



SHIVAJI UNIVERSITY, KOLHAPUR

**CENTRE FOR DISTANCE AND ONLINE
EDUCATION**

B. Com. Part-III

**Semester - V
Major Paper - VII**

**Accountancy Paper - VII
(Corporate Accounting) - Part III**

(In accordance with National Education Policy 2020)
(Implemented from the Academic Year 2026-27)

Copyright © Registrar,
Shivaji University,
Kolhapur. (Maharashtra)
First Edition 2026

Prescribed for **B. Com. Part - III**

All rights reserved. No part of this work may be reproduced in any form by mimeography or any other means without permission in writing from the Shivaji University, Kolhapur (MS)

Copies : 300

Published by:
Dr. V. N. Shinde
Registrar,
Shivaji University,
Kolhapur-416 004

Printed by :
Shri. B. P. Patil
Superintendent,
Shivaji University Press,
Kolhapur-416 004

ISBN - 978-81-68244-23-8

- ♦ Further information about the Centre for Distance and Online Education & Shivaji University may be obtained from the University Office at Vidyanagar, Kolhapur-416 004, India.

**Centre for Distance and Online Education
Shivaji University, Kolhapur**

■ ADVISORY COMMITTEE ■

Prof. (Dr.) R. K. Kamat
Hon'ble Vice Chancellor,
Shivaji University, Kolhapur

Prof. (Dr.) Jyoti Jadhav
Hon'ble Pro-Vice Chancellor,
Shivaji University, Kolhapur

Prof. (Dr.) Prakash Pawar
Department of Political Science
Shivaji University, Kolhapur

Prof. (Dr.) S. Vidyashankar
Hon'ble Vice-Chancellor, KSOU,
Mukthagangotri, Mysuru, Karnataka

Dr. Rajendra Kankariya
G-2/121, Indira Park, Chinchwadgaon,
Pune

Prof. (Dr.) Cima Yeole
Geet-Govind, Flat No. 2,
1139 Sykes Extension, Kolhapur

Dr. Sanjay Ratnaparkhi
D-16, Teachers Colony, Vidhyanagari,
Mumbai University, Santacruz (E), Mumbai

Prin. (Dr.) Smt. V. V. Maindargi
I/c. Dean, Faculty of Commerce and
Management, Shivaji University, Kolhapur

Prof. (Dr.) M. S. Deshmukh
I/c. Dean, Faculty of Humanities,
Shivaji University, Kolhapur

Prof. (Dr.) R. V. Gurav
I/c. Dean, Faculty of Science and
Technology, Shivaji University, Kolhapur

Prof. (Dr.) A. B. Sali
I/c. Dean, Faculty of Inter-disciplinary
Studies, Shivaji University, Kolhapur

Dr. V. N. Shinde
Registrar,
Shivaji University, Kolhapur

Dr. A. N. Jadhav
Director, Board of Examinations and
Valuation, Shivaji University, Kolhapur

Smt. Suhasini Sardar Patil
Finance and Accounts Officer,
Shivaji University, Kolhapur

Dr. (Smt.) Kavita Oza
Department of Computer Science,
Shivaji University, Kolhapur

Dr. Chetan Awati
Department of Technology,
Shivaji University, Kolhapur

Prof. (Dr.) P. S. Patankar
(Member Secretary)
Director,
Centre for Distance Education,
Shivaji University, Kolhapur.

Centre for Distance and Online Education
Shivaji University, Kolhapur

■ MEMBERS OF B.O.S. IN ACCOUNTANCY ■

Prof. (Dr.) Nandkumar Laxman Kadam
Principal, D. R. Mane Mahavidyalaya, Kagal
Chairman, Board of Studies in Accountancy

- **Dr. Mrs. Sherya Vinay Patil**
Chandrabai Shantappa Shendure College,
Hupari
- **Dr. Anil S. Patil**
Arts, Commerce and Science College,
Palus, Dist. Sangli
- **Dr. Smt. Vandana S. Tandale**
Hon. Shri. Annasaheb Dange Arts,
Commerce and Science College,
Hatkanangale, Dist. Kolhapur
- **Dr. J. G. Mulani**
Shri. Sampatrao Mane Mahavidyalaya,
Khanapur, Dist. Sangli
- **Dr. Sarjerao S. Chile**
Prof. (Dr.) N. D. Patil Mahavidyalaya
Malkapur, Tal. Shahuwadi, Dist. Kolhapur
- **Dr. Sagar R. Powar**
Karmaveer Hire Arts, Commerce, Science
and Education College, Gargoti,
Tal. Bhudargad, Dist. Kolhapur
- **Dr. Ram Ningappa Naik**
Smt. Kusumtai Rajarambapu Patil Kanya
Mahavidyalaya (Arts, Commerce &
Science) Islampur, Tal. Walwa, Dist. Sangli
- **Dr. Ashok Ramchandra Shinde**
Yashwantrao Chavan Mahavidyalaya,
Urun-Islampur, Tal. Walwa, Dist. Sangli
- **Prof. (Dr.) B. B. Shitole**
Karmaveer Bhaurao Patil Mahavidyalaya
Pandharpur, Tal. Pandharpur, Dist. Solapur
- **Prof. (Dr.) V. K. Sawant**
Dhananjayrao Gadgil College of
Commerce, Satara
- **Dr. M. N. Haladkar**
Rajarshi Shahu Arts and Commerce
College, Rukadi, Dist. Kolhapur
- **CA - A. A. Gawade**
Matoshri Plaza, Shop No. 210 2nd Floor
Station Road, Venus Corner, Shahupuri,
Kolhapur
- **CA - Mrs. C. K. Patil**
Morya Residence, 4th Floor,
Rajarampuri 2nd lane, Nigade Hospital lane,
Kolhapur

Preface

It gives me immense pleasure to bring forward this Self-Instructional Material (SIM) for Accountancy Major Paper VII (Corporate Accounting Part III) for the students of B. Com. III (Sem. V). As per the order and guidelines of the Government of Maharashtra, National Education Policy 2020 is implemented for all the under graduate programmes of Shivaji University from the Academic Year 2024-25. The syllabuses of various papers under various courses for B. Com. III are set considering the guidelines given in the NEP Document and Government Resolutions in this regard and introduced from June 2026.

The subject Accountancy, especially Corporate Accounting, occupies an important place in the content of Commerce and Management Education. Its importance has been arduously recognised by all types of business organisations in private and public limited companies. Considering the need of the hour, the Board of Studies in Accountancy drafted the syllabus of the subject incorporating Redemption of Debentures – When Sinking Fund is not created, Company Final Account as Per Schedule-III of the Companies Act, 2013, Voluntary and Compulsory Liquidation of Companies.

The main feature of this book is that the theory and illustrations of each topic are presented in such a way that students can understand easily. Problems of revised nature are illustrated in a sufficient number in each unit with necessary working notes.

I am thankful to all the authors who have contributed to this SIM. I strongly appreciate the sincere efforts taken by the authors to enrich the quality of the concerned units. Because, this course is firstly introduced in the syllabus of the B. Com. Programme. I express my deep sense of gratitude to Hon. Vice Chancellor Prof. (Dr.) Rajneesh Kamat, Hon. Pro-Vice Chancellor Prof. (Dr.) Jyoti Jadhav, Hon. In-charge Dean of the Faculty of Commerce and Management Prof. (Dr.) Varsha Maindargi and Registrar Dr. Vilas Shinde for their supreme support, guidance and encouragement. I especially thanks to the Director, Distance and Online Education Centre for his keen interest in developing quality study material, cooperation and assistance to produce the learning material. I am also thankful to Dr. Sushant Mane, Dr. Sachin Dethe, Mrs. V. G. Kapade and other concerned staff of CDOE who worked continuously for preparation and publication of this learning material.

All your suggestions will be welcomed for the further improvement of the book.

Thank you all.

■ Editor ■

Prin. (Dr.) N. L. Kadam

Chairman, Board of Studies in Accountancy
Principal D. R. Mane Mahavidyalaya, Kagal, Tal. Kagal, Dist. Kolhapur.

Centre for Distance and Online Education
Shivaji University,
Kolhapur.

Accountancy Paper - VII
(Corporate Accounting) Part III
B.Com. III Semester - V

Writing Team

Author's	Unit No. Sem. V
Prin. Dr. N. L. Kadam D. R. Mane Mahavidyalaya, Kagal, Tal. Kagal, Dist. Kolhapur	1
Dr. S. H. Ambavade Shri. Venkantesh College, Ichalkaranji, Dist, Kolhapur	2, 4
Dr. Shreya Patil Chandrabai Shantappa Shendure College, Hupari	3

■ Editor ■

Prin. (Dr.) N. L. Kadam
Chairman, Board of Studies in Accountancy
Shivaji University, Kolhapur.
Principal D. R. Mane Mahavidyalaya,
Kagal, Tal. Kagal, Dist. Kolhapur.

B. Com Part-III

INDEX

Unit No.	Topic	Page No.
1	Redemption of Debentures – When Sinking Fund is not created	1
2	Company Final Account as Per Schedule-III of the Companies Act, 2013	35
3	Voluntary Liquidation of Companies	131
4	Compulsory Liquidation of Companies	175

Each Unit begins with the section 'Objectives' -

Objectives are directive and indicative of :

1. What has been presented in the Unit and
2. What is expected from you
3. What you are expected to know pertaining to the specific Unit once you have completed working on the Unit.

The self check exercises with possible answers will help you to understand the Unit in the right perspective. Go through the possible answer only after you write your answers. These exercises are not to be submitted to us for evaluation. These are provided to you as Study Tools to help keep you in the right track as you study the Unit.

Unit 1

Redemption of Debentures – When Sinking Fund is not created

**Redemption of Debentures - when sinking fund is not created,
Methods of Redemption of Debentures A) Lumpsum Payment Method
B) Instalment Method C) Insurance Policy Method
D) Conversion into Equity Shares**

Index -

- 1.0 Objectives
- 1.1 Introduction
- 1.2 Presentation of Subject Matter
 - 1.2.1 Methods of Redemption of Debentures
 - 1.2.2 Accounting Entries
 - Check your progress
 - 1.2.3 Illustrations
- 1.3 Summary
- 1.4 Terms to remember
- 1.5 Answers to check your progress
- 1.6 Exercise
- 1.7 References

1.0 Objectives :

After studying this unit you will be able to-

1. Understand meaning and process of redemption of debentures when sinking fund is not created.
2. Explain the methods of such redemption of debentures.
3. Carry accounting treatment of redemption of debentures

4. Find relationship between different methods of redemption of debentures.

1.1 Introduction :

In the last year in Accountancy Paper No. VI, you learnt how to redeem debentures when sinking fund is created. You studied the meaning and nature of redemption of debentures and accounting treatment under sinking fund method only. In this unit you will study how to carry on redemption of debentures when sinking fund is not created. You will study various methods of redemption and the accounting treatment under each method.

1.2 Presentation of subject matter :

Redemption of Debentures refers to repayment of liability on account of debentures. In respect of redemption of debentures, the following points need to be considered.

1. Time of Redemption – Every time debentures are not redeemed at the expiry of the given period but, they may be redeemed before the expiry of the given period.

2. Mode of Redemption – Every time debentures are not redeemed by making payment through bank to debenture holders. But the company may purchase its own debentures in the open market or they may be converted into other debentures or shares.

3. Amount to be paid on Redemption – The debentures may be redeemed at par or at premium or in exceptional case may be at discount. When the debentures are purchased in the open market, the price to be paid depends on the market conditions. In the case of conversion of debentures either in other debentures or shares, the price is determined as per the conditions of conversion. It means the amount of to be paid on redemption changes according to method of redemption.

4. Sources of Finance for Redemption – The debentures may be redeemed out of profits or out of capital or out of provisions or they may be converted into shares or new debentures or may be combination of these.

1.2.1 Methods of Redemption of Debentures :

The methods of redemption of debentures can broadly be divided under two headings–

A) When Sinking Fund or Debenture Redemption Fund is created

B) When Sinking Fund or Debenture Redemption Fund is not created

1. Redemption by payment in lump sum
2. Redemption by payment in instalments
3. Redemption by Conversion
4. Insurance Policy Method
5. Purchase of own Debentures – This method is not included in syllabus. So, it is not discussed hereunder.

1.2.2 Accounting Entries :

A) When Sinking Fund or Debenture Redemption Fund is created

This method is studied in the B. Com. II Semester IV.

B) When Sinking Fund or Debenture Redemption Fund is not created

1. Redemption by payment in lump sum at the end of specified period i.e. at maturity–

Under this method, total amount of debentures is repaid in single payment at the expiry of the given period.

1. To transfer balance of debentures account to debenture holders' account

Journal Entry	Amount
Debentures A/c Dr Premium on Redemption of Debent.A/c Dr To Debenture holders' A/c (Being balance of debentures account transferred to debenture holders account)	Total balance of debentures account Premium, if any , on redemption Total of the above two

2. For payment to debenture holders

Journal Entry	Amount
Debenture holders' A/c Dr To Bank A/c (Being payment made to debenture holders)	Amount credited in the above entry

2. Redemption by payment in instalments -

In this case, every year proportionate amount of debentures, generally drawn by lottery method, is redeemed.

1. To transfer balance of debentures account to debenture holders' account

Journal Entry	Amount
Debentures A/c Dr Premium on Redemption of Debentures A/c Dr To Debenture holders A/c (Being balance of debentures account transferred to debenture holders account)	Proportionate amount of debentures Premium, if any , on redemption Total of the above two

2. For payment to debenture holders

Journal Entry	Amount
Debenture holders' A/c Dr To Bank A/c (Being payment made to debenture holders)	Amount credited in the above entry

Note – These two entries are repeated at the end of every year of repayment

3. Redemption by Conversion -

In this case, the existing debentures are converted either in new debentures or in shares

- a) If converted into new debentures

- i. If new debentures are issued at par

Journal Entry	Amount
(Old) Debentures A/c Dr To (New) Debenture A/c (Being debentures converted into new debentures)	Amount of debentures to be converted

ii. If new debentures are issued at discount

Journal Entry	Amount
(Old) Debentures A/c Dr Discount on Issue of (New) Debentures A/c Dr To (New) Debenture A/c (Being debentures converted into new debentures and discount on issue of debentures accounted)	Amount of debentures to be converted No. of new debentures x amt of discount No. of new debentures x face value

iii. If new debentures are issued at premium

Journal Entry	Amount
(Old) Debentures A/c Dr To (New) Debenture A/c To Premium on Issue of (New) Debentures A/c (Being debentures converted into new debentures and premium on issue of debentures accounted)	Amount of debentures to be converted No. of new debentures x face value No. of new debentures x amt of premium

b) If converted into shares

i. If shares are issued at par

Journal Entry	Amount
Debentures A/c Dr To Share Capital A/c (Being debentures converted into shares)	Amount of debentures to be converted

ii. If shares are issued at premium

Journal Entry	Amount
Debentures A/c Dr To Share Capital A/c To Premium on Issue of Shares A/c (Being debentures converted into shares and premium on issue of shares accounted)	Amount of debentures to be converted No. of shares x face value No. of shares x amount of premium

4. Insurance Policy Method -

Under this method an insurance policy is taken for the amount of debentures issued for the period for which the debentures are issued. Generally premium of the policy is paid annually. At the end of the specific period the insurance policy matures and the amount received on the policy is utilised for redemption of debentures.

a) For all the years

i. For payment of insurance premium

Journal Entry	Amount
Debenture Redemption Fund Policy A/c Dr To Bank A/c (Being insurance premium paid)	Amount of premium

ii. For making provision for debenture redemption fund

Journal Entry	Amount
Profit & Loss Appropriation A/c Dr To Debenture Redemption Fund A/c (Being provision made for debenture redemption)	Amount of premium

Note – These two entries are repeated for all the years including last year

b) At the end of specific period i.e. when debentures fall due for redemption

i. For receipt of money on insurance policy

Journal Entry	Amount
Bank A/c Dr To Debenture Redemption Fund Policy A/c (Being debenture redemption fund policy matured)	Amount of policy / Amount received from Insurance Co.

ii. To transfer excess amount received on policy to debenture redemption fund account

Journal Entry	Amount
Debenture Redemption Fund Policy A/c Dr To Debenture Redemption Fund A/c (Being debenture redemption fund policy matured)	Amount of policy – total premium paid OR Balance of Debenture Redemption Fund Policy A/c

iii. For transfer the balance of debentures account to debenture holders' account

Journal Entry	Amount
Debentures A/c Dr Premium on Redemption of Debentures A/c Dr To Debenture holders A/c (Being balance of debentures account transferred to debenture holders account)	Amount of debentures Premium, if any , on redemption Total of the above two

iv. For making payment to debenture holders

Journal Entry	Amount
Debentures holders' A/c Dr To Bank A/c (Being payment made to debenture holders)	Amount credited in above entry

v. To transfer balance of Debenture Redemption Fund account to general reserve account

Journal Entry	Amount
Debenture Redemption Fund A/c Dr To General Reserve A/c (Being balance of Debenture Redemption fund account transferred to general reserve account)	Balance of Debenture Redemption fund

9. In the case of Redemption by Conversion, the existing debentures are converted either in new debentures or in shares
10. In the Insurance Policy Method excess amount received on policy is transferred to debenture redemption fund account

1.2.3 Illustrations :

1. Redemption by payment in lump sum

Illustration 1. Mango Co. issued 500 12% Debentures of ₹ 1000 each at par on 1st April 2020, repayable at par at the end of 6th year and 1000 10% Debentures of ₹ 500 each at par on 1st April 2021, repayable at 2% premium at the end of 5th year.

On 31st March 2026 the company was having sufficient bank balance to repay the debentures and accordingly the debentures were redeemed.

It is kind request of the company to pass journal entries for the redemption of debentures.

Solution – In the books of Mango Co.

Calculation of premium on redemption of debentures 2% on $(1000 \times 500) = 10,000$

Journal

Date	Particulars	L/F	Dr ₹	Cr ₹
31/3/2026	12% Debentures A/c Dr To 12% Debenture holders' A/c (Being balance of 12% Debentures transferred to debenture holders account)		5,00,000	5,00,000
31/3/2026	10% Debentures A/c Dr Premium on Redemption of 10% Debentures A/c Dr To 10% Debenture holders' A/c (Being balance of 10% Debentures and premium transferred to debenture holders account)		5,00,000 10,000	5,10,000

31/3/2026	<div style="border-top: 1px dashed black; padding-top: 5px;"> 12% Debenture holders' A/c Dr 10% Debenture holders' A/c Dr To Bank A/c (Being payment made to 10% debenture holders) </div>		5,00,000 5,10,000	 10,10,000
-----------	---	--	----------------------	---------------

Illustration 2. Apple Co. issued –

- 1000 10% Debentures of ₹ 500 each at par on 1st April 2016 repayable at par at the end of 10th year.
- 1500 9% Debentures of ₹ 500 each at par on 1st April 2017, repayable at 5% premium at the end of 9th year.
- 2000 8% Debentures of ₹ 500 each at 10% discount on 1st April 2018 repayable at par at the end of 8th year
- 2500 7% Debentures of ₹ 500 each at 7% discount on 1st April 2019 repayable at 6% premium at the end of 7th year
- 3000 6% Debentures of ₹ 500 each at 5% premium on 1st April 2020 repayable at 7% premium at the end of 6th year.

On 31st March 2026 the company was having sufficient bank balance to repay the debentures and accordingly the debentures were redeemed.

Please, pass journal entries for the redemption of debentures.

Solution – In the books of Apple Co.

Calculation of premium on redemption of debentures -

9% Debentures – $1500 \times 500 \times 5\% = 37500$

7% Debentures - $2500 \times 500 \times 6\% = 75000$

6% Debentures – $3000 \times 500 \times 7\% = 105000$

Journal

Date	Particulars	L/F	Dr ₹	Cr ₹
31/3/2026	10% Debentures A/c Dr To 10% Debenture holders' A/c (Being balance of 10% Debentures transferred to debenture holders' account)		5,00,000	5,00,000
31/3/2026	9% Debentures A/c Dr Premium on Redem. of 9 % Debentures A/c Dr To 9 % Debenture holders' A/c (Being balance of 9% Debentures and premium transferred to debenture holders' account)		7,50,00 37,500	7,87,500
31/3/2026	8% Debentures A/c Dr To 8% Debenture holders' A/c (Being balance of 8% Debentures transferred to debenture holders' account)		10,00,000	10,00,000
31/3/2026	7% Debentures A/c Dr Premium on Redem. of 7 % Debentures A/c Dr To 7 % Debenture holders' A/c (Being balance of 7% Debentures and premium transferred to debenture holders' account)		12,50,000 75,000	13,25,000
31/3/2026	6% Debentures A/c Dr Premium on Redem. of 6 % Debentures		15,00,000	

31/3/2026	A/c	Dr	1,05,000	16,05,000
	To 6 % Debenture holders' A/c (Being balance of 6% Debentures and premium transferred to debenture holders' account)			

	10% Debenture holders' A/c	Dr	5,00,000	52,17,500
	9% Debentures holders' A/c	Dr	7,87,000	
	8% Debenture holders' A/c	Dr	10,00,000	
	7% Debentures holders' A/c	Dr	13,25,000	
	6% Debentures holders' A/c	Dr	16,05,000	
	To Bank A/c (Being payment made to debentures holders)			

Illustration 3. Cashew Ltd. issued 700 9% Debentures of ₹ 1000 each at 3% discount on 1st April 2023, repayable at 6% premium at the end of 3rd year. On 31st March 2026 the company was having sufficient bank balance to repay the debentures and accordingly the debentures were redeemed.

You are required to prepare 9% Debentures A/c, Premium on Redemption of 9% Debentures A/c, and 9% Debentures holders' A/c for the year 2025-26

Solution – In the books of Cashew Ltd.

Calculation of premium on redemption of debentures – 6% on (700 x 1000) = 42,000

Dr			9% Debentures A/c		Cr
Date	Particulars	₹	Date	Particulars	₹
31/3/2026	To 9% Debentures holders' A/c	7,00,000	1/4/2025	By Balance b/d	7,00,000
	Total	7,00,000		Total	7,00,000

Dr Premium on Redemption of 9% Debentures A/c			Cr		
Date	Particulars	₹	Date	Particulars	₹
1/3/2026	To 9% Debentures holders' A/c	42,000	31/3/2025	By Balance b/d	42,000
	Total	42,000		Total	42,000

Dr 9% Debentures holders' A/c			Cr		
Date	Particulars	₹	Date	Particulars	₹
31/3/2026	To Bank A/c	7,42,000	31/3/2026	By 9% Debentures A/c By Prem. on Redem. of 9% Debentures A/c	7,00,000 42,000
	Total	7,42,000		Total	7,42,000

2. Redemption by payment in instalments :

Illustration 4. Dates Co. issued 16000 10% Debentures of ₹ 500 each at 5% discount on 1st April 2016 on the condition that these debentures will be redeemed in 4 equal annual instalments starting from 31st March 2023 at par.

Pass journal entries for the redemption of the debentures in the books of the company.

Solution – In the books of Dates Co.

Journal

Date	Particulars	L/F	Dr ₹	Cr ₹
31/3/2023	10% Debentures A/c Dr To 10% Debenture holders' A/c (Being balance of 10% Debentures transferred to debenture holders' account) -----		20,00,000	20,00,000

31/3/2023	10% Debenture holders' A/c Dr To Bank A/c (Being payment made to 10% Debenture holders)		20,00,000	20,00,000
31/3/2024	10% Debentures A/c Dr To 10% Debenture holders' A/c (Being balance of 10% Debentures transferred to debenture holders' account)		20,00,000	20,00,000
31/3/2024	10% Debenture holders' A/c Dr To Bank A/c (Being payment made to 10% Debenture holders)		20,00,000	20,00,000
31/3/2025	10% Debentures A/c Dr. To 10% Debenture holders' A/c (Being balance of 10% Debentures transferred to debenture holder's account)		20,00,000	20,00,000
31/3/2025	10% Debenture holder's A/c Dr To Bank A/c (Being payment made to 10% Debenture holders)		20,00,000	20,00,000
31/3/2026	10% Debentures A/c Dr. To 10% Debenture holders' A/c/ (Being balance of 10% Debentures		20,00,000	20,00,000

Illustration 5. Sapodilla Co. issued 15000 9% Debentures of ₹ 500 each at par repayable at par and 9000 8% Debentures of ₹ 1000 each at 5% premium repayable at 7%

premium on 1st April 2016. The company reserved the right of redemption of these debentures.

The company decided to redeem the debentures as follows -

On 31/3/2024 – 4000 9% Debentures and 4000 8% Debentures,

On 31/3/2025 – 5000 9% Debentures and 3000 8% Debentures,

On 31/3/2026 – 6000 9% Debentures and 2000 8% Debentures.

Pass journal entries for the redemption of the debentures in the books of the company.

Solution – In the books of Sapodilla Co.

Working Notes – Calculation of premium on redemption of 8% Debentures

On 31/3/2024 – $4000 \times 1000 \times 7\% = 2,80,000$

On 31/3/2025 – $3000 \times 1000 \times 7\% = 2,10,000$

On 31/3/2026 – $2000 \times 1000 \times 7\% = 1,40,000$

Journal

Date	Particulars	L/F	Dr ₹	Cr ₹
31/3/2024	9% Debentures A/c Dr To 9% Debenture holders' A/c (Being balance of 9% Debentures transferred to debenture holders' account -----		20,00,000	2,00,000
31/3/2024	8% Debentures A/c Dr Premium on Redem. of 8% Debentures A/c. Dr To 8% Debenture holders A/c (Being balance of 8% Debentures and Premium transferred to debenture holders' account -----		40,00,000 2,80,000	42,80,000

31/3/2024	9% Debenture holders' A/c	Dr	20,00,000	
	8% Debenture holders' A/c	Dr	42,80,000	
	To Bank A/c			62,80,000
	(Being payment made to debenture holders)			

31/3/2025	9% Debentures A/c	Dr	25,00,000	
	To 9% Debenture holders' A/c			25,00,000
	(Being balance of 9% Debentures transferred to debenture holders' account)			

31/3/2025	8% Debentures A/c	Dr	30,00,000	
	Premium on Redem. of 8 % Debentures A/c	Dr	2,10,000	
	To 8 % Debenture holders' A/c			32,10,000
	(Being balance of 8% Debentures and premium transferred to debenture holders' account)			

31/3/2025	9% Debenture holders' A/c	Dr	25,00,000	
	8% Debenture holders' A/c	Dr	32,10,000	
	To Bank A/c			57,10,000
	(Being payment made to debenture holders)			

31/3/2026	9% Debentures A/c	Dr	30,00,000	
	To 9% Debenture holders' A/c			30,00,000
	(Being balance of 9% Debentures transferred to debenture holders' account)			

31/3/2026	8% Debentures A/c	Dr	20,00,000	
	Premium on Redem. of 8 % Debentures A/c	Dr	1,40,000	

	To 8 % Debenture holders' A/c (Being balance of 8% Debentures and premium transferred to debenture holders' account)			21,40,000
31/3/2026	-----			
	9% Debenture holders' A/c Dr		30,00,000	
	8% Debenture holders' A/c Dr		21,40,000	
	To Bank A/c (Being payment made to debenture holders)			51,40,000

Illustration 6. Guava Co. issued 1800 12% Debentures of ₹1000 each at par on 1st April 2016. Debentures are repayable at 6% premium in 3 equal annual instalments by lottery method starting from 31st March 2024.

Show, 12% Debentures A/c, 12% Debenture Holders A/c and Premium on Redemption of 12% Debentures A/c for the years from 2023-24 to 2025-26

Solution – In the books of Guava Co.

