

RSML

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Faculty of Commerce

B. Com. II Sem IV - Corporate Accounting II

"Sometimes the best gain in business is to close it!"

Dr. P. S. Temukhe (Kawale)

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LIQUIDATION

Bhole Ram is very bold, especially when his views are vague!

Two companies X Ltd. and Y Ltd. went into liquidation on the same date and cleared their loans with interest on the same date. Both have done the same thing.

"X is right but Y is wrong," declared Bhole Ram with his usual boldness.

How? Why?

Nature

*The end.
Liquidation means the process of winding up of a company.
The end of a company's life.*

This is known as the dissolution of the company.

But before its dissolution, the company has to wind off its affairs. Assets have to be sold. Loans have to be paid off. Surplus has to be distributed among the shareholders. This is a lengthy process and goes on for years. During this period the company is said to be *in liquidation*. After the satisfactory completion of liquidation process, final declaration is made that the company is dissolved. Thus liquidation is the 'process of ending' while dissolution is 'the end' itself.

Let us be more clear. A dissolved company no longer exists. But a company in liquidation, though in the hands of liquidator, retains its complete existence. If the liquidation is annulled, the company will resume its power. Thus a company in liquidation may survive. But there is no question of survival of a dissolved company. It is not in existence.

To put it differently, a company in liquidation is like a patient on oxygen—the patient may survive. But a dissolved company is like a dead patient.

The Companies Act provides for three modes of winding up. They are: (i) Compulsory winding up, (ii) Voluntary winding up, and (iii) Winding up subject to the supervision of the Court. The procedure and the grounds for winding up are different in each case.

The Liquidator

The person appointed to wind up the affairs of a company is known as the *liquidator*. He realises assets, makes calls, pays debts, returns capital and distributes the surplus. For this purpose, the company's affairs are taken out of the hands of the directors and put in the hands of a liquidator. The idea is: an independent outsider can take balanced decisions.

Liquidator's Final Statement of Account

The liquidator has to maintain a cash account for recording receipts and payments. The cash account is called the Liquidator's Final Statement of Account. Receipts are recorded on the left-hand side and payments are recorded on the right-hand side of the account.

Form of Account

The liquidator's final statement of account must be prepared in the prescribed form. A *summarised* format is given below -

..... Company Ltd.
(In voluntary liquidation)

LIQUIDATOR'S ACCOUNT

<i>Receipts</i>	Rs.	<i>Payments</i>	Rs.
1. Cash and Bank Balance	...	1. Secured Creditors	...
2. Realisation of Assets	...	2. Liquidator's exp. remuneration	...
3. Calls on Shares	...	3. Cost and expenses of winding up	...
		4. Preferential Creditors	...
		5. Debentureholders	...
		6. Unsecured Creditors	...
		7. Preference Shareholders	...
		8. Equity Shareholders	...
	_____		_____

	_____		_____

Notable Points

The following points deserve special consideration in liquidation.

Liquidation

Secured Creditors

Two types of creditors are included in it (i) Fully secured creditors. and (ii) That part of partly secured creditors which is fully covered by the security. For example, creditors amounted to Rs. 5,000 and the value of the security is Rs. 4,000. Out of the creditors of Rs. 5,000, creditors amounting to Rs. 4,000 will be secured creditors and the rest, Rs. 1,000 will be unsecured creditors.

Liquidator's Remuneration

The remuneration payable to the liquidator is calculated at a fixed rate on *assets realised* and payment made to *unsecured creditors*. Generally no remuneration is payable on *cash and bank* balances.

Liquidator's remuneration on the amount paid to unsecured creditors is calculated as follows -

(I) Where the balance available is *adequate* to discharge unsecured creditors -

$$\text{Remuneration} = \frac{\text{Rate} \times \text{Unsecured creditors}}{100}$$

(II) Where the balance available is *inadequate* to meet the unsecured creditors -

$$\text{Remuneration} = \frac{\text{Rate} \times \text{Balance available}}{(100 + \text{Rate})}$$

Preferential Payments

The following are the important preferential payments -

Rates and taxes.

Wages and Salaries, Rs. 1,000 per employee.

Provident Fund, Pension Fund, Gratuity Fund etc.

Debentures

Debentures having a *fixed charge* are like *secured creditors* and must be paid out first. But debentures having a *floating charge* rank only after preferential creditors.

