Chapter 01:- Redemption of Preference Shares

Introduction:

Redemption is the process of repaying an obligation, at prearranged amounts and timings. It is a contract giving the right to redeem preference shares within or at the end of a given time period at an agreed price. These shares are issued on the terms that shareholders will at a future date be repaid the amount which they invested in thecompany (along with frequent payment of a specified amount as return on investmentduring the tenure of the preference shares). The redemption date is the maturity date,which specifies when repayment takes place and is usually printed on the preference share certificate

Meaning of Preference Shares

According to section 85 of the companies act, 1956, persons holding preference shares, called preference shareholders. They are assured of a preferential dividend at a fixed rate during the life of the company. This type of shareholders carry preferential right over other shareholders to be paid first in case of liquidation of the company. Companies use this mode of financing as it is cheaper than rising debt.

Purpose of Issuing Redeemable Preference Shares

A company may issue redeemable preference shares because of the following:

1 It is a proper way of raising finance in a dull primary market.

2. A company may face difficulty in raising share capital, as its shares are not traded on the stock exchange. Potential investors, hesitant in putting money into shares that cannot easily be sold, may be encouraged to invest if the shares redeemable by the company.

3 The preference shares may be redeemed when there is a surplus of capital and the surplus funds cannot be utilised in the business for profitable use.

In India, the issue and redemption of preference shares is governed by Section55 of the Companies Act, 2013.

Provisions of the Companies Act

A company limited by shares if so authorized by its Articles, may issue preference shares which at the option of the company, are liable to be redeemed within a period,normally not exceeding 20 years from the date of their issue. It should be noted that:

(a) no shares can be redeemed except out of profit of the company which would otherwise be available for dividend or out of proceeds of fresh issue of shares made for the purpose of redemption;

(b) no such shares can be redeemed unless they are fully paid;

(c) where any such shares are proposed to be redeemed out of the profits of the company, there shall, out of profits which would otherwise have been available for dividends, be transferred to a reserve account to be called Capital RedemptionReserve Account, a sum equal to the nominal amount of the shares redeemed; and the provisions of the Act relating to the reduction of the share capital of a company shall, except as provided in the Section, apply as if the Capital Redemption Reserve (CRR) Account were the paid-up share capital of the company.

<u>Methods of Redemption</u>

Redemption of preference shares means repayment by the company of the obligationon account of shares issued. According to the Companies Act, 2013, preference shares issued by a company must be redeemed within the maximum period (normally 20 years) allowed under the Act.

(a) the proceeds of a fresh issue of shares;

(b) the capitalization of undistributed profits; or

(c) a combination of (a) and (b).

Redemption of Preference Shares by FreshIssue of Shares

One of the methods for redemption of preference shares is to use the proceeds of a fresh issue of shares. A company can issue new shares (equity share or preference share) and the proceeds from such new shares can be used for redemption of preferenceshares.

<u>Reasons for issue of New Equity Shares</u>

A company may prefer issue of new equity shares for the following reasons:

(a) When the company has come to realise that the capital is needed permanently and it makes more sense to issue Equity Shares in place of Redeemable Preference Shares which carry a fixed rate of dividend.

(b) When the balance of profit, which would otherwise be available for dividend, is insufficient.

(c) When the liquidity position of the company is not good enough.

<u>Advantages of redemption of preference shares by issue of freshequity shares</u>

Following are the advantages of redemption of preference shares by the issue of freshequity shares:

(1) No cash outflow of money – now or later.

(2) New equity shares may be valued at a premium.

(3) Shareholders retain their equity interest.

<u>Disadvantages of redemption of preference shares by issue of freshequity shares</u>

The disadvantages are:

(1) There will be dilution of future earnings;

(2) Share-holding in the company is changed.

Redemption of Preference Shares by Capitalisation of Undistributed Profits

Another method for redemption of preference shares, as per the Companies Act, is touse the distributable profits in place of issuing new shares. When shares are redeemedby utilising distributable profit, an amount equal to the face value of shares redeemed is transferred to Capital Redemption Reserve Account by debiting the distributable profit. In other words, some of the distributable profits are kept aside to ensure that itcan never be distributed to shareholders as dividend.

In this connection, the provisions of the Companies Act state that 'When any such shares are redeemed otherwise than out of the proceeds of a fresh issue, there shall out of profits which would otherwise have been available for dividend, be transferred to a reserve fund to be called the Capital Redemption Reserve Account sum equal to the nominal amount of the shares redeemed'.

Advantages of redemption of preference shares by capitalization of undistributed profits

The advantages of redemption of preference shares by capitalization of undistributed profits are:

(1) No change in the percentage of equity share-holding of the company;

(2) Surplus funds can be used.

Disadvantages of redemption of preference shares by capitalization of undistributed profits

The disadvantage of redemption of preference shares by capitalization of undistributed profits is that there may be a reduction in liquidity.

Redemption of Preference Shares by Combination of Fresh Issue and Capitalisation of Undistributed Profits

A company can redeem the preference shares partly from the proceeds from new issueand partly out of profits. In order to fill in the 'gap' between the face value of shares redeemed and the proceeds of new issue, a transfer should be made from distributableprofits (Profit & Loss Account, General Reserve and other Free Reserves) to Capital Redemption Reserve Account.

Capital Redemption Reserve Account

As per Companies Act, section 80, it will be clear that, if the preference shares are redeemed out of the accumulated profit, it will be necessary to transfer an amount equal to the amount repaid on the redemption to capital redemption reserve account.

Problems:

1) XY Co, ltd had part of its share capital in 2000 preference shares of Rs 10 each fully paid up and these have become due for redemption. The preference share capital was to be redeemed out of a fresh issue of equity shares at par made particularly for this purpose and the general reserve of the company stood at Rs 25,000. Show the journal entries for the above transactions.

Solution : Journal Entries in the books of XY Co, Ltd

Date	Particulars	Dr	Cr
1	Preference share capital a/c Dr To Preference shareholders a/c (Being amount payable on redemption of 2,000 preference shares)	20,000	 20,000
2	Bank a/c Dr To Equity Shares Capital a/c (Being the amount received on issue of 2,000 equity shares of Rs 10 each made for the purpose of redemption of Preference shares)	20,000	 20,000
3	Preference shareholders a/c Dr To bank a/c (Being the amount due to preference shareholders paid)	20,000	 20,000

2) Kitkat Co, Ltd issued 50,000 Equity shares of Rs 10 each and 3000, 10% preference shares of Rs 100 each, all shares being fully paid. On 31/03/2008, P&L account showed an undistributed profit of Rs 50,000 and General Reserve Account stood at 1,20,000. On 2,04,08, the directors decided to issue 1,500, 6% preference shares of Rs 100 each for cash and to redeem the existing preference shares at Rs 105 utilizing as much as would be required for the purpose. Show the journal entries to record the transactions.

