

Liquidation of Companies

Liquidation
 ↓
 process of winding up

is an event of closure of companies

winding up

voluntary
 ↓
 winding up (solvent co.)

compulsory (insolvent co.)
 ↓
 winding up

↓
 Shareholders

↓
 creditors

↓
 By operation of law

↓
 By court decision

problem areas

↓
 Liquidator Statement of affairs

↓
 Liability of B-list contributors

↓
 Liquidator final settlement

↓
 Prepared by Board of directors

↓
 Present members (A-list) Past members (B-list)

↓
 Statement of realization of Assets & Liab.

↓
 It will act as a check list for (creditors)

↓
 liquidator

↓
 Nature of receipts & payments etc

For the purpose of liquidation

Assets are classified into lists

Assets

↓
Assets NOT specially pledged
↓
List "A"

↓
Assets specially pledged
↓
List "B"

creditors

↓
Secured creditors

↓
unsecured creditors

↓
fixed charge
↓
List "B"

↓
floating charge
↓
List "D"

↓
preferential
↓
List "C" paid before certain people

↓
Non Preferential
↓
List "E"

Shareholders

↓
preference sh. holders
↓
List "F"

↓
Equity Share holders
↓
List "G"

Surplus/Deficiency Statement

↓
List "H"

(*) Order of priority of distribution of Assets realization

- (1) Legal charges
- (2) Liquidators remuneration
- (3) Liquidation expenses
- (4) Secured creditors having fixed charge
- (5) preferential unsecured creditors
- (6) Secured creditors having floating charge
- (7) Non preferential unsecured creditors
- (8) Pref. Sh. holders
- (9) Equity Share holders

Important points :-

Other issues in order of payment

- ① under realization of secured Asset when compared to outstanding loan amount.

The amount realized from sale of Asset should be paid in the capacity of secured creditors having floating charge (i) fixed charge. The remaining balance should be paid along with unsecured non preferential creditors

- ② Interest on debentures

It involves two issues

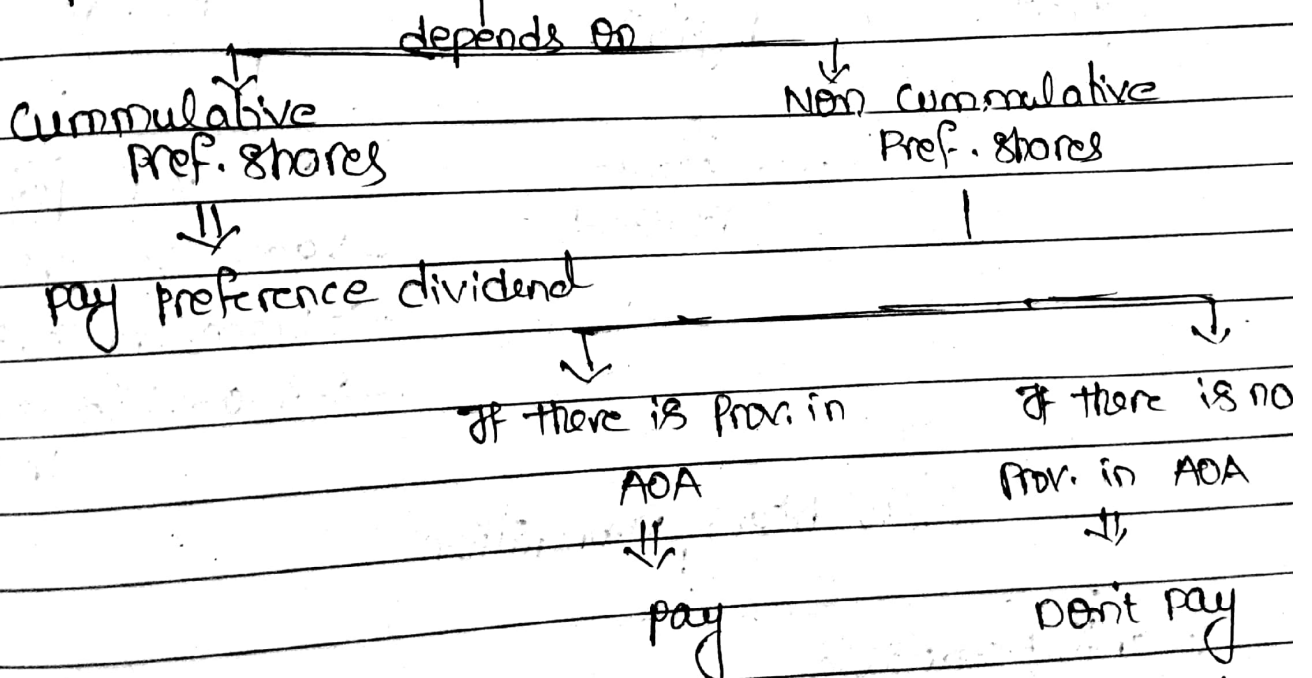
- (i) Interest upto the date of liquidation
- (ii) Interest from date of liquidation to date of settlement

