4. For 20X5 accounts were not made.

The cost of winding up is expected to be ₹ 15,000.

Solution

In the matter of the Companies Act, & in the matter of Equipment Ltd. (in winding up)

Statement of Affairs on 31 December, 20X5, the date of winding up

Estimated realisable value

Assets					₹
Assets not specifically pledged (as per list A)					
					60,000
					74,000
					1,30,000
					4,000
					30,000
					5,000
					3,03,000
Assets specifically pledged (as per list B)					
	<i>Estimated Realisation</i>	<i>Due to Secured Creditors</i>	<i>Deficiency Ranking as Unsecured Creditors</i>	<i>Surplus carried to the last column</i>	
	₹	₹	₹	₹	
Investments	1,70,000	1,90,000	20,000		
Land & Building	1,30,000	80,000		50,000	

	3,00,000	2,70,000		
	Estimated surplus from assets specifically pledged			<u>50,000</u>
	Estimated total assets available for preferential creditors, debenture holders and unsecured creditors			<u>3,53,000</u>
	Summary of Gross Assets:			
	Gross realisable value of -			
	assets specifically charged		3,00,000	
	others assets		<u>3,03,000</u>	
			<u>6,03,000</u>	
	Estimated total assets available for preferential creditors, debenture holders, bank overdraft and unsecured creditors brought forward			3,53,000
Gross Liabilities	Liabilities			
₹			₹	₹
2,50,000	Secured creditors (as per List B) to the extent to which claims are estimated to be covered by assets specifically pledge			
22,000	Preferential creditors as per list C (20,000 +2,000)			<u>22,000</u>
	Estimated balance of assets available for Debenture holders, Bank & unsecured Creditors			3,31,000
1,02,500	Debenture holders secured by a floating charge as per list D			(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	
2,92,500	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 ₹ 100 each, ₹ 80 paid	2,40,000	
	6% 1,000 preference shares of ₹ 100 each fully called	1,00,000	<u>3,40,000</u>
	Estimated Deficiency as regards members as per list H		<u>4,04,000</u>

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

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

List H - Deficiency Account

A. Item contributing to Deficiency:	₹
1. Excess of capital & liabilities over assets on 1-1-20X3	Nil
2. Net dividend & bonuses during the period Jan. - Dec. 20X1	29,700
3. Net trading losses after charging depreciation, taxation, interest on debentures, etc. during the same period (₹ 1,09,000 + ₹ 1,31,300)	2,40,300
4. Losses other than trading losses written off or for which provision has been made in the books during the same period - stock loss.	40,000
5. Estimated losses now written off 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	<u>30,000</u>	1,59,000
6. Other reducing items contributing to deficiency		<u>NIL</u>
		<u>4,69,000</u>

B. Items reducing Deficiency

7. Excess of assets over capital and liabilities on 1st Jan. 20X1	15,000
8. Net trading profit during the period 1st Jan. 20X1 to 31st Dec. 20X1	40,000
9. Profit & Incomes other than trading profit during the same period	
10. Other items Deficiency - Profit expected on Land & Building	<u>10,000</u>
	65,000
Deficiency as shown by the statement of Affairs	<u>4,69,000</u>
(A) - (B)	<u>4,04,000</u>

Working Notes :**(1) Trial Balance to ascertain the amount of loss for 20X5**

	<i>Dr.</i> ₹	<i>Cr.</i> ₹
Land & Building	1,20,000	
Plant	2,00,000	
Tools	20,000	
Patents	50,000	
Stock	87,000	
Investments	1,80,000	

Debtors	90,000	
Equity Capital		2,40,000
6% Preference share capital		95,000
5% Debentures		1,00,000
Interest Outstanding		2,500
Mortgage on Land & Building		80,000
Trade Creditors		2,65,500
Owing for Wages		20,000
Secretary's Salary		3,000
Managing Director's Salary		6,000
Bank Overdraft		1,90,000
Profit & Loss Account on 1-1-20X5	1,23,700	
	8,70,700	10,02,000
Loss for the year (balancing figure)	1,31,300	-
	10,02,000	10,02,000

Reserve & Surplus Account

		₹			₹
20X0 Dec. 31	To Profit & Loss A/c (Transfer)	25,000	20X0 Dec. 31	By Balance b/d	40,000
20X1	To Dividend - Equity	24,000	20X1 Dec. 31	By Profit for the year	40,000
	- Preference	5,700			
20X2 to 20X4	To Profit & Loss A/c (Loss)	1,09,000	20X4 Dec. 31	By Balance c/d	1,23,700
	To Loss of Stock	40,000			
		2,03,700			2,03,700

SUMMARY

- In case of winding up of the company, a statement called Statement of affairs is prepared.
- Deficiency Account is the result of capital plus liabilities exceeding the assets or deficit or debit balance in the profit and loss account.
- Overriding preferential payments are the payments to be made for the workman's dues and debts secured to secured creditors to the extent they rank under section 529(1)(c).
- Preferential creditors have to be paid in priority to unsecured creditors or creditor having a floating charge.
- In case of voluntary winding up, the statement prepared by the Liquidator showing receipts and payment of cash is called "Liquidator's Statement of Account".
- The shareholders who transferred partly paid shares 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.