Solution : In the books of Kitkat Co, Ltd as on 31/03/2008

Date	Particulars	Dr	Cr
02/04/2008	10% Preference share capital a/c Dr Premium on Redemption of Preference shares (3,000*5) Dr To Preference Shareholders a/c (Being amount payable on redemption of 3,000 Preference shares , with premium of Rs 5)	3,00,000 15,000	 3,15,000
02/04/2008	Bank a/c (1,500*100) Dr To 6% Preference Share Capital a/c (Being the amount received on issue of 1,500, 6% preference shares of Rs 100 each)	1,50,000	 1,50,000
02/04/2008	General Reserve a/c Dr To premium on Redemption of Preference shares a/c (Being the amount written off against general reserve)	15,000	 15,000
02/04/2008	General Reserve a/c Dr Profit &loss a/c Dr	1,05,000 45,000	

	To Capital Redemption Reserve a/c (Being amount transferred equal to the difference between the nominal value of shares redeemed and proceeds of new issue)		1,50,000
02/04/2008	Preference shareholders a/c Dr To Bank a/c (Being the amount due to preference shareholders paid)	3,15,000	 3,15,000

3) A company had 5,000, 6% preference shares of Rs 100 each fully paid. These shares were due for redemption on 31st March, 2009 at a premium of 10%. To carry out the redemption, the company issued 1,250 equity shares of Rs 100 each at a premium of 7.5%. The company had a balance of 25,000 in the securities premium a/c and Rs 4,87,500 in the p&l alc. Pass journal Entries.

Solution :- Journal Entries in the books of

Date	Particulars	Dr	Cr
1	Bank a/c (1,250 * 107.5) Dr To Equity share capital a/c(1,250 *100) To securities premium a/c (1,250 * 7.5) (Being 1,250 equity shares of Rs 100 each issued at 7.5% premium for the purpose of redemption)	1,34,375	 1,25,000 9,375
2	Preference share capital a/c (5,000 *100) Dr Premium on redemption a/c (5,000 *10) Dr To Preference shareholders a/c (Being amount payable on redemption @ 10% premium)	5,00,000 50,000	 5,50,000
3	Securities premium a/c (25,000 + 9,375) Dr P&l a/c (50,000 – 34,375) Dr To premium on redemption a/c (Being premium payable on redemption adjusted)	34,375 15,625	 50,000
4	P&L a/c Dr To capital Redemption Reserve a/c (Being balance of capital payable transferred)	3,75,000	 3,75,000
5	Preference Shareholders a/c Dr To bank a/c (Being payment made on redemption)	5,50,000	 5,50,000

4) Aashwanth Ltd. has 2,000, 11% Redeemable Preference shares of Rs 100 each fully paid, Capital Reserve Rs 20,000, Securities Premium Rs 6,000, General reserve Rs 34,000 & P&La/c Rs 54,000. The preference shares were due to be redeemed at 10% premium. As the divisable profits are inadequate, the company issued Equity shares of Rs 10each at a discount of 10% for redemption. Pass journal entries.

Solution :- **Journal Entries in the books of Aashwanth Ltd**

Date	Particulars	Dr	Cr
1	Preference Share capital a/c (2,000 *100) Dr Premium on redemption a/c (2,000 *10) Dr To preference shareholders a/c (Being Amount payable to redeemable preference shareholders)	2,00,000 20,000	 2,20,000
2	Security premium a/c Dr P&L a/c Dr To premium on redemption a/c (Being provision for premium provided)	6,000 14,000	 20,000
3	General Reserve a/c Dr P&L a/c Dr To capital Redemption Reserve a/c (Being amount transferred to Capital redemption reserves)	34,000 40,000	 74,000
4	Bank a/c (14,000 *9) Dr Discount on issue of shares (14,000*1) Dr To Equity Share Capital a/c (Being issue of 14,000 equity shares of Rs 10 each at a discount of 10%)	1,26,000 14,000	 1,40,000
5	Preference Shareholders a/c Dr To bank a/c (Being Payment made)	2,20,000	 2,20,000

Working Note: **Calculation of No of Equity shares to be issued.**

Preference Share capital (2,000 *100) = 2,00,000

Less:- P&L a/c + General Reserve (40,000 + 34,000) = 74,000

Equity Capital 1,26,000

No. of Equity Shares to be issued = 1,26,000 = 14,000 Shares.

5) The Blank ltd.'s Balance sheet shows the following balances on 31-03-18. 30,000 equity shares of Rs 10 each fully paid; 18,000 10% Redeemable Preference shares of Rs 10 each fully paid; 4,000, 15% Redeemable preference shares of Rs 10 each, Rs8 paid up. General Reserve Rs 1,20,000; Securities Premium Rs 15,000; Profit loss account Rs 80,000 and Capital Reserve Rs 20,000. Preference shares are redeemed on 1-04-18 at a premium of Rs2 per share. For redemption, 4,000 equity shares of Rs 10 each are issued at 10% premium. A bonus issue of equity share was made at par, two shares being issued for every five held on that date. Show the journal entries to record the above transactions.

Solution :- **Journal Entries in the books of Blank Ltd.**

Date	Particulars	Dr	Cr
1/4/2018	10% Preference share capital a/c Dr Premium on redemption of Preference shares a/c Dr To Preference Shareholders a/c (Being amount payable on redemption of 18,000 preference shares with 2% premium)	1,80,000 36,000	 2,16,000
1/04/2018	Bank a/c (4,000 *11) Dr To Equity Share Capital a/c To Securities premium a/c (Being the amount received on issue of 4,000, Equity shares of Rs 10 each at 10% premium)	44,000	 40,000 4,000
1/04/2018	Securities Premium a/c (15,000 +4,000) Dr P&L a/c Dr To premium on redemption of preference Shares a/c (being the amount written off against general reserves)	19,000 17,000	 36,000
1/04/2018	General Reserve a/c Dr P&L a/c Dr To Capital redemption reserve a/c (Being amount transferred to CRR a/c)	1,20,000 20,000	 1,40,000
1/04/2018	Preference Shareholders a/c Dr To bank a/c (Being payment made to preference shareholders)	2,16,000	 2,16,000
1/04/2018	Capital redemption reserve a/c Dr To Bonus to shareholders a/c (Being the amount utilised for issue of bonus shares in 5:2 ratio as per shareholders resolution)	1,20,000	 1,20,000
1/04/2018	Bonus to shareholders a/c Dr To Equity Share Capital a/c (Being the amount capitalised by issue of Bonus shares)	1,20,000	 1,20,000

30,000 *2/5 = 12,000 shares @ 10 each.