(i) Interest upto the date of liquidation charge, then if outstanding loan amount is a fixed charge, then interest is to be treated as fixed charge. if outstanding loan amount is floating charge, then interest is to be treated as floating charge. and it should be compulsory paid whether the company is solvent or insolvent.

(ii) Int. from date of liquidation to date of settlement

It is to be paid only when the company is solvent co. and it is to be paid along with unsecured non preferential creditors.

② preference dividend



In exam whether cummulative or non cummulative pay pref. dividend before paying pref. sb. capital.

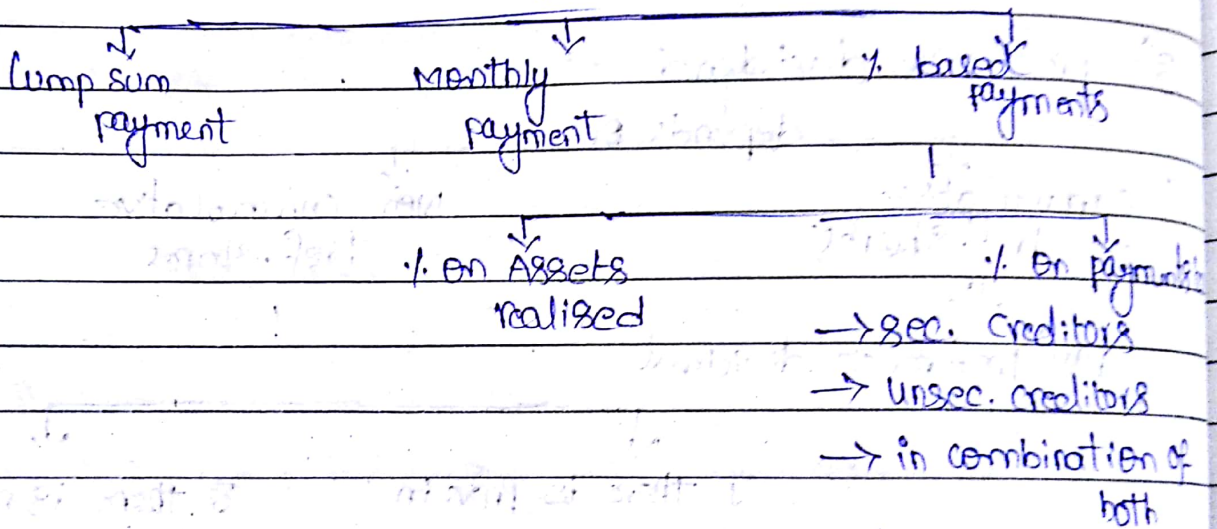
(4) proposed dividend

If prop. dividend is exists in the b/s at the time of liquidation it must be paid and to be paid after pref. sh. capital but before calls in advance and ord. sh. cap.

