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Program: B.Com. (General) **Subject: Corporate Accounting – I**

UNIT - I
ACCOUNTING FOR SHARE CAPITAL

A company is an association of persons who contribute money or money's worth to a common stock and uses it for a common purpose. In the words of Justice James, "a company is an association of persons united for a common object". Sec 3(1) (i) of the Companies Act 1956 defines a company as "company formed and registered under this Act or an existing company".

Characteristics of Company

1. It is a voluntary association of persons
2. It has a separate legal entity
3. It has a common seal
4. It has a perpetual succession.

Kinds of Companies

I. On the basis of formation

1. Chartered companies – Those companies which are incorporated under a special charter by the king or sovereign such as East India Company.

2. Statutory companies – These companies are formed by the special Act of legislature or parliament like RBI.

3. Registered companies – Such companies are incorporated under the Companies Act 1956 or were registered under any previous Companies Act.

On the basis of liability

1. Limited companies- In these companies, the liability of each member is limited to the extent of face value of shares held by him.

2. Guarantee companies – The liability of member of such companies are limited to the amount he has undertaken to contribute to the assets of the company in the event of its winding up.

3. Unlimited Companies – In these companies, the liability of the members is unlimited and members are personally liable to the creditors of the company fop making up the deficiency. Such companies are rare these days.

On the basis of public investment

1. Private Companies – These are companies by its Articles, (i) limits the number of members to 50,(ii)prohibits the invitation to the public to subscribe their shares or debentures and (iii) restricts the transferability of their shares.
2. Public companies – These are companies other than private companies.

SHARE CAPITAL

Total capital of the company is divided into units of small denominations; each one is called a share. According to Sec 2(46) of the Companies Act 1956, share has been defined as a share in the share capital of the company; and includes stock except where a distinction between stock and share is expressed or implied.

CLASSES OF SHARES

A. Preference Shares

Shares which enjoy the preferential rights as to dividend and repayment of capital in the event of winding up of the company over the equity shares are called preference shares. The holder of preference shares will get a fixed rate o dividend.

TYPES OF PREFERENCE SHARES

1. **Cumulative preference shares –** In case of these shares, the arrears of dividend are carried forward and paid out of the profits of the subsequent years.

2. **Non-cumulative preference shares –** If dividend not to accumulate and not to carried forward to next year, these are called non-cumulative preference shares.

3. **Participating preference shares –** In addition to a fixed dividend, balance of profit (after meeting equity dividend) shared by some preference shareholders. Such shares are participating preference shares.

4. **Non-participating preference shares –** These shares get only a fixed rate of dividend. These do not get share in the surplus profit.

5. **Redeemable preference shares –** If preference shares are returned after a specified period to shareholders, these preference shares e shares are called redeemable preference shares.

6. **Convertible preference shares –** These shares are given the right of conversion into equity shares within a specified period or at a specified date according to the terms of issue.

B. Equity Shares

Equity shares are those which are not preference shares. Equity shares do not carry any preferential gain in respect of dividend or repayment of capital. So these are known as ordinary shares. There will be no fixed rate of dividend to be paid to the equity shareholders and this rate may vary from year to year. In winding up, the equity capital is repaid last. However, equity shareholder gets full voting power.

Types of share capital

1. Authorized (Registered or Nominal) Capital – It is the maximum amount of capital which the company is authorized to raise by way of public subscription.

2. Issued Capital – The part of authorized capital which is offered top the public for subscription is called issued capital.

3. Subscribed Capital – That part of the issued capital for which applications are received from the public is called subscribed capital.

4. Called-up Capital – That part of subscribed capital which has been called-up or demanded by the company is called called-up capital.

5. Paid-up Capital – The part of called-up capital which is offered and actually paid by the members is known as paid-up capital. Any unpaid amount of balance on the called-up capital is known as unpaid capital or calls in arrears.

6. Reserve Capital – It is that portion of the uncalled capital which is called-up only at the event of company's winding up.