TEST YOUR KNOWLEDGE

MCQs

1. Liability of B List Contributories will crystallize only When
 - (a) Existing assets available with the liquidator are not sufficient to cover the liabilities.
 - (b) Existing shareholders fail to pay the amount due on the shares to the Liquidator.
 - (c) both (a) and (b).
2. If Shares having Face Value ₹ 100 were paid up ₹ 70, the B List Contributory can be called up to pay
 - (a) Maximum of ₹ 30 only.

- (b) Maximum of ₹ 70 only.
 - (c) Maximum of 100 only.
3. In case of winding up of company by Tribunal, which statement is prepared to be presented to the Tribunal?
- (a) Statement of affairs.
 - (b) Statement of assets and liabilities.
 - (c) Statement of deficiency.
4. Which of the following will be treated as preferential creditors?
- (a) Govt. taxes.
 - (b) Trade Creditors.
 - (c) Unsecured loans.

Theoretical Questions

Question 1

Explain Overriding preferential payments as per Companies Act, 2013.

Question 2

Explain B List Contributories and the liability of contributories included in the list.

Question 3

Write the LISTS which should accompany the Statement of Affairs, in case of a winding up by Court.

Practical Questions

Question 1

XYZ Limited is being wound up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes ₹ 5 crores. The company owes following amounts to others:

- ✓ Dues to workers – ₹ 1,25,00,000
- ✓ Taxes Payable to Government – ₹ 30,00,000
- ✓ Unsecured Creditors – ₹ 60,00,000

You are required to compute with the reference to the provision of the Companies Act, 2013 the amount each kind of creditors is likely to get if the amount realized by the

official liquidator from the secured assets and available for distribution among creditors is only ₹ 4,00,00,000.

Question 2

Rain Ltd. went into liquidation on 31st March, 20X1. Following are the details regarding share capital of the company:-

- I. 30,000 Equity shares of ₹ 100 each, ₹ 80 paid up.
- II. 80,000 Equity shares of ₹ 50 each, ₹ 25 paid up.
- III. 4,00,000 Equity shares of ₹ 10 each, fully paid up.

Surplus available with the liquidator after payment of all the liabilities ₹ 24,00,000. Distribute this surplus money among different categories of shareholders.

Question 3

A liquidator is entitled to receive remuneration at 2% on the assets realized, 3% on the amount distributed to Preferential creditors and 3% on the payment made to unsecured creditors. The assets were realized for ₹ 50,00,000 against which payment was made as follows:

Liquidation	₹ 50,000
Secured Creditors	₹ 20,00,000
Preferential Creditors	₹ 1,50,000

The amount due to Unsecured creditors was ₹ 30,00,000

You are asked to calculate the total Remuneration payable to Liquidator. Calculation shall be made to the nearest multiple of a rupee.

Question 4

Full Stop Limited gives you the following ledger balances as on 31st March 20X1, being the date of voluntary winding up:

	(₹)
Land & building	5,20,000
Plant & machinery	7,80,000
Inventory in trade	3,25,000
Book debts	10,25,000
Profit & loss account (Dr. balance)	5,50,000

Share capital:	
5,000, 10% Cumulative Preference shares of ₹ 100 each, fully paid up	5,00,000
5,000 Equity shares of ₹ 100 each, ₹ 60 per share called and paid up	3,00,000
5,000 Equity shares of ₹ 100 each, ₹ 50 per share called and paid up	2,50,000
Securities premium	7,50,000
10% Debentures	2,10,000
Preferential creditors	1,05,000
Bank overdraft	4,85,000
Trade creditors	6,00,000

Preference dividend is in arrears for three years. By 31-03-20X1, the assets realized were as follows:

	₹
Land & building	6,20,000
Inventory in trade	3,10,000
Plant & machinery	7,10,000
Book debts	6,60,000

Expenses of liquidation are ₹ 86,000. The remuneration of the liquidator is 2% of the realization of assets. Income tax payable on liquidation is ₹ 67,000. Assuming that the final payments were made on 31-03-20X1, prepare the Liquidator's Statement of Account.