Calculation of Premium – $6\% \text{ on } (1800 \times 1000) = 1,08,000 / 3 = 36,000$ Calculation of amount of debentures to be redeemed every year = $(1800 \times 1000) / 3 = 6,00,000$

Dr			12% Debentures holders' A/c			Cr		
Date	Particulars	₹	Date	Particulars	₹			
31/3/2024	To 12% Deb. Hold. A/c	6,00,000	1/4/2023	By Bal. b/d	18,00,000			
	To Balance c/d	12,00,000						
		18,00,000						18,00,000
31/3/2025	To 12% Deb. Hold. A/c	6,00,000	1/4/2024	By Balance b/d	12,00,000			
	To Balance c/d	6,00,000						
		12,00,000						12,00,000

31/3/2026	To 12% Deb. Hold. A/c	6,00,000	1/4/2025	By Balance b/d	6,00,000
		6,00,000			6,00,000

Dr Premium on Redemption of 12% Debentures A/c Cr

Date	Particulars	₹	Date	Particulars	₹
31/3/2024	To 12% Deb. Hold	36,000	1/4/2023	By Bal. b/d	1,08,000
31/3/2024	A/c To Balance c/d	72,000			
	Total	1,08,000			
31/3/2025	To 12% Deb. Hold	36,000	1/4/2024	By Balance b/d	72,000
31/3/2025	A/c To Balance c/d	36,000			
	Total	72,000			
31/3/2026	To 12% Deb. Hold.	36,000	1/4/2025	By Balance b/d	36,000
	A/c				
	Total	36,000		Total	36,000

Dr 12% Debenture Holders A/c Cr

Date	Particulars	₹	Date	Particulars	₹
31/3/2024	To Bank A/c	6,36,000	31/3/2024	By 12% Debenture A/c	6,00,000
				By Prem. on Red.A/c	36,000
	Total	6,36,000		Total	6,36,000
31/3/2025	To Bank A/c	6,36,000	31/3/2025	By 12% Debenture A/c	6,00,000
				By Prem. on Red.A/c	36,000
	Total	6,36,000		Total	6,36,000

31/3/2026	To Bank A/c	6,36,000	31/3/2026	By 12% Debenture A/c	6,00,000
				By Prem. on Red. A/c	36,000
	Total	6,36,000		Total	6,36,000

3. Redemption by Conversion :

Illustration 7. On 1st Jan. 2026 Grape Ltd. gave notice of its intention to redeem ₹ 30,00,000 5% Debentures of ₹ 100 each on 31st March 2026 and offered the debenture holders the following options -

- 6% Cumulative Preference Shares of ₹ 20 each at ₹ 25 per share. It is accepted by the holders of ₹ 10,00,000.
 - 7% Debentures of ₹ 100 each at 4% discount. It is accepted by the holders of ₹ 9,00,000.
 - Remaining 5% Debentures holders accepted equity shares of 200 each at par
- You are required to show journal entries necessary to record the redemption.

Solution – In the books of Grape Ltd.

- Calculation of premium on issue of 6% cumulative preference shares and capital
 $\text{No. of shares issued} = 10,00,000 / 25 = 40,000$, $\text{Premium} = 40,000 \times 5 = 2,00,000$
 $\text{Capital} = 10,00,000 - 2,00,000 = 8,00,000$
- Calculation of discount on issue of new 7% Debentures and face value
 $\text{No. of Debentures issued} = 9,00,000 / 96 = 9,375$, $\text{Discount} = 9,375 \times 4 = 37,500$
 $\text{Face value of debentures} = 9,375 \times 100 = 9,37,500$
- Remaining amount of 5% Debentures – $30,00,000 - 10,00,000 - 9,00,000 = 11,00,000$

Journal

Date	Particulars	L/F	Dr ₹	Cr ₹
31/3/2026	5% Debentures A/c Dr To 6% Cumulative Pref. Share Capital A/c To Premium on Issue of Pref. Shares A/c (Being 5% Debentures converted into 6% Cumulative Preference Share Capital) -----		10,00,000	8,00,000 2,00,000
31/3/2026	5% Debentures A/c Dr Discount on Issue of 7% Debentures A/c Dr To 7% Debentures A/c (Being 5% Debentures converted into new 7% Debentures) -----		9,00,000 37,500 11,00,000	9,37,500
31/3/2026	5% Debentures A/c Dr To Equity Share Capital A/c (Being 5% Debentures converted into equity shares)			11,00,000

4. Insurance Policy Method :

Illustration 8. Pomegranate Ltd. issued on 1/4/2023, ₹ 20,00,000 12% Debentures which are to be redeemed after 3 years. The company took an insurance policy for the redemption of debentures of the same amount on the same date. Annual premium payable at the beginning of each year is ₹ 6,20,000. The company received policy amount on due date and redemption of debentures took place.

Will you pass journal entries for the first two years except for interest on debentures?

Solution – In the books of Pomegranate Ltd.

Journal

Date	Particulars	L/F	Dr ₹	Cr ₹
1/4/2023	Bank A/c Dr To 12% Debentures A/c (Being 12% debentures issued at par repayable at par)		20,00,000	20,00,000
1/4/2023	Debenture Redemption Fund Policy A/c Dr To Bank A/c (Being debentures redemption policy purchased. First premium paid)		6,20,000	6,20,000
31/3/2024	Profit & Loss Appropriation A/c Dr To Debentures Redemption Fund A/c (Being debentures redemption fund created)		6,20,000	6,20,000
1/4/2024	Debenture Redemption Fund Policy A/c Dr To Bank A/c (Being debentures redemption policy premium paid)		6,20,000	6,20,000
31/3/2025	Profit & Loss Appropriation A/c Dr To Debentures Redemption Fund A/c (Being debentures redemption fund created)		6,20,000	6,20,000

Illustration 9. Pomegranate Ltd. issued on 1/4/2016, ₹ 20,00,000 12% Debentures which are to be redeemed after 3 years. The company took an insurance policy for the redemption of debentures of the same amount on the same date. Annual premium payable at the beginning of each year is ₹ 6,20,000. The company received policy amount on due date and redemption of debentures took place.

Will you pass journal entries for the last year except for interest on debentures?

Solution – In the books of Pomegranate Ltd.

Calculation of excess money received on policy – Amount of Policy – Premium paid

$$= 20,00,000 - (6,20,000 \times 3) = 1,40,000$$

Journal

Date	Particulars	L/F	Dr ₹	Cr ₹
1/4/2025	Debenture Redemption Fund Policy A/c Dr To Bank A/c (Being debentures redemption policy premium paid)		6,20,000	6,20,000
31/3/2026	Profit & Loss Appropriation A/c Dr To Debentures Redemption Fund A/c (Being debentures redemption fund created)		6,20,000	6,20,000
31/3/2026	Bank A/c Dr To Debenture Redemption Fund Policy A/c (Being policy matured and amount received)		20,00,000	20,00,000
31/3/2026	12% Debentures A/c Dr To 12% Debenture holders' A/c (Being balance of debentures transferred to debenture holders account)		20,00,000	20,00,000
31/3/2026	12% Debenture holders' A/c Dr To Bank A/c (Being payment made to debenture holders)		20,00,000	20,00,000
31/3/2026	Debenture Redemption Fund Policy A/c Dr		1,40,000	

	To Debenture Redemption Fund A/c (Being excess amount received on policy transferred to debenture redemption fund account)			1,40,000
31/3/2026	----- Debenture Redemption Fund A/c Dr To General Reserve A/c (Being balance of debentures redemption fund account transferred to general reserve account)		20,00,000	20,00,000

Illustration 10. Dragan fruit Ltd. issued on 1/4/2023, ₹ 30,00,000, 10% Debentures which are to be redeemed after 3 years. The company took an insurance policy for the redemption of debentures of the same amount on the same date. Annual premium payable at the beginning of each year is ₹ 9,30,000. The company received policy amount on due date and redemption of debentures took place.

Prepare 10% Debentures A/c Debenture Redemption Fund Policy A/c, Debenture Redemption Fund A/c and 10% Debentures holders' A/c for all the years.

Solution – In the books of Dragan fruit Ltd.

Dr			10% Debenture A/c		Cr
Date	Particulars	₹	Date	Particulars	₹
31/3/2024	To Balance c/d	30,00,000	1/4/2023	By Bank	30,00,000
		30,00,000			30,00,000
31/3/2025	To Balance c/d	30,00,000	1/4/2024	By Balance b/d	30,00,000
		30,00,000			30,00,000
31/3/2026	To Deb. Hold. A/c	30,00,000	1/4/2025	By Balance b/d	30,00,000
		30,00,000			30,00,000

Dr					Debenture Redemption Fund Policy A/c		Cr				
Date		Particulars		₹		Date		Particulars		₹	
1/4/2023		To Bank A/c		9,30,000		31/3/2024		By Balance c/d		9,30,000	
				9,30,000						9,30,000	
1/4/2024		To Balance b/d To Bank A/c		9,30,000		31/3/2025		By Balance c/d		18,60,000	
1/4/2024				9,30,000							
				18,60,000							
1/4/2025		To Balance b/d		18,60,000		31/3/2026		By Bank A/c		30,00,000	
1/4/2025		To Bank A/c		9,30,000							
31/3/2026		To D. R. Fund A/c		2,10,000							
		Total		30,00,000							

Dr			Debenture Redemption Fund Policy A/c			Cr		
Date	Particulars	₹	Date	Particulars	₹			
31/3/2024	To Balance c/d	9,30,000	31/3/2024	By P. & L. Appro. A/c	9,30,000			
	Total	9,30,000		Total	9,30,000			
31/3/2025	To Balance c/d	18,60,000	1/4/2024 31/3/2025	By Balance b/d	9,30,000			
				By P. & L. Appro. A/c	9,30,000			
	Total	18,60,000		Total	18,60,000			
31/3/2026	To General Reserve	30,00,000	1/4/2025 31/3/2026	By Balance b/d	18,60,000			
				By P. & L. Appro.A/c	9,30,000			
				By D. R. F. Policy A/c	2,10,000			
	Total	30,00,000		Total	30,00,000			

Dr**10% Debenture holders' A/c****Cr**

Date	Particulars	₹	Date	Particulars	₹
31/3/2026	To Bank	30,00,000	31/3/2026	By 10% Deben. A/c	30,00,000
	Total	30,00,000		Total	30,00,000

1.3 Summary :

Redemption of Debentures refers to repayment of liability on account of debentures. In this regard Time of Redemption, Mode of Redemption, Amount to be paid on Redemption and Sources of Finance for Redemption are necessary to be considered. There are five methods of redemption of debentures when sinking fund is not created, 1. Redemption by payment in lump sum, 2. Redemption by payment in instalments, 3. Redemption by Conversion, 4. Insurance Policy Method and 5. Purchase of own Debentures.

1.4 Terms to remember :

1. Redemption by payment in lump sum at the end of specified period i.e. at maturity – Under this method, total amount of debentures is repaid in single payment at the expiry of the given period.
2. Redemption by payment in instalments - In this case, every year proportionate amount of debentures, generally drawn by lottery method, is redeemed.
3. Redemption by Conversion - In this case, the existing debentures are converted either in new debentures or in shares
4. Insurance Policy Method - Under this method an insurance policy is taken for the amount of debentures issued for the period for which the debentures are issued.
5. Purchase of own Debentures - A company can purchase its own debentures from stock market either for immediate cancellation or as an investment. The purchase of debentures may take place either on the date of interest or after the (immediate previous) date of payment of interest.

1.5 Answers to check your progress :

All the statements are true.

A) Fill in the blanks by selecting appropriate alternative from the alternatives given below.

- 26

- a) company
 - b) conversion
 - c) market
 - d) debenture holders
7. The amount of to be paid on redemption of debentures changes according to method of redemption.
- a) The statement is false
 - b) The statement is partially true
 - c) The statement is true
 - d) The statement is irrelevant
8. The debentures may be redeemed out of profits or out of capital or out of provisions or they may be converted into shares or new debentures or may be combination of these.
- a) The statement is false
 - b) The statement is partially true
 - c) The statement is irrelevant
 - d) The statement is true
9. In the case of Insurance Policy Method, after redemption of debentures, the balance of Debenture Redemption Fund A/c is transferred to
- a) Capital Reserve A/c
 - b) Profit & Loss A/c
 - c) Insurance Policy A/c
 - d) General Reserve A/c
10. A company can purchase its own debentures from stock market either for immediate cancellation or as an investment.
- a) The statement is true
 - b) The statement is partially true
 - c) The statement is irrelevant
 - d) The statement is false
11. The purchase of debentures may take place either on the date of interest or after the (immediate previous) date of payment of interest.
- a) The statement is false
 - b) The statement is true
 - c) The statement is irrelevant
 - d) The statement is partially true
12. In the case of purchase of debentures in the open market, profit on cancellation of debentures is transferred to
- a) General Reserve A/c
 - b) Profit & Loss A/c

- c) Capital Reserve A/c d) Debenture holders' A/c
13. The debentures are purchased at means the quotation price includes only the cost of debentures and additional amount is paid for the accrued interest.
- a) Cum-interest b) With-interest
- c) Fix-interest d) Ex-interest
14. The debentures are purchased Cum-interest at means the quotation price includes the cost of debentures and accrued interest both.
- a) Cum-interest b) with-interest
- c) Fix-interest d) Ex-interest
15. A company may purchase its own debentures, keep alive and cancel or reissue at any future date as per convenience. It is called as
- a) purchase of debentures for cancellation
- b) purchase of debentures as an investment
- c) redemption of debentures in lumpsum
- d) conversion of debentures
16. Profit on Cancellation / Reissue of Debentures A/c is transferred to
- a) General Reserve A/c b) Profit & Loss A/c
- c) Capital Reserve A/c d) Debenture holders' A/c
17. In purchase of debentures as an investment after the date of interest, the interest from the date of last payment of interest to the date of purchase needs to be calculated if the debentures are purchased at
- a) Ex-interest and not in Cum-interest b) Cum- interest and not in Ex-interest
- c) fluctuating rate of interest d) Ex-interest or at Cum-interest

B) Short Notes

1. Redemption of Debentures in Lumpsum with specimen entries

2. Redemption of Debentures in instalments with specimen entries
3. Insurance Policy Method of redemption of debentures with specimen entries
4. Conversion of debentures
5. Purchase of own debentures

C) Short Answer Questions.

1. Explain Insurance Policy Method of redemption of debentures.
2. Explain Purchase of own debentures for immediate cancellation.
3. Explain purchase of own debentures for investment.
4. Explain cum-interest and ex-interest with example.

D) Practical Questions.

Problem 1. Hem Kiran Co. issued on 1st April 2023, 1000 12% Debentures of ₹ 500 each at 96% repayable at par and 1200 10% Debentures of ₹ 500 each at par repayable at 4% premium at the end of 3rd year. On 31st March 2026 the company was having sufficient bank balance to repay the debentures and accordingly the debentures were redeemed.

It is kind request of the company to pass journal entries for redemption of debentures.

Problem 2. Jayaprabha Studios Ltd. issued 3000 9% Debentures of ₹ 200 each at 3% discount on 1st April 2023, repayable at 6% premium at the end of 3rd year. On 31st March 2026 the company was having sufficient bank balance to repay the debentures and accordingly the debentures were redeemed.

You are required to prepare 9% Debentures A/c and 9% Debentures holders' A/c

Problem 3. Rakhi Music Co. issued 9000 12% Debentures of ₹ 200 each at par on 1st April 2023. Debentures are repayable at 6% premium in 3 equal annual instalments by lottery starting from 31st March 2024.

Show, 12% Debentures A/c, 12% Debenture Holders A/c and Premium on Redemption of 12% Debentures A/c

Problem 4. On 1st July 2026 Reena Products Ltd. gave notice of its intention to redeem ₹ 15,00,000 5% Debentures of ₹ 100 each and offered the holders the following options

- a) 6% Cumulative Preference Shares of ₹ 20 each at ₹ 25 per share. It is accepted by the holders of ₹ 5,00,000.
- b) 7% Debentures of 100 each at 4% discount. It is accepted by the holders of ₹ 7,00,000.
- c) Remaining 5% Debentures holders accepted equity shares of ₹ 200 each at par

You are required to show journal entries necessary to record the redemption.

Problem 5. Madhura Sweets Ltd. issued on 1/4/2023, ₹ 30,00,000 12% Debentures which are to be redeemed after 3 years. The company took an insurance policy for the redemption of debentures of the same amount on the same date. Annual premium payable at the beginning of each year is ₹ 9,30,000. The company received policy amount on due date and redemption of debentures took place.

Will you pass journal entries for the first two years except for interest on debentures?

Problem 6. Madhavi Cosmetics Ltd. issued on 1/4/2023, ₹ 10,00,000 10% Debentures which are to be redeemed after 3 years. The company took an insurance policy for the redemption of debentures of the same amount on the same date. Annual premium payable at the beginning of each year is ₹ 3,10,000. The company received policy amount on due date and redemption of debentures took place.

Will you pass journal entries for the last year except for interest on debentures?

Problem 7. Shree Garments Ltd. issued on 1/4/2023, ₹ 6,00,000, 10% Debentures which are to be redeemed after 3 years. The company took an insurance policy for the redemption of debentures of the same amount on the same date. Annual premium payable at the beginning of each year is 1,86,000. The company received policy amount on due date and redemption of debentures took place.

Prepare Debenture Redemption Fund Policy A/c and Debenture Redemption Fund A/c for all the years.

Problem 8. On 1st April 2025, Reshma Fuel Co. had 15,000 12% Debentures of ₹ 100 each. As per the provisions of the deed, the company can acquire its debentures in the open market for immediate cancellation. Debentures interest is payable quarterly on 30th June, 30th Sept., 31st Dec. and on 31st March every year. The directors acquired the following debentures for immediate cancellation –a) on 30th June 2025, 1500 debentures @ ₹ 102

b) on 30th Sept. 2025, 3000 debentures @ ₹ 100

c) on 31st Dec. 2025, 4500 debentures @ ₹ 98

d) on 31st March 2026, 6000 debentures @ ₹ 96.

Please, pass journal entries for purchase of own debentures. Ignore interest and tax.

Problem 9. On 1st April 2025, Kajol Tourism Co. had outstanding in its books 2000 12% Debentures of ₹ 1000 each. The interest is payable on 30th Sept. and 31st March every year. In accordance with the power in the deed, the directors acquired in the open market the following debentures for immediate cancellation.

a) on 1st June 2025, 200 debentures @ ₹ 980 cum-interest

b) on 1st Feb. 2026 400 debentures @ ₹ 1000 cum-interest

Pass journal entries for purchase of debentures.

Problem 10. On 1st April 2025, Mukharji Trading Co. had outstanding in its books 21000 12% Debentures of ₹ 500 each. The interest is payable on 30th Sept. and 31st March every year. In accordance with the power in the deed, the directors acquired in the open market the following debentures for immediate cancellation.

a) on 1st July 2025, 600 debentures @ ₹ 550 cum-interest

b) on 1st March 2026 1500 debentures @ ₹ 525 cum-interest

Pass journal entries for purchase of debentures.

Problem 11. On 1st April 2025, Rubeena Fabricators Ltd. had outstanding in its books 8000 9% Debentures of ₹ 100 each. The interest is payable on 30th Sept. and 31st March every year. In accordance with the power in the deed, the directors acquired in the open market the following debentures for immediate cancellation.

- a) on 1st July 2025, 2000 debentures @ ₹ 98 ex-interest
- b) on 1st Dec. 2025 3000 debentures @ ₹ 100 ex-interest
- c) on 1st Jan. 2026 3000 debentures @ ₹ 105 ex-interest

Pass journal entries for purchase of debentures.

Problem 12. Urmila Engineering Ltd. had 10,000 8% Debentures of 100 each. Debenture interest is payable quarterly on 30th June, 30th Sept., 31st Dec. and 31st March every year. The company purchased the following debentures in the open market as an investment.

- a) 2000 debentures @ 96 each on 30th June 2025
- b) 3000 debentures @ 100 each on 30th Sept. 2025
- c) 4000 debentures @ 104 each on 31st Dec. 2025

The company cancelled all the purchased debentures on 31st March 2026.

Pass journal entries only for purchase and cancellation of debentures.

Problem 13. On 1st April 2025, Premier Biscuits Ltd. had 5000 5% Debentures of ₹ 1000 each. Debentures interest is payable half yearly on 30th Sept. and 31st March every year. The company purchased 2000 debentures in the open market at 95% on 30th Sept. 2025 and cancelled it on 31st March 2026.

The company requested you to pass journal entries for the year 2025-26 regarding debentures including debenture interest.

Problem 14. On 1st April 2025, Babita Electronics Ltd. had 4000 8% Debentures of ₹ 1000 each. Debentures interest is payable half yearly on 30th Sept. and 31st March every year. The company purchased 1500 debentures in the open market at ₹975 on 30th Sept. 2025 and reissued it on 31st March 2026 at ₹ 1020.

The company requested you to pass journal entries for the year 2025-26 regarding debentures including debenture interest.

Problem 15. Sumitra publishing Co. had 500 8% Debentures of ₹ 5,000 each on 1st April 2025. The interest on debentures is payable half yearly on 30th Sept. and 31st March

every year. The company purchased 100 of its debentures at ₹ 4,800 each cum-interest on 1st Jan. 2026 and cancelled on 31st March 2026.

Show the journal entries including for debenture interest.

Problem 16. Jayamala Broadcasting Co. had 800 9% Debentures of ₹ 500 each on 1st April 2025. The interest on debentures is payable half yearly on 30th Sept. and 31st March every year. The company purchased 200 of its debentures at ₹ 490 each cum-interest on 1st May 2025 and reissued on 30th Sept. 2025 at ₹ 510.

Show the journal entries including for debenture interest.

Problem 17. On 31st March 2025, balance sheet of Madhumati Investment Co. showed 10,000 10% Debentures of ₹ 200 each outstanding. Interest on debentures is payable annually on 31st March every year. On 1st August 2025, the company purchased 1000 of its own debentures as investment at ₹ 194 ex-interest. The company cancelled these debentures on 1st March 2026.

Pass journal entries for purchase and cancellation of debentures including interest.

Problem 18. On 31st March 2025, balance sheet of Meenakshi Consulting Co. showed 25,000, 12% Debentures of ₹ 100 each outstanding. Interest on debentures is payable annually on 30th Sept. and 31st March every year. On 1st August 2025, the company purchased 2500 of its own debentures as investment at ₹ 95 ex-interest. The company reissued these debentures at 110 cum-interest on 1st Jan. 2026.

Pass journal entries for purchase and cancellation of debentures including interest.

1.7 References :

- Gupta S.C., Gupta M. P., Shukla M. C., Agrawal B. M. and Grewal T. S. (2019), Advanced Corporate Accounting, S. Chand & Company, New Delhi
- Gupta R. L. and Radhaswamy M. (2018) Advanced Accountancy Vol. II, S. Chand & Sons, New Delhi
- Jain S. P. Narang K. L., Agrawal Simmi and Sehgal Monik, (2018) Advanced Accountancy (Corporate Accounting) Vol. II, Kalyani Publishers New Delhi
- Tulsian P. C. And Tulsian Bharat (2015) Corporate Accounting, S. Chand & Company, New Delhi

- Hanif M and Mukharjee A (2018) Modern Accountancy Vol. II, McGraw Hill Education India (Private) Ltd., Noida
- Arulnandan M. A. And Raman K. S. (2018) Advanced Accountancy (Corporate Accounting) Vol.II, Himalaya Publishing House, Mumbai
- Chakravorty Hrishikesh, Advanced Accountancy, Oxford University Press.

○○○

Unit 2

Company Final Account as Per Schedule-III of the Companies Act, 2013

Introduction to Company Final Accounts - General Instructions for the preparation of Balance Sheet and Profit and Loss statement

Part I - Form of Balance Sheet

Disclosure Requirement : Notes forming Part of Financial Statements.

Part II - Form of Statement of Profit and Loss : Preparation of statement of Profit and Loss and Balance Sheet as per Schedule III to the company Act

2013. Practical Problems on Statement of Profit and Loss and Balance Sheet

Index -

- 2.0 Objectives
- 2.1 Introduction to Company Final Accounts
- 2.2 Presentation of Subject Matter:
 - 2.2.1 General instructions for the preparation of Balance sheet and Profit and Loss Statement.
 - 2.2.2 Part -I-Form of Balance Sheet :.Disclosure Requirement : Notes forming Part of Financial Statements
- Section : 1
 - Check your progress
- 2.2.3 Part -II Form of Statement of Profit and Loss : Preparation of statement Profit and Loss and Balance Sheet as per Schedule III to the company Act, 2013.
- 2.2.4 Practical Problems on Statement of profit and loss account and Balance Sheet
- Section : 2
 - Check your progress

- 2.3 Summary
- 2.4 Terms to Remember
- 2.5 Answer to check your Progress
- 2.6 Exercise
- 2.7 References for further study

2.0 Objectives :

After studying this unit, students will be able to

1. To understand the concept of Company Final Accounts and Schedule III requirements.
2. To explain the format of the Balance Sheet and disclosure requirements.
3. To describe the format of the Statement of Profit and Loss under Schedule III.
4. To apply the provisions of Schedule III in preparing the Statement of Profit and Loss and Balance Sheet.
5. To solve practical problems relating to Company Final Accounts.

2.1 Introduction to Company Final Accounts :

Company Final Accounts are the financial statements prepared at the end of each financial year to present the financial performance and financial position of a company. They are prepared in accordance with the provisions of the Companies Act, 2013 and applicable Accounting Standards.

The main financial statements include the Statement of Profit and Loss, which shows the company's income, expenses, and profit or loss for the year, and the Balance Sheet, which shows the assets, liabilities, and shareholders' funds on a specific date. Companies also prepare Notes to Accounts and, where applicable, a Cash Flow Statement.

These accounts are prepared as per Schedule III of the Companies Act, 2013, ensuring uniformity, transparency, and comparability of financial information. They help shareholders, investors, creditors, management, and government authorities assess the company's financial health and performance.

Company Final Accounts are prepared on the basis of fundamental accounting principles such as the accrual concept and going concern concept and must present a true and fair view of the affairs of the company. Before being approved by shareholders, the financial statements are audited by a qualified auditor to ensure their accuracy and reliability.

2.2 Presentation of Subject Matter :

2.2.1 General Instructions for the Preparation of Balance Sheet and Statement of Profit and Loss :

The Balance Sheet and Statement of Profit and Loss must be prepared according to the format prescribed in Schedule III of the Companies Act, 2013. Every item shown in the financial statements should be classified properly and disclosed clearly so that the statements are easy to understand.

The Balance Sheet should be prepared by classifying assets and liabilities into current and non-current categories. Current assets are assets that are expected to be converted into cash within one year, such as cash, debtors, and inventory. Non-current assets are long-term assets such as land, building, machinery, and goodwill. Similarly, current liabilities are obligations payable within one year, while non-current liabilities are long-term obligations.

The Statement of Profit and Loss should separately show revenue from operations, other income, expenses, finance costs, depreciation, and taxation. Exceptional and extraordinary items, if any, should also be disclosed separately to provide clear information about unusual transactions.

The figures of the previous year should also be shown along with the current year figures for comparison purposes. If there is any change in accounting policy or method of presentation, proper disclosure should be made in the notes to accounts.

All material and important information relating to assets, liabilities, income, and expenses should be disclosed separately. Notes to accounts form an important part of financial statements because they provide detailed explanations and additional information regarding different items shown in the accounts.

The financial statements should be prepared in Indian Rupees and figures should be rounded off according to the requirements of the Companies Act. The statements should be signed by authorized directors and certified by the auditor of the company.

The company must ensure that the financial statements are complete, accurate, reliable, and prepared in accordance with accounting standards and legal provisions. Proper preparation and presentation of final accounts help in maintaining transparency, accountability, and confidence among investors and the public.

2.2.2 Part -I-Form of Balance Sheet Top of Form :

Part I of Schedule III of the Companies Act, 2013 prescribes the format of the Balance Sheet of a company. The Balance Sheet shows the financial position of the company on a particular date by presenting its assets, liabilities, and shareholders' funds. It is prepared in a vertical form and classifies items into major headings such as Equity and Liabilities and Assets. Liabilities are divided into shareholders' funds, non-current liabilities, and current liabilities, while assets are divided into non-current assets and current assets. The Balance Sheet helps users to understand the financial strength, solvency, and stability of the company.

SCHEDULE-III, PART I — BALANCE SHEET

(Section 129 of Companies Act, 2013)

Name of the Company.....

