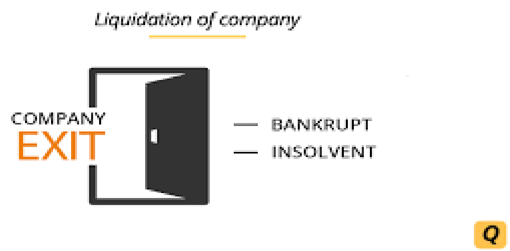
Subject: Corporate Accounting



Topic: Liquidation of a Company

Presented by: Department of Commerce.

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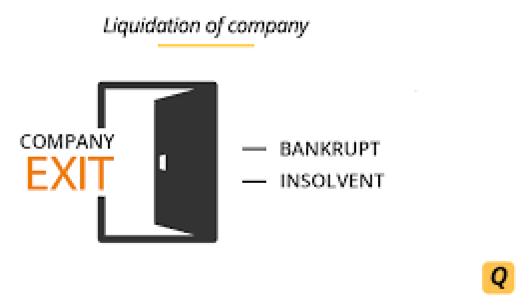

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Introduction

Question: What is Liquidation of a Company?

Liquidation /Winding up of a company is a legal term and it refers to the procedure by which the affairs of a company are brought to an end.

OR

In other words a legal process of winding up of a company.

OR

The process by which the life of a company is ended and its property is sold off for the benefit of its creditors and members.

Question: What happens when liquidation takes place?

When liquidation takes place ,the routine affairs of a company are stopped, assets are sold-off and out of such proceeds first the claims of creditors and after that if any amount left then claims of members are settled.

Question: Is liquidation compulsory for a company?

Liquidation may be compulsory (sometimes referred to as a creditors' liquidation) or voluntary (sometimes referred to as a shareholders' liquidation, although some voluntary liquidations are also controlled by the creditors.

Question: Who sells the property of the company in the event of Liquidation? Is it the Directors, Shareholders, Debenture holders, Creditors or the employees of the company.

None of the above. This task of selling the asset and paying off the creditors is done by an official appointed by the Court Known as Liquidator of a Company. This official is appointed under all types of Liquidation of a Company

Types of Liquidation

- Compulsory Liquidation(Sec271)/ Winding up by the Tribunal.

- Voluntary Liquidation (Sec 304)

    i. Members Voluntary,

    ii. Creditors Voluntary winding-up.

Grounds of compulsory winding up by Tribunal(Sec 271)

- Special resolution
- Default in filing statutory report or holding statutory meeting
- Failure to commence business within time
- Reduction of membership
- Inability to pay debts
- Just and Equitable
- Default in filing Profit/Loss account and Balance Sheet
- Acted against sovereignty and Integrity of India
- Sick Industrial Company

Members Voluntary Winding up

Appointment of Liquidator

- Board of Director’s power ceased to take any Decision.
- Power to fill vacancy in the office of liquidator.
- Notice of appointment of liquidator to registrar.
- Duty to call creditors meeting.
- General meeting at end of each year.
- Final meeting and dissolution.

Creditors Voluntary Winding up

- Meeting of creditors.
- Notice to registrar.
- Appointment of Liquidator.
- Committee of Inspection.
- Liquidators remuneration.
- Powers of board of Director ceased.
- Final meeting and dissolution

Liquidation Value

Steps

1 - Prepare the Balance Sheet of the company

2 - Find the Market value of Tangible Assets

3 - Liquidation Value of Liabilities

4 - Calculate Net Liquidation Value

Liquidator's Final Statement of Account

Receipts	Amount (Rs)	Payments	Amount (Rs)
To cash in Hand --Cash at Bank To Asset Realised: --Marketable securities --B/R --Trade Debtors --Stock --Freehold Premises -Plant/Machinery -Furniture/Fittings To surplus from Securities held by Secured Creditors To Proceeds of calls from shareholders(@ Rs……… on………. Shares)		By Legal Charges By Liquidation Expenses By Liquidator's remuneration i.% on amt. realised from assets ii. % on amt. paid to Creditors. iii. % on amt. paid to Shareholders. By Liquidation Expenses/ Cost of winding up By debenture holders or other creditors having floating charge on the assets of Co. By Preferential Creditors By other unsecured creditors By Preference Shareholders ((Refund of Capital) By Equity shareholders (Refund of Capital)	

Order of Payment

The amount received from the sale of assets not specifically pledged & the amount contributed by the contributories must be distributed by the liquidator in the following order:

i. Legal charges, Expenses of winding up including the liquidators remuneration.
ii. Debentures secured by the floating charge on the assets of the company.
iii. Preferential creditors.
iv. Unsecured creditors.
v. The surplus, if any, amongst the contributories

Who are Preferential Creditors of a Company as per Sec 530 of Companies Act 2013

The following are some of the important items treated as Preferential Creditors:

- All revenues, taxes, cesses & rates payable to the government or local authority will be treated as preferential creditors provided that it must become due within 12 months before the date of winding up.
- 4 months salary & wages due to the employees of the company will be treated as preferential provided that it must become due within 12 months before the date of winding up. Maximum of Rs. 20000 will be treated as preferential creditors.
- All accrued holiday remuneration payable to an employee due to termination of his employment before, or by effect of winding up orders.
- All sums due to an employee from P.F, Pension Fund, Gratuity or any other funds for welfare of employees maintained by company.

CONSEQUENCES OF WINDING Up

- An officer called liquidator is appointed & he takes over the administration of the company. He may be appointed by High Court, members or by the creditors as the case may be.
- The powers of the board of directors will cease & will now vest with the liquidator.
- Winding up order or resolution of voluntary winding up shall operate as a notice of discharge to all the members(also known as Contributories) of the company.

Duties of a Liquidator

- Liquidator of the company will prepare a list of contributories who be made liable to contribute to the assets of the company in case assets are not sufficient to meet the claims of various claimants . In case there is any surplus amount from the realised assets, the liquidator of the company will prepare a list of those members, who are entitled to share this surplus.
- Liquidator of the company will collect & realise its assets & distribute the proceeds among right claimants as per the procedure of the law. Winding up ultimately leads to dissolution of the company.

Advantages of Company Liquidation

- Outstanding debts are written off
- Legal action is halted
- Leases are cancelled
- Staff can claims redundancy pay
- Avoid court process

References

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Thank you