

COURSE: II B.COM (CA)

SEMESTER: IV

SUBJECT: Corporate Accounting

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PREPARED BY: DR. S. Kalavathi

PHONE NO.: 9842579433

UNIT: 5

SYLLABUS: INTERNAL RECONSTRUCTION – LIQUIDATOR’S FINAL ACCOUNT

Internal reconstruction

- Meaning

It is an arrangement made by the companies whereby the claims of shareholders, debenture holders, creditors and other liabilities are already/reduced, so that the accumulated loss are written off, asset are valued at its fair value and the balance sheet shows the true and fair view of the financial statement.

- Forms of internal reconstruction.

- I. Re-organization or alteration of share capital
- II. Reduction of share capital and other liabilities

- Objectives of internal reconstruction

- I. To resolve the problem of over-capitalization/huge accumulated losses/over valuation of assets

II. When the capital structure of a company is complex and is required to make it simple

III. When change is required in the face value of shares of the company

- Meaning of capital reduction account

It involves sacrifice on the part of shareholders, debenture holders and creditors. The amount sacrificed by the them shall be utilized in writing off of losses and to bring down the assets to their to their real values. An account called capital Reduction also called Internal Reconstruction Accounts or capital Reorganization Account is opened for this purpose. Amount sacrificed by various parties are credited to this account. It is generally resorted to write of the past accumulated losses of the company.

SUM NO:1

Ratan Ltd.,having a share capital of Rs.300000 divided into 3000 shares of Rs.100 each,resolves to sub-divided the shares into 30000 shares of Rs.10each .pass the necessary journal entry.

SUM NO:2

'X' Co.Ltd. has the following shares as a part of its share capital 10000 8% preference shares of Rs.10 each fully paid .50000 equity shares of Rs.5 each fully paid , 20000 equity shares of Rs.8 called up and paid up. The company has decided to alter the share capital as follows:(i) to sub-divide the preference shares into shares of Rs.10each .(ii) to consolidate the equity shares of Rs.5each into shares of Rs.10each.(iv) to convert the partly paid up equity shares into fully paid up shares of Rs.8each, with necessary legal sanctions.journalise the alterations.

LIQUIDATION OF COMPANY

Meaning : Liquidation or winding up is a legal term and refers to the procedure through which the affairs of a company are wound up by law. A company is the creation of law, it cannot die itself as an natural death. So it comes to its end by law through the process of liquidation.

Process of winding up:

1. Selling of the assets of the company
2. Paying off the liabilities of the company
3. If there is any deficiency to apy to the creditors and the shareholders are called upon to pay unpaid amount on their articles.
4. In case of surplus, after paying off the liabilities, it may be distributed to the contributories according to their rights under the articles.
5. At the end, the Registrar of Companies removes the name of the company form the Register of Companies which is maintained by his office.

Modes of Winding Up:

There are three modes of winding up of the company;

1. Compulsory winding up by the court
2. Voluntary winding up by members or creditors
3. Winding up under the supervision of the court

1. Compulsory winding up by the court

A company formed and registered under the ordinance, may be wound up by the court. This kind of winding up is also called compulsory winding up.

2. Voluntary winding up by members or creditors

The main object of a voluntary winding is that the company and its creditors shall be left to settle their affairs without going to Court, but they may apply to the court for any directions and order if and when necessary.

3. Winding up under supervision of the court

When company has passed special or extra-ordinary resolution for its liquidation or winding up, court can pass an order on application of creditors, contributors or other person for conducting of liquidation or winding up of company under supervision of court.

SUM NO:3

A liquidator is entitled to receive remuneration @2% of the assets realized and 3% on the amount distributed among the unsecured creditors . the assets realized Rs. 7000000 against which payment was made as follows:

Liquidation expenses Rs.50000

Preferential creditors Rs.1,50,000 and

Secured creditors Rs.40,00,000;unsecured creditors Rs.30,00,000.

Calculate the total remuneration payable to the liquidator.

SUM NO:4

The following particulars relate to a limited company which has gone into voluntary liquidation. You are required to prepare the liquidator's final account allowing for his remuneration @ 3% on the amount realized and 2.5% on the amount paid to the creditors.

Share capital issued:

5000 preference shares of Rs.100 each(fully paid)

30000 equity shares of Rs. 10each fully paid.

12000 equity shares of Rs.10each,Rs.8 paid up. Assets realized Rs.924000 excluding amount realized by sale of securities held by the secured creditors.

Preferential creditors 24000

Unsecured creditors 8,51,094

Secured creditors (security realised Rs. 1,62,000)1,38,000

Debentures having a floating charge on the assets 3,00,000

Expenses of liquidation amounted to Rs.9,000

A call of Rs.2 per share on the partly paid equity shares was duly paid except incase of one shareholder owning 1,200 shares.

SUM NO:5

From the data relating to a company (in voluntary liquidation), you are asked to prepare liquidator's final statement of account.

(i)case with liquidator (after all assets are realised and secured creditors and debentureholders are paid)is Rs.6,73,800.

(ii)preferential creditors to be paid Rs.30,000.

(iii)other unsecured creditors Rs.2,15,000

(iv)4000 6% preference shares of Rs.100 each,fully paid.

(v)2000 equity shares of Rs.100 each , Rs.75 per share paid up.

(vi)6000 equity shares of Rs.100 each , Rs.60 per share paid up.

(vii)liquidator's remuneration 2% on preferential and other unsecured creditors.

(viii)preference dividends were in arrears for 2 years.

Books referred : Corporate Accounting by Reddy&moorhy