Question 5

'A' Ltd is to be liquidated. It gives the following ledger balances as at 30th September, 20X1:

	₹
Share capital: 5,00,000 equity shares of ₹100 each	50,00,000
Secured debentures (on Land and Buildings)	20,00,000
Unsecured loans	40,00,000
Trade creditors	70,00,000
Land and buildings	10,00,000
Other Property, plant and Equipment (PPE)	40,00,000
Current assets	90,00,000

Profit and loss account (Dr. balance)	40,00,000
Contingent liabilities are:	
For bills discounted	2,00,000
For excise duty demands	3,00,000

On investigation, it is found that the contingent liabilities are certain to devolve and that the assets are likely to be realised as follows:

	₹
Land and Building	22,00,000
Other PPE	36,00,000
Current assets	70,00,000

Taking the above into account, prepare the statement of affairs.

Question 6

In the winding up of a company, certain Creditors could not receive payments out of the realization of assets and out of contribution from "A" list contributories. Liquidation started on 1st April, 2020. The following persons have transferred their holdings before winding up :

Name	Date of Transfer	No. of shares transferred	Amount due to creditors on the date of transfer (₹)
O	4th April, 2019	1,000	42,000
P	2nd Feb, 2019	300	25,000
Q	8th Sep, 2019	200	57,000
R	11th Nov, 2019	1,400	85,000
S	2nd Feb, 2020	800	66,000
T	1st March, 2020	1,400	95,000

The shares were of ₹ 100 each, ₹ 70 being called up and paid up on the date of transfers.

'X' was the transferee of shares held by S. 'X' paid ₹ 30 per share as calls in advance immediately on becoming a member.

Ignoring Expenses of Liquidation, Remuneration of Liquidator, etc. work out the amount to be realized from the above contributories.

ANSWER /HINTS

MCQs

1. (c); 2. (a); 3. (a); 4. (a)

Answer 1

Refer para 10

Answer 2

Refer Para 12

Answer 3

Refer Para 8

Practical Questions

Answer 1

Section 326 of the Companies Act, 2013 talks about the overriding preferential payments to be made from the amount realized from the assets to be distributed to various kind of creditors. According to the proviso given in the section 326 the security of every secured creditor should be deemed to be subject to a paripassu change in favor of the workman to the extent of their portion.

$$\text{Workman's Share to Secured Asset} = \frac{\text{Amount Realized} \times \text{Workman's Dues}}{\text{Workman's Dues} + \text{Secured Loan}}$$

$$\begin{aligned} \text{Workman's Share to Secured Asset} \\ = \frac{4,00,00,000 \times 1,25,00,000}{1,25,00,000 + 5,00,00,000} \\ 4,00,00,000 \times \frac{1}{5} \end{aligned}$$

$$\text{Workman's Share to Secured Assets} = 80,00,000$$

Amount available to secured creditor is ₹ 400 Lakhs – 80 Lakhs = 320 Lakhs

Hence, no amount is available for payment of government dues and unsecured creditors.

Answer 2

Particulars	I	II	III	Total
No. of shares	30,000	80,000	4,00,000	5,10,000
Equity share capital (@ ₹ 100/50/10)	30,00,000	40,00,000	40,00,000	1,10,00,000
Paid up share capital (A)	24,00,000	20,00,000	40,00,000	84,00,000
Loss due to Liquidation (B) (₹ 60,00,000 in the ratio of 3:4:4)	(16,36,364)	(21,81,818)	(21,81,818)	(60,00,000)
Surplus amount distributed among different categories of shareholders (A) – (B)	7,63,636	(1,81,818)	18,18,182	24,00,000

Note: Shareholders of category I and III will get surplus amount, while category II shareholders will pay ₹ 1,81,818.

Answer 3**Calculation of Total Remuneration payable to Liquidator**

	Amount in ₹
2% on Assets realized (50,00,000 x 2%)	1,00,000
3% on payment made to Preferential creditors (1,50,000 x 3%)	4,500
3% on payment made to Unsecured creditors (Refer W.N)	<u>78,510</u>
Total Remuneration payable to Liquidator	<u>1,83,010</u>

Working Note:

Liquidator's remuneration on payment to unsecured creditors =

Cash available for unsecured creditors after all payments including liquidation expenses, payment to secured creditors, preferential creditors & liquidator's remuneration

$$= ₹ 50,00,000 - ₹ 50,000 - ₹ 20,00,000 - ₹ 1,50,000 - ₹ 1,00,000 - ₹ 4,500$$

$$= ₹ 26,95,500$$

Since cash balance is available for unsecured creditors, Liquidator's remuneration on payment to unsecured creditors = ₹ 26,95,500 X 3 /103 = ₹ 78,510 (rounded off)