Difference between equity shares and preference shares

Equity shares	Preference shares
1 It is an ownership security	1. It is a hybrid security
2 Dividend rate is not fixed	2. Dividend rate is fixed
3 Capital is repaid only in winding Up	3. Capital is repaid after a stipulated Period
4 These shares have voting rights	4 These shares generally do not have voting rights
5 Face value is lower	5 Face value is higher

Issue of Share Capital

The shares can be issued either at par, premium or at discount. Shares are said to be issued at par when a shareholder is required to pay the face value of the shares to the company. Shares are said to be issued at premium when a shareholder is required to pay more than the face value to the company. Shares are said to be issued at discount when the shareholder is required to pay less amount than the face value to the company. For example, a company issues the shares having the face value of Rs.10 at Rs.10; it is the issue at par. If it is issued at Rs. 12, the issue is at premium. If it is issued at Rs.8, the issue is at discount.

The issue price of the shares can be received in one installment or it can be received in different installments. If the issue is in different installments, it may be paid on application, allotment and on one or more calls. The amount on application is called application money, the amount dues on allotment is called allotment money and the rest amount is called call money. As per SEBI guidelines the application money on issue must not be less than 25% of issue price (as per Cos Act, it is 5%).

Allotment of shares

Allotment of shares means the acceptance of offer of the applicant for the purchase of shares. Directors have the discretionary power to reject or accept the applications. But the public company cannot allot its shares unless the minimum subscription has been subscribed by the public and the amount of application has been received. After the allotment of shares to the applicants who will become the shareholders of the company.

Issue of shares at premium

Shares are said to be issued at premium when a shareholder is required to pay more than the face value to the company. The excess amount received over the face value is called share premium. It is a capital receipt. The share premium shall be transferred to "Securities Premium A/c". It should be shown on the liability side of balance sheet under the head "Reserves and Surplus".

Issue of shares at discount

Shares are said to be issued at discount when the shareholder is required to pay less amount than the face value to the company. Discount on issue of shares is a capital loss and it should be debited to a separate account called "Discount on issue of shares A/c". It is shown on the assets side of balance sheet under "Miscellaneous Expenditure". The rate of discount should not exceed 10% of nominal value of shares. Generally the discount on issue is recorded at the time of allotment. It is also noted that a newly registered company cannot issue shares at discount.

Over subscription of shares

Sometimes the applications for shares received will be more than the number of shares issued. This is called over subscription. When there is over subscription, it is not possible to issue shares to all applicants. In such a situation company shall reject some applications altogether, allot in full on some applications and make a pro-rata allotment on some applications. Pro-rata allotment means that allotment on every application is made in the ratio which the number of shares allotted bears to number of shares applied. In case of applications fully rejected will be returned to the applicants. In pro-rata allotment the excess application will

be adjusted either on allotment and or on calls. Any surplus left even after the adjustment will be refunded to the applicants.

Calls in Arrears and Calls in Advance

Sometimes shareholders may fail to pay the allotment money and or call money. Such dues are called calls in arrears. It is shown in the balance sheet as a deduction from the called-up capital. Directors are authorized to charge interest on calls in arrears at a rate as per Articles. In its absence, the interest does not exceed 5% pa. When a shareholder pays more money than called up, the excess money is called calls in advance. The company must pay interest on calls in advance at a rate prescribed by Articles. In its absence, the company is liable to pay interest @6% pa. But the shareholder is not entitled to any dividend on calls in advance.

Forfeiture of shares

The cancellation of shares due to non-payment of allotment money or call money within a specified period is called forfeiture of shares. It is the compulsory termination of membership of the defaulting shareholders. He also losses whatever amount he has paid to the company so far. A company can forfeit the shares only if it is authorized by its Articles. The forfeiting is done only after giving 14 days notice to the defaulting shareholders. The balance of forfeited shares A/c should be shown by way of an addition to called up capital on the liability side of balance sheet till the shares are reissued.

UNIT – II

DEBENTURES

The term 'debenture' has been derived from the Latin word 'debere', which means 'to borrow'. Debenture is an instrument in writing given by a company acknowledging debt received from the public.

The Companies Act defines debenture as "debenture includes debenture stock, bonds or any other securities of a company, whether constituting a charge on the assets of the company or not".

Features of Debenture

1. It is an instrument of debt issued by company under its seal.
2. It carries fixed rate of interest.
3. Debenture is a part of borrowed capital.
4. It is repaid after a long period.
5. It is generally secured.