Interest on Liabilities

The interest on debentures and other loans is payable up to the date of their *repayment* if the company is *solvent*. (Surplus is left after paying all debts with interest up to the commencement of winding up). But if the Company is *insolvent*, the interest is payable only up to the date of *commencement of winding up*.

Arrears of Dividend

Sometimes there are arrears of dividend on *cumulative* preference shares.

Provisions of Articles should be applied for the payment of arrears.

In the absence of any provision in the Articles, such *arrears should be paid only when preference share capital and then equity share capital are returned in full and surplus is left.*

Provision or no provision, arrears should be paid only up to the date of *commencement of winding up.*

Calls in Advance

The calls in advance are not a part share capital, therefore, the liquidator has to return the calls in advance *before* returning the share capital of *that* class of shares. For example, calls in advance on preference shares must be returned before returning the preference share capital.

TABLE 16

The Ten Great Tips

Important items and their treatment in liquidation

<i>Item</i>	<i>Treatment</i>
1. Liquidator's commission on <i>cash and bank</i> balances.	If the problem is silent, no commission be calculated on these balances. However, it is to be calculated if the problem so insists.
2. Liquidator's commission on <i>preferential creditors</i>	Calculate commission on these creditors at the rate applicable to unsecured creditors
3. Liquidator's Commission on payment to <i>unsecured creditors</i> -	
i) When the balance available is "adequate"	$\text{Com} = \frac{\text{Rate} \times \text{Unsecured creditors}}{100}$
ii) When the balance available is "inadequate"	$\text{Com.} = \frac{\text{Rate} \times \text{Balance available}}{(100 + \text{Rate})}$

The Ten Great Tips - *Contd.*

<p>4 Liquidator's commission on realisation of assets given as <i>security</i> to creditors</p>	<p>If the problem is silent, calculate commission on the realised values of these assets on the assumption that they were realised by the liquidator on behalf of creditors.</p>
<p>5. Interest on debentures and loans :</p> <p>i) If the company is <i>insolvent</i> i. e. it cannot pay all its creditors in full.</p>	<p>Calculate interest only up to the date of <i>winding up</i> and not upto the date of actual repayment.</p>
<p>ii) If the company is <i>solvent</i> i. e. it can pay all its creditors in full</p>	<p>Calculate interest upto the date of <i>actual repayment</i>.</p>
<p>6. Arrears of preference dividend</p>	<p>Apply provisions of Articles. If the articles are silent, pay these arrears after the repayment of preference and equity share capital.</p>
<p>7. Dues on account of Income-tax, Provident fund, Workmen's Compensation fund</p>	<p>These are preferential creditors.</p>
<p>8. Calls in advance</p>	<p>Return the calls in advance <i>before</i> the return of capital of that class of shares.</p>
<p>9. Calls in arrears</p>	<p>— Forfeit the shares on which calls have not been received.</p>
<p>10. Partly secured creditors</p>	<p>That part which is covered with security is <i>fully secured</i> and will rank 1st for payment. The balance having no security is <i>unsecured</i> and will rank 6th for payment.</p>

⑥

$$38000 \times \frac{2}{100}$$

$$760$$
Illustration 1 [Simple Problem]

The Unsound Ltd. went into liquidation on 31st December, 1981. The liabilities of the company were as follows -

	...	Rs
Preferential Creditors	...	5,000
Unsecured Creditors	...	50,000

The assets realised as follows -

Land and Buildings	..	20,000
Plant and Machinery	...	10,000
Stock	...	6,000
Debtors	...	2,000

The cash balance with the company was Rs 1,000. The cost of liquidation amounted to Rs. 240. The liquidator's remuneration was fixed at 2% on the amount realised.

Prepare the Liquidator's Account

Solution

The Unsound Company Ltd.

LIQUIDATOR'S ACCOUNT

<i>Receipts</i>	Rs.	<i>Payments</i>	Rs.
1. Cash Balance	1,000	1. Secured Creditors	—
2. Realisation of Assets :		2. Liquidator's remuneration	
Land and Buildings	20,000	2% on realisation of	
Plant and Machinery	10,000	assets, Rs. 38,000	760
Stock	6,000	3. Liquidation Expenses	240
Debtors	2,000	4. Preferential Creditors	5,000
		5. Debentureholders	—
		6. Unsecured Creditors	
		(Rs. 50,000)	
		Payment at 66 o/o	33,000
	39,000		39,000

Notes: (1) Final payment : The unsecured creditors will receive Rs. 66 in a hundred.