Balance Sheet as at 31st March,

Particulars	Note No.	Current Year ₹	Previous Year ₹
1	2	3	4
I. EQUITY AND LIABILITIES			
(1) Shareholders' funds			
(a) Share capital	XX	XXX	XXX
(b) Reserves and surplus	XX	XXX	XXX
(c) Money received against share warrants	XX	XXX	XXX
(2) Share application money pending allotment	XX	XXX	XXX
(3) Non-current liabilities			
(a) Long-term borrowings	XX	XXX	XXX
(b) Deferred Tax Liabilities	XX	XXX	XXX
(c) Other Long term liabilities (Net)	XX	XXX	XXX

(d) Long-term provisions	XX	XXX	XXX
(4) Current Liabilities			
(a) Short-term borrowings	XX	XXX	XXX
(b) Trade payables	XX	XXX	XXX
(c) Other current liabilities	XX	XXX	XXX
(d) Short Term Provisions	XX	XXX	XXX
TOTAL		XXXX	XXXX
II] ASSETS			
1) Non-current assets			
(a) PPE and Intangible Assets			
(i) Property, Plant and Equipment's	XX	XXX	XXX
(ii) Intangible assets	XX	XXX	XXX
(iii) Capital work-in-progress	XX	XXX	XXX
iv) Intangible Assets under Development	XX	XXX	XXX
(b) Non-current investments	XX	XXX	XXX
(c) Deferred Tax Assets (Net)	XX	XXX	XXX
(d) Long-term loans and advances	XX	XXX	XXX
(e) Other Non-Current Assets	XX	XXX	XXX
(2) Current Assets			
(a) Current investments	XX	XXX	XXX
(b) Inventories	XX	XXX	XXX
(c) Trade receivables	XX	XXX	XXX
(d) Cash and cash equivalents	XX	XXX	XXX
(e) Short-term loans and advances	XX	XXX	XXX

(f) Other current assets	XX	XXX	XXX
TOTAL		XXXX	XXXX

Disclosure Requirement: Notes forming Part of Financial Statements :

Notes forming part of financial statements are additional explanations and detailed information attached to the Balance Sheet and Statement of Profit and Loss. These notes help users to understand the financial statements clearly and correctly. They provide extra information about various items shown in the accounts of the company.

The Companies Act, 2013 requires every company to disclose important accounting information and explanatory details through notes to accounts. These notes are considered an integral part of financial statements because they explain the figures shown in the Balance Sheet and Statement of Profit and Loss.

The main purpose of disclosure through notes is to provide transparency, clarity, and proper understanding of the financial position and performance of the company. Many items shown in financial statements cannot be fully understood only by looking at figures. Therefore, detailed explanations are necessary.

Notes to accounts contain information about accounting policies followed by the company. Accounting policies explain the methods and principles used for preparing financial statements. For example, the company must disclose the method used for depreciation, valuation of inventory, recognition of revenue, and treatment of investments.

Notes also provide detailed classification of share capital. Information such as authorised capital, issued capital, subscribed capital, paid-up capital, number of shares, face value of shares, and rights attached to shares are disclosed separately in notes.

Details regarding reserves and surplus are also explained in notes. The company discloses information about general reserve, capital reserve, securities premium reserve, retained earnings, and accumulated losses.

Borrowings of the company must also be properly disclosed. Notes provide details about secured and unsecured loans, rate of interest, repayment terms, security offered against loans, and any default in repayment.

The company must disclose details of fixed assets through notes. Information such as cost of assets, additions, deductions, depreciation, and net book value of assets is separately shown.

Notes also provide details regarding investments, inventories, trade receivables, cash balances, loans and advances, and current liabilities. If there are doubtful debts or diminution in value of investments, proper disclosure should be made.

Contingent liabilities and commitments are important disclosures in notes to accounts. These are possible liabilities or future obligations that may arise depending upon future events. Although they are not recorded in the Balance Sheet, they are disclosed separately for the knowledge of users.

If the company changes its accounting policy during the year, the nature and effect of such change on profit or loss must be disclosed in notes. Similarly, prior period items and extraordinary items should also be separately explained.

Related party transactions are also disclosed in notes to accounts. These transactions include dealings with directors, holding companies, subsidiary companies, and relatives of directors. Proper disclosure helps in maintaining transparency and avoiding misuse of company funds.

The notes forming part of financial statements improve the reliability, accuracy, and usefulness of financial statements. Investors, creditors, auditors, government authorities, and other users depend on these disclosures for making financial and business decisions.

Therefore, notes to accounts are an essential part of company final accounts and help in presenting a true and fair view of the financial affairs of the company.

The Balance Sheet is prepared in a classified form as prescribed under Schedule III of the Companies Act, 2013. The items shown in the Balance Sheet are grouped under various headings and sub-headings to present the financial position of the company in a clear and systematic manner. The major items of the Balance Sheet are explained below.”

1) Shareholders’ Funds :

Shareholders’ funds are also known as owners’ funds, proprietors’ funds, shareholders’ equity, or owners’ equity. These funds represent the amount invested by shareholders in the company along with the profits retained in the business. Shareholders’ funds mainly consist of

share capital and reserves and surplus. These funds show the net worth and financial strength of the company.

A. Share Capital

Share capital refers to the capital raised by the company through the issue of shares to the public or shareholders. It is the main source of long-term finance for the company. Share capital is shown under the head “Shareholders’ Funds” in the Balance Sheet.

Authorised capital means the maximum amount of share capital that a company is permitted to issue according to its Memorandum of Association. It shows the limit up to which shares can be issued by the company. The number and types of shares such as equity shares and preference shares are separately disclosed.

Issued capital means the part of authorised capital that has actually been offered to the public for subscription. Subscribed capital refers to the portion of issued capital that has been subscribed by the public. Paid-up capital means the amount actually received by the company from shareholders against the shares issued.

The company must separately disclose the number of fully paid-up shares and partly paid-up shares along with the face value or par value of each share. If shares are issued for consideration other than cash, such as for purchase of assets or business, separate disclosure should be made.

Calls unpaid represent the amount due from shareholders on shares issued but not yet received by the company. These unpaid amounts are shown separately in the Balance Sheet.

Forfeited shares refer to the shares cancelled by the company due to non-payment of calls by shareholders. The amount already received on such shares is separately disclosed.

Money received against share warrants means the amount received from holders of share warrants issued by the company. Such amount is also shown separately in the financial statements.

B. Reserves and Surplus

Reserves and surplus represent accumulated profits and reserves created by the company over the years. These reserves strengthen the financial position of the company and help in meeting future requirements or unexpected losses.

Capital reserve is created out of capital profits and is generally not available for dividend distribution. Capital redemption reserve is created when redeemable preference shares are redeemed. Securities premium reserve is created when shares are issued at a premium above their face value.

Debenture redemption reserve is created for the repayment of debentures in the future. Revaluation reserve arises when fixed assets are revalued at a higher amount. Share options outstanding account represents the amount related to employee stock option schemes.

Other reserves include general reserve or any reserve created for specific purposes. The nature and purpose of each reserve should be clearly mentioned.

Surplus refers to the balance of profit remaining after transferring amounts to reserves and making appropriations such as dividend and bonus shares. If the company suffers losses, the debit balance of the Statement of Profit and Loss is shown as a negative figure under surplus.

2) Share Application Money Pending Allotment :

Share Application Money Pending Allotment means the amount received by the company from applicants for shares which have not yet been allotted. It represents money collected against share applications before the actual issue of shares. Until shares are allotted, this amount is shown separately in the Balance Sheet. It is neither treated as share capital nor as a current liability until the allotment process is completed. If shares are not allotted, the company must refund the application money to applicants.

3) Non- Current Liabilities :

a) Long-Term Borrowings :

Long-term borrowings are loans and financial obligations repayable after a period of more than one year. These borrowings are taken to finance long-term business activities and expansion.

Long-term borrowings include bonds, debentures, term loans from banks, loans from other parties, deferred payment liabilities, deposits, loans from related parties, finance lease obligations, and other long-term loans.

Borrowings should be separately classified as secured and unsecured. Secured loans

are backed by security or assets of the company, while unsecured loans are not supported by any security.

If directors or outsiders have guaranteed any loans, such information should be disclosed separately. The company must also disclose the terms of repayment, rate of interest, redemption details, and maturity period of bonds and debentures.

If there is any default in repayment of loans or interest, the period and amount of default must be separately shown in the Balance Sheet.

b) Other Long-term Liabilities :

Other long-term liabilities are obligations payable after one year which are not included under borrowings. These liabilities mainly include trade payables and other liabilities payable in the long run.

c) Long-term Provisions :

Long-term provisions are amounts set aside for future obligations which may arise after one year. These provisions include provision for employee benefits such as gratuity and pension and other long-term provisions.

4) Current Liabilities :

A liability is treated as a current liability when it is payable within one accounting year or held for trading purposes. Current liabilities represent short-term obligations of the company.

a) Short-term Borrowings :

Short-term borrowings are loans repayable within one year. These include bank overdrafts, cash credit, short-term loans from banks, loans from related parties, deposits, and other temporary borrowings.

These borrowings should also be classified as secured and unsecured. Details of security and guarantees should be disclosed. If there is any default in repayment of short-term loans or interest, the amount and period of default must be separately stated.

b) Trade Payable :

Trade Payables are amounts payable by the company to suppliers and creditors for goods and services purchased on credit during the normal course of business. These are

current liabilities because they are generally payable within one accounting year. Trade payables mainly include creditors for raw materials, goods purchased, services received, and outstanding expenses related to business operations. Bills payable accepted in favour of suppliers are also included under trade payables. They show the short-term obligations of the company arising from day-to-day business transactions.

c) Other Current Liabilities :

Other current liabilities include obligations payable within one year other than short-term borrowings. These include current maturities of long-term debt, interest accrued on borrowings, income received in advance, unpaid dividends, share application money refundable, unpaid deposits, unpaid debentures, and other payable expenses.

Share application money received for allotment of securities should be separately disclosed under current liabilities when shares are not yet allotted.

d) Short-term Provisions :

Short-term provisions are provisions created for obligations payable within one accounting year. These include provision for employee benefits, taxation, and other expected expenses.

II) Assets :

I) Non-current Assets :

Non-current assets are long-term assets held by the company for more than one accounting year. These assets help the company in carrying on business activities for a long period. They are not purchased for resale in the ordinary course of business.

Non-current assets include Property, Plant and Equipment, Intangible Assets, Non-current Investments, Long-term Loans and Advances, and Other Non-current Assets.

i. Property, Plant and Equipment (PPE)

Property, Plant and Equipment are tangible fixed assets used in business operations. These assets provide benefits for many years.

PPE includes land, buildings, plant and machinery, furniture, vehicles, office equipment, and other fixed assets. Assets taken on lease should be shown separately in the Balance Sheet.

ii. Intangible Assets :

Intangible assets are assets without physical existence but having economic value for the company. These assets help the company in earning profits and creating goodwill.

Intangible assets include goodwill, brands, trademarks, computer software, copyrights, patents, licenses, franchises, designs, models, and intellectual property rights.

iii. Capital Work in Progress :

Capital Work in Progress means the expenditure incurred on fixed assets that are still under construction or not yet ready for use in business. It includes the cost of building, machinery, plant, or other assets that are incomplete on the Balance Sheet date. These assets are not yet put into operation, so depreciation is not charged on them. Capital work in progress is shown under Non-current Assets in the Balance Sheet. After completion, the amount is transferred to the respective fixed asset account.

b. Non-current Investments :

Non-current investments are investments held by the company for a long-term period. These investments are not intended for immediate sale.

Such investments include investments in property, equity shares, preference shares, government securities, debentures, bonds, mutual funds, partnership firms, and other long-term investments.

The company should disclose the market value of investments, amount of unquoted investments, and provision made for fall in value of investments.

c. Long-term Loans and Advances :

Long-term loans and advances are loans and advances recoverable after one year. These include capital advances, security deposits, loans to related parties, and other advances.

These loans should be classified as secured, unsecured, and doubtful. Provision for doubtful advances should be separately disclosed.

d. Other Non-current Assets :

Other non-current assets include long-term trade receivables and other long-term assets not covered under other categories. Trade receivables should also be classified as secured, unsecured, and doubtful.

2) Current Assets :

Current assets are assets expected to be realised, consumed, or sold within one accounting year. These assets are used in day-to-day business activities.

Current assets include current investments, inventories, trade receivables, cash and cash equivalents, short-term loans and advances, and other current assets.

a. Current Investments :

Current investments are temporary investments held for a short period. These investments include investments in shares, preference shares, government securities, debentures, mutual funds, and partnership firms.

The company should disclose the basis of valuation and market value of such investments.

b. Inventories :

Inventories refer to stock held for sale or used in production. Inventories include raw materials, work-in-progress, finished goods, stock-in-trade, stores and spares, and loose tools.

Goods in transit should be separately disclosed. The method used for valuation of stock should also be clearly mentioned.

c. Trade Receivables :

Trade receivables are amounts due from customers arising from credit sales. Receivables outstanding for more than six months should be separately disclosed.

Trade receivables should be classified as secured, unsecured, and doubtful. Provision for doubtful debts should also be shown separately.

d. Cash and Cash Equivalents :

Cash and cash equivalents include cash available with the company and balances with banks. It also includes cheques, drafts, and other highly liquid assets.

e. Short-term Loans and Advances :

Short-term loans and advances are amounts recoverable within one year. These include advances to related parties and other temporary advances.

f. Other Current Assets :

Contingent Liabilities and Commitments :

Examples include claims against the company, guarantees given, and other contingent obligations.

Commitments refer to future obligations of the company such as contracts remaining to be executed, unpaid liability on partly paid investments, and other commitments.

Net worth means the total value of paid-up share capital and reserves created out of profits and securities premium after deducting accumulated losses and fictitious assets. It represents the real financial strength of the company.

Check your progress

A) Fill in the blanks from the given alternatives and rewrite the sentence

1. Company final accounts are prepared at the end of the
A) Month
B) Week
C) Financial Year
D) Day
2. Balance Sheet shows the of a company.
A) Profit
B) Financial Position
C) Sales
D) Production
3. Statement of Profit and Loss shows the of a company.
A) Financial Performance
B) Capital

2. Statement of Profit and Loss shows the profit or loss of a company.
3. Trade Receivables are shown under current assets.
4. Trade Payables are shown under current liabilities.
5. Closing stock is shown under inventories.
6. Depreciation is charged on fixed assets.
7. Share Capital is shown under shareholders' funds.
8. Debentures are shown under non-current liabilities.
9. Cash at Bank is a current asset.
10. Provision for Tax is shown under short-term provisions.

2.2.3 Statement of Profit and Loss :

Under the Companies Act, separate Trading Account and Profit and Loss Account are not prepared by companies. Instead, a single Statement of Profit and Loss is prepared to determine the profit or loss for the accounting period.

The net profit or net loss shown in the Statement of Profit and Loss is transferred to the Balance Sheet under the head "Reserves and Surplus."

The Companies Act requires that the Statement of Profit and Loss should give a true and fair view of the profit earned or loss suffered by the company. Therefore, all important and material facts should be properly disclosed.

Prior period items, extraordinary items, and changes in accounting policies should be separately shown along with their effect on profit or loss. Detailed notes should also be attached with the Statement of Profit and Loss for better understanding and transparency.

SCHEDULE-III PART II – STATEMENT OF PROFIT AND LOSS

(Section 129 of Companies Act, 2013)

Name of the Company.....

Profit and loss statement for the year ended

Particulars	Note No.	Current Year ₹	Previous Year ₹
1	2	3	4
I) Income:			
Revenue from operations (-) Excise Duty	XX	XXX	XXX
Other income	XX	XXX	XXX
Total Revenue (I)	XX	XXX	XXX
II. Expenses:			
Cost of materials consumed (in case of Manufacturing concern)	XX	XXX	XXX
Purchases of Stock-in-Trade	XX	XXX	XXX
Changes in inventories (Stock-in-Trade/ Stock of Raw materials, finished goods work-in- progress and)	XX	XXX	XXX
Employee benefits expense	XX	XXX	XXX
Finance costs	XX	XXX	XXX
Depreciation and Amortization Expense	XX	XXX	XXX
Other Expenses	XX	XXXX	XXXX
Total expenses (II)		XXX	XXX
III. Profit Before Exceptional and Extra- ordinary Items and Tax (I-II)(Total Income -Total Expenses)		XXX	XXX
(-) Exceptional Items		XXX	XXX

Profit before Extraordinary Items and Tax		XXX	XXX
(-) Extraordinary Items		XXX	XXX
Profit Before Tax		XXX	XXX
IV. Tax Expenses (Tax on Profit)		XXX	XXX
V. Profit (Loss) for the period (V - VI)		XXX	XXX

Additional Notes and Explanations to Statement of Profit and Loss

See accompanying notes to the financial statements

1. Income :

(A) Revenue from Operations consists of—

(a) Sale of products

Sale of products means income earned from selling goods manufactured or traded by the company. It is the main source of operating income of a manufacturing or trading concern.

(b) Sale of services

Sale of services means income earned by providing services to customers. Examples include consultancy fees, professional charges, transport services, and maintenance services.

(c) Other operating revenues

Other operating revenues include income earned from activities connected with normal business operations such as commission received, export incentives, royalty, and service charges.

Less : Excise Duty

Excise duty collected on sale of goods is deducted from revenue from operations to determine actual revenue earned by the company.

These items are separately disclosed in the notes to accounts for better understanding of operating income.

(B) In respect of a finance company, revenue from operations consists of—

(a) Interest

Interest means income earned on loans, advances, investments, and other financial activities carried on by finance companies.

(b) Other financial services

This includes income earned from financial consultancy, processing fees, brokerage, commission, and other financial services provided by the company.

Revenue under each of the above heads should be separately disclosed in the notes to financial statements.

2. Other Income :

(a) Interest Income

Interest income means income earned on bank deposits, investments, loans, and advances. It is shown separately because it is not part of the main operating activities.

(b) Dividend Income

Dividend income refers to income received on shares or investments held in other companies.

(c) Net gain/loss on sale of investments

This represents profit or loss arising from sale of investments. If sale proceeds exceed cost, there is gain; if sale proceeds are less than cost, there is loss.

(d) Other non-operating income (net)

This includes income earned from activities not related to normal business operations such as rent received, profit on sale of assets, and miscellaneous income.

3. Change in Inventories :

The term inventory means stock of goods held by the company. It includes stock-in-trade, raw materials, work-in-progress, and finished goods. The change in inventories is determined by comparing opening stock with closing stock.

Value of Opening Stock – Value of Closing Stock = Change in Inventories

If the resulting amount is positive, it is shown as expense in the Statement of Profit and Loss. If the figure is negative, it is shown in brackets and deducted while calculating total expenses.

4. Employee Benefits Expense :

(i) Salaries and wages

This includes salaries, wages, bonus, overtime, and other payments made to employees for services rendered.

(ii) Contribution to provident and other funds

This includes employer's contribution towards provident fund, gratuity fund, pension fund, and other retirement benefit schemes.

(iii) Expense on Employee Stock Option Scheme (ESOP) and Employee Stock Purchase Plan (ESPP)

This represents expenses related to issue of shares or share options to employees at concessional rates.

(iv) Staff welfare expenses

These include medical facilities, canteen expenses, staff training, recreation, transport, and other welfare facilities provided to employees.

5. Finance Costs :

(a) Interest expense (paid/payable)

Interest expense includes interest paid or payable on loans, overdrafts, debentures, and other borrowings.

(b) Interest on borrowings

This represents the cost incurred by the company for borrowed funds used in business operations.

(c) Applicable net gain/loss on foreign currency transactions

This includes profit or loss arising due to changes in foreign exchange rates on foreign currency borrowings or transactions.

6. Profit Before Exceptional and Extraordinary Items :

a) *Meaning of Exceptional Items*

Exceptional items are significant income or expenses arising from ordinary business activities but are unusual in amount or occurrence.

Examples:

- Profit on sale of factory building
- Loss due to major fire
- Compensation received from a legal dispute
- Heavy restructuring expenses

b) *Meaning of Extraordinary Items*

Extraordinary items are gains or losses arising from events that are clearly distinct from ordinary business activities and are not expected to occur frequently.

Examples:

- Loss due to earthquake
- Loss due to flood
- Compensation received for nationalization of assets

(Under Ind AS, the concept of extraordinary items is no longer used, but it may still appear in academic discussions and older formats.)

7. Surplus Account :

Balance of surplus at the beginning of the year represents accumulated profit brought forward from previous year. Profit earned during the current year is added to it. From this amount, adjustments such as shortfall of tax provision, transfer to reserves, and interim dividend are deducted. The remaining balance is transferred to the Balance Sheet under “Reserves and Surplus.”

8. Divisible Profits :

1. The profit must be arrived at from regular business operations.

Only profits earned from normal business activities can be distributed as dividend.

2. It must be excess of income over expenditure i.e. revenue profit.

Dividend can be declared only from revenue profits and not from capital receipts.

3. The profit from revaluation of assets and liabilities is capital profit and it is not divisible profit.

Capital profits arising from revaluation cannot be distributed among shareholders.

4. The profit must be arrived at after depreciation on fixed assets.

Depreciation on fixed assets must be provided before calculating divisible profit.

5. The company may transfer its profit for the year to the reserves at appropriate percentage. A portion of profit may be transferred to reserves for strengthening financial position.

6. Free reserves can be used as divisible profit. Free reserves available in the company may also be used for payment of dividend according to law.

9. Dividend :

1. Dividend is the amount of profit distributed among shareholders. It is the return on investment (RoI) in shares.

Dividend is paid to shareholders as reward for investing money in the company.

2. The Board of Directors of the company declare dividend and it is passed by the shareholders in the annual general meeting.

The Board recommends dividend and shareholders approve it in the Annual General Meeting.

3. The dividend can be paid out of current profits, out of past reserves and/or out of money provided by the Government.

Dividend may be paid from present profits, accumulated reserves, or Government assistance.

4. Utmost care is taken that the dividend declared and paid must not result in payment out of capital.

Dividend should not be paid from capital because it weakens the financial stability of the company.

5. The amount of the dividend, including interim dividend, shall be deposited in a scheduled bank in a separate account.

Dividend amount must be deposited in a separate bank account within prescribed time.

Types of Dividend- Dividend can be of two types Viz. interim and final.

Interim Dividend- The dividend declared in between two annual general meetings is called interim dividend.

1. The Board of Directors after considering future prospects of the profit of the company can declare and pay interim dividend.
2. The rate of interim dividend depends upon estimated profit and opinions of the board of directors. It is appropriation of profit. It is deducted from surplus. Interim dividend does not create a debt against the company and it can be revoked or reduced.

Final Dividend - It is recommended by the Board of Directors and passed by the shareholders at their annual general meeting. Thus, the dividend approved at the annual general meeting of the shareholders is called final dividend. Once the final dividend is declared it creates debt against the company.

Dividend on Preference shares - Preference Shareholders enjoy preferential right over the equity shareholders in respect of payment of dividend. They are paid dividend at fixed rate as prefixed to their name. Eg. 8% Preference Shares. This implies that the rate of preference dividend is 8%. Preference dividend is paid only if there is adequate amount of profit in that year. If there is inadequate amount of profit there is adequate amount to pay dividend the non-cumulative preference shareholders cannot claim dividend in subsequent years in future. The cumulative preference shareholders can claim the unpaid dividend in any subsequent year/s when there are sufficient profits. Arrears of dividend on cumulative preference shares are shown as a contingent liability.

The amount of dividend is deducted from surplus as shown earlier. It is shown in the balance sheet under the head 'Current Liabilities', sub-head 'Short Term Provisions'.

9. Income Tax on Dividends :

The Company has to deduct income tax at prescribed rate on dividend and pay it to the Government. This is in addition to the tax paid by the company on its profit. Gross amount of dividend is deducted from surplus and the tax on it at prescribed rate is to be paid to the Government and the net amount of dividend is to be paid to the shareholders. The company must send a return to the income tax authority showing the amount deducted as tax from dividend. Also the company has to give certificate of income tax deducted to each shareholder. A Company can give tax-free dividend to its shareholders. However, in such case the company is to pay tax on dividend and gross dividend and tax paid is to be deduct from surplus.

10. Provision for Tax :

A Company is to pay tax on its profit. This tax is charged on the profit for the accounting year. However, the profit is assessed and actual tax liability is determined in the following year. Till then, it is necessary, on the part of the company, to make provision for tax on the basis of accounted profit. Therefore, the taxable profit and the accounted profit may differ from each other. The amount of provision for tax is charged to profit and loss statement by way of deduction from 'Profit Before Tax' and it is shown in balance sheet under the head 'Current Liabilities', sub-head 'Short Term Provisions'.

11. Managerial Remuneration :

As per section 197 of the companies Act, 2013 total managerial remuneration payable by a public company, to its directors, including managing director and whole-time director, and its manager in respect of any financial year shall not exceed eleven per cent of the net profits of that company for that financial year before deduction of such remuneration (section 198). The company in general meeting may, with the approval of the Central Government, authorise the payment of remuneration exceeding eleven per cent of the net profits of the company

As per the law, remuneration shall include:

- (a) any expenditure incurred by the company on rent-free accommodation and on amenities therein for any of the managerial personnel;
- (b) any expenditure incurred by the company in providing any amenities or benefits free of cost or at concessional rate to them;

(c) any expenditure incurred by the company in respect of any obligations of the managerial personnel;

(d) any expenditure incurred by the company on insurance on life, provide any pension, annuity of gratuity for any of the managerial personnel or his/her spouse or child.

However, this will not include any fees to the director for attending meeting of the board or a committee.

In case of negative or inadequate profits, the company may pay remuneration to the managerial personnel by way of salary, dearness allowance, perquisites and any other allowances as per Part II of Schedule-V as given below.

2.2.4 Preparation of statement Profit and Loss and Balance Sheet as per Schedule III to the company Act,2013 :

A) Practical Problems on Statement of Profit and Loss Account :

Illustration 1

Following particulars from the books of The Akash Company Ltd. are available for the year ended on 31-3-2026:

Particulars	Dr. ₹	Cr. ₹
Purchases	10,01,000	-
Selling expenses	1,50,000	-
Stock on 1-4-2025	2,99,000	-
Salaries and wages	1,33,000	-
Interest on Bank Overdraft	18,600	-
Interest on Debentures up to 30-9-2025	7,500	-
Dividends	-	8,500
Surplus A/c (1-4-2025)	-	61,000
Sales (Net)	-	15,07,400
Audit fees	30,000	-

Additional Information:

1. Closing stock was valued at ₹ 2,91,000.

2. ₹ 12,000 worth of goods distributed as free sample.
3. Salaries and wages include Directors' remuneration ₹ 20,000.
4. Interest on debentures for the half year was due ₹ 7,500.
5. Provide for depreciation on premises and furniture ₹ 7,600.
6. Provide for taxation @ 50% of profit.

You are required to prepare :

Statement of Profit and Loss for the year ended 31-3-2026 along with accompanying notes.

Solution
Akash Company Ltd.
Statement of Profit and Loss
for the year ended 31st March, 2026

Particulars	Note No.	2026 ₹	025 ₹
I) Income	-	-	-
Revenue from	-	15,07,400	-
Operations	-	8,500	-
Other Income	-	15,15,900	-
Total Revenue	-	-	-
II) Expenses	-	-	-
Purchases of Stock-in-Trade	1	9,89,000	-
Change in Inventories	2	8,000	-
Employee Benefits Expense	3	1,13,000	-
Finance Costs	4	33,600	-
Depreciation	5	7,600	-
Other Expenses	6	2,12,000	-
Total Expenses	-	13,63,200	-
Profit Before Tax (I-II)	-	1,52,700	-
Provision for Tax @ 50%	-	76,350	-
Profit for the Period (5 – 6)	-	76,350	-

Accompanying Notes to the Statement of Profit and Loss :

1) Purchases of Stock-in-Trade

Particulars	31-3-2026 ₹
Purchases	10,01,000
Less: Goods distributed as free sample	12,000
Total	9,89,000

2) Change in Inventories

Particulars	31-3-2026 ₹
Opening Stock	2,99,000
Less: Closing Stock	2,91,000
Change in Inventories	8,000

3) Employee Benefits Expense

Particulars	31-3-2026 ₹
Salaries and Wages	133000
(-) Directors remuneration	20000
Total	1,13,000

4) Finance Costs

Particulars	31-3-2026 ₹
Interest on Bank Overdraft	18,600
Interest on Debentures	7,500
Outstanding Interest on Debentures	7,500
Total	33,600

5) Depreciation

Particulars	31-3-2026 ₹
Depreciation on Premises and Furniture	7,600
Total	7,600

6) Other Expenses

Particulars	31-3-2026 ₹
Selling Expenses	1,50,000
Audit Fees	30,000
Advertisement – Goods distributed as free sample	12,000
Directors' Remuneration	20,000
Total	2,12,000

Illustration 2

Following particulars are extracted from the books of Starline Trading Company Ltd. for the year ended 31-3-2026:

Trial balance as on 31-3-2026

Particulars	Dr. ₹	Cr. ₹
Purchases	11,50,000	-
Selling Expenses	1,20,000	-
Opening Stock (1-4-2025)	3,40,000	-
Salaries and Wages	1,60,000	-
Interest on Bank Loan	22,000	-
Interest on Debentures paid up to 30-9-2025	6,000	-
Audit Fees	25,000	-
Other Administrative Expenses	25,000	-

Sales (Net)	-	18,50,000
Dividend Received	-	12,000
Surplus A/c (1-4-2025)	-	80,000

Adjustments:

1. Closing stock was valued at ₹ 3,20,000.
2. Goods worth ₹ 15,000 were distributed as free samples.
3. Salaries and wages include Directors' remuneration ₹ 25,000.
4. Interest on debentures for six months was outstanding ₹ 6,000.
5. Depreciation on furniture and office equipment is to be provided ₹ 9,000.
6. Provision for taxation is to be made @ 40% of profit before tax.