Difference between shares and debentures

Share	Debenture
1. The person holding share is called Shareholder	1. The person having debenture is called debenture holder
2. It is part of owned capital	2. It is a part of borrowed capital
3. Dividend is paid on shares	3. Interest is paid on debenture
4. Rate of dividend varies year to year	4. Rate of interest is fixed
5. Shareholder has voting right	5. Debenture holder doesn't have voting right
6. It can't be converted into debenture	6. It can be converted into share

Classification of debentures

1. Secured or Mortgage debentures – These debentures are secured either on a particular asset or on the assets of the company in general.

2. Unsecured or Naked debentures – These debentures do not create any charge on the assets of the company.

3. Registered debentures – These debentures arte payable to the persons recorded in the register of debenture holders of the company and these are transferable only with the knowledge of the company.

4. Bearer debentures – In these debentures company maintains no register of debenture holders and these are transferable by mere delivery.

5. Redeemable debentures – These debentures are repayable after a fixed period either in lump sum or in installments.

6. Perpetual or Irredeemable debentures – These debentures are not repayable during the life time of the company.

7. Convertible debentures – These debentures can be converted into the shares within or after a Specified period, at the option of the holder.

8. Non-Convertible debentures – These debentures can't be converted into shares.

Discount or Loss on issue of debentures

Discount or loss on issue of debentures and premium on redemption are capital losses. They are shown in the balance sheet under the head "Miscellaneous Expenditure". Being the losses, they are to be written off against capital reserve or security premium A/c. In its absence it is written off to P& L A/c during the life of debentures.

The entry is

Capital reserve/Security premium A/c Dr

Profit and Loss A/c Dr

To. Discount / Loss in Issue of debentures A/C

REDEMPTION OF DEBENTURES

Redemption of debentures refers to the discharge of liability on account of debentures. It simply means repayment of debentures. As per Companies Act, the debentures should be redeemed in accordance with the terms and conditions of issue.

The following entries are passed for redemption of debentures.

a. When debentures are redeemed at par

   i. Debentures A/c Dr

      To debenture holders A/c

   ii. Debenture holders A/c Dr

      To Bank A/c

b. When debentures are redeemed at premium

   i. Debentures A/c Dr

      Premium on redemption A/c Dr

      To debenture holders A/c

   ii. Security premium/ General reserve/P&L A/c Dr

      To Premium on redemption A/c

   iii. Debenture holders A/c Dr

      To Bank A/c

Sources of redemption of debentures

Debentures can be deemed out of the following sources

1. **Redemption out of fresh issue.**

A company may issue new shares or debentures or both for redeeming the existing debentures.

2. **Redemption out of Capital**

If debentures are redeemed out of capital, no amount of divisible profit is kept aside for Redeeming debentures. Redemption out of Capital reduces the liquid resources available to the company. As per the guidelines issued by SEBI, a company has to create Debenture Redemption Reserve (DRR) equivalent to 50% o the amount of debenture issue before redemption of debentures commences. But the creation of DRR is not required in the following cases

a. Debentures with maturity of 18 months or less
b. Fully convertible debentures.

3. **Redemption out of profit**

When sufficient profits are transferred from P & L Appropriation A/c to the Debenture Redemption Reserve A/c at the time of redemption of debentures, such redemption is said
to be out of profits. It reduces the profits available for dividend. The following entry is passed for transfer of profit

P & L Appropriation A/c Dr
To Debenture Redemption Reserve A/c

As per guidelines of SEBI, creation of DRR (50% of amount of debentures issued) is compulsory for debentures with maturity period of more than 18 months. On the completion of redemption of all debentures, the DRR A/c is close by transferring it to general reserve. The entry is as follows

Debenture Redemption Reserve A/c Dr

To General Reserve A/c

REDEMPTION OF PREFERENCE SHARES

When the preference shares are issued it is to be paid back by the company to such shareholders after the expiry of a stipulated period whether the company is to be wound up or not.

As per Sec 80 of the Companies Act, a company limited by shares can redeem the preference shares, subject to the following conditions

1. The shares to be redeemed must be fully paid up.
2. Such shares can be redeemed either out of profit or out of the proceeds of fresh issue of shares. But these cannot be redeemed out of fresh issue of debentures or out of sale proceeds of any property of the company.
3. Premium payable on redemption must be provided out of profits of company or out of company's security premium account.
4. When shares are redeemed out of profit, a sum equal to the nominal amount of shares so redeemed must be transferred out of profit to a reserve account namely Capital Redemption Reserve A/c.
5. The Capital Redemption reserve A/c can be utilized only for the issue of fully paid up bonus shares.

