# CHAPTER 1: LIQUIDATION OF COMPANIES

Q.1. The Balance Sheet of Bubble Ltd as on 31.3.20003 was as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share Capital | | Land & Building | 25,000 |
| 8,000 Preference Shares of Rs 10 each | 80,000 | Other fixed assets | 2,00,000 |
| 12,000 Equity shares of Rs 10 each | 1,20,000 | Stock | 5,25,000 |
| Bank Loan | 4,00,000 | Debtors | 1,00,000 |
| 8% Debentures | 1,00,000 | Profit & Loss A/c | 58,000 |
| Interest outstanding on Debentures | 8,000 | | |
| Creditors | 2,00,000 | | |
| | 9,08,000 | | 9,08,000 |

The company went into liquidation on that date.

1. Liquidation expenses and liquidator's remuneration amounted of Rs 3,000 & Rs 10,000 respectively.
2. Bank loan was secured by pledge of stock.
3. Debentures were paid on 30.6.03.
4. Fixed assets were realised at book values and current assets at 90% of book value.

Prepare liquidator's statement of account after taking into account the following:

Q.2. DB Ltd was placed in voluntary liquidation on 31.3.2002 when its Balance Sheet was as follows:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Issued Share Capital | | Freehold Factory | 5,80,000 |
| 50,000 Equity shares of Rs10 each | | Plant & Machinery | 2,89,000 |
| fully paid less calls in arrears | 4,75,000 | Motor Vehicles | 57,500 |
| amounting to Rs 25,000 | | Stock | 1,86,000 |
| 6,000 5% Cumulative Preference | | Debtors | 74,000 |
| Shares of Rs 100 each fully paid | 6,00,000 | Profit & Loss A/c | 2,14,000 |
| Shares premium Account | 50,000 | | |
| 5% Debentures Account | 1,00,000 | | |
| Interest on Debentures | 2,500 | | |
| Bank Overdraft | 58,000 | | |
| Creditors | 1,15,000 | | |
| | 14,00,500 | | 14,00,500 |

The preference dividends are in arrears from 31.3.1999 onwards.

The company's articles provided that on liquidation, out of the surplus assets remaining after payment of liquidation costs and outside liabilities, there shall be paid firstly all arrears of preference dividend, secondly the amount paid up on the preference shares together with premium thereon of Rs 10 per share, and thirdly any balance then remaining shall be paid to the equity shareholders.

The Bank overdraft was guaranteed by the directors who were called upon by the bank to discharge their liability under the guarantee. The directors paid the amount to the bank. The liquidator realised the assets as follows:

| | |
|---|---|
| Freehold Factory | 7,00,000 |
| Plant & Machinery | 2,40,000 |
| Motor Vehicles | 59,000 |
| Stock | 1,50,000 |
| Debtors | 60,000 |
| Calls in Arrears | 25,000 |

Creditors were paid less discount of 5%. The debentures and accrued interest were repaid on 30th June`02. Liquidation costs were Rs 3,820 and the liquidator's remuneration was 2% on the amounts realised. Prepare the liquidator's statement of account.

Q.3. Few Assets Ltd went into voluntary liquidation on April 1, 2003. At that date the Balance Sheet read as follows:

| | | Rs |
|---|---|---|
| Plant | | 2,00,000 |
| Stock | | 1,00,000 |
| Debtors | | 1,50,000 |
| Cash at Bank | | 3,000 |
| | | 4,53,000 |
| Less: 5% Debenture | 60,000 | |
| Creditors | 1,03,000 | 1,63,000 |
| | | 2,90,000 |
| Represented by: | | |
| 12,000 10% Preference shares of Rs 10 each | | 1,20,000 |
| 20,000 ordinary shares of Rs 10 each | | 2,00,000 |
| | | 3,20,000 |
| Less: Deficiency on Profit & Loss Account | | 30,000 |
| | | 2,90,000 |

The dividend on preference shares had been paid up to 31st March 2001. The liquidator sold the plant and stock for Rs 2, 75,000 and realised all debts except one of Rs 25,000 which proved to be irrecoverable. He admitted the claim of all creditors Rs 5,000 of which were preferential. Expenses of liquidation amounted to Rs 1,600 and the debentures were repaid on 30th September 2003. The liquidator's remuneration was at the rate of 2% on the amounts realised (except cash) and 2% on the amount distributed to the ordinary shareholders. Prepare the Liquidators Final account ignoring income tax.