You are required to prepare : Statement of Profit and Loss for the year ended 31-3-2026 along with accompanying notes.

Solution:

Starline Trading Company Ltd.

Statement of Profit and Loss for the year ended 31st March, 2026

Particulars	Note No.	Current Year ₹	Previous Year ₹
I) Income	-	-	-
Revenue from Operations	-	18,50,000	
Other Income	-	12,000	
Total Revenue	-	18,62,000	
II) Expenses	-		
Purchases of Stock-in-Trad	1	11,35,000	
Changes in Inventories	2	20,000	
Employee Benefits Expense	3	1,35,000	
Finance Costs	4	34,000	

Depreciation and Amortization Expenses	5	9,000	
Other Expenses	6	2,10,000	
Total Expenses	-	15,43,000	
Profit Before Tax (I-II	-	3,19,000	
)Provision for Tax @ 40%	-	1,27,600	
Profit for the Period	-	1,91,400	

Accompanying Notes to the Statement of Profit and Loss :

1) Purchases of Stock-in-Trade

Particulars	₹
Purchases	11,50,000
Less: Goods distributed as free sample	(15,000)
Total	11,35,000

2) Change in Inventories

Particulars	₹
Opening Stock	3,40,000
Less: Closing Stock	(3,20,000)
Change in Inventories	20,000

3) Employee Benefits mmExpense

Particulars	₹
Salaries and Wages	1,60,000
Less : Directors remuneration	(25,000)
Total	1,35,000

4) Finance Costs

Particulars	₹
Interest on Bank Loan	22,000
Interest on Debentures	6,000
Outstanding Interest on Debentures	6,000
Total	34,000

5) Depreciation and Amortisation Expense

Particulars	₹
Depreciation on Furniture and Office Equipment	9,000
Total	9,000

6) Other Expenses

Particulars	₹
Selling Expenses	1,20,000
Audit Fees	25,000
Advertisement Expenses (Free Samples)	15,000
Directors' Remuneration	25,000
Other Administrative Expenses	25,000
Total	2,10,000

Illustration 3

Following Trial Balance of Bright Future Company Ltd. was extracted on 31-3-2026:

Particulars	Dr. ₹	Cr. ₹
Purchases	8,50,000	-
Opening Stock	2,70,000	-
Salaries and Wages	1,10,000	-
Selling Expenses	85,000	-

Insurance Premium	12,000	-
Interest on Bank Loan	15,000	-
Interest on Debentures	5,000	-
Audit Fees	18,000	-
Other Administrative Expenses	5,000	-
Sales (Net)	-	13,80,000
Commission Received	-	15,000
Dividend Received	-	10,000

Additional Adjustments:

- Closing stock was valued at ₹ 2,50,000.
- Goods costing ₹ 10,000 were destroyed by fire and insurance company admitted claim for ₹ 7,000 only.
- Salaries include Directors' remuneration ₹ 18,000.
- Outstanding interest on debentures ₹ 5,000.
- Depreciation on machinery ₹ 12,000.
- Provision for taxation is to be made @ 45% of Profit Before Tax.

You are required to prepare: Statement of Profit and Loss for the year ended 31-3-2026 along with Notes to Accounts.

Solution :

Bright Future Company Ltd.

Statement of Profit and Loss for the year ended 31st March, 2026

Particulars	Note No.	Current Year ₹
Revenue from Operations (Sales)	-	13,80,000
Other Income	-	32,000
Total Revenue	-	14,12,000
Purchases of Stock-in-Trade	1	8,50,000

Changes in Inventories	2	20,000
Employee Benefits Expense	3	92,000
Finance Costs	4	25,000
Depreciation and Amortization Expense	5	12,000
Other Expenses	6	1,41,000
Total Expenses	-	11,40,000
Profit Before Tax	-	2,72,000
Provision for Tax @ 45%	-	1,22,400
Profit for the Year	-	1,49,600

Notes to Accounts :

1) Purchases of Stock-in-Trade

Particulars	₹
Purchases	8,50,000

2) Change in Inventories

Particulars	₹
Opening Stock	2,70,000
Less: Closing Stock	(2,50,000)
Change in Inventories	20,000

3) Employee Benefits Expense

Particulars	₹
Salaries and Wages	1,10,000
Less : Director's Remuneration	(18,000)
Total	92,000

4) Finance Costs

Particulars	₹
Interest on Bank Loan	15,000
Interest on Debentures	5,000
Outstanding Interest on Debentures	5,000
Total	25,000

5) Depreciation and Amortisation Expense

Particulars	₹
Depreciation on Machinery	12,000

6) Other Expenses

Particulars	₹
Selling Expenses	85,000
Insurance Premium	12,000
Audit Fees	18,000
Directors' Remuneration	18,000
Loss by Fire (10,000 - 7,000)	3,000
Other Administrative Expenses	5,000
Total	1,41,000

Illustration 4 :

Following Trial Balance of Sunrise Manufacturing Company Ltd. was extracted on 31-3-2026:

Particulars	Dr. ₹	Cr. ₹
Purchases	12,00,000	-
Opening Stock	3,80,000	-

Salaries and Wages	1,60,000	-
Advertisement Expenses	40,000	-
Interest on Loan	18,000	-
Audit Fees	20,000	-
Carriage Outward	25,000	-
Administrative Expenses	5,000	-
Sales	-	19,50,000
Rent Received	-	25,000
Interest Received	-	12,000

Additional Adjustments:

- Closing stock was valued at ₹ 3,60,000.
- Advertisement expenses prepaid ₹ 4,000.
- Salaries include Managing Director's remuneration ₹ 20,000.
- Outstanding audit fees ₹ 6,000.
- Depreciation on plant ₹ 15,000.
- Provision for taxation is to be made @ 50% of Profit Before Tax.

You are required to prepare: Statement of Profit and Loss for the year ended 31-3-2026 along with Notes to Accounts.

Sunrise Manufacturing Company Ltd.

Statement of Profit and Loss for the year ended 31st March, 2026

Particulars	Note No.	Current Year ₹
Revenue from Operations	-	19,50,000
Other Income	-	37,000
Total Revenue	-	19,87,000
Purchases of Stock-in-Trade	1	12,00,000
Changes in Inventories	2	20,000

Employee Benefits Expense	3	1,40,000
Finance Costs	4	18,000
Depreciation and Amortisation Expense	5	15,000
Other Expenses	6	1,12,000
Total Expenses	-	15,05,000
Profit Before Tax	-	4,82,000
Provision for Tax @ 50%	-	2,41,000
Profit for the Year	-	2,41,000

Notes to Accounts :

1) Purchases of Stock-in-Trade

Particulars	₹
Purchases	12,00,000

2) Change in Inventories

Particulars	₹
Opening Stock	3,80,000
Less: Closing Stock	(3,60,000)
Change in Inventories	20,000

3) Employee Benefits Expense

Particulars	₹
Salaries and Wages	1,60,000
Less : Managing Director's Remuneration	(20,000)
Total	1,40,000

4) Finance Costs

Particulars	₹
Interest on Loan	18,000

5) Depreciation and Amortisation Expense

Particulars	₹
Depreciation on Plant	15,000

6) Other Expenses

Particulars	₹
Advertisement Expenses 40,000	36,000
Less : Pre Paid 4,000	
Audit Fees 20,000	
Add : Outstanding 6,000	26,000
Carriage Outward	25,000
Managing Director's Remuneration	5,000
Total	1,12,000

Illustration 5 :

Following Trial Balance of Royal Industries Ltd. was extracted on 31-3-2026:

Particulars	Dr. ₹	Cr. ₹
Purchases	15,00,000	-
Opening Stock	4,50,000	-
Salaries and Wages	2,20,000	-
Selling Expenses	1,50,000	-
Interest on Bank Loan	28,000	-
Interest on Debentures	7,000	-
Audit Fees	35,000	-

Carriage Outward	40,000	-
Insurance	22,000	-
Sales	-	25,00,000
Discount Received	-	18,000
Commission Received	-	22,000

Additional Adjustments:

- a) Closing stock was valued at ₹ 4,20,000.
- b) Goods costing ₹ 20,000 were given as free samples.
- c) Salaries include Managing Director's remuneration ₹ 30,000.
- d) Outstanding wages ₹ 8,000.
- e) Interest on debentures outstanding ₹ 7,000.
- f) Depreciation on Plant and Machinery ₹ 25,000.
- g) Provision for taxation is to be made @ 40% of Profit Before Tax.

Statement of Profit and Loss for the year ended 31-3-2026 along with Notes to Accounts.

Solution :

Royal Industries Ltd.

Statement of Profit and Loss for the year ended 31st March, 2026

Particulars	Note No.	Current Year ₹
Revenue from Operations	-	25,00,000
Other Income	-	40,000
Total Revenue	-	25,40,000
Purchases of Stock-in-Trade	1	14,80,000
Changes in Inventories	2	30,000
Employee Benefits Expense	3	1,98,000
Finance Costs	4	42,000

Depreciation and	5	25,000
Amortisation Expense	6	2,97,000
Other Expenses	-	20,72,000
Total Expenses	-	4,68,000
Profit Before Tax	-	1,87,200
Provision for Tax @ 40%	-	2,80,000
Profit for the Year	-	

Working Notes / Schedules :

1) Purchases of Stock-in-Trade

Particulars	₹
Purchases	15,00,000
Less: Goods distributed as free sample	(20,000)
Total	1,80,000

2) Change in Inventories

Particulars	₹
Opening Stock	4,50,000
Less: Closing Stock	(4,20,000)
Change in Inventories	30,000

3) Employee Benefits Expense

Particulars	₹
Salaries and Wages	2,20,000
Add : Outstanding Wages	8,000
Less : Managing Directors Remuneration	(30,000)
Total	1,35,000

4) Finance Costs

Particulars	₹
Interest on Bank Loan	28,000
Interest on Debentures	7,000
Outstanding Interest on Debentures	7,000
Total	42,000

5) Depreciation and Amortisation Expense

Particulars	₹
Depreciation on Plant and Machinery	25,000

6) Other Expenses

Particulars	₹
Selling Expenses	1,50,000
Audit Fees	35,000
Carriage Outward	40,000
Insurance	22,000
Advertisement - Free Samples	20,000
Managing Director's Remuneration	30,000
Total	2,97,000

Illustration 6

The authorised capital of Moonlight Company Limited is ₹ 8,00,000 consisting of Equity Shares of ₹ 10 each.

Following is the extract of Trial Balance of the company as on 31-3-2026:

Particulars	Debit ₹	Credit ₹
Investments at Cost	1,50,000	-

Cash at Bank	72,000	-
Bills Receivable	68,500	-
Sundry Debtors and Creditors	82,500	1,10,000
Building at Cost	6,20,000	-
Depreciation Reserve	-	22,000
Equity Share Capital fully paid up	-	6,00,000
6% Debentures	-	2,00,000
Bank Overdraft	-	1,20,000
Surplus as on 1-4-2025	-	45,000

Additional Information :

1. Closing stock on 31-3-2026 was valued at ₹ 1,80,000.
2. Outstanding interest on debentures ₹ 6,000.
3. Provision for tax to be made ₹ 52,000.
4. Depreciation on building ₹ 8,000.
5. Surplus after all adjustments amounted to ₹ 55,000.

You are required to prepare the Balance Sheet as on 31-3-2026 along with necessary notes.

Solution :

Moonlight Company Limited

Balance Sheet as on 31st March, 2026

Particulars	Note No.	Current Year ₹
I. EQUITY AND LIABILITIES	-	-
1) Shareholders' Funds	-	-
Share Capital	1	6,00,000
Reserves and Surplus	2	55,000
2) Non-Current Liabilities	-	-

Long-term Borrowings	3	2,00,000
3) Current Liabilities	-	-
Trade Payables	-	1,10,000
Other Current Liabilities	4	1,26,000
Short-term Provisions	5	52,000
Total Equity and Liabilities	-	11,43,000
II. ASSETS	-	-
1) Non-Current Assets	-	-
Property, Plant and Equipment	6	5,90,000
Non-current Investments	7	1,50,000
2) Current Assets	-	-
Inventories	8	1,80,000
Trade Receivables	9	1,51,000
Cash and Cash Equivalents	10	72,000
Total Assets	-	11,43,000

Accompanying Notes to Balance Sheet :

1) Share Capital

Particulars	Amount ₹
Authorised Capital: 80,000 Equity Shares of ₹ 10 each	8,00,000
Issued, Subscribed and Paid-up Capital: 60,000 Equity Shares of ₹ 10 each fully paid	6,00,000
Total	6,00,000

Note 2– Reserves and Surplus

Particulars	Amount ₹
Surplus as on 1-4-2025	45,000
Add: Profit for the year	10,000
Total	55,000

Note 3 – Long-term Borrowings

Particulars	Amount ₹
6% Debentures	2,00,000

Note 4 – Other Current Liabilities

Particulars	Amount ₹
Bank Overdraft	1,20,000
Outstanding Interest on Debentures	6,000
Total	1,26,000

Note 5 – Short-term Provisions

Particulars	Amount ₹
Provision for Tax	52,000

Note 6 – Property, Plant and Equipment

Particulars	Amount ₹
Building at Cost	6,20,000
Less: Depreciation Reserve (22,000 + 8,000)	(30,000)
Total	5,90,000

Note 7 – Non-current Investments

Particulars	Amount ₹
Investments at Cost	1,50,000

Note 8– Inventories

Particulars	Amount ₹
Closing Stock	1,80,000

Note 9– Trade Receivables

Particulars	Amount ₹
Sundry Debtors	82,500
Bills Receivable	68,500
Total	1,51,000

Note 10 – Cash and Cash Equivalents

Particulars	Amount ₹
Cash at Bank	72,000

Illustration 7 :

The authorised capital of Sunrise Trading Company Limited is ₹ 10,00,000 consisting of Equity Shares of ₹10 each. Following is the extract of Trial Balance of the company as on 31-3-2026:

Particulars	Debit ₹	Credit ₹
Investments at Cost	2,00,000	-
Cash in Hand	65,000	-
Bills Receivable	75,000	-
Sundry Debtors and Creditors	95,000	1,25,000
Plant and Machinery at Cost	7,50,000	-
Depreciation Reserve	-	35,000
Equity Share Capital fully paid up	-	7,00,000
8% Debentures	-	2,50,000

Bank Overdraft	-	1,40,000
Surplus as on 1-4-2025	-	55,000

Additional Information :

1. Closing stock on 31-3-2026 was valued at ₹ 2,20,000.
2. Outstanding interest on debentures ₹ 10,000.
3. Provision for tax to be made ₹ 70,000.
4. Depreciation on Plant and Machinery ₹ 15,000.
5. Surplus after all adjustments amounted to ₹ 60,000.

You are required to prepare the Balance Sheet as on 31-3-2026 along with necessary notes.

Solution :

Sunrise Trading Company Limited

Balance Sheet as on 31st March, 2026

Particulars	Note No.	Amount ₹
I. EQUITY AND LIABILITIES	-	-
1) Shareholders' Funds	-	-
Share Capital	1	7,00,000
Reserves and Surplus	2	60,000
2) Non-Current Liabilities	-	-
Long-term Borrowings	3	2,50,000
3) Current Liabilities	-	-
Trade Payables	-	1,25,000
Other Current Liabilities	4	1,50,000
Short-term Provisions	5	70,000
Total Equity and Liabilities	-	13,55,000

II. ASSETS	-	-
1) Non-Current Assets	-	-
Property, Plant and Equipment	6	7,00,000
Non-current Investments	7	2,00,000
2) Current Assets	-	-
Inventories	8	2,20,000
Trade Receivables	9	1,70,000
Cash and Cash Equivalents	10	65,000
Total Equity and Liabilities	-	13,55,000

Accompanying Notes to Balance Sheet :

Note 1– Share Capital

Particulars	Amount
Authorised Capital: 1,00,000 Equity Shares of ₹ 10 each	10,00,000
Issued, Subscribed and Paid-up Capital: 70,000 Equity Shares of ₹ 10 each fully	7,00,000

Note 2– Reserves and Surplus

Particulars	Amount
Surplus as on 1-4-2025	55,000
Add: Profit for the year	5,000
Total	60,000

Note 3 – Long-term Borrowings

Particulars	Amount
8% Debentures	2,50,000

Note 4 – Other Current Liabilities

Particulars	Amount
Bank Overdraft	1,40,000
Outstanding Interest on Debentures	10,000
Total	1,50,000

Note 5 – Short-term Provisions

Particulars	Amount
Provision for Tax	70,000

Note 6 – Property, Plant and Equipment

Particulars	Amount ₹
Plant and Machinery at Cost	7,50,000
Less: Depreciation Reserve (35,000 + 15,000)	(50,000)
Total	7,00,000

Note 7 – Non-current Investments

Particulars	Amount
Investments at Cost	2,00,000

Note 8– Inventories

Particulars	Amount
Closing Stock	2,20,000

Note 9– Trade Receivables

Particulars	Amount
Sundry Debtors	95,000
Bills Receivable	75,000
Total	1,70,000

Note 10 – Cash and Cash Equivalents

Particulars	Amount
Cash at Bank	65,000

Illustration 8 :

The authorised capital of Silver Star Company Limited is ₹ 12,00,000 consisting of Equity Shares of ₹ 10 each. Following is the extract of Trial Balance of the company as on 31-3-2026:

Particulars	Debit ₹	Credit ₹
Land and Building at Cost	8,40,000	-
Investments at Cost	1,80,000	-
Cash at Bank	95,000	-
Bills Receivable	88,000	-
Sundry Debtors	1,12,000	-
Depreciation Reserve	-	40,000
Sundry Creditors	-	1,60,000
Equity Share Capital fully paid up	-	8,00,000
10% Debentures	-	3,00,000
Bank Overdraft	-	1,50,000
Surplus as on 1-4-2025	-	70,000

Additional Adjustments :

1. Closing stock on 31-3-2026 was valued at ₹ 3,10,000.
2. Outstanding interest on debentures ₹ 15,000.
3. Provision for tax is to be made ₹ 85,000.
4. Depreciation on Land and Building ₹ 20,000.
5. After making all adjustments, the company incurred a loss of ₹ 15,000 during the year

You are required to prepare the Balance Sheet as on 31-3-2026 along with necessary notes.

Solution :**Silver Star Company Limited****Balance Sheet as on 31st March, 2026**

Particulars	Note No.	Amount
I. EQUITY AND LIABILITIES	-	-
1) Shareholders' Funds	-	-
Share Capital	A	8,00,000
Reserves and Surplus	B	55,000
2) Non-Current Liabilities	-	-
Long-term Borrowings	C	3,00,000
3) Current Liabilities	-	-
Trade Payables	-	1,60,000
Other Current Liabilities	D	1,65,000
Short-term Provisions	E	85,000
Total Equity and Liabilities	-	15,65,000
II. ASSETS	-	-
1) Non-Current Assets	-	-

Property, Plant and Equipment	F	7,80,000
Non-current Investments	G	1,80,000
2) Current Assets	-	-
Inventories	H	3,10,000
Trade Receivables	I	2,00,000
Cash and Cash Equivalents	J	95,000
Total Assets	-	15,65,000

Accompanying Notes to Balance Sheet :

Note A– Share Capital

Particulars	Amount
Authorised Capital: 1,20,000 Equity Shares of ₹ 10 each	12,00,000
Issued, Subscribed and Paid-up Capital: 80,000 Equity Shares of ₹ 10 each fully	8,00,000
Total	8,00,000

Note B– Reserves and Surplus

Particulars	Amount
Surplus as on 1-4-2025	70,000
Less: Loss for the year	(15,000)
Total	55,000

Note C – Long-term Borrowings

Particulars	Amount
10% Debentures	3,00,000

Note D – Other Current Liabilities

Particulars	Amount
Bank Overdraft	1,40,000
Outstanding Interest on Debentures	15,000
Total	1,65,000

Note E – Short-term Provisions

Particulars	Amount
Provision for Tax	85,000

Note F – Property, Plant and Equipment

Particulars	Amount
Plant and Machinery at Cost	8,40,000
Less: Depreciation Reserve (40,000 + 20,000)	(60,000)
Total	7,80,000

Note G – Non-current Investments

Particulars	Amount
Investments at Cost	1,80,000

Note H– Inventories

Particulars	Amount
Closing Stock	3,10,000

Note I– Trade Receivables

Particulars	Amount
Sundry Debtors	1,12,000

Bills Receivable	88,000
Total	2,00,000

Note J – Cash and Cash Equivalents

Particulars	Amount ₹
Cash at Bank	95,000
Total	1,65,000

Illustration 9 :

Following balances have been extracted from the books of Galaxy Star Trading Co. Limited as on 31-3-2026.

Particulars	₹	Particulars	₹
Freehold Land	2,20,000	Creditors	45,000
Goodwill	40,000	Depreciation Reserve on	20,000
Buildings (Cost)	2,50,000	Building (1-4-2025)	-
Furniture (Cost)	40,000	Depreciation Reserve on	8,000
Debtors	2,50,000	Furniture (1-4-2025)	-
Stock (31-3-2026)	80,000	Suspense Account (Credit	10,000
Cash at Bank	15,000	Balance)	-
Cash in Hand	10,000	Equity Share Capital	4,50,000
Advance Payment of	12,000	10% Preference Share	1,50,000
Income Tax	-	Capital	-
Investment in Shares	2,50,000	Securities Premium	25,000
		Bank Overdraft	70,000
		Term Loan	1,50,000
		Surplus Account (1-4-2025)	20,000
		Outstanding Expenses	67,000

Additional Information :

- a) Provision for doubtful debts is to be made at 5% on debtors.
- b) Equity Share Capital consists of Equity Shares of ₹10 each fully paid.
- c) Market value of investments was ₹ 2,70,000 on 31-3-2026.
- d) Managing Director is entitled to remuneration of ₹8,000.
- e) Depreciation is to be charged on Building @ 2% and Furniture @10% p.a.
- f) Surplus after considering all adjustments amounted to ₹ 75,000.

Prepare the Balance Sheet of the company as on 31st March, 2026 in Schedule III Part I form of the Companies Act, 2013.

Solution :**Galaxy Star Trading Co. Limited Balance Sheet as on 31-3-2026**

Particulars	Note No.	2026 ₹
I. EQUITY AND LIABILITIES	-	-
Shareholders' Funds	-	-
Share Capital	1	6,00,000
Reserves and Surplus	2	1,20,000
Non-Current Liabilities	-	-
Long-term Borrowings	3	1,50,000
Current Liabilities	-	-
Trade Payables	-	45,000
Other Current Liabilities	4	1,45,000
Other Liabilities (Suspense)	-	10,000
Total Equity and Liabilities	-	10,70,000
II) ASSETS	-	-
Non-Current Assets	-	-
Property, Plant and Equipment	5	4,73,000
Intangible Assets	6	40,000

Non-current Investments	7	2,50,000
Current Assets	-	-
Inventories	8	80,000
Trade Receivables	9	1,90,000
Cash and Cash Equivalents	10	25,000
Other Current Assets	11	12,000
II) ASSETS		10,70,000

Notes to Accounts :

Note 1 – Share Capital

Particulars	₹
Authorised Capital	-
1,500 Preference Shares of ₹ 100 each	1,50,000
45,000 Equity Shares of ₹ 10 each	<u>4,50,000</u>
Issued, Subscribed and Paid-up Capital	-
1,500 10% Preference Shares of ₹ 100 each fully paid	1,50,000
45,000 Equity Shares of ₹ 10 each fully paid	4,50,000
Total	6,00,000

Note 2 – Reserves and Surplus

Particulars	₹
Securities Premium	25,000
Surplus A/c balance (1-4-2025)	20,000
Current Year Profit	75,000
Total	1,20,000

Note 3– Long-term Borrowings

Particulars	₹
Term Loan	1,50,000

Note 4– Other Current Liabilities

Particulars	₹
Bank Overdraft	70,000
Managing Director's Remuneration	8,000
Outstanding Expenses	67,000
Total	1,45,000

Note 5– Property, Plant and Equipment

Particulars	₹
Freehold Land	2,20,000
Building at Cost	2,50,000
Less: Depreciation (20,000 + 5,000)	(25,000)
Building Net Value	2,25,000
Furniture at Cost	40,000
Less: Depreciation (8,000 + 4,000)	(12,000)
Furniture Net Value	28,000
Total	4,73,000

Note 6 – Intangible Assets

Particulars	₹
Goodwill	40,000

Note 7 – Non-current Investments

Particulars	₹
Investment in Shares (Market Value ₹ 2,70,000)	2,50,000

Note 8 – Inventories

Particulars	₹
Stock on 31-3-2026	80,000

Note 9 – Trade Receivables

Particulars	₹
Debtors	2,00,000
Less: Provision for Doubtful Debts @ 5%	(10,000)
Total	1,90,000

Note 10 – Cash and Cash Equivalents

Particulars	₹
Cash at Bank	15,000
Cash in Hand	10,000
Total	25,000

Note 11 – Other Current Assets

Particulars	₹
Advance Payment of Income Tax	12,000

Illustration 10 :**Trial Balance of Rose Ltd. as on 31st March, 2026**

Particulars	Debit ₹	Credit ₹
Building	3,00,000	-
Machinery	2,00,000	-

Cash at Bank	1,50,000	-
Trade Receivables	1,00,000	-
Equity Share Capital	-	5,00,000
Trade Payables	-	1,00,000
General Reserve	-	1,50,000
Total	7,50,000	7,50,000

Additional Information :

1. Depreciate Building @ 10%.
2. Depreciate Machinery @ 10%.
3. Create Provision for Doubtful Debts @ 5% on Trade Receivables.

Prepare the Balance Sheet as at 31st March, 2026.

SOLUTION :

Solution as per Schedule III of the Companies Act, 2013

Working Notes

Working Note 1 : Depreciation on Building

Particulars	Amount ₹
Building Cost	3,00,000
Less: Depreciation @ 10%	30,000
Net Value of Building	2,70,000

Working Note 2: Depreciation on Machinery

Particulars	Amount ₹
Machinery Cost	2,00,000
Less: Depreciation @ 10%	20,000
Net Value of Machinery	1,80,000

Working Note 3: Provision for Doubtful Debts

Particulars	Amount ₹
Trade Receivables	1,00,000
Less: Provision @ 5%	5,000
Net Trade Receivables	95,000

Working Note 4: Profit/Loss due to Adjustments

Particulars	Amount ₹
Depreciation on Building	30,000
Depreciation on Machinery	20,000
Provision for Doubtful Debts	5,000
Total Loss	55,000

Note: Since there is no Profit & Loss Account in the Trial Balance, the adjustment loss of ₹ 55,000 will be deducted from General Reserve.