The preference shares can be redeemed either at par or at premium (but not at discount). Premium on redemption is provided out of existing security premium account or security premium on fresh issue. If they are not sufficient, the redemption premium should be provided out of P&L A/c or General Reserve.

Methods of Redemption

There are three methods for redemption of preference shares. They are:

(a) Redemption out of fresh issue of shares
(b) Redemption out of profits
(c) Redemption partly out of fresh issue and partly out of profit

BUY BACK OF SHARES

Buy back is a method of cancellation of share capital. It simply means buying of own shares. It leads to reduction in the share capital of a company.

Objectives of buy back

1. To return surplus cash to investors
2. To improve the financial health
3. To increase the EPS
4. To increase the market price of the share

Advantages of buy back

1. It helps to return the surplus cash to investors
2. It helps to increase the EPS
3. It increases promoter's holding in the company
4. It helps to restructure the capital base of the company

Disadvantages of buy back

1. It implies under valuation of company's stock
2. It may be used as a tool of insider trading
3. It may be used for manipulating the prices of shares.

Methods of buy back

As per SEBI guidelines, there are two methods of buy back of shares. They are:

1. Buy back through tender offer – Under this, a company can buy back its shares from its existing shareholders on a proportionate basis.

2. Buy back from the open market – A company can also buy back its shares from the open market either through stock exchanges or book building process.

UNIT – III

Final Accounts of Companies

It is not obligatory to sole proprietors and partnership firms to prepare the final accounts as per the statute. But, according to Section 210 of Indian Companies Act 1956 it is a statutory obligation to a joint stock company to prepare its final accounts. The final accounts of a company consist of (a) Balance Sheet and (b) Profit and Loss Account.

Balance Sheet

The Balance sheet of companies must be prepared according to the prescribed form given in Part I of Schedule VI of the Companies Act. As per the Companies Act, the Balance sheet of companies can be prepared in two forms – (i) Horizontal Form and (ii) Vertical Form.

Profit and Loss Account

In Companies Act, there is no specified format for preparation of Profit and Loss Account of companies. It is not required to split the Profit and Loss Account into three sections (Trading Account, Profit and Loss Account and Profit and Loss Appropriation Account). Only the Profit and Loss Account is prepared which cover items appearing in Trading Account and Profit and Loss Appropriation Account. But it is desirable to split the Profit and Loss Account into three sections so that Gross profit, Net profit and Surplus carried to balance sheet may be ascertain\ed. Under this Trading and Profit and Loss Account items are called as items 'above the line' and the Profit and Loss Appropriation Account items are called as items 'below the line'. The section of Profit and Loss Appropriation Account is prepared in the following manner.

To Transfer to Reserves		By Last Year's Balance b/d
To Income tax for		By Net Profit for the year b/d
previous year not		By Amount withdrawn from
provided for		General Reserve or any Other

To Interim dividend		Reserves
To Proposed dividend		By Provision such as income
To Corporate Dividend		tax provision no longer
Tax		Required
To Surplus (Bal. Fig)		
carried to Balance Sheet		

Thus the account showing the disposal of divisible profits is called Profit and Loss Appropriation Account. The credit balance of Profit and Loss Appropriation Account is shown on the liability side of the Balance sheet under the head 'Reserves and Surplus'. Debit balance is shown on the assets side of the balance sheet under the head 'Miscellaneous expenditure'.

Income tax is payable in the assessment year on the income earned during the previous year. A company will estimate the tax payable for the current accounting period and on this basis it will make provision for taxation. Provision for taxation is debited to Profit and loss Account and it will appear on the liability side of balance sheet under the head 'Provisions'. When assessment completed, the provision for tax will be adjusted. If the assessed tax is more than the provision made in the previous year, the excess has to be shown on the debit side of Profit and Loss Appropriation Account. If the assessed tax is less than the opening provision, such excess provision should be credited to the Profit and Loss Appropriation Account.

Dividend

The divisible profit (profit available to shareholders) of a company is distributed among the shareholders of the company on the basis of number of shares held. This is called dividend. The Board of Directors recommends the amount of dividend and the shareholders in their annual general meeting declare the dividend recommended by the Board of Directors. Dividend is usually paid on paid up capital.