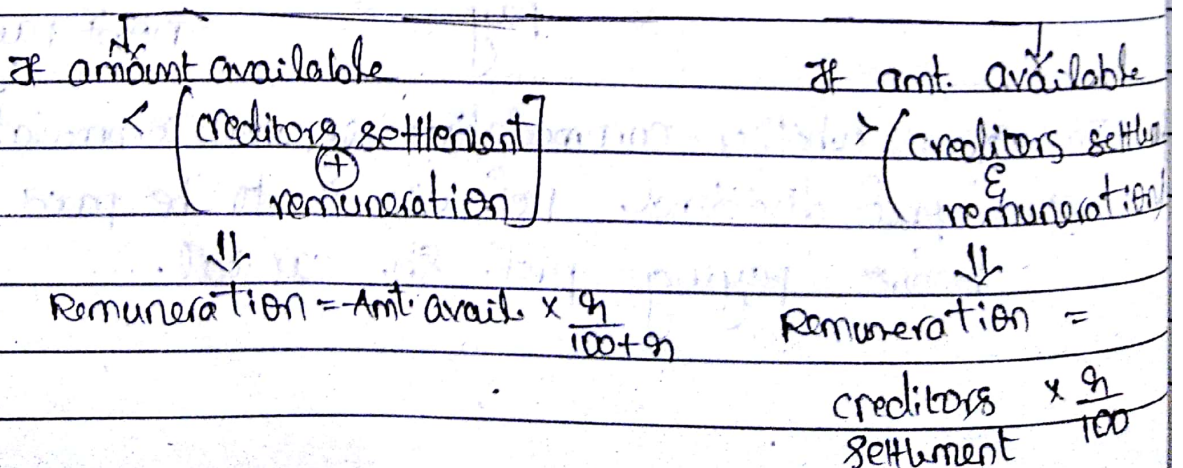
(5) calls in advance

Actually calls in advance is a current liab. but for the purpose of liquidation it must be paid after prop. div. before ord. sh. cap.

Concept of Liquidators Remuneration:



Liquidators remuneration



Liability of 'B' list contributories

Shareholders those who are transferred their shares within 12 months immediately preceding the date of winding up

maximum liability

unpaid value of the shares

* Responsible only for creditors outstanding to be specific creditors outstanding on the date of transfer.

* If they are two or more list-'B' contributories, contributed in the proportion of maximum liab.

Statement of affairs of Company as at

List A → Assets Not Specifically pledged

Assets	Realised value	
Stock	xx	
Debtors	xx	
Furniture	xx	
Cash	xx	
Calls in arrears	xx	I

List B → Assets Specifically pledged

S.No	Assets	Rv	Liab. O/s	Efficiency	Surplus	
1.	L & Bldg.	300,000	240,000	-	60,000	
2.	PE mach.	250,000	210,000	40,000	-	60,000

Amount available for various members for distribution.

J

Summary of Gross Assets realized

Assets not specifically pledged as per list A	I
Assets specifically pledged as per list B	550,000
	<u>K</u>

Distribution

Gross Liability	Particulars	₹
	Balance b/f	J
490,000 (240,000 + 250,000)	(-) Secured creditors having fc as per list B	J
	(-) Unsecured creditors - Preferential as per list C	L
		M
	(-) Secured creditors having floating charge as per list D	N
		O
	(-) Unsecured creditors - Non Preferential as per list E	Q
	(Q = (P + 40,000) → unsec. position. Normal unsec. crs	
	Surplus/deficiency as to creditors	R

Summary

Gross Assets realised	K
(-) Gross Liab. Paid	S
	R

Distribution to members

(-) Surplus as to creditors	R
(-) Pref. share holders as per list F	T
	U
(-) Eqv. share holders as per list G	V
	W
Surplus/deficiency as to members	

explain how surplus/deficiency arises.

List of Surplus/deficiency account

I. Items contributing to deficiency/decrease surplus

P&L a/c bal. balance	xx
Realisation loss	xx

x

II. Items contributing to surplus/decreasing deficiency

General reserve	xx
P&L a/c	xx
Realisation profit	xx

y

w

preferential unsecured creditors

S 589 A

S 530

overriding preferential payments

Preferential creditors

paid to workers

1. workmen dues

→ Salaries / wages to ee's

→ wages/salary to workmen

→ Any tax, duty, cess

→ Accrued leave compensation

→ Investigation Exp.

→ Any compensation to workmen

→ Any amount due to PF/Gratuity

EE's does not include officers

1. Director

2. M.D

3. Manager

* Ceiling limit

4 months salary

⊙

₹ 20,000 per ee