ROSE LTD.**Balance Sheet as at 31st March, 2026**

(Prepared as per Schedule III of the Companies Act, 2013)

Particulars	Note No.	Amount ₹
I. EQUITY AND LIABILITIES	-	-
(1) Shareholders' Funds	-	-
Share Capital	1	5,00,000
Reserves and Surplus	2	95,000
Total Shareholders' Funds	-	5,95,000
(2) Current Liabilities	-	-
Trade Payables	3	1,00,000
Total Equity and Liabilities	-	6,95,000

II. ASSETS	-	-
(1) Non-Current Assets	-	-
Property, Plant and Equipment	4	4,50,000
(2) Current Assets	-	-
Trade Receivables	5	95,000
Cash and Cash Equivalents	6	1,50,000
Total Assets	-	6,95,000

Notes to Accounts :

Note 1: Share Capital

Particulars	Amount ₹
Equity Share Capital	5,00,000
Total	5,00,000

Note 2: Reserves and Surplus

Particulars	Amount ₹
General Reserve	1,50,000
Less: Depreciation on Building	(30,000)
Less: Depreciation on Machinery	(20,000)
Less: Provision for Doubtful Debts	(5,000)
Balance in General Reserve	95,000

Note 3: Trade Payables

Particulars	Amount ₹
Trade Payables	1,00,000
Total	1,00,000

Note 4: Property, Plant and Equipment

Particulars	Cost (₹)	Depreciation (₹)	Net Value (₹)
Building	3,00,000	30,000	2,70,000
Machinery	2,00,000	20,000	1,80,000
Total	5,00,000	50,000	4,50,000

Note 5: Trade Receivables

Particulars	Amount ₹
Trade Receivables	1,00,000
Less: Provision for Doubtful Debts	(5,000)
Net Trade Receivables	95,000

Note 6: Cash and Cash Equivalents

Particulars	Amount ₹
Cash at Bank	1,50,000
Total	1,50,000

C) Practical Problems on Statement of Profit and Loss Account and Balance Sheet**Illustration– 11 :****Trial Balance of Star Ltd. as on 31st March, 2026**

Particulars	Debit ₹	Credit ₹
Building	5,00,000	-
Machinery	3,00,000	-
Purchases	6,00,000	-
Opening Stock	1,00,000	-

Salaries	80,000	-
Advertisement	20,000	-
Cash at Bank	3,70,000	-
Trade Receivables	1,50,000	-
Sales	-	10,00,000
Trade Payables	-	1,20,000
Equity Share Capital (10,000 shares of ₹ 100 each)	-	10,00,000
Total	21,20,000	21,20,000

Adjustments :

1. Closing Stock ₹ 1,20,000.
2. Depreciation on Building @ 5%.
3. Depreciation on Machinery @ 10%.
4. Provision for Income Tax ₹ 20,000.

Preparation of Statement of Profit and Loss and Balance Sheet

(As per Schedule III of Companies Act, 2013)

SOLUTION :

Working Note 1: Depreciation

Particulars	Amount ₹
Building (₹ 5,00,000 × 5%)	25,000
Machinery (₹ 3,00,000 × 10%)	30,000
Total Depreciation	55,000

Working Note 2: Changes in Inventory

Particulars	Amount ₹
Opening Stock	1,00,000
Less: Closing Stock	(1,20,000)
Increase in Inventory	(20,000)

STATEMENT OF PROFIT AND LOSS For the year ended 31st March, 2026

Particulars	₹
Revenue from Operations (Sales)	10,00,000
Total Revenue	10,00,000
Purchases	6,00,000
Changes in Inventory	(20,000)
Employee Benefits Expense (Salaries)	80,000
Depreciation Expense	55,000
Other Expenses (Advertisement)	20,000
Total Expenses	7,35,000
Profit Before Tax	2,65,000
Less: Provision for Tax	20,000
Profit After Tax	2,45,000

BALANCE SHEET AS AT 31ST MARCH, 2026

Particulars	Note No.	2026 ₹
I. EQUITY AND LIABILITIES	-	-
Share Capital	1	10,00,000
Reserves & Surplus	2	2,45,000
Trade Payables	3	1,20,000
Short-Term Provisions	4	20,000
Total	-	13,85,000
II. Assets	-	-
Property, Plant & Equipment	5	7,45,000
Inventories	6	1,20,000
Trade Receivables	7	1,50,000
Cash and Cash Equivalents	8	3,70,000
Total	-	13,85,000

Balance Sheet Tallies :

₹ 13,85,000 = ₹ 13,85,000

Notes to Accounts :

Note 1: Share Capital

Particulars	₹
Equity Share Capital	10,00,000

Note 2: Reserves & Surplus

Particulars	₹
Profit After Tax	2,45,000

Note 3: Trade Payables

Particulars	₹
Trade Payables	1,20,000

Note 4: Short-Term Provisions

Particulars	₹
Provision for Tax	20,000

Note 5: Property, Plant & Equipment

Asset	Cost (₹)	Depreciation (₹)	Net Value (₹)
Building	5,00,000	25,000	4,75,000
Machinery	3,00,000	30,000	2,70,000
Total	8,00,000	55,000	7,45,000

Illustration – 12 :

Preparation of Statement of Profit and Loss and Balance Sheet

(As per Schedule III of Companies Act, 2013)

Trial Balance of Moon Ltd. as on 31st March, 2026

Particulars	Debit ₹	Credit ₹
Land & Building	6,00,000	-
Furniture	1,00,000	-
Purchases	7,00,000	-
Opening Stock	1,50,000	-
Salaries	1,00,000	-
Rent	30,000	-
Cash at Bank	4,70,000	-
Trade Receivables	1,90,000	-
Sales	-	12,00,000
Trade Payables	-	1,40,000
Equity Share Capital (10,000 shares of ₹100 each)	-	10,00,000
Total	23,40,000	23,40,000

Adjustments :

1. Closing Stock ₹ 2,00,000.
2. Depreciation on Land & Building @ 5%.
3. Depreciation on Furniture @ 10%.
4. Provision for Doubtful Debts @ 5% on Trade Receivables.
5. Provision for Income Tax ₹40,000.

Prepare Profit and Loss Account and Balance Sheet as on 31-3-2026

SOLUTION

Working Note 1: Depreciation

Particulars	₹
Land & Building (₹ 6,00,000 × 5%)	30,000
Furniture (₹ 1,00,000 × 10%)	10,000
Total	40,000

Working Note 2: Provision for Doubtful Debts

Particulars	₹
Trade Receivables	1,90,000
(-) Provision @ 5%	9,500
	1,80,500

Working Note 3: Changes in Inventory

Particulars	₹
Opening Stock	1,50,000
Less: Closing Stock	(2,00,000)
Increase in Inventory	(50,000)

STATEMENT OF PROFIT AND LOSS

For the year ended 31st March, 2026

Particulars	Note No.	Amount ₹
I) INCOME	-	-
Revenue from Operations (Sales)	-	12,00,000
Total Revenue	-	12,00,000
Purchases	-	7,00,000
Changes in Inventory	-	(50,000)
Employee Benefits Expense	-	1,00,000
Depreciation Expense	-	40,000

Other Expenses (Rent)	-	39,500
Total Expenses	-	8,29,500
Profit Before Tax	-	3,70,500
Less: Provision for Tax	-	40,000
Profit After Tax	-	3,30,500

BALANCE SHEET AS AT 31ST MARCH, 2026

Particulars	Note No.	Amount ₹
I. Equity and Liabilities	-	-
Share Capital	1	10,00,000
Reserves & Surplus	2	3,30,500
Trade Payables	3	1,40,000
Short-Term Provisions	4	40,000
Total	-	15,10,500
II. Assets	-	-
Property, Plant & Equipment	5	6,60,000
Inventories	6	2,00,000
Trade Receivables	7	1,80,500
Cash and Cash Equivalents	8	4,70,000
Total	-	15,10,500

Notes to Accounts :

Note 1: Share Capital

Particulars	₹
Equity Share Capital	10,00,000

Note 2: Reserves & Surplus

Particulars	₹
Profit After Tax	3,30,500

Note 3: Trade Payables

Particulars	₹
Trade Payables	1,40,000

Note 4: Short-Term Provisions

Particulars	₹
Provision for Tax	40,000
Total	40,000

Note 5: Property, Plant & Equipment

Asset	Cost (₹)	Depreciation (₹)	Net Value (₹)
Land & Building	6,00,000	30,000	5,70,000
Furniture	1,00,000	10,000	90,000
Total	7,00,000	40,000	6,60,000

Illustration 13 :

Shrimant company was registered with capital of Rs.2,00,000 divided in 2,000 equity shares . The trial balance of the company as on 31st March 2026 was as under.

Particulars	Debit ₹	Credit ₹
Issued Share Capital	-	1,00,000
Motor	37,000	-
Sundry Debtors	9,600	-
Salaries	15,000	-

Bank interest and charges	400	-
Rent Received	-	3,500
Travelling Expenses	4,000	-
Machinery	80,000	-
Sales	-	1,05,000
Building	50,000	-
Discount Allowed	1,500	-
Sundry Creditors	-	16,800
Wages	8,000	-
Bank Overdraft	-	12,200
Stock on 1-4-2025	7,000	-
Profit and Loss Account	-	22,500
Purchases	30,000	-
Carriage	2,000	-
Cash in hand and at bank	1,000	-
Printing and stationery	2,000	-
Repairs and Renewals	1,500	-
Directors Remuneration	2,500	-
Calls in arrears	500	-
Interim Dividend	3,000	-
Total	2,60,000	2,60,000

Additional Information :

1. Stock on 31-3-2026 was ₹ 6,000
2. Create a R.D.D at 5% on debtors
3. Depreciate Machinery by ₹2,000 , Building by ₹7,000, Motor by ₹ 620
4. Outstanding wages were ₹1,000
5. Directors declared a final dividend at 20% on paid up capital.

Prepare Balance Sheet as on 31-3-2026 and Profit and Loss account for the year ended 31-3-2026 as per company act 2013 along with accompanying notes.

Shrimant company

Statement of Profit and Loss for the year ended 31st March, 2026

Particulars	Note No.	Amount ₹
I. Income	-	-
Revenue from Operations	1	1,05,000
Other Income	2	3,500
Total Income	-	1,08,500
II. Expenses	-	-
Purchases	3	35,000
Changes in Inventories	4	1,000
Employee Benefits Expense	5	26,500
Finance Costs	6	400
Depreciation and Amortisation Expense	7	9,620
Other Expenses	8	11,480
Total Expenses	-	84,000
V. Profit Before Tax	-	24,500
Tax Expense	-	Nil
VI. Profit After Tax	-	¹ 24,500

Working Note :

1) Revenue from Operations

Particulars	₹
Sales	1,05,000

2) Other Income

Particulars	₹
Rent Received	3,500

3) Purchases

Particulars	₹
Purchases	35,000

4) Changes in Inventories

Particulars	₹
Opening Stock	7,000
Less: Closing Stock	(6,000)
Changes in Inventories	1,000

5) Employees Benefit Expenses

Particulars	₹
Salary	15,000
Wages (8,000+1,000)	9,000
Directors Remuneration	2,500
Total	26,500

6) Finance Costs

Particulars	₹
Bank Interest and Charges	400

7) Depreciation

Particulars	Depreciation ₹
Machinery	2,000
Building	7,000
Motor	620
Total Depreciation	9,620

8) Other Expenses

Particulars	Depreciation ₹
Travelling Expenses	4,000
Discount Allowed	1,500
Carriage	2,000
Printing and Stationery	2,000
Repairs and Renewals	1,500
R.D.D. @ 5%	480
Total	11,480

9) Provision for Doubtful Debts

Particulars	Depreciation ₹
Sundry Debtors	9,600
R.D.D. @ 5%	480
Total	9,120

SHRIMANT COMPANY**BALANCE SHEET AS AT 31ST MARCH, 2026**

Particulars	Note No.	Amount ₹
I. EQUITY AND LIABILITIES	-	-
(1) 1. Shareholders' Funds	-	-
(a) Share Capital	1	99,500
(b) Reserves and Surplus	2	44,000
(c) Money Received against Share Warrants	-	Nil
2. Share Application Money Pending Allotment	-	Nil
3. Non-Current Liabilities	-	-
(a) Long-term Borrowings	-	Nil

(b) Deferred Tax Liabilities (Net)	-	Nil
(c) Other Long-term Liabilities	-	Nil
(d) Long-term Provisions	-	Nil
4. Current Liabilities	-	-
(a) Short-term Borrowings	3	12,200
(b) Trade Payables	4	16,800
(c) Other Current Liabilities	5	1,000
(d) Short-term Provisions	-	Nil
TOTAL	-	1,73,500
II Assets	-	-
1. Non-Current Assets	-	-
(a) Property, Plant and Equipment	6	1,57,380
(b) Non-current Investments	-	Nil
(c) Deferred Tax Assets (Net)	-	Nil
(d) Long-term Loans and Advances	-	Nil
(e) Other Non-current Assets	-	Nil
2. Current Assets	-	-
(a) Current Investments	-	Nil
(b) Inventories	7	6,000
(c) Trade Receivables	8	9,120
(d) Cash and Cash Equivalents	9	1,000
(e) Short-term Loans and Advances	-	Nil
(f) Other Current Assets	-	Nil
TOTAL	-	1,73,500

WORKING NOTES

Note 1 – Share Capital

Particulars	₹
Issued Share Capital	1,00,000

Less: Calls in Arrears	(500)
Paid-up Share Capital	99,500

Note 2 – Reserves and Surplus

Particulars	₹
Opening balance of Profit & Loss A/c	22,500
Add: Current Year Profit	24,500
Total	47,000
Less: Interim Dividend	(3,000)
Closing Reserves & Surplus	44,000

Proposed Final Dividend

Final dividend: ₹ 1,00,000 × 20% = ₹ 20,000

Less: Interim Dividend = ₹ 3,000

Balance Proposed Final Dividend = ₹ 17,000 is disclosed separately as a contingent liability

Note 3 – Short-term Borrowings

Particulars	₹
Bank Overdraft	12,200

Note 4 – Trade Payables

Particulars	₹
Sundry Creditors	16,800

Note 5 – Other Current Liabilities

Particulars	₹
Outstanding Wages	1,000

ASSETS

Note 6 – Property, Plant and Equipment

Asset	Cost (₹)	Depreciation (₹)	Net Value (₹)
Building	50,000	7,000	43,000
Machinery	80,000	2,000	78,000
Motor	37,000	620	36,380
Total	1,67,000	9,620	1,57,380

Note 7 – Inventories

Particulars	₹
Closing Stock	6,000

Note 8 – Trade Receivables

Particulars	₹
Sundry Debtors	9,600
Less: R.D.D. @ 5%	(480)
Net Trade Receivables	9,120

Note -9-Cash and Cash Equivalent

Particulars	₹
Cash in hand and cash at bank	1,000

Illustration 14 :

The following Trial Balance was extracted from the books of Sharad Co. Ltd; Satara as on 31-3-2026

Trial Balance

Particulars	Debit ₹	Credit ₹
Issued Share Capital 8,000 Shares of ₹10 each fully paid	-	80,000
Sundry Debtors and Sundry Creditors	36,520	18,560
Cash in hand	2,730	-
Cash at bank	20,000	-
Sales	-	1,71,320
Purchases	1,46,430	-
Plant and Machinery	25,600	-
Office Furniture	14,400	-
Provision for depreciation on plant and machinery	-	2,560
Provision for depreciation on furniture	-	1,440
Carriage inward	1,650	-
Factory wages	7,240	-
Repairs to machinery	1,850	-
Miscellaneous expenses	1,650	-
Rent and rates	3,650	-
Staff Salaries	4,320	-
Insurance	120	-
Profit and Loss account 31-3-2025	-	1,360
Bad debts	540	-
R.D.D	-	500
Stock on 1-4-2025	12,300	-
Reserve fund	-	760
8% Debentures	-	2,500
Total	2,79,000	2,79,000

Additional Information:

1. Stock as on 31-3-2026 was ₹ 25,613
2. Insurance was pre paid for the year ending 30-6-2026
3. Provide depreciation at 10% on Plant and Machinery and Furniture
4. Provide for taxation ₹ 1,000
5. Provide interest on debentures

6. Proposed dividend at 10%
7. Transfer ₹ 3,000 to Reserve Fund
8. Provision for R.D.D. has to be kept at 5% on Debtors.

After taking into account the above information prepare statement of profit and loss for the year ending 31-3-2026 and balance sheet as on that date along with accompanying notes.

SAHYADRI AUTOMOBILES LTD.

Statement of Profit and Loss for the year ended 31st March, 2026

Particulars	Note No.	Amount ₹
I.Income	-	-
Revenue from Operations	1	1,71,320
Other Income	2	Nil
Total Income	-	1,71,320
II. Expenses	-	-
Purchases	3	1,46,430
Changes in Inventories	4	(13,313)
Employee Benefits Expense	5	11,560
Finance Costs	6	150
Depreciation and Amortisation Expense	7	4,000
Other Expenses	8	9,902
Total Expenses	-	1,58,729
III. Profit Before Tax	-	12,591
Tax Expense	9	1,000
IV. Profit After Tax	-	₹ 11,591

WORKING NOTES – STATEMENT OF PROFIT AND LOSS

Note 1 – Revenue from Operations

Particulars	₹
Sales	1,71,320
Revenue from Operations	1,71,320

Explanation :

Sales represent the revenue earned by the company from its normal business activities. Therefore, sales are shown as **Revenue from Operations**.

Note 3 – Purchases

Particulars	₹
Purchases	1,46,430

Note 4 – Changes in Inventories

Particulars	₹
Opening StockLess: Closing Stock	12,300(25,613)
Changes in Inventories	(13,313)

Note 5 – Employee Benefits Expense

Particulars	₹
Factory WagesStaff Salaries	7,2404,320
Total Employee Benefits Expense	11,560

Note 6 – Finance Costs

6% Debentures of ₹ 2,500.= ₹ 150

Particulars	₹
Interest on Debentures	150

Note 7 – Depreciation and Amortisation Expense

Depreciation is provided at 10% on Plant and Machinery and Furniture.

Asset	Cost (₹)	Rate	Depreciation(₹)
Plant and Machinery	25,600	10%	2,560
Furniture	14,400	10%	1,440
Total	40,000		4,000

Note 8 – Other Expenses

Particulars	Depreciation ₹
Carriage Inward	1,650
Repairs to Machinery	1,850
Miscellaneous Expenses	1,650
Rent and Rates	3,650
Insurance Expense	96
Bad Debts	540
Additional R.D.D.	466
Total Other Expenses	9,902

Detailed Working – Insurance :

The insurance covers **15 months**, ending on **30 June 2026**. = Total Insurance = ₹ 120

Insurance period=1 April 2025 to 30 June 2026 = **15 months**=Monthly insurance:

$$₹ 120 \div 15 \times 3 = 8 \times 3 = 24$$

Particulars	₹
Total Insurance	120
Less: Prepaid Insurance	(24)
Insurance Expense	96

₹ 96 → Profit and Loss Account

₹ 24 → Balance Sheet as Current Asset

Detailed Working – Bad Debts and R.D.D.

Bad Debts and R.D.D.

Particulars	₹	₹
Required R.D.D. @ 5%	1,826	-
Less: Existing R.D.D.	(1,360)	-
Additional R.D.D. charged to P&L	-	466
Bad Debts already in Trial Balance	-	540
Total amount charged to P&L A/c	-	1006

Amount shown in Balance Sheet

Particulars	₹
Debtors	36,520
Less: New R.D.D.	(1,826)
Net Trade Receivables	34,694

Note 9 – Provision for Taxation

Particulars	₹
Profit Before Tax	12,591
Less: Provision for Tax	(1,000)
Profit After Tax	11,591

Balance Sheet Sahyadri Automobiles Ltd. As At 31st March, 2026

Particulars	Note No.	Amount ₹
I. EQUITY AND LIABILITIES	-	-
1. Shareholders' Funds	-	-

(a) Share Capital	1	80,00
(b) Reserves and Surplus	2	12,851
(c) Money Received against Share Warrants	-	Nil
2. Share Application Money Pending Allotment	-	Nil
3. Non-Current Liabilities	-	-
(a) Long-term Borrowings	3	2,500
(b) Deferred Tax Liabilities (Net)	-	Nil
(c) Other Long-term Liabilities	-	Nil
(d) Long-term Provisions	-	Nil
4. Current Liabilities	-	-
(a) Short-term Borrowings	-	Nil
(b) Trade Payables	4	18,560
(c) Other Current Liabilities	5	150
(d) Short-term Provisions	6	1,000
Total		1,15,061
II-Assets	-	-
1. Non-Current Assets	-	-
(a) Property, Plant and Equipment	7	32,000
(b) Non-current Investments	-	Nil
(c) Deferred Tax Assets (Net)	-	Nil
(d) Long-term Loans and Advances	-	Nil
(e) Other Non-current Assets	-	Nil
2. Current Assets	-	-
(a) Current Investments	-	Nil
(b) Inventories	8	25,613
(c) Trade Receivables	9	34,694
(d) Cash and Cash Equivalents	10	22,730
(e) Short-term Loans and Advances / Prepaid Insurance	11	24
(f) Other Current Assets	-	Nil
Total		1,15,061

WORKING NOTES – BALANCE SHEET :**Note 1 – Share Capital**

Particulars	₹
Equity Share Capital	80,000

Note 2 – Reserves and Surplus-Reserve Fund

Particulars	₹
Opening Reserve Fund	760
Add: Transfer during the year	3,000
Closing Reserve Fund	3,760

Surplus

Particulars	₹
Opening Surplus	500
Add: Profit After Tax	11,591
Total	12,091

Note 3 – Long-term Borrowings

Particulars	₹
6% Debentures	2,500

Note 4 – Trade Payables

Particulars	₹
Sundry Creditors	18,560

Note 5 – Other Current Liabilities

Interest on Debentures = 6% of ₹ 2,500 : = ₹ 2,500 × 6% = ₹ 150 = **Interest Payable = ₹ 150**

Note 6 – Short-term Provisions

Particulars	₹
Provision for Taxation	1,000

Note 7 – Property, Plant and Equipment

The Trial Balance contains the assets and the old depreciation already recorded.

Particulars	Plant & Machinery ₹	Furniture ₹
Original Cost	25,600	14,400
Less: Existing Depreciation	(2,560)	(1,440)
Balance	23,040	12,960
Less: Current Year's Depreciation	(2,560)	(1,440)
Net Value	20,480	11,520

Important :

Current year's depreciation :

$$\text{₹ 2,560} + \text{₹ 1,440} = \text{₹ 4,000}$$

This ₹ 4,000 is charged to the Statement of Profit and Loss.

Note 8 – Inventories

Particulars	₹
Closing Stock	25,613

Note 9 – Trade Receivables

Particulars	₹
Sundry Debtors	36,520
Less: R.D.D. @ 5%	(1,826)

Note 10 – Cash and Cash Equivalents

Particulars	₹
Cash at Bank and Cash in Hand	22,730

Note 11 – Prepaid Insurance

Particulars	₹
Total Insurance	120
Period	15 months
Insurance per month	8
Insurance relating to current year – 12 months	96
Prepaid Insurance – 3 months= Current Assets.	24

Proposed Dividend = ₹8,000

The proposed dividend is disclosed separately and is not included in the Balance Sheet total.

SECTION -2 :**Check Your Progress :****A) Fill in the blanks from the given alternatives and rewrite the sentence**

1. Profit after tax is transferred to _____.

A) Inventories

B) Reserves and Surplus

C) Debtors

D) Cash

2. Income Tax Provision is shown under _____.
A) Fixed Assets B) Current Assets
C) Short-term Provisions D) Capital
3. Cash at Bank is shown under _____.
A) Non-current Assets B) Cash and Cash Equivalents
C) Liabilities D) Reserves
4. Machinery is classified as _____.
A) Inventory B) Current Asset
C) Tangible Asset D) Liability
5. Audit Fees are shown under _____.
A) Finance Cost B) Other Expenses
C) Assets D) Inventory
6. Salaries are shown under _____.
A) Employee Benefits Expense B) Assets
C) Revenue D) Investment
7. Interest on Debentures is shown under _____.
A) Revenue B) Finance Cost
C) Asset D) Reserve
8. Advertisement Expenses are shown under _____.
A) Other Expenses B) Assets
C) Capital D) Liability
9. Government Securities are shown under _____.
A) Current Liabilities B) Inventories
C) Non-current Investments D) Revenue

4. Purchase Return is deducted from purchases.
5. Audit Fees are shown under Other Expenses.
6. Provision for Doubtful Debts increases debtors.
7. Profit after Tax is added to Reserves and Surplus.
8. Government Securities are Investments.
9. Balance Sheet should always tally.
10. Schedule III format is prescribed under the Companies Act, 2013.

2.3 Summary :

Company Final Accounts are prepared at the end of every financial year to show the financial performance and position of a company. They include the Statement of Profit and Loss, Balance Sheet, Notes to Accounts, and Cash Flow Statement (where applicable). These statements are prepared as per the Companies Act, 2013 and applicable Accounting Standards. They provide information to shareholders, creditors, investors, and other stakeholders. The accounts present a true and fair view of the company's financial affairs.

Financial statements must be prepared according to Schedule III of the Companies Act, 2013. Assets and liabilities should be classified into current and non-current categories. Previous year's figures and all material disclosures should be presented for comparison. Notes to Accounts form an integral part of the financial statements. The statements should comply with accounting standards and legal requirements.

The Balance Sheet is prepared in the vertical format prescribed under Schedule III. It presents the financial position of the company on a specific date. The statement is divided into Equity and Liabilities, and Assets. Assets and liabilities are further classified into current and non-current categories. It helps users assess the company's financial strength, solvency, and stability.

Notes to Accounts provide detailed explanations of the figures shown in the financial statements. They disclose accounting policies, share capital, reserves, borrowings, fixed assets, investments, and contingent liabilities. These notes improve transparency, reliability, and understanding of financial information. They are an essential part of the financial

statements. Proper disclosure ensures a true and fair presentation of the company's financial position.

The Statement of Profit and Loss shows the income, expenses, and profit or loss of the company for the accounting year. It is prepared in the format prescribed under Schedule III of the Companies Act, 2013. It includes revenue from operations, other income, expenses, depreciation, finance costs, and taxation. The net profit or loss is transferred to the Balance Sheet under Reserves and Surplus. The statement provides a true and fair view of the company's operating performance.

Practical problems involve preparing the Statement of Profit and Loss and Balance Sheet using the prescribed Schedule III format. Students classify assets, liabilities, income, and expenses correctly. They prepare Notes to Accounts and apply disclosure requirements. Practical exercises develop accuracy and understanding of company final accounts. They help students apply theoretical knowledge to real accounting situations.

2.4 Terms to be Remember :

- 1. Company Final Accounts** – Financial statements prepared at the end of the financial year.
- 2. Schedule III** – Prescribed format for financial statements under the Companies Act, 2013.
- 3. Statement of Profit and Loss** – Statement showing the company's income, expenses, and profit or loss.
- 4. Balance Sheet** – Statement showing the financial position of a company on a particular date.
- 5. Notes to Accounts** – Explanatory notes forming an integral part of the financial statements.
- 6. Shareholders' Funds** – Share capital and reserves representing owners' equity.
- 7. Share Capital** – Capital raised by the company through the issue of shares.
- 8. Reserves and Surplus** – Accumulated profits and reserves of the company.
- 9. Share Application Money Pending Allotment** – Money received for shares not yet allotted.

10. **Current Assets** – Assets expected to be realized or used within one year.
11. **Non-current Assets** – Long-term assets used in business operations.
12. **Current Liabilities** – Obligations payable within one accounting year.
13. **Non-current Liabilities** – Long-term obligations payable after one year.
14. **Property, Plant and Equipment (PPE)** – Tangible fixed assets used in business.
15. **Intangible Assets** – Non-physical assets such as patents, trademarks, and goodwill.
16. **Capital Work-in-Progress (CWIP)** – Cost of assets under construction.
17. **Trade Receivables** – Amounts receivable from customers for credit sales.
18. **Trade Payables** – Amounts payable to suppliers for credit purchases.
19. **Cash and Cash Equivalents** – Cash, bank balances, and highly liquid investments.
20. **Revenue from Operations** – Income earned from the company's principal business activities.
21. **Other Income** – Income earned from non-operating activities.
22. **Finance Costs** – Interest and borrowing costs incurred by the company.
23. **Depreciation** – Systematic allocation of the cost of tangible assets over their useful life.
24. **Exceptional Items** – Significant but unusual income or expenses arising from ordinary business activities.
25. **Extraordinary Items** – Gains or losses arising from rare and unusual events (academic concept).
26. **Divisible Profits** – Profits legally available for distribution as dividend.
27. **Dividend** – Portion of profits distributed to shareholders.
28. **Interim Dividend** – Dividend declared between two Annual General Meetings.
29. **Final Dividend** – Dividend approved by shareholders at the Annual General Meeting.

- 30. Provision for Tax** – Estimated amount set aside to meet income tax liability.
- 31. Managerial Remuneration** – Remuneration payable to directors and key managerial personnel.
- 32. Net Worth** – Paid-up share capital plus reserves, less accumulated losses and fictitious assets.
- 33. Contingent Liability** – A possible liability dependent on future events.
- 34. Commitments** – Future obligations arising from contracts or agreements.
- 35. Accounting Standards** – Principles and guidelines governing the preparation and presentation of financial statements.