6) The preference shares were redeemed on April 1, 2008 at a premium of Rs 5.00 per share, the whereabouts of the holders of 1,500 such shares not being known. At the same time, a bonus issue of equity share was made at par, one share being issued for every four equity shares held. Show the journal entries to record the above transactions and the balance sheet as it would appear after the redemption. The following is the balance sheet of Black Diamond Co. ltd as at 31st March, 2008.

Liabilities	Amount	Assets	Amount
Issued & Subscribed Capital: 40,000 Equity shares of Rs 10 each 18,000, 8% Preference shares of Rs 10	 4,00,000 1,80,000	Fixed Assets Current Assets	7,00,000 4,00,000

Reserves and Surplus: Profit & Loss Account **Current Liabilities:** Sundry Creditors	4,80,000 40,000		
	11,00,000		11,00,000

Solution:- **Journal Entries in the nooks of Black Diamond Co.Ltd:-**

Date	Particulars	Dr	Cr
1/04/2008	8% Preference Share Capital a/c Dr Premium on redemption of Preference Shares a/c Dr To Preference Shareholders a/c (Being amount payable on redemption of preference shares with premium of 5 per share)	1,80,000 90,000	 2,70,000
1/04/2008	Profit and Loss a/c Dr To premium of redemption of preference shares a/c (Being the amount written off against Profit and loss a/c)	90,000	 90,000
1/04/2008	Profit and loss a/c Dr To capital redemption reserve a/c (Being Amount transferred equal to the nominal value of Shares redeemed and proceeds of new issue)	1,80,000	 1,80,000
1/04/2008	Capital Redemption reserve a/c Dr To Bonus to Shareholders a/c (40,000 *1/4*10) (Being Issue of 1 bonus share to every 4 equity shares held)	1,00,000	 1,00,000
1/04/2008	Bonus to shareholders a/c Dr To Equity share capital a/c (Being the amount capitalised by issue of bonus shares)	1,00,000	 1,00,000
1/04/2008	Preference shareholders a/c (18,000-1,500*10) Dr To Bank a/c (Being the amount due to preference shareholders paid except 1500 shareholders)	2,47,500	 2,47,500

Balance Sheet of Black Diamond Co, Ltd as on 1st April 2008

Particulars	Amount	Amount
A. Equity and Liability:		
Shareholders Fund:		
1. Issued and Subscribed Share capital (40,000 +10,000 *10)	5,00,000	
2. Reserves and Surplus Capital redemption reserve a/c (1,80,000-1,00,000)	80,000	
3. Profit and loss a/c (4,80,000 -90,000 -1,80,000)	2,10,000	
B. Non-Current liabilities		
C. Current Liabilities		
Sundry Creditors	40,000	
Outstanding Claim (2,70,000 – 2,47,500)	22,500	8,52,500

Assets:		
Fixed Assets	7,00,000	
Current assets (4,00,000- 2,47,500)	1,52,500	8,52,500

7) Suprajith ltd had 8,000, 8% redeemable preference shares of Rs 25 each, Rs 20 Called up. The company decided to redeem the preference shares at 5% premium by the issue of sufficient number of equity shares of Rs 10 each fully paid up at a premium of 10%. Pass journal entries relating to redemption.

Solution: Journal entries in the books of Suprajith Ltd

Date	Particulars	Dr	Cr
1	8% Preference share capital a/c (8,000*20) Dr Premium on Redemption of Preference shares a/c (8,000*1) Dr To preference shareholders a/c (Being amount payable to preference shareholders at 5% premium)	1,60,000 8,000	 1,68,000
2	Bank a/c Dr To Equity share capital a/c (16,000*10) To Securities premium a/c (8,000*1) (Being equity shares issued to the extent of 1,60,000 and premium of 8,000 has been received)	1,68,000	 1,60,000 8,000
3	Preference shareholders a/c Dr To Bank a/c (Being payment made for preference shareholders)	1,68,000	 1,68,000

8) Strange ltd had 10,000, 8% redeemable preference shares of Rs 25 each, Rs 20 Called up. The company decided to redeem the preference shares at 5% premium by the issue of sufficient number of equity shares of Rs 10 each fully paid up at a premium of 10%. Pass journal entries relating to redemption.

9) The following are taken from the balance sheet of Raja Ltd. as on 31 December 2018.

10,000 Equity shares of Rs 10 each Rs 1,00,000
10,000, 8% preference shares of Rs 10 each Rs 1,00,000
Capital Reserve Rs 50,000
General Reserve Rs 30,000
P&l a/c Rs 85,000

The company redeems the preference shares on 1st January 2018. Give journal entries.

Solution: Journal Entries in the books of Raja Ltd as on 31 December 2018

Date	Particulars	Dr	Cr
1/01/2018	Preference Share capital a/c Dr To Preference Shareholders a/c (Being amount payable on redemption of preference shares)	1,00,000	 1,00,000
1/01/2018	General Reserve a/c Dr P&L a/c Dr	30,000 70,000	

	To capital redemption reserve a/c (Being transfer of an amount equal to nominal value of shares redeemed to CRR a/c)		1,00,000
1/01/2018	Preference shareholders a/c Dr To bank a/c (Being payment made to preference shareholders)	1,00,000	1,00,000

10) Pap & Dev Ltd. Issued 1,00,000 equity shares of Rs 10 each and 7,500 redeemable preference shares of Rs 100 each, all shares being fully called and paid up on 31st march 2011. Profit and loss account showed undistributed profits of Rs 5,00,000 and general reserve stood at Rs 4,00,000. On 1st April 2011, the directors decided to redeem the existing preference shares at Rs 110 utilizing as much profits as would be required for the purpose.

You are required to pass the necessary journal entries in the books of the company.

Solution:- Journal entries in the books of Pap and Dev Ltd as on 31March 2011.

Date	Particulars	Dr	Cr
1/04/2011	Redeemable preference share capital a/c Dr Premium on redemption a/c Dr To redeemable preference shareholders a/c (Being amount due to redeemable preference shareholders including premium)	7,50,000 75,000	8,25,000
1/04/2011	General Reserve a/c Dr Profit and loss a/c Dr To capital redemption reserve a/c (Being transfer made out of general reserve and profit and loss a/c for redemption)	4,00,000 3,50,000	7,50,000
1/04/2011	Profit and loss a/c Dr To premium on redemption of preference shares a/c (Being Premium payable adjusted from p & l a/c)	75,000	75,000
1/04/2011	Redeemable preference shareholders a/c Dr To bank a/c (Being payment made for preference shareholders)	8,25,000	8,25,000

11) M/s Leela Agro Ltd, has part of its share capital in 5,000 12% redeemable preference shares of Rs 100 each. The general reserve of the company shows a credit balance of Rs 6,00,000. The directors decided to utilize 70% of the reserve in redeeming the preference shares and the balance is to be met from the proceeds of the fresh issue of sufficient number of equity shares of Rs 10 each.