(2) Realisation : Realisation implies conversion of other assets into cash. There is no realisation for cash and bank balance and hence no remuneration to the liquidator on cash and bank balances.

Liquidation

Illustration 2 [*Commission on payment to unsecured creditors*]

The following particulars relate to Hero Ltd. which has gone into voluntary liquidation.

The assets realised as follows -

	Rs.
Property	60,000
Plant	40,000
Investments	10,000
Patents	7,000
Debtors	13,000

The liabilities were as follows -

Preferential Creditors	14,000
Unsecured Creditors	2,00,000
Debentures	20,000

The cash and bank balance amounted to Rs. 2,000. The expenses of the liquidation amounted to Rs. 1,000

The liquidator's remuneration was agreed at 3% on the amount realised and 2% on the amount paid to unsecured creditors.

Prepare the Liquidator's Final Account.

Solution

Before the payment of remuneration

THE HERO COMPANY LTD

Liquidator's Final Account

<i>Receipts</i>	Rs.	<i>Payments</i>	Rs.
1. Cash and Bank Balance	2,000	1. Secured Creditors	—
2. Realisation of assets-		2. Liquidator's remuneration	
Property	60,000	On realisation	
Plant	40,000	(3% on 1,30,000) = 3,900	
Investments	10,000	On preferential creditors	
Patents	7,000	(2% on 14,000) = 280	
Debtors	13,000	On payment to uns. crs.	6,000
		(2% on ?) = 1,820 ?	
		3. Liquidation Expenses	1,000
		4. Preferential Creditors	14,000 ✓
		5. Debentureholders	20,000 ✓
		6. Unsecured Creditors	
		★ (Rs. 2,00,000)	?
		Payment at %	91,000
	1,32,000		1,32,000

Notes :

1. **Preferential creditors :** For the purpose of computation of liquidator's remuneration preferential creditors are treated as unsecured creditors.
2. **Remuneration :** The 2 % remuneration is on the amount *paid* to unsecured creditors and not on the amount *due* to them. So you cannot compute this commission unless you find out the amount paid to unsecured creditors. Therefore, let us find out the balance available for distribution -

	Rs
Total receipts	1,32,000
Less : Payments	
(3,900 + 280 + 1,000 + 14,000 + 20,000)	39,180
Balance available	92,820

As an accountant, will you pay the entire balance to unsecured creditors ?
No ! No !! No !!! Because if you do it, the liquidator will cry against you.
The problem is : if the entire balance goes to unsecured creditors, where from will you pay the liquidator's commission ?

In short, there are two claimants for Rs. 92,820 : Unsecured creditors and the liquidator.

When you pay Rs. 100 to unsecured creditors, you will have to pay Rs. 2 to the liquidator. So, in order to satisfy both, you must have Rs. 102 with you. Thus :

If the balance is Rs. 102 Remun. is Rs. 2

" " " " Rs. 92,820 " " ?

$$\frac{2 \times 92,820}{102} = \text{Rs. } 1,820$$

Balance to unsec. creditors	91,000
	92,820

[Formulae for the calculation of liquidator's remuneration under different circumstances are given in table No. 16 on page No. 300]

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After the calculation of remuneration.

THE HERO COMPANY LTD

Liquidator's Final Account

<i>Receipts</i>	Rs.	<i>Payments</i>	Rs.
1. Cash and Bank Balance	2,000	1. Secured creditors	—
2. Realisation of assets -		2. Liquidator's Remun.	
Property	60,000	3 % on 1,30,000 = 3,900	
Plant	40,000	2 % on 14,000 = 280	
Investments	10,000	2 o/o on 91,000 = 1,820	6,000
Patents	7,000	3. Liquidation Expenses	1,000
Debtors	13,000	4. Preferential creditors	14,000
		5. Debentureholders	20,000
		6. Unsecured creditors	
		(Rs 2,00,000)	91,000
		Payment at 45.50 o/o	
	1,32,000		1,32,000

Illustration 3 [Fully secured creditors]

The Hardluck Ltd went into Liquidation.