Answer 4

Liquidator's Statement of Account

Receipts	₹	Payments	₹
Land & building	6,20,000	Liquidator's remuneration	46,000
Inventory in trade	3,10,000	Liquidation expenses	86,000
Plant & machinery	7,10,000	Preferential creditors	1,05,000
Book debts	6,60,000	10% Debentures	2,10,000
		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	1,50,000
		Refund on 5,000 shares of ₹ 60 paid up @ ₹ 10.10 per share (Refer W.N.)	50,500
		Refund on 5,000 shares of ₹ 50 paid up @ ₹ 0.10 per share (Refer W.N.)	500
	23,00,000		23,00,000

Working Note:

	₹
Total equity capital paid up (3,00,000 + 2,50,000)	5,50,000
Less: Balance available after payment to secured, unsecured, preferential creditors and preference shareholders (23,00,000 – 46,000 – 86,000 – 2,10,000 – 1,05,000 – 67,000 – 4,85,000 – 6,00,000 – 5,00,000 – 1,50,000)	(51,000)
Loss to be borne by 10,000 equity shareholders	<u>4,99,000</u>
Loss per share	₹ 49.90
Hence, amount of refund on ₹ 50 per share paid up (₹ 50 – ₹ 49.90)	₹ 0.10
Amount of refund on ₹ 60 per share paid up (₹ 60 – ₹ 49.90)	₹ 10.10

Answer 5

Statement of Affairs of 'A' Ltd. (in Liquidation)

					Estimated Realisable Value (₹)
Assets not specifically pledged (as per List A):					
Other Property, plant and Equipment					36,00,000
Current Assets					70,00,000
					1,06,00,000
Assets specifically pledged (as per List B):					
	Estimated Realizable value	Due to secured creditors	Deficiency ranking as unsecured	Surplus carried to the last column	
	₹	₹	₹	₹	
Land and Building	22,00,000	20,00,000	–	2,00,000	2,00,000
Estimated total assets available for preferential creditors, debenture holders secured by a floating charge and unsecured creditors					1,08,00,000
<u>Summary of Gross Assets:</u>					
Gross realizable value of assets specifically pledged				22,00,000	
Other Assets				1,06,00,000	
Total Assets				1,28,00,000	

Gross Liabilities	Liabilities	
20,00,000	Secured creditors (as per List B) to the extent to which claims are estimated to be covered by assets specifically pledged	–
3,00,000	Preferential creditors (as per List C) – for demand of excise duty	<u>3,00,000</u>
	Balance of assets available for debentureholders secured by floating charge and unsecured creditors	1,05,00,000
–	– Debentureholders secured by floating charge (as per List D)	–
	Unsecured creditors (as per List E):	

40,00,000	Unsecured Loans	40,00,000
70,00,000	Trade creditors	70,00,000
2,00,000	Liability for bills discounted (Contingent)	2,00,000
1,35,00,000	Estimated deficiency as regards creditors (difference between gross assets and gross liabilities)	7,00,000
	Issued and called up capital:	
	5,00,000 Equity shares of ₹ 10 each (as per List G)	50,00,000
	Estimated deficiency as regards members/contributories	57,00,000

Answer 6**Statement of Liability as Contributories of Former Members**

	Creditors outstanding	Amount to be paid to creditors (Increase in creditors)	O 1,000 Shares	Q 200 Shares	R 1,400 Shares	T 1,400 Shares	Amount to be paid to the creditors
Date	₹	₹	₹	₹	₹	₹	₹
April 4	42,000	42,000	10,500	2,100	14,700	14,700	42,000
Sep 8	57,000	15,000	-	1,000	7,000	7,000	15,000
Nov 11	85,000	28,000	-	-	14,000	14,000	28,000
March 1	95,000	10,000	-	-	-	10,000	6,300*
Total (A)			10,500	3,100	35,700	45,700	
Maximum liability at ₹30 per shares on shares held (B)			30,000	6,000	42,000	42,000	
Amount paid [Lower of (A) and (B)]			10,500	3,100	35,700	42,000	91,300

*₹ (10,000 – 3,700 = 6,300)

T can be called upon to pay maximum only ₹ 42,000. So T will pay only ₹ 6,300 (42,000 – 14,700 – 7,000 – 14,000) out of ₹ 10,000 above. Hence incremental creditors on 1.03.2020 amounting to ₹ 3,700 (10,000 – 6,300) will not be receiving any payment.

Note:

1. P will not be liable to pay any amount as the winding up proceedings commenced after one year from the date of the transfer.
2. S also will not be liable, as the transferee X has paid the balance ₹ 30 per share as call in advance.