Give the journal entries to record these transactions.

Solution:- Journal entries in the books of M/s Leela Agro Ltd

Date	Particulars	Dr	Cr
1	Redeemable preference share capital a/c Dr To Redeemable preference shareholders a/c (Being amount due to redeemable preference shareholders)	5,00,000	 5,00,000
2	General Reserve a/c Dr To capital redemption reserve a/c (Being CRR created out of general reserve upto 70%)	4,20,000	 4,20,000
3	Bank a/c (8,000 *10) Dr To Equity share capital a/c (Being 8,000 Equity shares issued @10 each for redemption of preference shares)	80,000	 80,000
4	Redeemable preference shareholders a/c Dr To bank a/c (Being payment made to Redeemable preference shareholders)	5,00,000	 5,00,000

Calculation of number of shares

Amount to be collected from issue of Equity shares = 80,000 (5,00,000 – 4,20,000)

Face value of Equity shares = Rs 10 each.

Number of shares = 80,000/10 = 8,000 shares

12) On 31st March 2018, the balance sheet of Radha Ltd, Stood as follows:

Liabilities	Amount	Assets	Amount
Equity share Capital Redeemable Preference Share Capital Profit and Loss account Sundry Creditors	15,00,000 6,00,000 4,00,000 2,50,000	Sundry Assets Bank	19,00,000 8,50,000
	27,50,000		27,50,000

On the above date, the preference shares have to be redeemed. 30,000 equity shares of Rs 10 each are issued at Rs 11. The Company also issued 10% debentures totaling Rs 4,00,000. The shares and debentures are fully subscribed and paid for. The preference shares are duly redeemed.

You are required to give journal entries and the balance sheet after redemption.

Solution:- Journal Entries in the books of Radha Ltd

Date	Particulars	Dr	Cr
1	Redeemable preference share capital a/c Dr To preference shareholders a/c (Being payment due for redeemable preference shareholders)	6,00,000	 6,00,000
2	Bank a/c Dr (30,000 *11= 3,30,000 +4,00,000) Dr To Equity share Capital a/c (30,000 *10) To Securities premium a/c (30,000 *1) To Debentures a/c (Being 30,000 equity shares of Rs 10 each issued at Rs 11 including premium and 10% Debentures of Rs 4,00,000collected)	7,30,000	 3,00,000 30,000 4,00,000

3	Profit and loss a/c Dr To Capital Redemption reserve a/c (Being balance required transferred to CRR)	3,00,000	 3,00,000
4	Redeemable preference shareholders a/c Dr To Bank a/c (Being payment made to redeemable preference shareholders)	6,00,000	 6,00,000

Balance Sheet of Radha Ltd. as on 31 march 2011 (After redemption)

Particulars	Amount
A. Equity and Liability	
1. Shareholders Funds	
Equity Share capital (15,00,000 + 3,00,000)	18,00,000
<u>Reserves and surplus</u>	
Securities Premium	30,000
Capital Redemption Reserve A/c	3,00,000
P&L a/c (4,00,000 – 3,00,000)	1,00,000
2. Non- Current liabilities	
10% Debentures	4,00,000
3. Current Liabilities	
Sundry Creditors	2,50,000
	28,80,000
B. Assets	
1. Non-Current Assets	
Sundry Assets	19,00,000
2. Current assets	
Bank (8,50,000 +7,30,000 – 6,00,000)	<u>9,80,000</u>
	28,80,000

13) Srinivas ltd, have part of their share capital in 4,000 10% redeemable preference shares of Rs 100 each. The company decided to redeem the preference shares at premium of Rs 10%. The general reserve of the company stood at 5,00,000. The directors decided to utilize 50% of the reserve in redeeming the preference shares and the balance is to be met from the proceeds of fresh issue of sufficient number of equity shares of Rs 10 each. The premium on redemption is to be met from the year's profit and loss appropriation account.

Give journal entries to record the above transactions.

Solution :- Journal Entries in the books of Srinivas Ltd

Date	Particulars	Dr	Cr
1	Redeemable preference share capital a/c Dr Premium on redemption of Preference shares a/c Dr To redeemable preference shareholders a/c (Being amount payable to redeemable preference shareholders at a premium of 10%)	4,00,000 40,000	 4,40,000
2	General reserve a/c Dr To Capital redemption reserve a/c (Being 50% of the reserves transferred to CRR a/c)	2,50,000	 2,50,000

3	Bank a/c Dr To Equity share capital a/c (15,000 *10) (being Remaining 1,50,000 has been collected by issuing 15,000 shares at Rs10 each)	1,50,000	 1,50,000
4	Profit and loss appropriation a/c Dr To premium on redemption of preference shares a/c (Being Premium on redemption provided out of P&L Appropriation a/c)	40,000	 40,000
5	Redeemable preference shareholders a/c Dr To bank a/c Being payment made to redeemable preference shareholders)	4,40,000	 4,40,000

14) Following is the balance sheet of M/s Thomas Co Ltd, As on 31st March 2011 in a summarized form:

Liabilities	Amount	Assets	Amount
Share Capital: Paid-up share capital 4,000 equity shares of Rs 100 each Fully paid 2,000 8% redeemable preference shares of Rs 100 each: 2,00,000 Less:- Calls in arrears of 100 shares Reserves and Surplus: General Reserves Development Rebate Reserve Other Liabilities	4,00,000 1,95,000 2,50,000 40,000 60,000	Bank Other Assets	1,20,000 8,25,000
	9,45,000		9,45,000

The redeemable preference shares were redeemed on the following basis:

1) Further 1,500 equity shares were issued at a premium of 10%.
2) Expenses of fresh issue of shares Rs 4,000
3) Out of 100 preference shares, holders of 80 shares paid the call money Rs 50 before the date of redemption. The balance of 20 shares were forfeited and they were re-issued as fully paid shares on receipt of Rs 1,500 before redemption.
4) Preference shares were redeemed at a premium of 10% and share premium was utilized in full for this purpose.

   You are required to pass journal entries and prepare summarized balance sheet after redemption.