2.5 Answer to check your Progress :

Section-I

A) Answer - MCQ

Q.	1	2	3	4	5	6	7	8	9	10
Ans	C	B	A	B	A	C	A	C	B	B

B) Answer -True or False

Q.	1	2	3	4	5	6	7	8	9	10
Ans.	T	T	T	T	T	T	T	T	T	T

Section - 2

A) Answer-MCQ

Q.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Ans	B	C	B	C	B	A	B	A	C	C	A	C	C	C	A

B) Answer -True or False

Q.	1	2	3	4	5	6	7	8	9	10
Ans.	F	F	F	T	F	T	T	T	T	T

2.6 Exercise :

A) Short Notes

1. Company Final Accounts
2. Statement of Profit and Loss
3. Balance Sheet
4. Schedule III of the Companies Act, 2013
5. Share Capital
6. Reserves and Surplus
7. Trade Receivables
8. Trade Payables
9. Property, Plant and Equipment
10. Depreciation
11. Provision for Doubtful Debts
12. Provision for Taxation
13. Current Assets
14. Current Liabilities

B) Practical Problems

Exercise 1 :

Trial Balance of Sunil Ltd. as on 31st March, 2026

Particulars	Debit ₹	Credit ₹
Purchases	8,00,000	-
Opening Stock	1,20,000	-
Salaries	1,50,000	-
Wages	80,000	-
Rent and Rates	30,000	-

Advertisement	25,000	-
Carriage Inward	20,000	-
Discount Allowed	5,000	-
Bad Debts	8,000	-
Sales Return	40,000	-
Sales	-	12,00,000
Purchase Return	-	60,000
Interest Received	-	10,000

Additional Information :

1. Closing Stock on 31-03-2026 ₹ 1,50,000.
2. Outstanding Salaries ₹ 10,000.
3. Create Provision for Doubtful Debts @ 5% on Debtors of ₹2,00,000.
4. Income Tax Provision ₹40,000.

From the above information prepare the Profit and Loss account

Exercise 2 :

Trial Balance of Bright Ltd. as on 31st March, 2026

Particulars	Debit ₹	Credit ₹
Purchases	12,00,000	-
Opening Stock	2,00,000	-
Salaries	2,40,000	-
Contribution to PF	40,000	-
Advertisement	50,000	-
Rent	36,000	-
Carriage Outward	25,000	-
Discount Allowed	6,000	-
Bad Debts	10,000	-
Interest on Debentures	20,000	-

Sales Return	50,000	-
Sales	-	18,00,000
Purchase Return	-	1,00,000
Interest Received	-	24,000

Additional Information :

1. Closing Stock ₹2,50,000.
2. Outstanding Debenture Interest ₹5,000.
3. Additional Bad Debts ₹15,000.
4. Provision for Doubtful Debts @ 2% on Debtors ₹4,00,000.
5. Provision for Income Tax ₹75,000.

Exercise 3 :

Balance Sheet Preparation
(As per Schedule III of the Companies Act, 2013)

Trial Balance of PQR Ltd. as on 31-03-2026

Particulars	Debit ₹	Credit ₹
Plant & Machinery	2,00,000	-
Trade Receivables	60,000	-
Cash at Bank	70,000	-
Equity Share Capital	-	2,50,000
Trade Payables	-	50,000
Total	3,30,000	3,00,000

Additional Information :

1. Depreciate Plant & Machinery by ₹20,000.
2. Create Provision for Doubtful Debts @ 5% on Trade Receivables.
3. Profit after Tax during the year ₹47,000.

Prepare Balance Sheet as on 31-3-2026.

Exercise 4 :

Balance Sheet Preparation
(As per Schedule III of the Companies Act, 2013)

Trial Balance of LMN Ltd. as on 31-03-2026

Particulars	Debit ₹	Credit ₹
Building	3,00,000	-
Inventory	80,000	-
Trade Receivables	50,000	-
Cash in Hand	40,000	-
Equity Share Capital	-	4,00,000
10% Debentures	-	50,000
Trade Payables	-	20,000
Total	4,70,000	4,70,000

Additional Information :

1. Depreciate Building by ₹30,000.
2. Create Provision for Doubtful Debts @ 4% on Trade Receivables.
3. Profit after Tax during the year ₹48,000.

Prepare Balance Sheet as on 31-3-2026.

Exercise 5 : [April 2016]

Ideal co. Ltd. has on authorized share capital of Rs. 800000 divided into 80000 shares of Rs. 10 each. Following is the Trial Balance of the company as on 31st March 2026

Particulars	Debit (₹)	Particulars	Credit (₹)
Plant and Machinery	5,20,000	Issued share capital 40,000	4,00,000
Furniture	8,000	shares of Rs. 10 each	-

Investment	1,40,000	Commission	6,000
Office and Administration expenses	86,000	Share transfer fee	8,000
Sundry Debtors	50,000	Bank loan (Unsecured)	32,000
Wages	30,000	Sales	4,20,000
Cash	4,000	Secured loan	60,000
Stock on 1.04.2026	28,000	Profit and Loss	90,000
Purchases	1,20,000	A/C (1.04.2025)	-
Selling and Distribution Expenses	22,000	Sundry Creditors	24,000
Calls in arrears	12,000		
Preliminary expenses	20,000		
Total	10,40,000	Total	10,40,000

Adjustment :

1. Stock on 31st March 2026 was Rs.24000.
2. Depreciation Machinery @10% p.a. and Furniture @5% p.a.
3. Write off 1/5th of Preliminary expenses.
4. Make provision for tax to the extent of Rs. 20800.
5. Directors proposed Dividend @10%.

Prepare profit and loss account and balancesheet as on 31-3-2026

Problem 6 : [April 2015]

A company was registered with capital of Rs. 400000 divided in 4000 Equity shares. The Trial Balance of the company as on 31.03.2026 was as follows.

Trial Balance

Particulars	Debit ₹	Credit ₹
Issued share capital	-	2,00,000

Motor car	74,000	-
Sundry Debtors	19,200	-
Salaries	32,000	-
Bank Interest	800	5,000
Rent Received	-	-
Travelling Expenses	8000	-
Machinery	1,60,000	2,12,000
Sales	-	-
Building	1,00,000	33,600
Discount Allowed	3,000	-
Sundry creditors	-	22,400
Wages	16,000	-
Bank overdraft	-	45,000
Stock 01.04.2025	14,000	-
Profit and Loss A/C	-	-
Purchases	5,800	-
Carriage	6,000	-
Cash in hand at bank	2,000	-
Printing and stationary	3,000	-
Repairs and Renewals	2,000	-
Directors Remuneration	5,000	-
Audit fees	1,000	-
Calls in arrears	6,000	-
Interim Dividend	10,000	-
Total	520000	520000

- 1) Stock as on 31.03.2026 is Rs. 12000.
- 2) Create a R.D.D. 5% on Debtors.
- 3) Depreciate Machinery by Rs. 4000 Building Rs. 14000 and motor car by Rs. 19200.

4) Outstanding wages Rs.2000.

5) Directors declared a final dividend at 20% on paid up capital.

Prepare profit and loss account and balancesheet as on 31-3-2026

2.7 References for further study :

References (APA 7th Edition)

- Gupta, R. L., & Radhaswamy, M. (2023). *Advanced accountancy* (Vol. II). Sultan Chand & Sons.
- Institute of Chartered Accountants of India. (2025). *Financial reporting*. ICAI Publications.
- Institute of Chartered Accountants of India. (2025). *Guidance note on Schedule III to the Companies Act, 2013*. ICAI Publications.
- Maheshwari, S. N., & Maheshwari, S. K. (2023). *Corporate accounting*. Vikas Publishing House.
- Ministry of Corporate Affairs. (2024). *The Companies Act, 2013* (as amended). Government of India.
- Ministry of Corporate Affairs. (2024). *Schedule III to the Companies Act, 2013*. Government of India.
- Shukla, M. C., Grewal, T. S., & Gupta, S. C. (2023). *Advanced accounts* (Vol. II). S. Chand Publishing.
- Taxmann Publications. (2025). *Companies Act with rules* (Latest ed.). Taxmann Publications Pvt. Ltd.
- Tulsian, P. C., & Tulsian, B. (2023). *Corporate accounting*. S. Chand Publishing.
- Ministry of Corporate Affairs. (2024). *Companies Act, 2013*. <https://www.mca.gov.in>



Unit 3

Voluntary Liquidation of Companies

Meaning and Definition, Distinction between compulsory winding up (by Court/NCLT) and voluntary liquidation. Types of voluntary Liquidation, Legal framework, The Liquidator : Appointment, Powers and Duties, Remuneration of Liquidator. Format of Liquidators final statement of Account, Accounting problems.

Index -

- 3.0 Objectives
- 3.1 Introduction
- 3.2 Presentation of Subject Matter:
 - 3.2.1 Section 1
 - 3.2.1.1 Meaning and definition
 - 3.2.1.2 Distinction between compulsory winding up by court or NCLT and voluntary liquidation
 - 3.2.1.3 The liquidator- appointment powers and duties
 - 3.2.1.4 Liquidator's Final Statement of Account
 - 3.2.1.5 Check your progress
 - 3.2.2 Section II
 - 3.2.2.1 Accounting Problems
 - 3.2.2.2 Check your progress
- 3.3 Summary
- 3.4 Glossary
- 3.5 Answers to check your progress
- 3.7 Exercise
- 3.7 Referances for further study

3.0 Objectives :

After studying this unit you will be able to :

1. Understand the legal framework, regulatory procedures, and financial mechanics required to formally close a solvent business entity without court intervention.
2. Explain role, duties, and responsibilities of a liquidator.
3. Learn how the liquidator publicly announces the liquidation, verifies stakeholder claims, and realizes company assets.
4. Understand the practical accounting process of preparing the Liquidators final statement of accounts, calculating liquidator remuneration, and prioritizing payments to creditors and shareholders.

3.1 Introduction :

Liquidation means winding up of the state of affairs of the company. It is the process to end the life of the company. A liquidator is appointed to carry out this process. He sells the assets of the company and uses the sale process for payment of liabilities and distributes surplus among the members or shareholders of the company. Company is an artificial person it comes to end by law through the process of liquidation. The liquidator is appointed to carry out such process. A Liquidator's Final Statement of Account is a summary prepared at the end of a company's winding-up process. It acts as a cash receipt and payment account, detailing funds realized from assets and their distribution to claimants in a strictly legally mandated order

3.2 Presentation of Subject Matter :

3.2.1 Section 1 :

3.2.1.1 Meaning and definition :

Voluntary liquidation is a self-imposed, orderly process where a company's shareholders and management decide to cease operations, dismantle its corporate structure, and dissolve the entity. Its primary aim is to systematically realize all assets, settle liabilities with creditors, and distribute any remaining surplus to the shareholders.

Voluntary liquidation is a process of winding up voluntarily without the court/NCLT intervention. Members of the Company and creditors, if any, will appoint a liquidator to liquidate

all assets and pay to all its creditors. Surplus amount, if any, after meeting all costs and expenses shall be distributed to the members as per the mechanism provided in Section 53 of IBC, 2016. Voluntary liquidation process has to be completed as per Insolvency and Bankruptcy Board of India (Voluntary Liquidation Process) Regulations, 2017. Only a solvent Company is eligible for voluntary liquidation.

Voluntary liquidation of LLP's and other Body corporate are also covered under these regulations and hence the same procedure is applicable with suitable changes. Voluntary winding up is a corporate closure process governed primarily by Section 59 of the Insolvency and Bankruptcy Code (IBC), 2016. Although Chapter XX (Sections 304–323) of the Companies Act, 2013 originally covered voluntary liquidations, these provisions were omitted to consolidate corporate exits under the IBC.

With recent amendment to IBBI regulations for voluntary liquidation dated 31.1.2024, the process for voluntary liquidation has become more transparent, efficient and faster. These amendments have also brought some additional safeguards to protect interest of stakeholders. Now, it is mandatory to hold contributories meeting, if the voluntary liquidation is not completed within the specified period of 90 or 270 days as the case may be. This article provides an in-depth overview of the process, including its background, conditions, and steps involved. From reasons for voluntary liquidation to the detailed process timeline, this guide offers valuable insights for stakeholders navigating the voluntary liquidation process.

Transition and Current Legal Framework :

While the Companies Act, 2013 initially governed voluntary winding up and liquidation proceedings, these specific provisions have been **repealed and replaced** by the Insolvency and Bankruptcy Code (IBC), 2016. Today, voluntary liquidation for corporate persons is governed exclusively by **Section 59 of the IBC** read alongside the IBBI (Voluntary Liquidation Process) Regulations

Mandatory Conditions for Voluntary Liquidation :

Under the prevailing IBC, 2016 framework, a company can only initiate a voluntary liquidation if it strictly fulfills the following conditions:

- 1. Solvency Requirement:** The company has either no debts or is able to pay all its debts in full from the proceeds of the assets to be liquidated.

2. **No Fraudulent Intent:** The company is not being liquidated to defraud any person or entity

Reasons for voluntary liquidation :

As per Section 59 (7) of IBC, a Company which intends to liquidate itself voluntarily and has not committed any default may initiate voluntary liquidation process subject to fulfillment of certain conditions.

a. Special purpose Vehicle (SPV): A company can be liquidated voluntarily when the object for which the Company has been incorporated is fulfilled. For example, creation of a special purpose vehicle (SPV) in real estate projects, or toll projects etc., formed with sole purpose.

b. No potential opportunities (Unfeasible operations or poor operating conditions): If any Company does not have potential business opportunities or it is not feasible to run its operations economically due to technical obsolescence or due to un-favorable environment conditions or due to change in legal framework, it may decide to wind-up its operations voluntarily.

c. As tax planning measure: Companies may also plan for voluntary liquidation to avail certain tax benefits. Further, companies can plan for voluntary liquidation to offset its capital losses. Eg. If a holding company has capital gain on sale of its shares in one transaction, then it may plan for liquidation of loss making subsidiary(ies) or associate companies to book capital losses which can be set off against capital gains thereby holding company can save capital gain tax.

3.2.1.2 Distinction between compulsory winding up by court or NCLT and voluntary liquidation:

When a business needs to be shut down, there are two basic ways to close a business: Voluntary Winding Up at the request of the company and Compulsory Winding Up by an order of the court.

Voluntary Winding up / Liquidation: Initiated when the company's directors and shareholders agree they want to close operations, typically because the business has achieved its goals, is no longer commercially viable, or the owners simply want to exit.

Directors must first declare that the company has no debts (or will pay them in full within a specified timeframe). Shareholders pass a special resolution to wind up the business, and they appoint an insolvency professional or liquidator of their choice. The liquidator gathers assets, clears remaining dues, and files final reports with the Registrar to strike off the company

A winding up may take two forms:

- **Members' Voluntary Liquidation (MVL):** Companies that are solvent and have cash reserves available to repay creditors in the next 12 months. Typically, the Directors will sign what is called a Declaration of Solvency.
- **Creditors' Voluntary Liquidation (CVL):** Such liquidation is for companies that are not solvent and cannot pay creditors. Directors will call meetings for the creditors and shareholders and appoint a licensed insolvency practitioner to act as the liquidator.

Voluntary winding up allows business owners to have control of timing, Choice of liquidator, and narrative, as limited court involvement means limited scrutiny, and more certainty

Compulsory Winding Up :

Compulsory winding up (ordered by the National Company Law Tribunal or court) is a forced legal process usually initiated by creditors to recover unpaid debts. In contrast, voluntary liquidation is a proactive, member-driven process initiated when a company is solvent and shareholders wish to close it down

Compulsory winding up occurs when a court petition is filed against a company—typically due to a creditor owed a targeted amount. The court follows a review process to make a winding up order and a liquidator is appointed to take possession of the company immediately and undertake the process.

- The initiation and timing are determined by the court.
- The company has minimal control of the process.
- It is observed and reviewed for oversight, such as public notice and through court appearances.

Difference Between Compulsory and voluntary Winding up :

Points of Difference	Compulsory Winding Up (NCLT / Court)	Voluntary Liquidation
Initiator	The process of Compulsory winding up was initiated by the Creditors, Registrar, or regulatory authorities.	The process of voluntary liquidation is initiated by the Board of Directors and Shareholders.
When take place	When company was in Defaults on statutory debts, financial insolvency, or fraud.	When the Members voluntarily decide to cease operations.
Solvency Status	Often highly insolvent and unable to pay debts.	Company must be entirely solvent (can pay all debts and dues).
Control	NCLT retains direct authority over the process	Company's management keeps a high degree of control over selecting the liquidator
Legal Costs & Time	Long, complex, and can result in higher legal expenses	Quicker and more cost-effective.
Liquidator appointment	Appointed by the court	Chosen by company
Asset realization	Controlled by a liquidator under court guidance	Managed by the company's choice

Types of Voluntary Liquidation :

Voluntary liquidation involves a company's owners and directors deciding to formally close the business. There are two main types of voluntary liquidation, categorized entirely by the company's financial health:

1. Members' Voluntary Liquidation (MVL) -

- **Financial Status:** Solvent (the company has sufficient assets to pay all its debts and liabilities).
- **Initiator:** Initiated by the shareholders/directors.
- **Process:** The directors must make a formal “Declaration of Solvency.” Once approved, a licensed insolvency practitioner is appointed to liquidate the assets, settle any outstanding debts, and distribute the remaining capital to the shareholders.

2. Creditors’ Voluntary Liquidation (CVL) -

- **Financial Status:** Insolvent (the company cannot pay its debts and liabilities).
- **Initiator:** Initiated by the company’s directors when they realize they can no longer continue trading due to mounting debt.
- **Process:** Instead of being forced into liquidation by a court or creditors, the directors proactively choose to wind up the company. The process involves a formal meeting where creditors are invited to review the company’s finances and approve a liquidator. The liquidator then sells off the assets to repay creditors in order of priority.

Voluntary Liquidation in India

If you are operating in India, the process falls under **Section 59 of the Insolvency and Bankruptcy Code (IBC)**. It broadly follows the same principles, though it requires specific filings with the Insolvency and Bankruptcy Board of India (IBBI) or the **Registrar of Companies (RoC)** to legally dissolve the corporate person.

Legal framework for voluntary liquidation

Voluntary liquidation under IBC, 2016 allows corporate entities to liquidate themselves at will. Voluntary Liquidation provided under IBC, 2016, is a quick, efficient, a prescribed timely process which ensures that the assets of the Corporate Persons does not lose its value and involves speedy realization to the stakeholders.

Conditions for Voluntary Liquidation:

- a) Company must be solvent.

- b) Company must have resolved to wind up voluntarily through a special resolution passed by its shareholders and creditors, if any.

The legal framework and step-by-step procedure of Voluntary Liquidation:

1) Solvency Declaration: The Board of directors must file a Declaration of Solvency (DoS) in the form of an affidavit stating that:

- a. They have made a full inquiry into affairs of the Company and they have formed an opinion that either the Company has no debt or that it will be able to pay its debts in full from the proceeds of assets to be sold in the liquidation;
- b. The company is not being liquidated to defraud any person; and
- c. The company has made sufficient provision to meet the obligations arising on account of pending matters.

The declaration must be accompanied with:

- i. Audited financial statements and record of business operations of the company for latest previous two years or for the period since its incorporation, whichever is later;
- ii. The report on valuation of assets of the company, if any. (Valuation report is not required, if the Company has only cash and cash equivalents)

Within four weeks of such declaration under sub-clause (a), shareholders must pass special resolution approving winding up of the Company and appoint an Insolvency Professional (IP) to act as liquidator to complete the process. If a Company has any debt, creditors representing two-thirds in value of the debt must confirm the resolution passed for voluntary winding-up within seven days of such resolution.

2) Intimation to ROC and IBBI : The Company shall intimate to ROC and IBBI about the commencement of voluntary liquidation within seven days of approval of resolution by shareholders or creditors as the case may be. The declaration of solvency shall be filed with the Registrar of Companies in Form GNL-2.

3) Liquidator to take over the Management control : Liquidator shall take over the Management control of the company and proceed with liquidation process. He is responsible

for management of affairs of the Company from the liquidation commencement date and to ensure timely legal compliances.

4) Public Announcement: Within five days of his appointment, the liquidator must cause public announcement in Form A requesting claims from the stakeholders. Claims must be filed within 30 days and publication is to be made in English and regional language newspaper having wide circulation in the area where the company's registered office is located and if the Company has website, the copy of publication also to be uploaded on its website.

5) Submission and verification of claims: Creditors either financial or operational including employees are required to submit their claims in the prescribed form attaching proof of claim. The liquidator shall verify the claims within thirty days from the last date for receipt of claims and may either admit or reject the claim, in whole or in part. If the liquidator rejects the claim, then the creditor may file an appeal before Adjudicating Authority within 14 days.

6) Preliminary Report: The liquidator shall submit a preliminary report to the Company within 45 days from liquidation commencement date and preliminary report to include capital structure, estimate of its assets and liabilities and other relevant information.

7) Separate Bank Account: The liquidator must open a separate bank account in the company's name, with the words 'in voluntary liquidation' to receive all money owed. All transactions above Rs 5000 must be made by way of cheque or through internet banking channel.

8) NOC from Tax Authorities: The liquidator shall inform to assessing officer about the commencement of liquidation. If the claims are not received or no NOC is received from the tax authorities, it is presumed that they do not have any outstanding claims.

9) Assets Realization: The liquidator shall liquidate all assets and realize the money on timely basis in order to maximize the stakeholders' value. The money realized is required to be deposited in a separate bank account opened for this purpose.

10) Distribution: Before distribution of money to stakeholders, the liquidation cost must be paid in full and balance amount shall be distributed to stakeholders as per mechanism provided under Section 53 of IBC. The distribution must be made within 30 days from the date of receipt. If a particular asset cannot be realized due to its nature or other conditions, the liquidator may distribute such assets to its stakeholders with due approval.

11) Preservation of records: The liquidator shall maintain records and registers as per the formats prescribed in Schedule II of the Voluntary Liquidation Regulations. In case the books of accounts are not complete as on the liquidation commencement date, then the liquidator shall have them completed and brought-up-to date. The records shall be preserved:

- a) electronic copy of all records for a minimum period of 8 years; and
- b) physical copy of records for a minimum period of 3 years;

12) Completion of liquidation: The liquidator shall Endeavour to complete the liquidation process and submit the Final Report a) Within 90 days – if the Company does not have creditors. b) Within 270 days – if the Company has creditors. If the liquidation process does not complete within stipulated period mentioned above, (i.e. 90 days or 270 days as the case may be), the liquidator shall hold a meeting of the contributories within fifteen days from the end of stipulated period and submit status report. Thereafter, the liquidator shall conduct contributors meeting at the end of every succeeding two hundred and seventy days or ninety days, as the case may be, till submission of application for dissolution. The status report shall contain: Settlement of the list of stakeholders; details of any assets that remain unsold; distribution to the stakeholders; distribution of unsold assets to the stakeholders; developments in any material litigation, by or against the company; filing of and developments in applications for the avoidance of transactions.

13) Corporate Voluntary Liquidation Account: Unclaimed dividends and undistributed proceeds, if any, shall be deposited into ‘Corporate Voluntary Liquidation Account’ and shall intimate ROC and IBBI attaching a statement in Form-G with names and last known addresses of the stakeholders entitled to receive the unclaimed dividends or undistributed proceeds.

14) Final Report: After the liquidation process is concluded, the liquidator shall prepare and file Final Report containing the following information:

- a. Audited statement of accounts;
- b. A declaration stating that all assets have been sold, all debts have been paid off, and no legal action is underway;

- c. A statement of an asset sale that shows the assets realized value, cost, manner and mode of sale, any shortfall, and to whom it is sold. Liquidator shall file the final report with the registrar and the IBBI, and also submit copy to NCLT attaching compliance certificate in form H.

15) Petition to NCLT for dissolution order : The liquidator shall make an petition to NCLT seeking dissolution order. After receiving the order from the hon'ble NCLT, the liquidator shall file form INC 28 with ROC. With approval of form INC 28, the company gets dissolved and master data with ROC will show Company status as "Dissolved under section 59(8)."

3.2.1.3 The liquidator- appointment powers and duties :

Appointment of the liquidator :

In voluntary winding up, when a company decides to close down its operations, a liquidator is appointed to oversee the process. The liquidator holds significant powers, including gathering and selling company assets, settling debts, and distributing remaining funds to shareholders. Moreover, they bear the responsibility of ensuring fair treatment to all parties involved and conducting investigations if any misconduct is suspected. In a voluntary liquidation, a licensed Insolvency Professional or qualified liquidator is appointed to wind down a solvent or insolvent company. Their primary role is to assume control of the company, securely realize all assets, settle liabilities in order of priority, and distribute any remaining surplus to shareholders.

In a voluntary winding-up, the company's shareholders must pass a special resolution to appoint a liquidator. The liquidator may be a qualified insolvency practitioner, a licensed individual, or even a shareholder or director of the company. However, some jurisdictions may require specific qualifications and restrictions for the appointment of a liquidator.

- 1. Members' Voluntary Liquidation (MVL):** If the company is solvent, shareholders pass a resolution at a general meeting to appoint the liquidator.
- 2. Creditors' Voluntary Liquidation (CVL):** If the company is insolvent, directors propose the liquidation. Both shareholders and creditors vote on the appointment, with the creditors' choice generally prevailing if there is a conflict.
- 3. Insolvency Professional:** By law, the appointee must be a registered or licensed Insolvency Professional (IP) who has no conflicts of interest with the company.

Powers of the Liquidator :

The powers of a liquidator include-

- **Gathering and Realization of Assets:** One of the primary duties of the liquidator is to identify and gather all the assets of the company. This includes tangible assets such as property, equipment, and inventory, as well as intangible assets like patents, trademarks, and intellectual property rights. The liquidator is then responsible for selling or disposing of these assets to convert them into cash.
- **Settling Liabilities:** The liquidator must also identify and settle all the outstanding debts and liabilities of the company. This includes payments to creditors, employees, and other stakeholders. The liquidator must follow a strict order of priority while making these settlements, as defined by the relevant laws.
- **Distribution of Funds:** Once the liabilities are settled, the liquidator distributes the remaining funds, if any, to the shareholders under their shareholdings. The order of distribution may also be specified by law, ensuring fair treatment to all shareholders.
- **Investigations:** The liquidator has the power to conduct investigations into the company's affairs to ascertain any wrongful trading or fraudulent activities that may have contributed to the company's insolvency. If any misconduct is discovered, the liquidator can take legal action against those responsible.
- **Summoning Meetings:** The liquidator can call for meetings with the creditors, contributors, or shareholders as required during the winding-up process. These meetings may be for obtaining approval for certain actions or to keep stakeholders informed about the progress of the winding-up process.
- **Legal Action:** The liquidator has the authority to initiate legal proceedings on behalf of the company to recover assets, challenge voidable transactions, or defend the company's interests.

Duties of the Liquidator :

The liquidator has following duties namely-

- **Fiduciary Duty:** The liquidator acts as a fiduciary for the company and its stakeholders. They are required to act honestly, impartially, and in the best interests of all parties involved.

- **Reporting:** The liquidator must provide regular reports on the progress of the winding-up process to the relevant authorities and stakeholders. These reports may include financial statements, details of asset realization, and other relevant information.
- **Compliance with Laws:** The liquidator must comply with all relevant laws and regulations governing the winding-up process. They must ensure that the distribution of assets and settlement of liabilities follow the prescribed legal procedures.
- **Impartiality:** The liquidator must remain neutral and unbiased throughout the winding-up process, avoiding favoritism towards any stakeholder.

Liquidators remuneration :

It is the compensation paid to a licensed insolvency professional or liquidator for managing the winding down of a company. It typically includes fees for realizing assets, distributing funds to creditors, and handling the complex legal and administrative processes of liquidation.

Common Calculation Methods :

Liquidator compensation is calculated using several standard structures, often dictated by the court, statute, or specific agreements:

1. **Percentage of Realized Assets:** A specified commission (e.g., 2% to 3%) applied to the total value of the company's assets realized by the liquidator. If Liquidator realized all assets, he will get the remuneration on the value of the all assets realized by him.
2. **Percentage of Distributions:** A commission applied to the total amount disbursed to creditors or shareholders.
3. **Hourly Rate or Fixed Fee:** An agreed-upon flat fee or time-based billing for the services rendered.
4. **Payments to unsecured creditors:** The liquidator is to get the commission on the amount paid by him to unsecured creditors, then unsecured creditors will also includes preferential creditors for the purpose of calculation of commission unless otherwise stated.