The following was the position -

	Rs.
Share Capital : 1,000 Shares of Rs. 100 each	1,00,000
Secured creditors (securities realised Rs. 50,000)	40,000
Preferential creditors	8,000
Unsecured creditors	3,80,000
Debentures having a floating charge on company's assets	2,10,000
Liquidation Expenses	5,370

The liquidator is entitled to a remuneration of 3 o/o on the amounts realised and 1½ o/o on the amounts distributed to unsecured creditors. The various assets (excluding securities in the hands of fully secured creditors) realised Rs. 3,20,000.

An amount of Rs. 4,000 included in unsecured creditors is to be written off under a contract because of defects discovered in stock supplied.

Prepare the Liquidator's Final Statement of Account.

Handwritten calculations:
~~380000~~
 380000
 14000
 57000

Solution

THE HARDLUCK COMPANY LTD.

Liquidator's Final Account

<i>Receipts</i>	Rs.	<i>Payments</i>	Rs.
1. Cash and Bank	-	1. Secured creditors	40,000
2. Realisation of assets -		2. Liquidator's Remun.	
Securities	50,000	3 o/o on 3,70,000 = 11,100	
Other assets	3,20,000	1½ o/o on 8,000 = 120	
		1½ o/o on 94,000 = 1,410	12,630
		3. Liquidation Expenses	5,370
		4. Preferential creditors	8,000
		5. Debentureholders	2,10,000
		6. Unsecured creditors	
		(3,76,000)	94,000
		Payment at 25 o/o	
	3,70,000		3,70,000

Notes : -

- 1) Realisation of Securities :— It is assumed that the Liquidator has realised the securities on behalf of secured creditors. Hence the remuneration on realisation of securities.
- 2) Preferential creditors :— For the calculation of liquidator's remuneration, the preferential creditors are treated as unsecured creditors.
- 3) Remun. on payment to unse. crs. :— The amount available for unsecured creditors is "inadequate" hence the formula :—

$$\text{Remuneration} = \frac{\text{Rate} \times \text{Balance available}}{(100 + \text{Rate})}$$

$$= \frac{3}{2} \times \frac{95,410}{1} \times \frac{2}{203} = 1,410$$

- 4) Payment to Shareholders : Since creditors have not been paid in full, there is no question of paying to shareholders.

Illustration 4 [*Partly secured creditors*]

The Metro Ltd. went into voluntary liquidation on 31st December, 1981, when the following Balance Sheet was prepared :-

BALANCE SHEET

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
Nominal Capital : 20,000 Equity Shares of Rs. 10 each	2,00,000	Goodwill	20,000
Issued Capital : 15,000 Equity Shares of Rs. 10 each	1,50,000	Land and Buildings	25,000
Sundry creditors : Preferential 4,000 Partly secured 30,000 Unsecured 80,000	1,14,000	Plant and Machinery	40,000
Bank Overdraft (unsecured)	2,000	Stock	60,000
		Debtors	55,000
		Cash	1,000
		Profit and Loss A/c	65,000
	<u>2,66,000</u>		<u>2,66,000</u>

The Liquidator realised the assets as follows -

	Rs.
Land and buildings, which was given as a security to partly secured creditors	22,000
Plant and Machinery	33,000
Stock	57,000
Debtors	48,000
Cash	1,000

The expenses of liquidation amounted to Rs. 1,700. The Liquidator's remuneration was agreed at $2\frac{1}{2}$ o/o on the amount realised and 2 o/o on the amount paid to unsecured creditors, subject to a maximum of Rs. 5,800.

Prepare the Liquidator's Final Account showing the distribution.

Solution

THE METRO COMPANY LTD.
Liquidator's Final Account

Receipts	Rs.	Payments	Rs.
1. Cash Balance	1,000	1. Secured creditors	22,000
2. Realisation of assets :-		(secured part of partly sec. creditors)	
Land and Buildings	22,000	2. Liquidator's Remun.	
Plant and Machinery	33,000	On realisation	
Stock	57,000	(2½ o/o on 1,60,000) 4,000	
Debtors	48,000	On pref. creditors	
		(2 o/o on 4,000) 80	
		On payment to uns. crs.	
		(2 o/o Rs. 90,000) 1,800	
		5,880	
		Maximum	5,800
		3. Liquidation Expenses	1,700
		4. Preferential creditors	4,000
		5. Debentureholders	—
		6. Unsecured creditors :	
		Balance from partly	
		secured crs. 8,000	
		Given unsecured 80,000	
		Overdraft 2,000	
		Payment in full	90,000
		7. Shareholders	
		Return at Rs. 2.50	37,500
		per share on 15,000	
		shares	
	1,61,000		1,61,000