Q.4. The following is the balance sheet of M/s. Unfortunate Ltd as on 31st March 2003:

| Liabilities | Rs | Rs. | Assets | Rs |
|---|---|---|---|---|
| Share Capital | | | Land and Building | 2,00,000 |
| 4,000 6% Preference Shares of Rs100 each | 4,00,000 | | Plant and Machinery | 5,00,000 |
| 2,000 Equity Shares Rs.100 each, Rs.75 per share paid up | 1,50,000 | | Patents | 80,000 |
| | | | Stock at cost | 1,10,000 |
| 6,000 Equity Shares of Rs.100 each, Rs.60 per share paid up | 3,60,000 | 9,10,000 | Sundry Debtors | 2,20,000 |
| | | | Cash at Bank | 60,000 |
| 5% Debentures (having floating charge on all assets) | | 2,00,000 | Profit and Loss Account | 2,40,000 |
| Interest outstanding on debentures also secured as above | | 10,000 | | |
| Creditors | | 2,90,000 | | |
| | | 14,10,000 | | 14,10,000 |

On that date, the company went into liquidation. The dividends on preference shares were in arrears for two years. The arrears are payable on liquidation as per the Articles of Association of the company. Creditors include a loan of Rs.1,00,000 on mortgage of Land and Buildings. The assets realised as under:-

| | | | |
|---|---|---|---|
| Land & Buildings | 2,40,000 | Plant & Machinery | 4,00,000 |
| Patents | 60,000 | Stock | 1,20,000 |
| Sundry Debtors | 1,60,000 | | |

The expenses of liquidation amounted to Rs 21,800. The liquidation is entitled to commission of 3% on all assets realised and a commission of 2% on amounts distributed among unsecured creditors. Preferential creditors amount of Rs 30,000. All payments were made on 30th September 2003. Prepare the liquidator's statement of account.

Q.5. Break Ltd went into voluntary liquidation on 31.3.2003. The balance in its books on that date were:

| Liabilities | Rs. | Assets | Rs |
|---|---|---|---|
| Share Capital Authorized and Subscribed: | | Land | 50,000 |
| 5,000 6% Pref shares of Rs100 each fully paid | 5,00,000 | Building | 2,00,000 |
| 2,500 Equity shares of Rs 100 each Rs 75 paid up | 1,87,500 | Plant & Machinery | 6,25,000 |
| 7,500 Equity shares ofRs 100 each Rs 60 paid up | 4,50,000 | Stock | 1,37,500 |
| 5% Debentures (secured on all assets) | 2,50,000 | Sundry Debtors | 2,75,000 |
| Interest due on Debentures | 12,500 | Cash at Bank | 75,000 |
| Bank Overdraft | 1,00,000 | Profit & Loss A/c | 4,10,000 |
| Unsecured creditors | 2,00,000 | | |
| Taxes due to Government within 12 months | 12,500 | | |
| Salaries and Wages due for 4 months for workers | 60,000 | | |
| | 17,72,500 | | 17,72,500 |

The liquidator is entitled to a remuneration of 5% on all assets realised except cash and 1% on the amount distributed to unsecured creditors other than preferential creditors.

Bank overdraft is secured by deposit of title deed of land and building which realised Rs 3,00,000.