If the amount distributed to the unsecured creditors is insufficient, the commission is calculated by using following formula:

Amount available for Unsecured creditors * Rate of Commission

100 + Rate of commission

3.2.1.4 Liquidator's Final Statement of Account :

It is a summary of all cash receipts and disbursements made during a company's winding-up process. It mirrors a cash book and must explicitly follow a strict, legally dictated order of payment priorities until all funds are exhausted. The statement is divided into two primary columns: **Receipts** (left side) and **Payments** (right side).

Receipt Side :

Funds generated or available during the liquidation process are documented on the receipt side:

- Opening balances (Cash in hand, Cash at bank)
- Assets realized (Sale of machinery, land, stock, debtors, etc.)
- Surplus from assets specifically pledged (Remaining funds after paying secured creditors)
- Calls on contributories (Calls received from partially paid-up shareholders to cover losses)

Payment side :

Payments must strictly follow the statutory hierarchy. If funds run out, classes further down the list receive no payment.

- 1. Legal Charges / Winding-up Costs:** Costs incurred directly for the liquidation process.
- 2. Secured Creditors:** Paid directly from the specific assets securing their debt. (Only the surplus is brought into the general account).
- 3. Liquidator's Remuneration:** Calculated based on a fixed percentage of assets realized and distributed.

4. Liquidation Expenses

5. **Preferential Creditors:** Statutory debts, such as outstanding wages/salaries for employees and specific government taxes.
6. **Debenture Holders:** Includes the principal amount owed and any outstanding accrued debenture interest.
7. **Unsecured Creditors:** Includes general trade creditors, suppliers, and bank overdrafts.
8. **Preference Shareholders:** Return of capital and any arrears of cumulative preference dividends, if applicable.
9. **Equity Shareholders:** Distribution of remaining surplus funds to equity holders.

Core Components to Include

Regardless of your specific jurisdiction, a finalized, formal document must typically include:

- **Company Details:** Name of the company, registration number, and statement status (e.g., In Voluntary Liquidation).
- **Liquidator Details:** Name, license number, and appointment date.
- **Period of Account:** The start and end dates covering the liquidation period.
- **Declarations:** A statutory declaration or sign-off by the liquidator verifying that all funds have been distributed.

Prescribed Format of Liquidators Final Statement of Account

Receipts	Estimated Value Rs.	Realized ValueRs.	Payments	Estimated Value Rs.	Realized ValueRs.
Cash and Bank Balances (at the start)	**	**	Secured Creditors (realized against securities)	**	**
			Liquidation / Winding up expenses & Legal Charges	**	**

Asset Realized			Liquidator's Remuneration	**	**
Land & Buildings	**	**	Preferential Creditors (e.g., taxes, wages/ salaries)	**	**
Plant & Machinery	**	**	Debenture Holders (incl. fixed/floating charges)	**	**
Furniture	**	**	Unsecured Creditors (trade creditors, public deposits)	**	**
Bills Receivables	**	**	Preference Shareholders (capital & arrears of dividend)	**	**
Stock & Debtors	**	**	Equity Shareholders (return of capital/ surplus)	**	**
Loans and Advances	**	**			
Marketable Securities	**	**			
Calls on Contributors / Calls in Arrears	**	*****			
Surplus from Secured Creditors (if any)	**	**			
Any other receipts (refunds, interest, etc)	**	**			
Total Receipts		**	Total Payments		**

Strict Order of Payment (Priority) :

Under the Companies Act, 2013, the liquidator must distribute assets in the following mandatory sequence:

1. **Secured Creditors:** Paid first or allowed to realize their own security. Any surplus goes to the general fund; any shortfall ranks as unsecured.
2. **Winding-up Expenses:** Legal charges and the costs incurred in the liquidation process.
3. **Liquidator's Remuneration:** Fixed as a percentage of assets realized and amount distributed.
4. **Preferential Creditors:** Typically includes statutory dues, provident funds, and wages for employees (for a stipulated period).
5. **Debenture Holders:** Creditors holding a floating charge on the company's assets.
6. **Unsecured Creditors:** General creditors, suppliers, and balance due to secured creditors
7. **Preference Shareholders:** Entitled to return of capital plus any dividend arrears (if cumulative).
8. **Equity Shareholders:** The residual owners of the company who split any remaining surplus.

Some Important Concepts:

1. Secured Creditors- The creditors having charge on assets of the company are called secured creditors. They may be fully or partly secured.

- A. **Fully Secured Creditors-** The creditors which are paid in full out of sale proceeds of the security given to them are called fully secured creditors. Eg. The creditor for bank loan is Rs. 2,00,000, secured on Premises. The Premises realised at Rs. 2,10,000. In this case bank Loan can be paid in full. Therefore, Bank Loan here is fully secured.
- B. **Partly Secured Creditors-** The creditors which cannot be paid in full out of sale proceeds of the security given to them are called Partly secured creditors. Eg. The creditor for bank loan is Rs. 2,00,000, secured on Premises. If the Premises realised at (less than the amount of loan) Rs. 1,87,000. In this case bank loan cannot be paid in full. Therefore, Bank Loan here is partly secured. The amount remained

unpaid Rs. 13,000 (Rs.2,00,000-1,87,000) is treated as unsecured and included to unsecured creditors.

- C. Unsecured Creditors- The creditors which have not given any security are called unsecured creditors. They claim for payment after payment of secured creditors and preferential creditors.

2. Liquidator's Remuneration-In case of compulsory winding up, the remuneration is fixed by the court. In this case liquidator is a salaried employee of the Government. In case of voluntary liquidation, his remuneration is fixed in a meeting in which his appointment is made. The liquidator is entitled to a commission as percentage on the value of assets realised and the amount paid to unsecured creditors.

- A. Assets Realised-If the liquidator realises all assets, he will get remuneration on the value of all assets realised including assets given as security (unless otherwise stated). Generally, the secured creditors themselves realise assets given to them as security. In this case liquidator will get remuneration on the surplus amount, if any, recovered from them and not on the total value of such asset.
- B. Cash and Bank Balance-Commission to liquidator will be allowed on cash and bank balance as stated in the problem. If it is not stated clearly, whether remuneration is to be calculated, including or excluding cash and bank balance, following two points are to be considered.
- i. If it is stated that, the liquidator has realised all assets, calculate commission on the value of all assets realised by him including Cash and Bank balance.
 - ii. If it is stated that, the liquidator has realised assets, (the word 'all' is not used) calculate commission on the value of assets realised by him excluding Cash and Bank balance.

4. Payment to Unsecured Creditors- If the liquidator is to get commission on the amount paid by him to unsecured creditors; unsecured creditors will include preferential creditors also for the purpose of calculation of commission unless otherwise stated. If the amount distributed to the unsecured creditors is insufficient, the commission is calculated by using following formula:

Amount available for Unsecured creditors * Rate of Commission

100 + Rate of commission

1. Debenture Interest- Interest on debentures is to be paid up to the date of liquidation if the company is insolvent. However, if the company is solvent, interest on debentures is to be paid up to the date of payment to them.
2. Overriding Preferential Creditors- In case of winding up of a company, certain dues are to be settled (along with secured creditors in proportion), even before the payment to preferential creditors as per section 326 of the Companies Act, 2013. They are-

- (a) workmen's dues; and
- (b) debts due to secured and unsecured creditors.

Workmen's dues include -

- (1) all wages or salary which are payable for a period of two years preceding the winding up order; and any compensation payable to any workman under the Industrial Disputes Act, 1947
- (ii) all accrued holiday remuneration.
- (iii) any compensation under the Workmen's Compensation Act, 1923
- (iv) all sums due to any workman from the provident fund, the pension fund, the gratuity fund or any other fund for the welfare of the workmen, maintained by the company.

3.2.1.5 Check your progress :

Q. 1 Choose the correct alternative from the alternatives given below:

1. Liquidation means:
 - a) Formation of a company
 - b) Winding up of a company
 - c) Amalgamation of companies
 - d) Reconstruction of a company
2. Who conducts the liquidation process...
 - a) Promoter
 - b) Liquidator
 - c) Auditor
 - d) director

- 3) Voluntary winding up:
- a) If period fixed for the company is expired.
 - b) If company passes a special resolution the company wound up voluntarily.
 - c) Members voluntary winding up is applicable to solvent companies only.
 - d) All of the above
- 4) Compulsory winding up:
- a) If a company unable to pay its debt
 - b) If the number of members of company reduced below statutory limit.
 - c) If a company does commence its business within a year from its incorporation.
 - d) All of the above.
- 5) The first item in order of payment to be made by liquidator is:
- a) Secured creditors
 - b) Preferential creditors
 - c) Liquidation expenses
 - d) Preferential creditors
- 6) Liquidator's statement of receipts and payment is know as:
- a) Cash flow statement
 - b) Cash book
 - c) Liquidator's final statement of account
 - d) Deficiency account
- 7) The liquidator final statement of account is prepared
- a) Only in case of creditor voluntary winding up
 - b) Only in case of members voluntary winding up
 - c) Only in case of compulsory winding up
 - d) Whatever may be
- 8) When the liquidator company has adequate cash to pay off all liabilities, the interest on liabilities will be paid
- a) Up to date of commencement of insolvency

- b) Up to date of actual payment
 - c) Up to date of payment to share holders
 - d) None of these
- 9) The Job of Realizing Assets and Paying Liabilities Is Performed by A Person
- a) Liquidator
 - b) Auditor
 - c) Registrar of the Company
 - d) None of the above
- 10) At the time of liquidation of company, the liquidator has to file a statement of receipt and payment is known as
- a) Statement of affairs
 - b) Liquidator report
 - c) Liquidator final statement of account
 - d) None of the Above
- 11) Insolvent Companies can be Liquidated
- a) Compulsory
 - b) Optional
 - c) Order
 - d) All the Above
- 12) A Liquidator can claim the
- a) Remuneration
 - b) Assets
 - c) Dividend
 - d) All the Above

Section II :

3.2.2.1 Accounting Problems:

Illustration No. 1

Chetana Company Ltd. went into the voluntary liquidation as on 30/9/2025. Following is the Balance sheet of the Company for the year ended 30/9/2025.

Balance sheet as on 30/9/2025

Liabilities	Rs.	Assets	Rs.
Share Capital (13400 shares of Rs. 10 each))	1,34,000	Machinery	2,50,000
		Sundry Debtors	75,000

Loans secured on Machinery	2,00,000	Furniture	25,000
Preferential Creditors	24,000	Cash in Hand	4,000
Unsecured Creditors	48,000	Profit & Loss a/c	32,000
Total	3,86,000	Total	3,86,000

Additional information :

1. Liquidator was appointed on the term that Commission of Liquidator @ 2% on assets realized by him and 3% on payments made to the unsecured creditors.
2. Liquidator realized assets as: Machinery Rs. 205,000, Sundry Debtors Rs. 36,000, Furniture for Rs. 35,000
3. Liquidator has incurred expenses of Rs. 7,520 to complete the process of Liquidation.

Prepare Liquidators final statement of Account.

**Liquidators Final Statement of Account
Of Chetana Co. Ltd.**

Receipts	₹	Payments	₹
To Cash in Hand	4,000	By Liquidation expenses	7,520
To Assets Realised		By Liquidators Remuneration	
Furniture	35,000	2% on 76,000 =1520	
Debtors	36,000	3% on Preferential	
To surplus from Secured		creditors=720	
Creditors	5,000	3% on Unsecured	
(205000-200000)		Creditors=1346	3,586
		By Preferential Creditors	24,000
		By Unsecured Creditors	44,894
Total	80,000	Total	80,000

Working Note: Calculation of Liquidators remuneration on payment made to Unsecured Creditors

Cash Available = Debit Total – Credit Total

$$= 80,000 - 33,760 = 46,240$$

Remuneration = Amount available for Unsecured creditors * Rate of Commission

100 + Rate of commission

$$= \frac{46240 * 3}{100+3} = 1346$$

$$\text{Amount paid to unsecured creditors} = 46240 - 1346 = 44894$$

Illustration no. 2 :

Anvika Company Ltd. went into voluntary liquidation on 31/3/2026. Following is the Balance Sheet of the company as on that date.

Balance sheet as on 31/3/2026

Liabilities	₹	Assets	₹
Share Capital (10,000 shares of Rs. 10 each)	1,00,000	Fixed Assets	1,50,000
Creditors for wages and taxes	20,000	Stock in trade	1,05,000
Bank overdraft (Secured by Stock in trade)	1,50,000	Sundry Debtors	27,000
Creditors for purchases	30,000	Cash and Bank Balance	5,000
		Profit and Loss a/c	13,000
Total	3,00,000	Total	3,00,000

Additional information :

1. The liquidator realized the assets as: Fixed Assets Rs. 1,55,000, Stock in hand Rs.95,000, sundry Debtors Rs. 25,000.
2. The Liquidation expenses are Rs. 4,800

3. The Liquidator was entitled to a Commission 235 on Assets realized and 5% on payment made to the Unsecured Creditors excluding preferential creditors.

Prepare Liquidators final statement of account.

**Liquidators Final Statement of Account
Of Anvika Co. Ltd.**

Receipts	₹	Payments	₹
To Cash and Bank Balance	5,000	By Liquidation expenses	4,800
To Assets Realised		By Liquidators Remuneration	
Fixed Assets	1,55,000	3% on 2,75,000	8,250
Sundry Debtors	25,000	5 % on 85,000	4,250
		By Preferential Creditors	20,000
		By Unsecured Creditors	85,000
		By Equity Shareholders	62,700
Total	1,85,000	Total	1,85,000

Working Note: Calculation of Unsecured Creditors

Creditors for Purchase	30,000
Bank overdraft 1,50,000-95,000	55000
Total	85000

Illustration No. 3 :

Yashwant Company Ltd. liquidated its business voluntarily on 31/3/2026 following information was given by the company:

Balance sheet as on 31/3/2026

Liabilities	₹	Assets	₹
Share Capita		Goodwill	50,000
Authorized capital		Leasehold Property	1,15,000

(20,000 Equity shares of Rs. 10 each)	2,00,000	Plant and Machinery	1,45,000
Subscribed capital		Stock	55,000
19,500 Equity shares of Rs. 10 each)	1,95,000	Debtors	73,000
Creditors	50,000	Cash at Bank	15,000
Preferential	45,000	Profit and Loss a/c	9,500
Secured on Plant and Machinery	97,500		
Unsecured	75,000		
Bank overdraft			
Total	4,62,500	Total	4,62,500

Additional information :

1. The assets were realized as: Leasehold Property Rs. 65,000, Plant and Machinery Rs. 75,000, Stock Rs. 40,000 and Sundry Debtors Rs. 66,000
2. The liquidator was entitled to a Commission @2.50% on the assets realized including cash at Bank and 2% on payments made to the unsecured creditors.
3. The Liquidation Expenses were Rs. 3,400

Prepare Liquidators final statement of account.

**Liquidators Final Statement of Account
Of Yashwant Co. Ltd.**

Receipts	₹	Payments	₹
To Cash and Bank Balance	15,000	By Liquidators Remuneration	
To Assets Realised		2.50 % on 2,16,000	5,400
Leasehold Property	65,000	2% on 50,000	1,000
Stock	40,000	2% on 1,56,471	3,129
Sundry Debtors	66,000	By Preferential Creditors	50,000
To Surplus from secured		By Unsecured Creditors	1,56,471

creditors on Machinery (75,000-45,000)	30,000		
Total	2,16,000	Total	2,16,000

1. Working note: In this problem it is not clear that Plant and Machinery was realized by liquidator so Commission of Liquidator is calculated on Rs. 30,000 (75,000-45,000)

2. Working Note: Calculation of Unsecured Creditors

Creditors as per balance sheet	97,500
Bank overdraft	75,000
Total	1,72,500

3. Cash available for Unsecured creditors

Total Receipts	2,16,000
Less payments(5,400+1,000+50,000)	56,400
Total	1,59,400

4. Liquidators Remuneration on Payments made to unsecured creditors-

As the cash available is insufficient to pay unsecured creditors in full, Liquidators remuneration @ 2% is calculated as:

Remuneration = Amount available to unsecured creditors * Rate of Commission

$$\begin{aligned}
 & \frac{100 + \text{Rate of Commission}}{100} \\
 & = \frac{159600 * 2}{100 + 2} = \text{Rs. 3,129}
 \end{aligned}$$

Illustration No. 4 :

Harshwardhan company went into Voluntary Liquidation. The following was the position:

Particulars	₹
Share Capital (shares of Rs. 10 each)	1,00,000
Secured Creditors (securities realized Rs. 50,000)	40,000
Preferential Creditors	8,000
Unsecured Creditors	3,80,000
Debentures having floating charge on Companies assets	2,10,000
Liquidation expenses	5,370

1. The Liquidator was entitled to a commission of 3% on the amount realized and 1.5% on the amount distributed to unsecured creditors.
2. The various assets (excluding securities in the hands of fully secured creditors) realized Rs. 3,20,000
3. An amount of Rs. 4,000 included in unsecured creditors is to be written off under a contract because of defects discovered in stock supplied.
4. Prepare liquidators final statement of account.

**Liquidators Final Statement of Account
Of Harshwardhan Company**

Receipts	₹	Payments	₹
To Assets Realised		By Liquidators Remuneration	5,400
Other Assets	3,20,000	3% on 3,70,000	11,100
To Surplus from Secured Creditors	10,000	1.5% on 8,000	120
		1.5 % on 94,000	1,410
		By Liquidation expenses	5,370
		By Preferential Creditors	8,000
		By Debentur holders	2,10,000
		By Unsecured Creditors (376000)	94,000
Total	3,70,000	Total	3,70,000

Note :

1. Realisation of securities: It is assumed that Liquidator has realized the securities on behalf of secured creditors so the remuneration of realization of securities is also compute
2. Preferential creditors: It is assumed that preferential creditors are treated as unsecured while calculating the remuneration of the liquidator
3. Payment made to unsecured creditors and remuneration

Remuneration = Amount available to unsecured creditors * Rate of Commission

100 + Rate of Commission

= 1.5 * 95410

1.5 + 100

= 1410

Illustration No. 5 :

Maresh Co. Ltd. went into voluntary liquidation on 31st March 2025, when the following Balance sheet was prepared:

Liabilities	₹	Assets	₹
Authorized capital 20000 equity shares of Rs. 10 eac	<u>2,00,000</u>	Goodwill	20,000
Issued capital 15,000 Equity shares of Rs. 10 each	1,50,000	Land and Building	25,000
Sundry creditors		Plant & Machinery	40,000
Preferential 4,000		Stock	60,000
Partly Secured 30,000		Debtors	55,000
Unsecured <u>80,000</u>		Cash	1,000
		Profit & Loss a/c	65,000
Total	2,66,000	Total	2,66,000

The Liquidator realized the assets as follows:

Particulars	₹
Land and Building which was given as a security to partly secured creditors	22,000
Plant and Machinery	33,000
Stock	57,000
Debtors	48,000
Cash	1,000

The expenses of liquidation amounted to Rs. 1,700. The Liquidators remuneration was agreed at 2.5% on the amount realized and 2% on the amount paid to unsecured creditors, subject to a maximum of Rs. 5,800.

Prepare the Liquidators final statement of account.

Liquidators Final Statement of Account

Of Mahesh Company

Receipts	₹	Payments	₹
To Cash	1,000	By Secured Creditors	
To Assets Realized		(Secured part of partly	22,000
Land and building	22,000	secured creditors on plant	
Plant and Machinery	33,000	and machinery)	
Stock	57,000	By Liquidators Remuneration	
Debtors	48,000	2.5% on assets realized	
		1,60,000*2.5% 4,000	
		On preferential creditors	
		2% on 4,000 80	
		2% on payment made to	
		unsecured creditors	
		2% on 90,000 <u>1,800</u>	
		5,880	

		Maximum	5,800
		By Liquidation Expenses	1,700
		By Preferential Creditors	4,000
		By Unsecured Creditors	90,000
		By Shareholders (Balancing Figure)	37,500
Total	1,61,000	Total	1,61,000

Calculation of unsecured creditors :

	₹
Partly secured creditors on land and building 30000-22000	8,000
Bank overdraft	2,000
Unsecured creditors as per balance sheet	80,000
Total	90,000

Illustration No. 6 :

Manaswee company went into Voluntary Liquidation on 31st Dec. 2025 The following was the position:

Particulars	₹
Share Capital (shares of Rs. 100 each)	1,00,000
Profit and Loss a/c (Dr.)	70,000
Machinery, Stock and Debtors realized	80,000
Cash in hand	1,000
6% Debentures carrying on floating charge	50,000
Debentures interest outstanding on 31 st Dec. 2025	1,500
Creditors (Including preferential creditors 5,000)	40,000

The Cost of liquidation was Rs. 500. The liquidator is entitled to a fixed remuneration of Rs. 1,100 plus 3% on realization of assets and 2% on amount distributed to unsecured creditors.

The Debentures and creditors were discharged on 31st March 2026.

Liquidators Final Statement of Account

Of Manaswee Company

Receipts	₹	Payments	₹
To Cash	1,000	By Liquidators Remuneration Fixed	1,100
To Assets Realized	80,000	3% on assets realized	22,000
		3% on 80,000	2,400
		On preferential creditors	
		2% on 5,000	100
		2% on payment made to unsecured creditors	
		2% on 20,000	400
		By cost of Liquidation	500
		By Preferential Creditors	5,000
		By Debenture holders	
		Debentures	50,000
		Interest outstanding	1,500
		By Unsecured Creditors	20,000
Total	81,000	Total	81,000

Illustration No.7 :

From the following balance sheet of Piyush Co. Ltd. who went into voluntary liquidation on 31st Dec. 2025, prepare liquidators final statement of account.

Balance Sheet on 31/12/2025

Liabilities	₹	Assets	₹
Equity and Liabilities		Assets	
Shareholders fund		Non Current Assets	

80,000 equity shares of Rs.10 each	8,00,000	Fixed assets	
Reserves and Surplus	(-95000)	Land	70,000
Non Current liabilities		Building	1,65,000
12% Debentures	2,50,000	Plant & Machinery	5,45,000
Outstanding Interest on Debentures	15,000	Current Assets	
Current Liabilities		Stock	1,15,000
Sundry creditors	90,500	Debtors	1,25,000
		Cash	40,500
Total	10,60,500	Total	10,60,500

Additional information :

1. The assets realized as: Land Rs. 98,000, Plant and Machinery Rs. 5,00,000, Stock Rs. 1,25,000 and Debtors Rs. 95,000
2. Sundry Creditors includes Preferential Creditors Rs. 30,000.
3. Debentures are paid on 31/3/2026
4. The Liquidator was entitled to a Commission @2% on assets realized and 3% on payments made to unsecured creditors including preferential creditors and 4% on payment made to Equity Shareholders.
5. The liquidation expenses were Rs. 13,400

Liquidators Final Statement of Account

Of Piyush Company

Receipts	₹	Payments	₹
To Cash	40,500	By Liquidators Remuneration	
To Assets Realized		2% on 10,18,000	20,360
Land	98,000	3% on 90,500	2,715
Building	2,00,000	4% on 6,33,678	25,347
Plant and Machinery	5,00,000	By Liquidation Exp.	13,400

Stock	1,25,000	By Debenture holders	
Debtors	95,000	Debentures 2,50,000	
		Interest outstanding 15,000	
		Interest for the period	
		1/1/26 to 31/3/26 7,500	2,72,500
		By Preferential Creditors	30,000
		By Unsecured Creditors	60,500
		By Equity Shareholders	6,33,678
Total	10,58,500	Total	10,58,500

Cash available for equity shareholders:

Particulars	₹
Total Receipts (Liq. Stat. of a/c debit side total)	10,58,500
Less Payment (Credit side total)	3,99,475
(20,360+2,715+13,400+2,72,500+90,500)	
Cash Available	6,59,025
Less : Liquidators Remuneration	25,347
Amount available for equity shareholders	6,33,678

Liquidators remuneration on payments made to equity shareholders:

As cash available = 6,33,678 and Amount of Equity Share capital was 8,00,000, It means Cash is insufficient. 4% Commission was calculated as:

Commission = $\frac{\text{Amount available for Eq. Shareholders} \times \text{Rate of Commission}}{100 + \text{Rate of commission}}$

$$= \frac{6,59,025 \times 4}{100 + 4}$$

$$= \text{Rs. 25,347}$$

Illustration no. 8 :

Following is the balance sheet of Chandrabhaga Co. Ltd. as on 31st March 2026 on which date the company went into voluntary liquidation.

Balance Sheet 31/3/2026

Liabilities	₹	Assets	₹
Equity and Liabilities		Assets	
Shareholders fund		Non Current Assets	
Share Capital		Fixed assets	
500 equity shares of Rs. 100 each	5,00,000	Land	2,70,000
300, 8% Preference share capital shares of Rs. 100 each	3,00,000	Plant & Machinery	4,50,000
Reserves and Surplus		Current Assets	
Non Current liabilities		Stock	1,35,000
12% Debentures	2,00,000	Debtors	1,55,000
Current Liabilities		Cash	85,000
Sundry creditors	95,000		
Total	10,95,000	Total	10,95,000

Additional information:

1. The assets realized as: Land Rs. 2,75,000, Plant & Machinery Rs. 5,00,000, Stock Rs. 1,20,000, Debtors Rs. 1,55,000.
2. Debentures were paid on 31/8/2026.
3. The Liquidator was entitled to a commission @3.50% on assets realized and 3% on payments made to equity shareholders.
4. The liquidation expenses were Rs. 17,000.
5. Preference dividend were in arrears for last two years which are payable prior to payment to equity shareholders.

Prepare liquidators final statement of account.

**Liquidators Final Statement of Account
Of Chandrabhaga Company
Of Piyush Company**

Receipts	₹	Payments	₹
To Cash	85,000	By Liquidators Remuneration	
To Assets Realized		3.50 % on 10,50,000	36,750
Land	2,75,000	3% on 4,15,777	12,473
Plant and Machinery	5,00,000	By Liquidation Exp.	17,000
Stock	1,20,000	By Debenture holders	
Debtors	1,55,000	Debentures 2,00,000	
		Interest for the period	
		1/4/26 to 31/8/26 <u>10,000</u>	2,10,000
		By Unsecured Creditors	95,000
		By Preference share capital 3,00,000	
		Arrears of Dividend <u>48,000</u>	3,48,000
		By Equity Shareholders	4,15,777
Total	11,35,000	Total	11,35,000

Cash available for equity shareholders :

Particulars	₹
Total Receipts (Liq. Stat. of a/c debit side total)	11,35,000
Less Payment (Credit side total)	7,06,750
(20,360+2,715+13,400+2,72,500+90,500)	
Cash Available	4,28,250
Less : Liquidators Remuneration	12,473
Amount available for equity shareholders	4,15,777

Liquidators remuneration on payments made to equity shareholders:

As cash available = 4,328,250 and Amount of Equity Share capital was 5,00,000, It means Cash is insufficient. 3% Commission was calculated as:

$$\begin{aligned}\text{Commission} &= \frac{\text{Amount available for Eq. Shareholders} * \text{Rate of Commission}}{100 + \text{Rate of commission}} \\ &= \frac{4,28,250 * 4}{100 + 3} \\ &= \text{Rs. 12,473}\end{aligned}$$

3.2.2.2 Check your progress :

Q. 2 Choose the correct alternative from the alternatives given below:

- 1) In liquidator final statement of account, payment of preferential creditors is shown after
 - a) Debenture holders
 - b) Unsecured creditors
 - c) Secured creditors
 - d) All of the above
- 2) A company can be liquidated by
 - a) Compulsory winding up by the court.
 - b) Voluntary winding up by the members or creditors
 - c) Winding up under the supervision of the court
 - d) All of the above
- 3) Amount of calls in advance is treated as
 - (a) Secured creditor
 - (b) Asset not specifically pledged
 - (c) Preferential creditor
 - (d) Unsecured creditor
- 4) Preference dividend in arrears on the date of winding up is
 - (a) treated as Secured creditor
 - (b) treated as Over-riding preferential creditor
 - (c) treated as Preferential creditor
 - (d) added to Preference Share Capital

- 5) Amount of Retirement benefits of employees exceeding Rs 20,000 per employee is treated as
- (a) Secured creditor (b) Over-riding preferential creditor
(c) Preferential creditor (d) Unsecured creditor
- 6) Amount of Govt. dues that arose within 12 months before the date of winding up is treated as
- (a) Secured creditor (b) Over-riding preferential creditor
(c) Preferential creditor (d) Unsecured creditor
- 6) If default is made in delivering the annual return to the Registrar, the company is likely to face
- a) compulsory winding up by the tribunal
b) voluntary winding up by members
c) voluntarily winding up by creditors
d) none of the above

3.3 Summary :

A company is an artificial person created by law through the process of incorporation. So, its life can be brought to an end, through a legal process only called winding up or liquidation. The process of winding up involves realisation of assets, payment of liabilities and distribution of surplus, if any, amongst the members of the company.