Solution: Journal entries in the books of M/S Thomas ltd as on 31 March 2011

Date	Particulars	Dr	Cr
31/03/2011	8% Redeemable Preference share capital a/c Dr Premium on redemption a/c Dr To Redeemable preference shareholders a/c (Being Amount due to redeemable preference shareholders)	2,00,000 20,000	 2,20,000

31/03/2011	Bank a/c (1,50,000+ 15,000) Dr To Equity share capital a/c (1,500 *100) To securities premium a/c (1,500 *10) (Being issue of 1,500 equity shares at a premium of 10%)	1,65,000	 1,50,000 15.000
31/03/2011	Share issue Expenses a/c Dr To Bank a/c (Being payment made towards expenses of fresh issue)	4,000	 4,000
31/03/2011	Bank a/c (80*50) Dr To calls in arrears a/c (Being amount due on final call for 80 shares @ Rs 50 per share)	4,000	 4,000
31/03/2011	Redeemable preference share capital a/c Dr To Calls in arrears a/c To Forfeited shares a/c (Being Forfeiture of 20 preference shares of Rs 100 each for non-payment of final call of Rs 50)	2,000	 1,000 1,000
31/03/2011	Bank a/c Dr Forfeited shares a/c Dr To redeemable preference share capital a/c (Being 20 shares forfeited and were re-issued for Rs 1,500)	1,500 500	 2,000
31/03/2011	Forfeited Shares a/c Dr To Capital Reserve a/c (Being Forfeited shares transferred to capital reserve a/c)	500	 500
31/03/2011	General Reserve a/c Dr To Capital redemption reserve a/c (Being amount transferred out of reserves to CRR)	50,000	 50,000
31/03/2011	General Reserves a/c Dr To premium of redemption a/c (Being Premium payable on redemption)	5,000	 5,000
31/03/2011	Redeemable preference shareholders a/c Dr To Bank a/c (Being Payment made to redeemable preference shareholders)	2,20,000	 2,20,000

Dr **Bank a/c** **Cr**

Particulars	Amount	Particulars	Amount
To Balance b/d To Equity shares a/c To Premium a/c To calls in arrears a/c To redeemable preference shares	1,20,000 1,50,000 15,000 4,000 1,500	By Share issue expense By Redeemable preference shareholders a/c By Balance c/d	4,000 2,20,000 66,500
	2,90,500		2,90,500

Balance sheet of M/s Thomas Co.Ltd as on 31st march 2011

Particulars	Amount
A. Equity and Liability:	
1. Shareholders Fund:	
Equity share Capital (4,00,000+1,50,000)	**5,50,000**
Reserves and Surplus:	
General Reserve (2,50,000 – 55,000)	**1,95,000**
Capital redemption reserve a/c	**50,000**
Capital Reserve	**500**
Development Rebate reserve	**40,000**
2. Non – Current Liabilities	**-**
3. Current Liabilities	
Sundry creditors	**60,000**
	8,95,500
B. Assets:	
1. Non – Current assets	
Sundry Assets	**8,25,000**
2. Current Assets	
Bank	**66,500**
Misc Expenses (Share issue Expenses)	
	8,95,500

15) The balance sheet of M/s Laxmi Ltd. as on 31 March 2010 was as follows:

Liabilities	Amount	Assets	Amount
2,000 8% Redeemable preference shares of Rs 100 each fully paid	2,00,000	Sundry Assets	9,00,000
		Bank	2,00,000
4,000 6% Redeemable preference shares of Rs 50 each, Rs 25 per share paid up.	1,00,000		
40,000 equity shares of Rs 10 each	4,00,000		
Reserves & Surplus:			
Capital Reserve	1,20,000		
Securities Premium	20,000		
Dividend Equalization Reserve	1,10,000		
Current Liabilities	1,50,000		
	11,00,000		11,00,000

The company decided to redeem the preference shares at a premium of 5%. To enable the redemption to be carried out, the company decided to issue after carrying out, the necessary formalities required under law, sufficient number of new equity shares at a discount of 10%.

You are required to give the necessary journal entries and prepare the balance sheet soon after the redemption.

Solution :- Journal Entries in the books of M/s Laxmi Ltd as on 31 /March/2010

Date	Particulars	Dr	Cr
31/03/2010	8% redeemable preference share capital a/c Dr Premium on redemption A/c Dr To redeemable preference shares a/c (Being amount due to 8% redeemable preference shareholders including 5% premium)	2,00,000 10,000	 2,10,000
31/03/2010	Dividend Equalization reserve a/c Dr To capital redemption reserve a/c (Being amount transferred to CRR from Dividend Equalization Reserves)	1,10,000	 1,10,000
31/03/2010	Bank a/c (10,000*9) Dr Discount on issue of shares a/c (10,000 *1) Dr To Equity share capital a/c (Being issue of 10,000 equity shares at Rs 9 each at a discount of Rs1)	90,000 10,000	 1,00,000
31/03/2010	Redeemable preference shareholders a/c Dr To bank a/c (Being amount paid to 8% redeemable preference shareholders)	2,10,000	 2,10,000

Balance Sheet in the books of M/S laxmi Ltd as on 31/March/2010

Particulars	**Amount**
A. Equity and Liability	
1. Shareholders Fund	
Equity Share Capital (4,00,000 +1,00,000)	5,00,000
4,000 6% Preference share capital	1,00,000
2. Reserves and Surplus	
Capital redemption reserve a/c	1,10,000
Capital Reserves	1,20,000

Non- Current Liabilities	Nil
Current Liabilities	1,50,000
	9,80,000
B. Assets	
1. Non-Current assets	
Sundry Assets	9,00,000
2. Current assets	
Bank	80,000
(2,00,000 +90,000- 2,10,000)	
	9,80,000

Chapter 2 : Redemption of Debentures

Meaning of Debenture:

A debenture is an instrument issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.

Under section 71 (1)of the companies Act, 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption. Provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, should be approved by a special resolution passed at a duly convened general meeting.

Redemption of Debentures:

Debentures are usually redeemable, but a company may also issue irredeemable debentures.

Redeemable debentures may be redeemed

- After a fixed number of years
- Any time after a certain number of years has elapsed since their issue,
- On giving a specified notice, or by annual drawing.

A company may also purchase its debentures, as and when convenient in the open market and when debentures are quoted at a discount on the stock exchange, it may be profitable for the company to purchase and cancel them.

Debenture redemption reserve:

A company issuing debentures is required to create a debenture redemption reserve account out of the profits available for distribution of dividend and amounts credited to such account cannot be utilised by the company except for redemption of debentures. Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they should fall due for repayment.

Methods of Redemption of Debentures:

Redemption of debentures must be done according to the terms of issue of debentures and any deviation there from will be treated as a default by the company. Redemption by paying off the debt on account of debentures issued can be done in one of the three methods :

1) By payment in lumpsum
2) By payment in installments
3) Purchase of debentures in open markets
4) By Conversion into shares.

1) By Payment in lumpsum: Under this method, at maturity or at the expiry of a specified period of debenture the payment of entire debenture is made in one lot or even before the expiry of the specified period.