Other assets realised the following sums:

| | |
|---|---|
| Plant & Machinery | 5,00,000 |
| Stock | 1,50,000 |
| Sundry Debtors | 2,00,000 |

Expenses of Liquidation amounted to Rs 27,250

Prepare liquidator's final statement of account. Liquidator realised all assets on 1.7.2003 and discharged his obligation on the same date. Dividend on preference shares were in arrears for two years.

Q.6. The following is the Balance Sheet of Confidence Builders Ltd as 30th Sept 2002:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| Share Capital: | | Land & Building | 1,20,00 |
| 11% Preference shares of Rs 10 each | 1,00,000 | Sundry Current Assets | 3,95,00 |
| 10,000 Equity shares of Rs 10 each fully paid up | 1,00,000 | Profit & Loss A/c | 38,50 |
| 5,000 Equity shares of Rs 10 each, Rs 7.50 per share paid up | 37,500 | Debenture issue expenses not written off | 2,00 |
| 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 2002) | | | |
| Assessment year 00-01 21,000 | | | |
| Assessment year 01-02 5,000 | 26,000 | | |
| | 5,55,000 | | 5,55,00 |

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 debentureholders appointed a Receiver and this was followed by a resolution for member's voluntary winding up. The receiver for the debentureholders brought the land and buildings to auction and realised Rs 1,50,000. He also took charge of sundry assets of the value of Rs 2,40,000 and realised Rs 2,00,000.The liquidator realised Rs 1,00,000 on the sale of the balance of sundry current assets. 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 dues from their personal resources. Costs incurred by the receiver were Rs 2,000 and by the liquidator Rs 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 shareholder had not been paid dividend for period after 30th September 2000 and interest for the last half year was due to the debentureholders. Prepare the accounts to be submitted by the Receiver and the Liquidator.

Q.7. M Co Ltd went into voluntary on 31st March 2003. The following balance are extracted from its books on that date:

| Liabilities | Rs. | Assets | | Rs |
|---|---|---|---|---|
| Capital: 50,000 Equity shares of Rs 10 each | 5,00,000 | Buildings | | 1,50,000 |
| Debentures (secured by a floating charge) | 2,00,000 | Plant & Machinery | | 2,10,000 |
| Creditors | 40,000 | Stock in trade | | 95,000 |
| Bank Overdraft | 30,000 | Book debts | 75,000 | |
| | | Less: Provision | 10,000 | 65,000 |
| | | Calls in arrears | | 1,00,000 |
| | | Cash on hand | | 10,000 |
| | | Profit & Loss A/c | | 1,40,000 |
| | 7,70,000 | | | 7,70,000 |

Plant & Machinery and Buildings are valued at Rs1,50,000 and Rs 1,20,000 respectively. On realisation, losses of Rs 15,000 are expected on stock. Book debts will realise Rs 70,000. Calls in arrears are expected to realise 90%. Bank overdraft is secured against Buildings. Preferential creditors for taxes and wages are Rs 6,000 and Miscellaneous expenses outstanding Rs 2,000.
Prepare a Statement of Affairs to be submitted to the meeting of creditors.

Q.8. Insol Ltd is to be liquidated. Their summarised Balance Sheet as at 31st March 2003 appears as under:

| Liabilities | Rs | Assets | Rs |
|---|---|---|---|
| 2,50,000 Equity shares of Rs 10 each | 25,00,000 | Land & Building | 5,00,000 |
| Secured debentures (on Land & Building) | 10,00,000 | Other fixed Assets | 20,00,000 |
| Unsecured Loans | 20,00,000 | Current assets | 45,00,000 |
| Trade creditors | 35,00,000 | Profit & Loss A/c | 20,00,000 |
| | 90,00,000 | | 90,00,000 |

Contingent Liabilities are:
For bills discounted 1,00,000
For excise duty demand 1,50,000
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 & Building 11,00,000
Other Fixed Assets 18,00,000
Current Assets 35,00,000
Taking the above into account, prepare the statement of affairs.