Notes :-

- 1) Partly Secured creditors : Of the partly secured creditors, Rs. 22,000 are covered with security of land and building and the rest Rs. 8,000 have no security, hence their inclusion in unsecured crs.
- 2) Remuneration on realisation : Realisation implies conversion of other assets into cash. Therefore, there is no question of realising cash. Hence no remuneration on cash balance.
- 3) Remuneration on payment to unsecured creditors : Since the balance available is "adequate" for payment to unsecured creditors, the formula shall be—

$$\text{Remun.} = \frac{\text{Rate} \times \text{Unsecured creditors}}{100}$$

$$= \frac{2 \times 90,000}{100} = \text{Rs. 1,800}$$

- 4) Goodwill : The goodwill with a book value of Rs. 20,000 is worthless.

Illustration 5 [*Debenture interest : Insolvent company*]

The Margo Ltd. went into voluntary liquidation on 31st December, 1981, on which date the position was as follows :

	...	Rs.
Share Capital : 1,000 Shares of Rs 100 each	...	1,00,000
Profit and Loss A/c (Dr.)	...	70,000
Machinery, stock and debtors realised	...	80,000
Cash in hand	...	1,000
6 o/o Debentures carrying a floating charge	...	50,000
Debenture interest outstanding on 31st December, 1981	...	1,500
Creditors (including preferential Rs. 5,000)	...	40,000

The cost of liquidation was Rs. 500. The Liquidator is entitled to a fixed remuneration of Rs. 1,100 plus 3 o/o on realisation of assets and 2 o/o on the amount distributed to unsecured creditors.

The Debentures and creditors were discharged on 31st March, 1982.
Show the Liquidator's Statement of Account.

Solution

THE MARGO COMPANY LTD.

Liquidator's Statement of Account

<i>Receipts</i>	Rs.	<i>Payments</i>	Rs.
1. Cash in hand	1,000	1. Secured creditors	—
2. Realisation of assets	80,000	2. Liquidator's Remun.	
		Fixed Remun. 1,100	
		On realisation	
		3 o/o on 80,000 2,400	
		On preferential crs.	
		2 o/o on 5,000 100	
		On payment to unsecured crs.	
		2 o/o on 20,000 400	4,000
		3. Cost of liquidation	500
		4. Preferential creditors	5,000
		5. Debentureholders	
		Debentures 50,000	
		Int upto winding up 1,500	51,500
		6. Unsecured creditors	
		(Rs. 35,000)	20,000
		Payment at 57.14 o/o	
	81,000		81,000

81000
 57000

 24000
 3600

 20400 x 2
 40800

 = 81200

Notes :—

- 1) Interest on Debentures — Although the debentures are discharged on 31st March, 1982, interest thereon can be paid only upto the date of "winding up" as the company is an "insolvent" company i. e. it is unable to meet its creditors in full.

However, in case of a "solvent" company, interest will be paid upto the date of "discharge" of debentures.

- 2) Shareholders : There can be no return of capital till the liabilities are paid in full.

Illustration 6 [*Debenture Interest : Solvent Company*]

The Demo Ltd, went into voluntary liquidation on 31st December, 1981, when the following balance sheet was prepared —

BALANCE SHEET

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
Share Capital :		Land and Buildings ✓	2,00,000
5,000 Equity Shares		Plant and Machinery ✓	1,60,000
of Rs. 100 each	5,00,000	Stock in trade ✓	1,10,000
✓ 10 o/o Debentures having a		Sundry Debtors ✓	80,000
floating charge on all		Cash at Bank	2,000
assets	1,00,000	Profit and Loss Account	2,10,000
✓ Debenture Interest			
outstanding	10,000		
✓ 12 o/o Bank Loan	80,000		
Sundry Creditors	70,000		
Income-tax dues	2,000		
	7,62,000		7,62,000

You are given the following details —

1. The assets realised : Land and Buildings 10 o/o over book value; Plant and Machinery 20 o/o below book value; Stock 5 o/o over book value and debtors 10 o/o below book value.
2. The expenses of liquidation amounted to Rs. 8,000.
3. The bank loan is secured against stock.
4. The liquidator is entitled to a remuneration of Rs. 2,400 plus 2 o/o on realisation of assets and 3 o/o on the amount distributed to unsecured creditors.
5. All payments were made on 30th June, 1982.