Proposed dividend

It is the dividend recommended by Board of Directors after the close of the books of account. When it I approver by the shareholders in the annual general meeting, it becomes final dividend.

Interim dividend

Interim dividend refers to the dividend paid by the company before the preparation of final accounts. It is declared between two annual general meetings.

Final dividend

It is the dividend which is proposed and declared at the end of the accounting year after the close of the books of account.

Unclaimed dividend

It refers to the dividend not yet claimed by the shareholders within 30 days of declaration of dividend. It is shown as a current liability in the balance sheet.

Corporate Dividend Tax (CDT)

The companies distributing dividend are required to pay tax on such dividends. It is called Corporate Dividend Tax (CDT). CDT is payable on any amount declared, distributed or paid by a company as dividend. At present, the rate of CDT is 16.995 %(17%). Corporate Dividend Tax is shown on the debit side of Profit and Loss Appropriation Account and on the liability side of Balance sheet under the head 'Current liabilities and Provisions' (Provisions).

Transfer to Reserves

Generally, Board of Directors has the discretionary power regarding the transfer of profit to the reserve. However, as per Section 205(2A) of the Act, it is compulsory for a company to transfer certain minimum amount to the reserve at a rate not exceeding 10%. Amount of transfer to reserve depends on the rate at which dividend is to be declared as follows:

i. If the dividend proposed exceeds 10% but not exceed 12.5% of the paid up capital, the amount to be transferred to the reserve shall not be less than 2.5% of the current profits.
ii. If the dividend proposed exceeds 12.5% but not exceed 15% of the paid up capital, the amount to be transferred to the reserve shall not be less than 5% of the current profits.
iii. If the dividend proposed exceeds 15% but not exceed 20% of the paid up capital, the amount to be transferred to the reserve shall not be less than 7.5% of the current profits.
iv. If the dividend proposed exceeds 20% of the paid up capital, the amount to be transferred to the reserve shall not be less than 10% of the current profits.

Unit – IV

Amalgamation of Companies

There are many forms of business combinations to obtain the economies of large scale production or to avoid the cut throat competition. They are amalgamation, absorption, external reconstruction etc.

The term amalgamation is used when two or more existing companies go into liquidation and a new company is formed to take over the business of liquidated companies. The term absorption is used when an existing company takes over the business of one or more existing companies which go into liquidation. In external reconstruction, one existing company goes into liquidation and a new company is formed to take over the former company.

Definitions as per Accounting Standard 14 (AS-14)

a. Amalgamation – means an amalgamation pursuant to the provisions of the Companies Act 1956 or any other statute which may be applicable to companies.
b. Transferor Company – means the company which is amalgamated into another company.

c. Transferee Company – means the company to which a 6ransferor company is amalgamated.

d. Reserve – means the portion of earnings, receipts or other surpluses of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than provision for depreciation or diminution in the value of assets or for a known liability.

Types of Amalgamation

As per AS-14 there are two types of amalgamation (1) Amalgamation in the nature of merger and (2) Amalgamation in the nature of purchase.

Amalgamation in the nature of Merger (Pooling Interest Method)

An amalgamation should be considered to be an amalgamation in the nature of merge when all the following conditions are satisfied:

i. All the assets and liabilities of the Transferor Company or companies before amalgamation should become the assets and liabilities of the transferee company.

ii. Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (excluding the proportion held by the transferee company) should become the shareholders of the transferee company.

iii. The consideration payable to the above mentioned shareholders should be discharged by the transferee company by the issue of the equity shares and cash can be payable in respect of fractional shares.

iv. The business of the Transferor Company/ companies is intended to be carried on by the transferee company.

v. No adjustment is intended to be made to the book values of the assets and liabilities of the Transferor Company/ companies when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Amalgamation in the nature of purchase

An amalgamation should be considered to be an amalgamation in the nature of purchase, when any one or more of the conditions specified for amalgamation in the nature of merger is not satisfied.