Q.9. The following information was extracted from the books of a limited company on 31st March 2003 on which date a winding up order was made:

| | Rs |
|---|---|
| Equity share capital-2,000 shares of Rs 100 each | 2,00,000 |

| | |
|---|---|
| 6% Preference share capital – 3,000 shares of Rs 100 each | 3,00,000 |
| Calls in arrears on equity shares (estimated to realised to Rs 2,000) | 4,000 |
| 5% First Mortgage Debentures secured by a floating charge on the whole of the assets of the company (interest paid to date) | 2,00,000 |
| Creditors having a first mortgage on the Freehold Land & Buildings | 85,000 |
| Creditors having a second mortgage on the Freehold Land & Buildings | 90,000 |
| Trade Creditors | 2,70,000 |
| Bill discounted (of these bills for Rs 15,000 are expected to be dishonored) | 40,000 |
| Unclaimed Dividends | 6,000 |
| Bills payable | 10,000 |
| Income Tax due | 25,000 |
| Outstanding Salaries and Wages (for five months) | 40,000 |
| Bank overdraft secured by second charge on the whole of the assets of the company | 20,000 |
| Cash in hand | 1,200 |
| Debtors (of these Rs 60,000 are good, Rs 15,000 are doubtful estimated to realise Rs 5,000 and the rest bad) | 90,000 |
| Bills of exchange (considered good) | 35,000 |
| Freehold Land& Buildings (estimated to realize Rs 1,65,000) | 1,50,000 |
| Plant & Machinery (estimated to produce Rs 90,000) | 1,20,000 |
| Fixture and Fittings (estimated to produce Rs 8,000) | 12,000 |
| Stock in trade (estimated to produce 25% less) | 80,000 |
| Patents (estimated to produce Rs 45,000) | 70,000 |

On 31$^{st}$ March 1998 the company's share capital stood at the same figure as on 31$^{st}$ March 2003 but, in addition, there was a General Reserve of Rs 65,000. in 1999-2000 the company earned a profit Rs 85,000 but therefore it suffered trading losses totaling in all Rs 4,67,000. In 2000-01 a speculation loss of Rs 91,000 was incurred. Preference dividend was paid for 1999-2000 and 2000-01 and on equity shares a dividend of 10% was paid in 1999-2000 only.

Excise authorities imposed a penalty of Rs 6,000 in 2000 for evasion of excise and income tax authorities imposed a penalty of Rs 1,60,200 for evasion of tax.

Prepare the Statement of Affairs and the Deficiency Account.

Q.10. The following balances were extracted from the books of Sudden Death Ltd on 31$^{st}$ March 2003 on which date a winding up order was made:

| | Rs |
|---|---|
| Share Capital: | |
| Equity Shares-20,000 shares of Rs 10 each Rs 8 per share called up | 1,60,000 |
| Preference Shares –2,000 shares of Rs 100 each fully paid | 2,00,000 |
| Calls in arrears –Equity Shares –Estimated to Realize Rs 600 | 1,000 |
| 15% Debentures is secured by first floating charge on the assets | 2,00,000 |
| Bank overdraft secured by a second floating charge on the assets | 1,00,000 |

| | |
|---|---|
| Fully secured Creditors (secured against Plant & Machinery) | 60,000 |
| Investments (estimated to realise Rs 60,000) | 80,000 |
| Plant & Machinery –secured to creditors- estimated to realise Rs 80,000 | 1,20,000 |
| Land & Building –estimated to realise Rs 80,000 | 40,000 |
| Outstanding Rent & Taxes | 4,000 |
| Outstanding wages and salaries | 3,000 |
| Bills Payable | 24,000 |
| Sundry Creditors | 60,000 |
| Bills receivable –estimated to realise Rs 2,000 | 6,000 |
| Debtors –estimated to realise 60% | 1,40,000 |
| Bills discounted –Rs 30,000 likely to rank Rs 8,000 | |
| Contingent Liability likely to accrue | |
| Stock in trade –estimated to produce Rs 38,000 | 6,000 |
| Cash in hand and Bank | 60,000 |
| | 3,200 |

Entry for accrued salary Rs 4,000 and rent of Rs 2,000 has still to be made in the books.
Prepare a Statement of Affairs and a Deficiency Account.