Prepare Liquidator's Final Statement of Account.

(15)

Liquidation

0.4848
2.42430
~~50000~~

48.48 to

Solution

THE DEMO COMPANY LTD.

Liquidator's Final Account

<i>Receipts</i>	Rs.	<i>Payments</i>	Rs.
1. Cash at Bank	2,000	1. Secured Creditors	
2. Realisation of assets -		Bank loan	80,000
Land and Buildings	2,20,000	Int. six months	4,800
Plant and Machinery	1,28,000		<hr/> 84,800
Stock in trade	1,15,500	2. Liquidator's Remun.	
Sundry Debtors	72,000	Fixed Remun.	2,400
		2 o/o on realisation	
		Rs. 5,35,500	10,710
		3 o/o on pref.	
		creditors, 2000	60
		3 o/o on unsecured	
		creditors	2,100
			<hr/> 15,270
		3. Liquidation Expenses	8,000
		4. Preferential Creditors	2,000
		(income-tax dues)	
		5. Debentureholders :	
		Debentures	1,00,000
		Int. upto	
		liquidation	10,000
		Int. thereafter	5,000
			<hr/> 1,15,000
		6. Unsecured Creditors	70,000
		7. Equity Shareholders	
		Return on 5,000 shares	
		at Rs. 48.48 per Sh.	2,42,430
	<hr/> 5,37,500		<hr/> 5,37,500

Notes :-

- 1) Interest : The interest on bank loan and debentures is payable upto the date of their "repayment" as the company is "solvent" i. e. it is able to discharge its creditors in full.
- 2) Liquidator's Ramuneration :- The balance available for payment to unsecured creditors is "adequate", hence the formula -

$$\text{Ramun.} = \frac{\text{Rate} \times \text{Unsecured creditors}}{100}$$

- 3) Bank Loan : The bank loan is fully secured since the security (stock) has realised more than the amount of loan
- 4) Income - Tax : It is a preferential payment.

TEST YOUR UNDERSTANDING

Exercise 1 [*Simple Problem*]

The Roxy Ltd. went into voluntary liquidation on 31st December, 1981. The position on that date was as follows :

	Rs.
Preferential Creditors	10,000
Unsecured Creditors	30,000
Debentures	20,000
Assets realised :-	
Land and Buildings	24,000
Plant and Machinery	21,000
Stock in trade	5,000
Furniture and Fittings	1,000

The cash at bank amounted to Rs. 2,000. The cost of liquidation was Rs. 1,250. The Liquidator's remuneration was fixed at 5% on realisation of assets.

Prepare the Liquidator's Account.

(Ans. [1] Liquidator's commission on realisation : 5 o/o on 51,000 = Rs. 2,550 [2] Payment to unsecured creditors Rs. 19,200 i. e. 64 o/o.)

Exercise 2 [*Commission on payment to unsecured creditors*]

The following particulars relate to Penta Ltd. which has gone into voluntary liquidation.

	Rs.
Assets realised —	
Freehold property	50,000
Machinery and Plant	27,000
Patents	8,000
Furniture	2,000
Stock	15,000
Debtors	12,000
Liabilities were —	
Preferential creditors	6,000
Unsecured creditors	2,71,000
Debentures	50,000

The balance at bank was Rs. 1,000. The expenses of liquidation amounted to Rs. 746. The Liquidator's remuneration was agreed at $2\frac{1}{2}\%$ on the amount realised and 2% on the amount paid to unsecured creditors.

Prepare the Liquidator's Final Account.

(i) Com. on realisation $2\frac{1}{2}\%$ on 1,14,000 = Rs. 2,850. ii) Commission on pref. crs. Rs. 120, and on payment to unsecured creditors $\frac{2}{102} \times (1,15,000 - 2,850 - 120 - 6,000 - 50,000) = 1,084$ iii) Payment to unsecured creditors Rs. 54,200 i. e. 20% Hint : For the purpose of commission the preferential creditors are treated as unsecured creditors.