Difference between Amalgamation in the nature of merger and Amalgamation in the nature of purchase

Merger	Purchase
1. There is a genuine mpooli9ng of assets and liabilities of the transferor companies as well as the share holders' interest. As such the shareholders of all the transferor companies conti9nue to have substantial or proportionate share in the equity or management of Transferee Company.	1. One company acquires another. As a consequencx3, the shareholders of the transferor company normally do not continue to have a proportionate share in the equity management of the transferee company.
2. Assets, liabilities and reserves of the transferor company are recorded by the transferee company at their book values.	2. Assets, liabilities and reserves of the transferor company are recorded by the transferee company either at book value or at values revised on the basis of their fair values.
3. The balance of P&L A/c of the transferor company aggregated with the balance of the P&L A/c of the transferee company.	3. The balance of P&L A/c of the transferor company is not included in the books of the transferee company.
4. All reserves whether capital or revenue 0of Transferor Company are	4. Only statutory reserves of Transferor Company are taken in the books of Transferee Company in order to

merged into the reserves of Transferee Company.	preserve their identity.
5. It is always intended to continue the business of transferor company.	5. It may not be intended to continue the business of Transferor Company.
6. All the assets of Transferor Company become the assets of the transferee company.	6. All the assets of Transferor Company may or may not become the assets of the transferee company.
7. Purchase consideration is usually valued at the par value of the shares issued.	7. Purchase consideration is usually valued at the market price of the shares issued.

Purchase Consideration

Purchase consideration is the amount which is paid by the transferee company for the purchase the business of Transferor Company. As per AS-14, consideration for amalgamation means the aggregate of shares and other securities issued and the payment made in the form of
cash or other assets by the transferee company to the shareholders of the transferor company. Purchase consideration does not include any payment to outsiders including debenture holders. The purchase consideration may be calculated in the following ways:

1. **Lump Sum Method**: When the transferee company agrees to pay a fixed sum to the transferor company, it is called lump sum payment of purchase consideration. For example, X Ltd purchases the business of Y Ltd for a consideration of 1000000.

2. **Net Worth (Net Assets) Method**: Under this method, the net worth of the assets taken over by the transferee company is taken as purchase consideration. Here, Purchase consideration = Assets taken over at agreed values – Liabilities taken over at agreed

values. The following points are noted while calculating purchase consideration under his method:

a. Cash balance is usually included in assets. But if it is not taken over, it will not be included.
b. Fictitious assets should never be added.

c. Accumulated profits and reserves should not be considered.

d. The term 'liabilities' include all liabilities to third parties. But 'trade liabilities' include only trade creditors and bills payable.

e. The term 'business' will always means both the assets and liabilities.

3. **Net Payment method**: Under this method, purchase consideration is the aggregate of all payments in the form of cash, shares, securities etc. to the shareholders of the transferor company by the transferee company. The following points are considered while calculating purchase consideration under this method:

a. The assets and liabilities taken over by the transferee company are not considered.
b. Purchase consideration includes the payments to shareholders only.
c. Any payments made by the transferee company to some other party on behalf of the transferor company are to be ignored.

4. **Share exchange or Intrinsic value Method**: Under this method purchase consideration is calculated on the basis of intrinsic value of shares. The intrinsic value of a share is calculated by dividing g the net assets available le for equity shareholders by the number of equity shares. This value determines the ratio of exchange of the shares between the transferee and transferor companies.

Steps in accounting procedure of amalgamation, absorption and external reconstruction

a. Calculation of purchase consideration.

b. Ascertainment of discharge of purchase consideration.

c. Closing the books of transferor companies.

d. Passing opening entries in the books of purchasing or transferee company.

UNIT – V

Liquidation of Companies

Liquidation is a process by which the business of a company is closed, assets are sold, the money realized from sale is used for payment to creditors and if any amount is left after payment to various creditors, it is divided between the shareholders as per the provisions given in the articles. Therefore liquidation is a process by which the life of a company comes to an end

Various modes of Winding Up of a Company

According to Section 425 (1), the winding up of a company may be by any of the following three methods :-

(1) Compulsory winding up or winding up by court

(2) Voluntary winding up

 (a) Voluntary winding up by members and

 (b) Voluntary winding up by creditors

(3) Winding up under supervision of court

Compulsory Winding Up or Winding Up by Court : When company is liquidated on the order of court it is called winding up by court or compulsory winding up. Court can give order in following situations:

(i) If company has passed special resolution for winding up of company.