2) By payment in installments: Under this method, the payment of specified portion of debenture is made in installments at specified intervals.
3) Purchase of debentures in open markets: Debentures are sometimes purchased in open market, where there is a debenture redemption reserve out of the reserve and, if there is none, as a general investment; the debenture investment account or own debenture account is debited.
4) By Conversion into shares: The conversion of the debentures is referred to the process of conversion of the debentures into shares after the expiry of the debenture after the specified period of time. The companies are not required to pay the funds for the process of redemption and hence there is no need to maintain the Debenture Redemption Reserve. The new shares that can be issued at par, premium or at the discount.

Problems of Redemption of Debentures

1) Give the necessary journal entries at the time of redemption of debentures in each of the following cases.
    a) X ltd. issued 5,000, 9% debentures of Rs 100 each at par and redeemable at par at the end of 5 years out of capital.
    b) X ltd. issued 1,000, 12% debentures of Rs 100 each at par. These debentures are redeemable at 10% premium at the end of 4 years.
    c) X Ltd. issued 12% debentures of the total face value of Rs 1,00,000 at premium of 5% to be redeemed at par at the end of 4 years.
    d) X ltd. issued Rs 1,00,000, 12% debentures at a discount of 5 % but redeemable at a premium of 5% at the end of 5 years.
2) XYZ Ltd. issued 200, 15% debentures of Rs 100 each on January 01, 2020 at discount of 10% redeemable at premium of 10% out of profits. Give the journal entries at the time of issue and redemption of debentures if debentures are to be redeemed in lumpsum at the end of 4th year. The directors decided to transfer the minimum amount to debenture redemption reserve on March 31, 2020.
3) Manikya Ltd. issued 500, 15% debentures of Rs 100 each on January 01, 2020 at discount of 10% redeemable at premium of 10% out of profits. Give the journal entries at the time of issue and redemption of debentures if debentures are to be redeemed in lumpsum at the end of 4th year. The directors decided to transfer the minimum amount to debenture redemption reserve on March 31, 2020.
4) ABC Ltd. issued 3,000, 14% debentures of Rs 100 each at a discount of 5% on January 1, 2021. Interest on these debentures is payable annually on March 31st each year. The debentures are redeemable at par in three equal instalments at the end of the third, fourth and fifth year. Prepare 14% debentures account, Discount on issue of debentures account and debenture interest account in the books of the company.
5) Akash Ltd. issued 6,000, 14% debentures of Rs 100 each at a discount of 5% on January 1, 2021. Interest on these debentures is payable annually on March 31st each year. The debentures are redeemable at par in three equal instalments at the end of the third, fourth and fifth year. Prepare 14% debentures account, Discount on issue of debentures account and debenture interest account in the books of the company.

6) Prakash Company Ltd issued 6,000, 12% debentures of Rs 100 each at a discount of 5% on April 1st 2020. Interest on the debenture payable annually on march 31st each year. The debenture are redeemable at par in three equal instalments at the end of third, fourth and fifth year. Prepare 12% Debentures a/c and discount on issue of debentures a/c in the books of the company.

7) X Ltd issued Rs 10,00,000 debentures on January o1, 2020. These were to be redeemed on December 31, 2020. For this purpose, the company established a sinking fund. The investments were expected to earn interest @5% p.a. Sinking fund table shows that Rs 0.317208 invested annually at 5% amount to Re.1 in 3 years. On December 31, 2020, the bank balance was Rs 4,20,000 after receipt of Interest on sinking Fund investments. On that date, the investments were sold for Rs. 6,56,000. Calculate the Interest to nearest rupee and investments be made to the nearest of Rs 100. Record necessary journal entries. Show Debentures account, debenture redemption fund account and debenture redemption fund invested account in the books of the company. Ignore entries for interest on debentures.

8) The balance sheet of Manish Ltd., disclosed the following information as on December, 31, 2016.

15% debentures	Rs 15,00,000
Debenture redemption fund	Rs 11,63,600
Debenture redemption fund investment (10% Govt. Securities)	Rs 11,63,600

The contribution to debenture redemption fund was Rs 1,30,800 p.a for the year 2017 and 2018. Debentures are due for payment on December 31, 2018. Prepare the above accounts in the books of company assuming that securities were raised on December 31, 2018 for a sum of Rs 13,52,000 and interest on securities on December 31, was immediately invested.

Chapter 5: - Liquidation of Companies

Meaning of Liquidation

Liquidation is a process in which the company is brought to an end. Also, the assets and property of the company are redistributed to the creditors and owners. Liquidation is also referred to as winding-up or dissolution, although dissolution technically refers to the last stage of liquidation.

Features of Liquidation

- Any company whether solvent or insolvent can be liquidated.
- When the liquidation is over, the company will be closed down forever.
- Liquidator has to be appointed for the purpose of liquidation.
- The liquidator will realize the assets and pay off company debts.
- Sometimes individuals are restricted to be company director in future.

Types of Liquidation

1) Voluntary Liquidation
2) Compulsory Liquidation

1) Voluntary Liquidation:-

- **Member's Voluntary Winding Up:** Directors of the company shall call for a Board of Directors meeting and make a declaration of winding up, accompanied by an affidavit, stating that;
  a) The company has no debts to pay
  b) The company will repay its debts, if any, within 3 years from commencement of winding up, as specified in declaration

- **Creditor's Voluntary winding up:** Where the resolution for winding up has been passed, but the Board of Directors are not in a position to give a declaration on the liability of company, they many call a meeting of creditors, for the purpose of winding up.
  a) It is the duty of Board of Directors, to present a full statement of company's affairs, and list of creditors along with their dues, before the meeting of creditors.
  b) Whatever resolution, the company passes in creditor's meeting, shall be given to the registrar within ten days of its passing.

2) Compulsory Liquidation:-

- If the company, by special resolution, resolved to be wound up by the court.
- If the company does not commence its business within a year from its incorporation, or suspends its business for a whole year.
- If the company is unable to pay its debts.

- If the court is of the opinion that it is just and equitable that the company should wound up.
- If the number of members is reduced below 7 in case of a public company and below 2 in case of a private company.

Liquidator

- A person assigned to supervise the liquidation of a business concern and whose legal authorization, rights, and duties differ according to whether the liquidation is compulsory or voluntary.
- Liquidator might be appointed by the shareholders or unsecured creditors, or on a court of order, to manage the winding up of a firm by selling off its assets. It is also his duty to pay the debts and distribute the balance amongst contributors.

Voluntary Liquidator:- Who is appointed by resolution in general meeting of the company and/or of the creditors and his remuneration is fixed.

Duties of Liquidators

- To realize the value of the assets of the company.
- To pay off the debts
- To distribute the balance money due to contributors
- To keep proper books of accounts and minutes book.
- He must keep all the funds of the company in public account of India in RBI.

Meaning of Preferential Creditors:

Preferential Creditor is an individual or an organization that has priority in being paid the money it is owned if the debtor declares bankruptcy.