Exercise 3 [Debenture interest : Insolvent company]

The Rockets Ltd. went into voluntary liquidation as on 31st December, 1981, The position on that date was as follows —

	Rs.
Equity Share Capital :	
2,000 Shares of Rs. 100 each	.. 2,00,000
Profit and Loss Account (Dr.)	... 60,000
Assets realised	... 1,25,000
Cash at bank	... 2,000
8 o/o Debentures	... 1,00,000
Debenture interest outstanding on 31st Dec., 1981	... 8,000
Creditors (including preferential creditors, Rs. 2,000)	72,000

The liquidation expenses amounted to Rs. 1,170. The liquidator is paid Rs 1,100 fixed allowance plus 4% commission on collection and 2% on distribution to unsecured creditors.

The debentures and creditors were discharged on 30th June, 1982.

Show the Liquidator's Statement of Account.

([i] Commission on realisation 4% on 1,25,000, Rs. 5,000. [ii] Commission on payment to pref. crs. Rs. 40 and on payment to unsecured crs. $\frac{2}{102} \times (1,27,000 - 1,100 - 5,000 - 40 - 1,170 - 2,000 - 1,08,000) = \text{Rs. } 190$. [iii] Payment to unsecured creditors Rs. 9,500 i. e. 13.57% . [iv] Debenture interest will be paid only upto the date of winding up as the co. is an insolvent co.

Exercise 4 [Debenture interest : Solvent company]

The Brown Ltd. went into voluntary liquidation on 31st March, 1981, when the following balance sheet was prepared.

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
Share Capital :		Property	50,000
7,500 Equity Shares of Rs. 10 each	75,000	Plant	30,000
5 o/o Debentures, secured by floating charge	30,000	Stock	40,000
o/o Bank Loan	20,000	Debtors	20,000
Trade Creditors	50,500	Cash in hand	1,000
Income-Tax	1,000	Profit and Loss Account	39,000
Rates	500		
Workmen's compensation	2,500		
Electricity	500		
	1,80,000		1,80,000

The following details are available –

1. The bank loan is secured by property.
 2. The Liquidator collected Rs 10,000 from debtors against Rs. 12,000 claim. Stock (book value Rs. 30,000) was sold out for Rs. 25,000. Property realised 10 % above cost and Plant realised 20 % below cost. The remaining stock was sold at 20 % discount and the remaining book debts were collected in full.
 3. The expenses of liquidation amounted to Rs. 3,300.
 4. The Liquidator's remuneration is Rs. 1,800 plus 3 o/o on realisation and 2 o/o on distribution to unsecured creditors.
 5. The Liquidator made all payments on 1st August, 1981.
- Prepare the Liquidator's Final Statement of Account.

- Ans : i) Commission on realisation 3 o/o on 1,30,000 = Rs. 3,900
 ii) Commission on payment to preferential crs. 2 o/o on 4,000 = Rs. 80 and on payment to unsecured crs. 2 o/o on 51,000 = Rs. 1,020
 iii) Return to shareholders Rs. 15,000 iv) The company is a solvent company. pay interest up to the date of " repayment "

Exercise 5 [*Return of share capital : Different classes of shares*]

The White Ltd. went into voluntary liquidation on 30th June, 1981. The following are the facts relating to liquidation :-

1. The share capital was as follows –
 10,000 Preference shares of Rs. 10 each (fully paid)
 40,000 "A" Ordinary shares of Rs. 10 each (fully paid)
 30,000 "B" Ordinary shares of Rs. 10 each (Rs. 8 paid up)
2. Under the Company's Articles, the preference shares have priority over the ordinary shares in regard to repayment of capital. The "A" and "B" ordinary shares have equal rights.
3. The creditors were Rs. 2,74,000. This sum included Rs. 10,000 preferential creditors and Rs. 54,000 fully secured creditors.
4. The assets realised Rs. 3,94,000 including those sold on behalf of the fully secured creditors.
5. The costs of liquidation amounted to Rs. 8,900 and the liquidator's remuneration was fixed at 5 o/o on the amount realised and 3 o/o on the amount distributed to unsecured creditors.
6. The Liquidator made a call of Rs. 1.50 par share on "B" ordinary shares which was duly paid by all except one shareholder holding 2,000 shares, which were accordingly forfeited.

Prepare the Liquidator's Final Statement of Account.