(ii) If company does not call statutory meeting within the prescribed time or does not present statutory report to registrar.

(iii) If company does not commence its business within a year from its incorporation or suspends its business for a whole year.

(iv) If the number of members is reduced below seven in case of public company or below two in case of private company.

(v) If the company is unable to pay debts.

(vi) If the court is of the view that it is just and equitable to close the business.

Procedure of Compulsory Winding Up : A Procedure aptitude by court for compulsory winding up of a company is as follows :-

(i) An Application for winding up is filled to court.

(ii) Consideration on application by court

(iii) After hearing the application court can give winding up order and to discharge liquidation activities appoints a liquidator.

(iv) Presentation of statement of affairs of company to the liquidator.

(v) Liquidator takes the right of the company and presents the report of the company to the court.

After checking the report court gives the order of completion of winding up liquidator sends a certified copy of this order to office of Registrar and registrar cut offs the name of company.

Voluntary Winding Up : A company may be wound up voluntarily by passing ordinarily resolution or special resolution. Voluntary winding up may be of two types :-

Voluntary Winding Up by Members : In this case director make declaration called declaration of solvency and file it to the Registrar and Shareholders passes a special resolution for winding of the company. After that liquidator is appointed for winding up of the company. Liquidator after making scrutiny of accounts reports to the court. The company is deemed to have been dissolved from the date of submission of report.

Voluntary Winding up by Creditors : When company is not in a position to meet its liabilities the creditors takes over the control to secure their interests. In this case Resolution for voluntary winding up by creditors is passed by members in the general meeting of company.

Winding Up Under Supervision of Court : At any time after the company has passed a resolution for voluntary winding up, the court may direct that the voluntary winding up shall continue subject to supervision of court if :-

(i) The resolution for voluntary winding up has not been approved, or

(ii) Any creditor or member of company has applied to the court for winding up under its supervision

(iii) The court is of opinion that without it the interests of members and creditors are not secured

Under it, the court get the same powers as it was having under compulsory winding up. Remaining Procedure is same.

Statement of Affair and specimen form of this statement.

When winding up of company is as per the order of the court or provisional official liquidator is appointed by the court, the directors and officers are required to present a statement of affairs to the liquidator within 21 days of winding up order or appointment of liquidator.

The following points are mentioned in the statement of affairs :-

Assets of company and loans and liabilities of company.

(ii) Full disclosure of creditors and Debtors of the company.

(iii) Other information required by Central Government and liquidator.

Statement of affairs is prepared in a prescribed format which is as follows:-

Assets not specifically pledged (as per list „A")	Estimated realizable value Rs.
Bank Balance	
Cash in Hand	
Marketable Securities	
Bills Receivable	
Trade Debtors	
Loans and Advances	
Unpaid Calls	
Stock in Trade	
Work-in-Progress	
Freehold Property, Land and Building	
Leasehold Property	
Plant and Machinery	
Furniture Fittings, Utensils etc.	
Investments other than Marketable Securities	
Live Stock	
Other Property viz.	

Assets	(a)	(b)	(c)	(d)	………..
Specifically pledged (as per list „B")	Estimated realizable value Rs.	Due to Secured Creditors Rs.	Deficiency ranking as unsecured Rs.	Surplus carried to last column Rs.	
Estimated Surplus from Assets specifically pledged Estimated Total Assets available for Preferential Creditors, Debenture Holders secured by a Floating Charge and Unsecured Creditors					………..

Description of above lists is as follows :-

(1) **Assets not Specifically Pledged as per List „A"** : under this heading the assets which are not pledged are shown.

(2) **Assets Specifically Pledged as per List „B" :** The assets which are pledged with creditors is shown under this head. The related description of assets and loan is shown under four column of amount.

(3) **Overriding Preferential Payments :** Workmen"s dues & debts due to secured creditors shall be paid in priority to all other debts.

(4) **Preferential Creditors as per List „C" :** Preferential creditors are those unsecured creditors who are paid in priority to creditors having a floating charge and other (non-preference) unsecured creditors. Preferential creditors include the following :-

(i) All Revenues, taxes, cases and rates due to the central or state government or to a local authority which have become due and payable within twelve months before the date of winding up order.

(ii) All wages or salaries of any employee not exceeding Rs. 20,000 due for a period not exceeding four months within the said twelve months before the date of winding up order.