Unsecured Creditors:

An unsecured creditor is an individual or institution that lends money without obtaining specified assets as collateral. This poses a higher risk to the creditor because it will have nothing to fall back on.

Contributory: -

It means every person liable to contribute to the assets of a company in the event of its being wound up, and includes the holder of any shares which are fully paid; and for the purposes of all proceedings for determining, and all proceedings prior to the final determination of, the persons who are to be deemed contributories, includes any person alleged to be a contributory.

Proforma of Liquidators Final Account

Receipts	Amount	Payments	Amount
Cash in Hand	xxx	Secured Creditors	xxx
Cash at bank	xxx	Legal expenses	xxx
Assets Realized:	xxx	**Liquidators remuneration:**	xxx
Marketable Securities	xxx	% on assets realized	xxx
Bills Receivable	xxx	% on amount distributed	xxx
Sundry debtors	xxx	Liquidation expenses	xxx
Loans and Advances	xxx	**Debentures:**	xxx
Stock in Trade	xxx	Debentures holders	xxx
Freehold Property	xxx	Outstanding interest on	xxx
Plant and machinery	xxx	debentures	xxx
Furniture and Fixture	xxx	**Creditors:**	xxx
Intangible assets	xxx	Unsecured creditors	xxx
Investments	xxx	Preferential creditors	xxx
Surplus realized from	xxx	Calls in advance (if any)	xxx
creditors (if any)	xxx	**Share holders:**	xxx
Calls in arrears	xxx	Preference shareholders	xxx
Amount received from calls of shares	xxx	Equity shareholders	xxx
	xxx		xxx

Problems:-

1) Compute amount due to liquidator, if commission is 2.5% on the amount available to equity shareholder after charging such commission. The amount available to shareholder before charging such commission is Rs 2,24,000.

2) Compute amount due to liquidator, if commission is 5% on the amount available to equity shareholder after charging such commission. The amount available to shareholder before charging such commission is Rs 2,00,000.

3) Calculate the amount of preferential creditors from the following:
a) Income tax payable = Rs 12,500.
b) Salaries and Wages payable to 5 workers at Rs 5,000pm for the last 3 months.
c) Remuneration to officers = Rs 1,00,000.

4) Calculate the amount of preferential creditors from the following:
a) Income tax payable = Rs 12,500.
b) Salaries and Wages payable to 5 workers at Rs 5,000pm for the last 3 months.
c) Remuneration to officers = Rs 1,00,000.

d) Compensation is due under the workman's compensation act, 1928 in respect of an employee death = Rs 20,000

e) Amount due to an employee for his provident fund = Rs 10,000.

5) Aircel ltd. Went into voluntary liquidation. Prepare liquidators final statement of account from the following balance sheet as on 31st March 2018:

Liabilities	Amount	Assets	Amount
19,500 equity shares of Rs 10 each, fully paid	1,95,000	Land and Building	48,000
		Machinery	65,500
Creditors:		Goodwill	50,000
Preferential	24,200	Stock	56,800
Partly secured	55,310	Debtors	64,820
Unsecured	99,790	Cash at bank	2,500
Bank Overdraft (Unsecured)	12,000	P&L Account	98,680
	3,86,300		**3,86,300**

The Liquidator realized assets as follows:

- Plant and Machinery – 51,000
- Stock- 39,000
- Debtors – 58,500
- Cash – 2,500
- Leasehold property which was used in the first instance to pay partly secured creditors pro rata – 35,000

Expenses of liquidation amounted to Rs 1,000. Liquidator is entitled to remuneration of 2.5% on all assets realized including cash and 2% on the amount paid to the unsecured creditors.

6) Bengal Ltd. Went into voluntary liquidation on 31-12-2001. When the state of affairs was as below:
Unsecured creditors was Rs 4,00,000 including Rs 50,000 preferential claim. Secured creditors, secured on plant and machinery stood at Rs 2,00,000. Cash in hand was Rs 10,000.
The liquidator realised plant and machinery for Rs 1,50,000 and the other assets realised Rs 1,00,000. The liquidation expenses came to Rs 10,000 and the liquidator's remuneration was fixed at 4% of the amount realised including cash balance and 2% of the amount to unsecured creditors including preferential creditors.
Prepare Liquidator's final statement of account showing the distribution of cash.

7) The following was the balance sheet of the covid ltd., as at 31st march, 2013 when it was wound-up voluntarily:

Liabilities	Amount	Assets	Amount
50,000 Equity shares of Rs 10 each	5,00,000	Plant and Machinery	4,00,000
2,000, 6% cumulative preference shares of Rs 100 each	2,00,000	Furniture	1,000
		Investments	50,000
7% debentures	1,00,000	Stock	50,000
Sundry creditors:		Debtors	2,00,000

Trade Cash Outstanding	3,00,000 48,000 2,000	Cash Profit and loss account	1,200 4,47,800
	11,50,000		**11,50,000**

Preference Dividends are in arrears for one year. Debenture Interest is also due for one year. All the outstanding creditors are preferential. The assets realised as follows:

Plant and machinery	2,80,000
Furniture	400
Debtors	1,50,000

The stock and investments realise nothing. The expenses of liquidation amounted to Rs 2,000. The liquidator is entitled to a commission of 4% on the assets and 2% on the amount paid to unsecured creditors.

Prepare the liquidator's statement of account showing the compensation paid to the unsecured creditors.

8) Canon ltd, went into liquidation. Its assets realised Rs 1,75,000 excluding the amount realised by sale of securities held by the secured creditors. The following was the position.

Share capital : 500 shares of Rs 100 each

Secured creditors (securities realised Rs 20,000)	17,500
Preferential creditors	3,000
Unsecured creditors	70,000
Debentures having a floating charge on the assets of the company	1,25,000
Liquidator expenses	6,250

Liquidator is to be paid a commission of 2% on the amount actually paid to unsecured creditors including preferential creditors. Prepare liquidator's final statement of account.

9) Unfortunate ltd, went into voluntary liquidation on 1-4-2014 on which date its position was as under:

Liabilities	Amount	Assets	Amount
Share capital:2,500 shares of Rs 100 each, 80 per share paid up	2,00,000	Land, Building, Machinery	40,000
		Other fixed assets	1,30,000
Secured Creditors	50,000	Stock	52,500
Unsecured creditors	95,000	Debtors	50,000
Preferential creditors	5,000	Loans	20,000
		Cash	2,500
		Profits and loss a/c	55,000
	3,50,000		**3,50,000**

Land, Building and Machinery were realised by secured creditors for Rs 60,000. Other fixed assets realised Rs 20,000, Debtors Rs 10,000, Stock Rs 5,000. Loans were completely bad. Liquidator is to be paid a fixed commission of Rs 500 plus 1% of the amount paid to unsecured creditors excluding preferential creditors. Liquidator's out of pocket expenses amounted to Rs 500. Company decide to make calls on shares and receive in full.

