

## Quadrant II – Notes

**Paper Code:** COD 125

**Module Name:** Introduction to Liquidation of companies, Preference order of Payments and Proforma of Liquidators Final Statement of Account

**Module No:** 16

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### Introduction:

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 end. A company when found necessary can be liquidated. For liquidation of a limited company, liquidation proceedings are to be applied.

### Meaning of Liquidation

Liquidation is the process of law, whereby the corporate life of a company comes to an end. It begins with ascertainment of its rights and liabilities, realising of assets, settlement of claims of its creditors and distribution of the residue to its members.

### Modes of winding up of a company

- ✓ On the ground of inability of the company to pay debt.
- ✓ On the grounds other than inability of the company to pay debt.
- ✓ Voluntary winding up of the company.

### Preference Order Payments

1. Legal Charges
2. Liquidation Expenses
3. Liquidators Remuneration
4. Preferential Creditors
5. Debenture holders including interest up to the date of winding up in case of insolvency of the company and to the date of payment if it is solvent.
6. Unsecured Creditors
7. Preference Shareholders (Arrears of dividend on cumulative preference shares should be paid up to the date of commencement of winding up.)
8. Equity Shareholders

## Liquidators Final Statement of Account

Once the liquidator is being appointed by the company, he is required to prepare an account of winding up known as Liquidators final statement of account.

### Proforma of Liquidators Final Statement of Account

Receipts	Amount	Payments	Amount
To cash at Bank	xx	By Legal Charges	xx
To cash in Hand	xx	By Liquidation Expenses	xx
To Marketable Securities	xx	By Liquidators Remuneration	xx
To Bills Receivable	xx	By Preferential Creditors	xx
To Trade Debtors	xx	By Debenture Holders	xx
To Loans and advances	xx	By Unsecured Creditors	xx
To Stock in Trade	xx	By Preference Shareholders	xx
To work in Progress	xx	By Equity Shareholders	xx
To Freehold Property	Xx		
To Leasehold property	xx		
To Plant and Machinery	xx		
To Furniture and Fittings	xx		
To Patents, Trademarks etc.	xx		
To investments other than Marketable Securities	xx		
To Surplus from Securities	xx		
To unpaid calls at commencement of winding up	xx		
To amt. received from calls on contributories made in the winding up	xx		
	<b>xxx</b>		<b>xxx</b>