(iii) All accrued holiday remuneration becoming payable to an employee officer is not included in it.

(iv) If any person has given any loan to the company for making payment (i) and (ii) above, he will be assumed as preferential creditors.

(v) All amount due in respect of contribution payable during the twelve months under the Employee‟s State Insurance
Act, 1948.

(vi) All Compensation due under workmen compensation Act, 1923 above two rules do not apply when winding up is voluntary for amalgamation or reconstruction.

(vii) All sums due to any employee from any fund for the welfare of the employee maintained by the company.

(viii) The expenses of any investigation held in pursuance of section 235 or 237 in so far as they are payable by the company.

(5) **Debenture having a Floating Charge on Assets of the Company as per list „D‟ :** Generally Debentures floating charge on movable and immovable assets of company, therefore they are shown before unsecured creditors.

(6) **Unsecured Creditors as per list „E" :** All creditors except preferential creditors and fully secured creditors are included in this list.

(7) **Preference Share Capital as per list „F" :** Called up share capital is shown under this head. Unrealized amount from shareholders is deducted from list F.

(8) **Equity Share Capital as per list „G" :** Called up capital is shown under this head.

(9) **Deficiency or Surplus as regards Members as per list „H" :**

Deficiency or surplus in case of winding up is included in this list.

Liquidator's Statement of Account

Company can be wound up by court or voluntarily. Liquidator is appointed in both the cases. If company is liquidated by court, the liquidator is also appointed by court. All the assets of the company are realized and all the liabilities are paid then the liquidator presents a final statement of account to the court. It is called "Liquidator's Final Statement of Account.

If company is voluntarily winding up, he is appointed by shareholders; therefore, he presents his final statement of account to the court company.

Liquidation Statement of Account of the Winding Up

Receipts	Estim- Ated Value	Value Realized	Payment	Rs. P.	Pay- ment Rs. P.
Assets :			(i) Legal Charges		. . .
Cash at Bank			(ii) Liquidators		
Cash in Hand			Remuneration		
			% on Rs.		
Marketable Securities			….Realized	. . .	. . .
			% on		
Bills Receivable			Rs..Distributed	. . .	
Trade Debtors					
Loans and Advances					
Stock in Trade					
Work in Progress			**Total**	. . .	
Freehold Property			(iii) Liquidation	. . .	
Leasehold Property			Expenses		
			(iv		
Plant & Machinery			) Preferential	. . .	
Furniture, Fittings, Utensils					
etc.			Creditors	. . .	
Patents, Trademarks etc					
.			(v) Creditors having a		
Investments other than			Floating Charge	. . .	
Marketable Securities			(vi) Secured Creditors		
Surplus From					
Securities			(vii) Returns to	. . .	
Unpaid Calls at					
Commen-			Contributories	. . .	
cement of Winding-Up			(viii) Preference Share		
Amount Received					
from Calls			Capital		
on Contributories Made in			(ix		
the			) Equity Share		
Winding-Up			Capital		
Receipts as per Trading A/c					
Other Property					
		. . .			. . .

Who is termed as "contributory"? Discuss his Liability in the event of Winding-Up of Company. How is the Liability of list „B" contributories determined?

Contributory: According to the section 428 of Companies Act, contributory means a person liable to contribute to the assets of company in the event of its being wound up and includes holders of shares which are fully paid.

The following persons are included as contributories :-

(i) **Present Members :** Present members are the members whose names are included in the register at the time of staring of winding up process. In case of winding up of a company every present member is liable to contribute in the assets of the company member is liable for the amount which remain unpaid on his shares. These members are known as contributories of List A.

(ii) **Past Members :** Persons who are ceased to be members of the company within one year before the commencement of winding up. Their liability is secondary. The members are knows as „B-List of contributories."

Liability of Past Members (B List Contributories) :

(i) Past members is not liable, if he ceased to be a member before 1 year of commencement of winding up.

(ii) The ex-member will not be liable for the agreements done after he ceased to be a member.

(iii) The ex-member shall be liable only for the amount remained unpaid on shares.

(iv) The ex-member shall not be liable till the court is satisfied that the present members are unable to make contribution.

(v) The liability of ex-members shall be in proporting to the shares held at the time of ceasing of membership.