10) Mr. IPL ltd, went into Voluntary Liquidation on 31st March 2013 on which date the position of the company was as follows:

2,000 preference shares of Rs 10 each, 5,000 ‘A’ Equity shares of Rs 10 each Rs 9 paid. 5,000 ‘B’ Equity shares of Rs 10 each Rs 8 per share paid up. Under the articles of association the preference shares have priority as to the repayment of capital over the Equity shares. Fixed Assets realised Rs 18,000. Current assets realised Rs 10,000. The liquidator called on 5,000 B Equity share holders to pay Rs 1 which was duly paid except on 200 shares which was irrecoverable.

The cost of liquidation amounted to Rs 1,650; Preferential creditors Rs 1,000; secured creditors Rs 1,000; and unsecured creditors Rs 6,000. The liquidator’s remuneration is 12% on the amount paid to secured and unsecured creditors.

Prepare Liquidator’s Final Statement.

11) Pandu Limited went into voluntary liquidation with the following liabilities:

Trade Creditors		12,000
Bank Overdraft		20,000
Capital:		
10,000 Preference Shares of Rs 10 each, Rs 7 called up		70,000
10,000 ordinary shares of Rs 10 each, Rs 9 called up	90,000	
Less: Calls in arrears	2,000	88,000
Cash received in anticipation of calls		
On preference shares	24,000	
On ordinary shares	4,000	28,000

The assets realised Rs 2,00,000. Expenses on liquidation amounted to Rs 2,000 and liquidator’s remuneration Rs 3,000. Prepare liquidator’s final statement of account.

12) The 7 friends Co. ltd went into voluntary liquidation on 1-4-2015 as its mines reached such a state of depletion, that it became too costly to excavate further minerals. The liquidators whose remuneration is 3% on realisation of assets and 2% on distribution to shareholders. Realised all the assets. Following being the position of the company (in liquidation) as at 31-03-2015.

Cash on realisation of Assets	5,00,000
Expenses of liquidation	7,000
Unsecured Creditors	68,000
5,000, 6% Cumulative preference shares of Rs 30 each fully paid	1,50,000
10,000 equity shares of Rs 10 each fully paid	1,00,000
General reserve as at 31/03/2015	1,24,000
Profit and loss (Credit Balance)	20,000

Dividend on preference shares have been paid upto 31/03/2015 and automatically becomes payable when profits are available.

13) The following is the balance sheet of Monk Ltd, as on 31st March 2013

Liabilities	Amount	Assets	Amount
4,000 6% Preference shares of Rs 100 each	4,00,000	Land	2,00,000
		Plant	5,00,000
2,000 Equity shares of Rs 100 each, Rs 75 paid up	1,50,000	Patents	80,000
		Stock	1,10,000
6,000 Equity shares of Rs 100 each, Rs 60 paid up	3,60,000	Debtors	2,20,000
		Cash	60,000
5% Debentures	2,00,000	Profit and Loss A/c	2,40,000
Outstanding Debenture Interest	10,000		
Creditors	2,90,000		
	14,10,000		**14.10,000**

On the date of Balance sheet the company went into liquidation. The dividends on preference shares are in arrears for 2 years. The arrears are payable on liquidation as per articles of association. The debentures have a floating charge on the assets of the company. Creditors include a loan of Rs 1,00,000 secured by mortgage of land. The assets realised are as under:

Land 2,40,000, Plant Rs 4,00,000, Patents Rs 60,000, Stock 1,20,000, Debtors Rs 1,60,000.

The expenses of liquidation amounted to Rs 21,800. The liquidator is entitled to a commission of 3% on all assets realised including cash and a commission of 2% on the amount distributed to unsecured creditors. Preferential creditors amounted to Rs 30,000.

Prepare the Liquidator's statement of account.

Assignment Problems:

1) The following particulars relate to Prasad Ltd ., which went into voluntary liquidation.
Preferential Creditors 40,000
Unsecured Creditors other than preferential creditors 3,20,000
Debenture holder 1,00,000
Assets realised 3,96,500
Liquidation Expenses 10,000
You are required to prepare liquidator's Final statement of account allowing for his remuneration at 2% on assets realised and 2% on amount distributed to unsecured creditors including preferential creditors.

2) Mr. Luckless Ltd, went into Voluntary Liquidation. Its assets realised by Rs 2,10,000 excluding the amount realised by the sale of securities held by secured creditors.
From the following prepare liquidators final statement of account.
Secured creditors Rs 17,500 (Securities realised Rs 20,000), Preferential creditors Rs 3,000, Unsecured creditors Rs 1,00,000, debentures (having floating charges on assets) Rs 1,25,000. Liquidation expenses Rs 2,500 and Liquidator's remuneration is 3% on amount paid to unsecured creditors.

3) Goodbye Ltd went into liquidation on 31-03-2018 with the following liabilities:

a) Secured creditors Rs 2,00,000 (Securities realised Rs 2,50,000)

b) Preferential Creditors Rs 6,000.
c) Unsecured Creditors Rs 3,05,000.
d) The liquidator met liquidation expenses amount to Rs 2,250. The liquidator entitled for remuneration @ 3% on amount realised including secured assets held by secured creditors and 1.5% on amount distributed to unsecured creditors. Assets (other than Secured assets) realised Rs 2,60,000.
   Prepare Liquidator's Final Statement of Account.

4) The Dream Hunters Co. ltd went into voluntary liquidation on 1-4-2015 as its mines reached such a state of depletion, that it became too costly to excavate further minerals. The liquidators whose remuneration is 3% on realisation of assets and 2% on distribution to shareholders. Realised all the assets. Following being the position of the company (in liquidation) as at 31-03-2015.

Cash on realisation of Assets	10,00,000
Expenses of liquidation	7,000
Unsecured Creditors	68,000
5,000, 6% Cumulative preference shares of Rs 30 each fully paid	3,50,000
10,000 equity shares of Rs 10 each fully paid	2,00,000
General reserve as at 31/03/2015	2,24,000
Profit and loss (Credit Balance)	40,000

Dividend on preference shares have been paid upto 31/03/2015 and automatically becomes payable when profits are available.

5) A company went into liquidation on 31/03/2020. Their position was as follows:
2,000 Preference shares of Rs 100 each fully paid.
4,000 Equity shares of Rs 100 each fully paid.
4,000 Equity shares of Rs 100 Each Rs 75 paid.
Unsecured creditors Rs 3,80,000
Assets Realised Rs 6,40,000
Liquidation Expenses Rs 24,000
Liquidation remuneration 5% on the amount realised and 3% on the amount distributed to unsecured creditors. The liquidator made a call on the partly paid equity share which was duly paid.
Prepare liquidator's final statement of account.