Q.11. Bad Luck Ltd went in to voluntary liquidation and the proceeding commenced on 2nd July 2002. Certain creditors could not receive payment out of the realisation of assets and out of the contribution from the contributories of the A list. The following details of share transfers are made available to you.

| Name of Transferor | No of shares transferred | Date of transferor ceasing to be member | Creditors remaining unpaid and outstanding at the time of the transferor ceasing to be a member (Rs) |
|---|---|---|---|
| A | 1,000 | 1st May 2000 | 6,000 |
| B | 1,250 | 15th Aug 2001 | 8,000 |
| C | 500 | 1st Oct 2001 | 10,750 |
| D | 2,000 | 1st Dec 2001 | 13,000 |
| E | 250 | 1st April 2002 | 15,000 |

All the shares were of Rs 10 each on which Rs 5 per share had been paid up. Ignoring other details like liquidator's expenses etc. you are required to work out the liability of the individual contributories listed above.

Q.12. In a liquidation which commenced on 1st April 2003 certain creditors could not receive payment out of the realisation of the assets and out of contribution from "A" list contributories. The following are the details of certain transfer which took place after 1st April 2002:

| Shareholders | No of shares transferred | Date of Ceasing to be member | Creditors remaining unpaid and outstanding on the date of ceasing to be member (Rs) |
|---|---|---|---|
| A | 1,000 | 1st May 2002 | 6,000 |
| B | 1,500 | 1st July 2002 | 7,500 |

| | | | |
|---|---|---|---|
| C | 300 | 1st Nov 2002 | 8,000 |
| D | 200 | 1st Feb 2003 | 9,500 |

All the shares were of Rs 10 each, Rs 6 paid up. Ignoring expenses, remuneration to liquidator etc. show the amount to be realised from the various persons listed above.

Q.13. Given below is the position as on April 1, 2003 of Ganges Silk Mills Ltd on which date it goes into liquidation:

| | Rs. | Rs. |
|---|---|---|
| 1 Share Capital: | | |
| A) 10,000 Preference shares of Rs 10 each fully paid | 1,00,000 | |
| B) 5,000 Equity shares of Rs 10 each | | |
| fully called 50,000 | | |
| Less: Calls in arrears on 1,000 shares | | |
| @ Re.1 per share 1,000 | 49,000 | |
| C) 10,000 Equity shares of Rs 10 each Rs 5 per share paid | 50,000 | |
| D) 20,000 Equity Shares of Rs 10 each Rs 3 per share paid | 60,000 | |
| 2 Secured Loan from Bank: | | |
| Against pledge of stock of raw Material | | 2,59,000 |
| 3 Unsecured dues: | | 38,000 |
| Preferential | 1,200 | |
| Other | 1,01,800 | 1,03,000 |
| | | 4,00,000 |
| 4 Cash and Bank | | 5,000 |
| 5 Stock of Raw Materials | | 50,000 |
| 6 Other stocks | | 1,50,000 |
| 7 Others assets | | 1,45,000 |
| 8 Profit & Loss A/c (Debit Balance) | | 50,000 |
| | | 4,00,000 |

Realisation were:

a. Stock of Raw Materials realised by Bank Rs 30,000
b. Other stocks Rs 80,000
c. Remaining Assets Rs 20,000

The liquidator is entitled to a fixed remuneration of Rs 1,000 plus 3% of the gross amounts realised by him. Other costs and charges amounted to Rs 11,000. Equity shares carry the same rights, regardless of the amount paid, as far as capital repayment is concerned.

Show the Liquidator's final Statement of Account.