The role of a liquidator in voluntary winding up is of paramount importance to ensure a smooth and fair distribution of the company's assets among its stakeholders. This checklist of powers and duties serves as a guide for liquidators to discharge their responsibilities effectively and in compliance with the applicable legal framework. Engaging a qualified and experienced liquidator can significantly contribute to a successful and expeditious winding-up process, benefiting all parties involved.

Voluntary liquidation process covers:

- Declaration of solvency of the Indian entity.

- Convening the board and shareholders meetings to approve the voluntary liquidation and appointment of IRP/Liquidator.
- approval from creditors for the voluntary liquidation of the Indian entity, where external creditors are identified.
- Making necessary filings with the RoC and publication of notice of voluntary liquidation in English and regional language newspapers.
- Opening of the liquidation bank account and transfer of balance of funds in liquidating company's India bank account.
- Clearance of claims raised by third parties or statutory authorities, if any. 7
- Intimation to various statutory authorities regarding the voluntary liquidation of the entity and seeking for their no-objection.
- Submission of a preliminary report by the Liquidator to the IBBI.
- Holding an annual contributories meeting, if the period as specified under the IBC for completion of the liquidation process has not been adhered.
- Distribution of the funds available in the company's account, after clearing the claims/liabilities, if any, to the shareholders.
- Audit of liquidator's accounts and preparation of the final report.
- Submission of the final report with the RoC, IBBI and NCLT.
- Filing a petition with the NCLT seeking their final approval for liquidating company's dissolution.
- Attend hearings at the NCLT and seek the dissolution order.
- Filing a copy of the order received from NCLT for liquidation with the RoC and IBB

3.4 Glossary :

1. **IBBI** : Insolvency and Bankruptcy Board of India
2. **NCLT**: National Company Law Tribunal

3. **RoC** : Registrar of Companies
4. **LLP** : *Limited Liability Partnership*
5. **IBC**: Insolvency and Bankruptcy code

3.5 Answer to check your progress :

Q. 1 Choose the correct alternative from the alternatives given below:

1. b) Winding up of a company
2. b) Liquidator
3. d) All of the above
4. d) All of the above.
5. c) Liquidation expenses
6. c) Liquidator's final statement of account
7. b) Only in case of members voluntary winding up
9. a) Liquidator
10. c) Liquidator final statement of account
11. b) Optional
12. a) Remuneration

Q. 2 Choose the correct alternative from the alternatives given below:

1. a) Debenture holders
2. a) Compulsory winding up by the court.
3. d) Unsecured creditor
4. (d) added to Preference Share Capital
5. (c) Preferential creditor
6. (c) Preferential creditor
7. (a) compulsory winding up by the tribunal

3.6 Exercise :

Illustration No. 1 The Roxy Ltd. went into voluntary liquidation on 31 December, 2025.

The position on that date was as follows:

Preferential creditors	10,000
Unsecured Creditors	30,000
Debentures	20,000
Assets realised :-	
Land and Buildings	24,000
Plant and Machinery	21,000
Stock in trade	5,000
Furniture and Fittings	1,000

The cash at bank amounted to Rs. 2,000. The cost of liquidation was Rs. 1,250.

The Liquidator's remuneration was fixed at 5% on realisation of assets.

Prepare the Liquidator's Account

Illustration No. 2 The following particulars relate to Penta Ltd. which has gone into voluntary liquidation

Assets realized	₹
Freehold property	50,000
Machinery and Plant	27,000
Patents	8,000
Furniture	2,000
Stock	15,000
Debtors	12,000
Liabilities were	
Preferential creditors	6,000
Unsecured creditors	2,71,000
Debentures	50,000

The balance at bank was Rs. 1,000. The expenses of liquidation amounted to Rs. 746. The Liquidator's remuneration was agreed at 24% on the amount realised and 2% on the amount paid to unsecured creditors.

Prepare the Liquidator's Final Account.

Illustration No. 3 : The Rockets Ltd. went into voluntary liquidation as on 31st December, 2025, The position on that date was as follows -

Equity Share Capital:	₹
2,000 Shares of Rs. 100 each	2,00,000
Profit and Loss Account (Dr.)	60,000
Assets realized	1,25,000
Cash at bank 1,25,000	2,000
8 % Debentures	1,00,000
Debenture interest outstanding on 31st Dec., 2025	8,000
Creditors (including preferential creditors, Rs. 2,000)	72,000

The liquidation expenses amounted to Rs. 1,170. The liquidator is paid Rs 1,100 fixed allowance plus 4 % commission on collection and 2 of on distribution to unsecured creditors.

The debentures and creditors were discharged on 30th June, 1982. Show the Liquidator's Statement of Account.

Illustration No. 4 Manasi Co. Ltd. went into voluntary liquidation on 31st March 2025, when the following Balance sheet was prepared:

Liabilities	₹	Assets	₹
Authorized capital		Goodwill	2,00,000
20000 equity shares of Rs.50 each	<u>10,00,000</u>	Land and Building	3,45,000
Issued capital		Plant & Machinery	4,35,000
		Stock	1,90,000

15,500 Equity shares of Rs.50 each	7,75,000	Debtors	1,40,000
Sundry creditors		Cash	43,000
Preferential 1,50,000		Profit & Loss a/c	69,000
Partly Secured 1,70,000			
Unsecured <u>1,77,500</u>			
Bank Overdraft (Unsecured)	1,50,000		
Total	14,22,500	Total	14,22,500

The Liquidator realized the assets as follows:

Particulars	Rs.
Goodwill	Nil
Land and Building	3,10,000
Plant and Machinery	3,47,000
Stock	1,70,000
Debtors	1,40,000

The expenses of liquidation amounted to Rs. 22,500. The Liquidators remuneration was agreed at 3% on the amount realized including cash and 2.50% on payment made to unsecured creditors. Prepare the Liquidators final statement of account.

Illustration No. 5 : Following is the balance sheet of Ronaldo Co. Ltd. as on 31-3-2025 on which date company went into voluntary liquidation:

Liabilities	₹	Assets	₹
Share capital		Land	1,00,000
30000 equity shares of Rs. 20 each	6,00,000	Building	2,00,000
8% Debentures	3,00,000	Plant & Machinery	3,57,500
		Stock	1,60,000

Sundry creditors	1,20,500	Debtors	95,000
Outstanding wages	50,000	Cash	58,000
Total	9,70,500	Total	9,70,500

All assets are realized by the Liquidator as follows :

Particulars	₹
Land	2,00,000
Building	2,15,000
Plant and Machinery	1,66,000
Stock	1,80,000
Debtors	80,000

1. Debentures were paid on 30-9-2025
2. The Liquidators remuneration was agreed at 4% on the amount realized and 3% on payment made to unsecured creditors.
3. The liquidation exp was Rs. 4500

Prepare the Liquidators final statement of account.

Illustration no. 6 : The following particulars relate to a Limited Company which has gone into Voluntary Liquidation, you are required to prepare the liquidators final accounts

1. Allowing for the remuneration at 2% on the amount realized, 2% on the amount distributed to the Unsecured Creditors other than Preferential Creditors.
2. Preferential Creditors Rs. 10,000
3. Unsecured Creditors Rs. 32,000
4. Debentures Rs. 10,000
5. Assets Realized – Land and Building Rs. 20,000, Plant and Machinery Rs. 18,650, Fixtures and Fitting Rs. 1,000.
6. Liquidation Expenses amounted to Rs. 1,000.Ø

Prepare Liquidators Final Statement of Accounts

Write short notes :

1. Reasons for voluntary liquidation
2. Appointment of Liquidator
3. Powers and Duties of Liquidator
4. Liquidators remuneration
5. Preferential Creditors
6. Difference Between Compulsory and voluntary Winding up
7. legal framework and step-by-step procedure of Voluntary Liquidation

3.7. Reference for further study :

1. S.C. Gupta, M.P. Shukla, M.C. Agarwal Advanced Corporate Accounting, New Delhi, Chand & Co.
2. Maheshwari S.N.(2018) Corporate Accounting, New Delhi Vikas Publication house
3. Kamal Garg (2018) Voluntary Liquidation Companies Under Insolvency and Bankruptcy Code Law Practice and Procedure, Wolters Kluwer India Pvt. Ltd
4. Kadam N. L. & Dr. G. J. Fagare (2019) Corporate Accounting Part II, Rubi Publication.



Unit 4

Compulsory Liquidation of Companies

Legal Provisions, procedural steps and accounting practices, Grounds for Compulsory Winding Up, Initiation of Proceedings, The Winding Up Order, Role and Powers of the Liquidator, Legal Framework, Accounting Problems.

Index -

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Presentation of Subject Matter:
 - 4.2.1 Meaning and Definition of Compulsory Liquidation
 - 4.2.2 Legal Provisions of Compulsory Liquidation
 - 4.2.3 Procedural Steps and Accounting Practices of Compulsory Liquidation
 - 4.2.4 Grounds for Compulsory Winding-up
 - 4.2.5 Initiation of Proceedings
 - Check Your Progress
 - 4.2.6 The Winding-up Order
 - 4.2.7 Role and Powers of the Liquidator
 - 4.2.8 Legal Framework
 - Check Your Progress
 - 4.2.9 Important Statements to be Prepared in the Process of Compulsory Liquidation
 - 4.2.10 Accounting Problems
 - Check Your Progress
- 4.3 Summary
- 4.4 Terms to Remember
- 4.5 Answer to check your Progress
- 4.6 Exercise
- 4.7 Referances for further study

4.0 Objectives :

After studying this unit, students will be able to:

1. Understand the meaning, concept, and legal provisions of compulsory liquidation.
2. Identify the grounds and procedure for compulsory winding-up of a company.
3. Explain the winding-up process and the role of the liquidator.
4. Examine the legal framework governing compulsory liquidation.
5. Apply the prescribed accounting format for solving compulsory liquidation problems.

4.1 Introduction :

Compulsory Liquidation, also known as Winding-up by the Tribunal, is the legal process by which a company is closed by the order of the National Company Law Tribunal (NCLT). In this process, the company's assets are collected and sold, the proceeds are distributed among creditors according to the priority prescribed under law, and finally the company is dissolved.

Before the enactment of the Companies Act, 2013, compulsory Winding-up was governed by the Companies Act, 1956. The Companies Act, 2013 introduced several reforms by transferring jurisdiction from the High Courts to the National Company Law Tribunal (NCLT).

After the enactment of the Insolvency and Bankruptcy Code (IBC), 2016, a major change took place in India's insolvency law. The IBC became the principal law for insolvency resolution and liquidation of companies. The provisions relating to Winding-up on the ground of inability to pay debts were shifted from the Companies Act, 2013 to the IBC. Consequently, the Companies Act now mainly governs Winding-up on grounds other than insolvency, while insolvency-related liquidation is governed by the IBC.

Further amendments made up to 2024 and 2026 have strengthened the insolvency framework by introducing faster resolution processes, greater transparency, better protection of creditors, simplified liquidation procedures, and improved powers of the Insolvency Professional and the Liquidator.

Thus, compulsory liquidation today is governed jointly by:

- Companies Act, 2013
- Insolvency and Bankruptcy Code, 2016
- IBBI (Liquidation Process) Regulations
- Amendments up to 2024 and 2026

4.2 Presentation of Subject Matter :

4.2.1 Meaning and Definition of Compulsory Liquidation

a) Meaning of Compulsory Liquidation -

Compulsory Liquidation means the legal Winding-up of a company by the order of the National Company Law Tribunal (NCLT) under the provisions of the Companies Act, 2013 or the Insolvency and Bankruptcy Code, 2016.

During this process:

- The business of the company comes to an end.
- A Liquidator takes charge of the company.
- All assets are realized.
- The realized amount is distributed among creditors according to statutory priority.
- The remaining amount, if any, is distributed among shareholders
- Finally, the company is dissolved and ceases to exist.

In simple words, ‘Compulsory Liquidation is the process of closing a company by an order of the Tribunal when it is unable to continue its business or when circumstances prescribed by law require its closure.’

b) Definition of Compulsory Liquidation -

Compulsory Liquidation is the legal process by which a company is wound up under the order of the National Company Law Tribunal (NCLT), whereby the company’s assets are realized, its liabilities are discharged according to the order of priority prescribed by law, and the company is finally dissolved.

Compulsory Liquidation means closing a company through the order of the Tribunal. The company’s assets are sold, creditors are paid in the order prescribed by law, and after completing all legal formalities, the company is dissolved.

4.2.2 Legal Provisions Relating to Compulsory Liquidation (Winding-Up By Tribunal) (As per the Companies Act, 2013 the Insolvency and Bankruptcy Code, 2016 and Amendments up to 2026 :

Compulsory liquidation is a legal process to close a company that cannot continue its business. It protects the interests of creditors, shareholders, employees, and the Government. Under the Companies Act, 1956, the High Courts handled the winding-up of companies. The process was slow, and many cases remained pending for years. The Companies Act, 2013 replaced the Companies Act, 1956. It transferred the power of company liquidation to the National Company Law Tribunal (NCLT). The Companies Act, 2013 allowed voluntary winding-up and winding-up by the Tribunal. Later, the Insolvency and Bankruptcy Code, 2016 (IBC) was introduced to provide a better insolvency system. The IBC, 2016 introduced a time-bound insolvency process. It gives companies a chance to recover before liquidation is started. After the IBC came into force, voluntary winding-up and debt-related liquidation were shifted to the IBC. The Companies Act now deals mainly with non-insolvency grounds for winding-up. Several amendments from 2017 to 2026 made the liquidation process faster and more transparent. They also strengthened the role of Insolvency Professionals and increased creditor participation. The latest amendments introduced rules for group insolvency and cross-border insolvency. These reforms help improve asset recovery and increase investor confidence. At present, compulsory liquidation is governed by the Companies Act, 2013, the Insolvency and Bankruptcy Code, 2016, the Companies (Winding-up) Rules, 2020, and the Insolvency and Bankruptcy Board of India (IBBI) Liquidation Process Regulations. Today, compulsory liquidation is governed by different laws working together. This legal framework ensures a fair, transparent, and efficient liquidation process while protecting the interests of all stakeholders.

Present Legal Framework (After Amendments up to 2026)

Accordingly, the present legal framework governing compulsory liquidation consists of the following important legislations:

The Companies Act, 2013 provides the statutory provisions relating to Winding-up by the Tribunal on specified non-insolvency grounds and prescribes the powers of the Tribunal, the Company Liquidator, and the procedural aspects of Winding-up.

The Insolvency and Bankruptcy Code, 2016 governs corporate insolvency resolution and liquidation in cases where a company is unable to pay its debts. It provides a comprehensive mechanism for resolution, liquidation, and distribution of assets among creditors

The Companies (Winding-up) Rules, 2020 prescribe the detailed procedural rules regarding filing of petitions, submission of statements, issue of notices, appointment of liquidators, conduct of meetings, maintenance of records, and other procedural requirements for winding-up proceedings.

The IBBI (Liquidation Process) Regulations provide detailed operational guidelines relating to the powers and duties of the liquidator, valuation of assets, realization of company property, verification of claims, distribution of sale proceeds, reporting requirements, maintenance of accounts, and completion of liquidation.

Finally, the amendments introduced up to the year 2026, together with judicial interpretations issued by the NCLT, NCLAT, and the Supreme Court of India, have significantly modernized the legal framework by promoting faster resolution of insolvency cases, strengthening creditor protection, encouraging business revival wherever possible, and ensuring that liquidation is conducted only when no viable resolution plan exists.

4.2.3 Procedural Steps and Accounting Practices in Compulsory Liquidation:

The accounting procedure in compulsory liquidation follows the Companies Act, 2013, the Insolvency and Bankruptcy Code (IBC), 2016, and related rules. Its main purpose is to sell the company's assets, pay liabilities in the correct order, and legally close the company.

Step 1: Passing of the Winding-up Order-The process starts when the National Company Law Tribunal (NCLT) passes a winding-up order. The company's management loses its powers. The Tribunal appoints a Liquidator to manage the liquidation process.

Step 2: Appointment of the Company Liquidator- The Tribunal appoints a Company Liquidator after the winding-up order. The Liquidator takes control of all company assets, records, and accounts. The Liquidator sells assets, pays creditors, and completes the liquidation process.

Step 3: Preparation of the Statement of Affairs- The Liquidator prepares the Statement of Affairs. It shows the estimated realizable value of assets and the liabilities of the company. This statement helps in deciding how much creditors can be paid.

Step 4: Collection and Verification of Assets-The Liquidator collects and checks all company assets. Ownership, documents, and values of the assets are verified. The realizable value of each asset is also estimated.

Step 5: Classification of Assets-The Liquidator classifies the assets into different categories. Secured assets are used to pay secured creditors first. The remaining assets are used to pay other creditors.

Step 6: Verification and Classification of Liabilities-The Liquidator checks all liabilities and creditors' claims. Liabilities are classified as secured, preferential, unsecured, and other categories. This helps in making payments according to legal priority.

Step 7: Preparation of Lists A to H: The accounting system followed during compulsory liquidation requires the preparation of Lists A to H. Each list serves a specific purpose and collectively forms the basis of the Statement of Affairs

List A – Assets Not Specifically Pledged: List A contains assets that are not subject to any specific charge. These assets are available for payment of:

- Preferential Creditors
- Debenture Holders under Floating Charge
- Unsecured Creditors

The list shows:

- Book Value
- Estimated Realizable Value

Examples include: Plant and Machinery, Stock, Trade Debtors, Cash, Calls in Arrears

List B – Secured Creditors : List B contains secured creditors whose loans are secured against specific assets. The list shows:

- Amount due
- Value of security
- Estimated amount realizable
- Estimated amount to rank as unsecured (if any)

If the value of security is insufficient, the unpaid balance becomes an unsecured claim.

List C – Preferential Creditors: List C contains creditors who are entitled to payment before ordinary unsecured creditors. Examples include: Outstanding wages and salaries eligible under law, Certain government dues. Workmen's dues (where applicable). These creditors receive priority according to the provisions of the Companies Act and the Insolvency and Bankruptcy Code.

List D – Debenture Holders Secured by Floating Charge: This list includes debenture holders whose security consists of a floating charge over the company's circulating assets. After payment of preferential creditors, the remaining assets covered by the floating charge are used to satisfy the claims of these debenture holders.

List E – Unsecured Creditors: List E includes all creditors who do not possess any security. Examples include: Trade Creditors, Bank Overdraft (if unsecured), Outstanding Expenses, Managing Director's Remuneration, Income Tax not qualifying as preferential, Contingent liabilities admitted during liquidation, Deficiency of partly secured creditors.

List F – Fully Secured Creditors: This list contains creditors whose security is sufficient to recover the entire amount due. Since they recover their dues fully from the security, they generally do not rank against the general assets of the company.

List G – Estimated Deficiency as Regards Creditors: This list calculates the total deficiency suffered by creditors. It represents the difference between: Total liabilities Less Estimated realizable value of assets available for creditors.

List H – Estimated Deficiency as Regards Members: List H calculates the ultimate loss suffered by shareholders. It combines: Deficiency as regards creditors Plus Paid-up share capital. This figure represents the overall financial deficiency of the company.

Step 8: Preparation of Statement of Affairs- After preparing Lists A to H, the Statement of Affairs is prepared. This statement summarizes Estimated realizable value of assets. Liabilities according to legal priority. Estimated surplus or deficiency. Estimated amount available to each class of creditors. The Statement of Affairs serves as the principal accounting statement during compulsory liquidation.

Step 9: Realisation of Assets-The Liquidator sells the company's assets by auction, tender, private sale, or other approved methods. The money received is deposited into the liquidation bank account and properly recorded.

Step 10: Distribution of Realized Amount-The money received from the sale of assets is distributed according to the legal order of priority. First, liquidation expenses are paid, followed by secured creditors, preferential creditors, Debenture holders under floating charge unsecured creditors, Preference shareholders and finally the shareholders.

Step 11: Preparation of Deficiency Account-The Liquidator prepares the Deficiency Account to explain the reasons for the company's financial deficiency. It shows losses, expenses, and other factors that caused the deficiency during liquidation.

Step 12: Final Report and Dissolution -After paying all liabilities, the Liquidator prepares the Final Report and submits it to the Tribunal. The Tribunal then passes the dissolution order, and the company legally comes to an end.

4.2.4 Grounds for Compulsory Winding-Up :

Compulsory winding-up means closing a company by the order of the National Company Law Tribunal (NCLT). The grounds for compulsory winding-up are given under Section 271 of the Companies Act, 2013. A company may be wound up if it passes a special resolution for winding-up. The Tribunal may also order winding-up if the company acts against the sovereignty, security, or public interest of India. A company can be wound up if it carries on business fraudulently or cheats investors and creditors. Failure to file financial statements and annual returns for five consecutive years is also a ground for winding-up. The Tribunal may order winding-up on just and equitable grounds (fair and impartial) when it is fair and reasonable to do so. This may happen because of management deadlock, continuous losses, loss of the company's main object, oppression of minority shareholders, or complete failure of business. These provisions protect creditors, shareholders, employees, investors, and the public.

4.2.5 Initiation of Proceedings of Compulsory Liquidation (Liquidation by Tribunal) (Sections 272, 273 And 274 of The Companies ACT, 2013) :

A company is not closed automatically even if there is a valid ground for winding-up. A petition must be filed before the National Company Law Tribunal (NCLT) to start the liquidation process. This legal process is called the initiation of compulsory liquidation. The

provisions are given under Sections 272, 273, and 274 of the Companies Act, 2013. The petition may be filed by the company, shareholders, the Registrar of Companies (ROC), or the Central or State Government. After receiving the petition, the NCLT carefully examines the facts and evidence. The Tribunal also gives the company an opportunity to explain its side. If required, the Tribunal may pass interim orders to protect the company's assets. It may also appoint a Provisional Liquidator to take care of the company's property. If the Tribunal is satisfied, it passes the winding-up order. The Tribunal should normally pass its order within 90 days from the filing of the petition. The company may also be asked to file objections and a Statement of Affairs showing its assets and liabilities. The Statement of Affairs must normally be filed within 30 days, with an extension of another 30 days in special cases. If the directors fail to submit the statement, they may face a fine or imprisonment. These provisions ensure that the liquidation process is fair, transparent, and protects the interests of creditors, employees, shareholders, and other stakeholders.

Check Your Progress :

A) Multiple Choice Questions (MCQs)

1. Compulsory liquidation is also known as —————
 - a) Voluntary liquidation
 - b) Creditors' voluntary winding-up
 - c) Winding-up by the Tribunal
 - d) Members' voluntary winding-up
2. ————— authority passes the winding-up order under the Companies Act, 2013.
 - a) High Court
 - b) Registrar of Companies
 - c) Central Government
 - d) National Company Law Tribunal (NCLT)
3. The principal law governing insolvency resolution and liquidation is the ————
 - a) Companies Act, 1956
 - b) SEBI Act, 1992
 - c) Insolvency and Bankruptcy Code (IBC), 2016
 - d) Partnership Act, 1932
4. ————— takes charge of the company's assets after the winding-up order.

- a) Auditor
 - b) Company Secretary
 - c) Director
 - d) Liquidator
5. _____ statement is prepared to show the estimated realizable value of assets and liabilities.
- a) Balance Sheet
 - b) Profit and Loss Account
 - c) Cash Flow Statement
 - d) Statement of Affairs
6. _____ contains assets that are not specifically pledged.
- a) List B
 - b) List C
 - c) List A
 - d) List H
7. Under _____ section of the Companies Act, 2013 are the grounds for compulsory winding-up provided.
- a) Section 149
 - b) Section 248
 - c) Section 271
 - d) Section 403
8. _____ of the following is a ground for compulsory winding-up.
- a) Increase in profits
 - b) Issue of bonus shares
 - c) Fraudulent conduct of business
 - d) Expansion of business
9. The Statement of Affairs should normally be submitted within:
- a) 15 days
 - b) 30 days
 - c) 60 days
 - d) 90 days
10. _____ statement explains the reasons for the company's financial deficiency during liquidation.
- a) Realisation Account
 - b) Liquidator's Final Statement
 - c) Balance Sheet
 - d) Deficiency Account

B) True or False.

1. Compulsory liquidation is ordered by the National Company Law Tribunal (NCLT).

2. The Liquidator prepares the Statement of Affairs during compulsory liquidation.
3. List B contains unsecured creditors.
4. Section 271 of the Companies Act, 2013 provides the grounds for compulsory winding-up.
5. The Deficiency Account explains the reasons for the company's financial deficiency.

4.2.6 The Winding-Up Order in Compulsory Liquidation (Liquidation By Tribunal) (Sections 273, 275, 277 and 279 of the Companies Act, 2013) :

A winding-up order is passed by the National Company Law Tribunal (NCLT) after examining the petition and evidence. This order starts the legal process of compulsory liquidation. The company stops carrying on its normal business activities. However, the company does not close immediately and continues to exist until it is dissolved. After the winding-up order, the powers of the Board of Directors come to an end. The Tribunal appoints a Company Liquidator to take control of the company's affairs. The Liquidator collects and sells the company's assets and pays the liabilities according to law. All company property comes under the control of the Liquidator. No legal case can continue against the company without the permission of the Tribunal. The Liquidator invites creditors to submit their claims for payment. Employees are given priority for payment of wages and other legal dues. The Liquidator submits reports to the Tribunal during the liquidation process. The Tribunal also informs the Registrar of Companies about the winding-up order. Finally, after all assets are distributed and liabilities are paid, the Tribunal passes the order of dissolution, and the company legally comes to an end.

4.2.7 Role and Powers of the Company Liquidator in Compulsory Liquidation (Liquidation by Tribunal) (Sections 275, 281, 290, 292, 293, 326, 327 And 302 of The Companies Act, 2013) :

The Company Liquidator is appointed by the National Company Law Tribunal (NCLT) after passing the winding-up order. The Liquidator takes control of the company and manages the entire liquidation process. He works under the supervision of the Tribunal and protects the interests of all stakeholders. The Liquidator takes possession of all company assets, books of accounts, and records. He protects the company's property from fraud, misuse, or illegal transfer. The Liquidator collects debts due to the company and verifies the

claims of creditors. He sells the company's assets and deposits the money into the liquidation account. The money is distributed according to the legal order of priority. The Liquidator maintains proper books of accounts and records all receipts and payments. He may file or defend legal cases on behalf of the company whenever required. He also submits reports on the progress of liquidation to the Tribunal. The directors must hand over all records and cooperate with the Liquidator. After all assets are sold and liabilities are paid, the Liquidator distributes the remaining amount to shareholders. Finally, he submits the final report to the Tribunal and applies for the dissolution of the company. The Company Liquidator plays an important role in ensuring that the company is closed in a fair, transparent, and lawful manner.

4.2.8 Legal Framework of Compulsory Liquidation (Liquidation by Tribunal) Under the Companies Act, 2013 (Sections 270 to 303 of the Companies Act, 2013 along with subsequent amendments) :

The legal framework of compulsory liquidation is given under Sections 270 to 303 of the Companies Act, 2013. It explains the legal process for closing a company through the National Company Law Tribunal (NCLT). A company cannot be closed without following the law. The Tribunal orders compulsory liquidation when the company cannot continue its business or violates legal provisions. The Insolvency and Bankruptcy Code (IBC), 2016 also governs insolvency and liquidation matters. The main authorities involved are the NCLT, National Company Law Appellate Tribunal (NCLAT), Registrar of Companies (ROC), Central Government, and the Company Liquidator. The process starts with filing a winding-up petition before the Tribunal. The Tribunal examines the case and, if satisfied, passes the winding-up order. A Company Liquidator is then appointed to manage the liquidation process. The Liquidator collects and sells the company's assets and pays the liabilities according to law. Employees, creditors, shareholders, and other stakeholders are protected during the process. After all liabilities are settled, the Liquidator submits the final report to the Tribunal. The Tribunal then passes the dissolution order. Finally, the Registrar of Companies removes the company's name from the Register of Companies, and the company legally comes to an end.

Check Your Progress

A) Multiple Choice Questions (MCQs)

1. Compulsory liquidation is ordered by the _____
 - a) Registrar of Companies
 - b) Board of Directors
 - c) National Company Law Tribunal (NCLT)
 - d) Shareholders
2. The Statement of Affairs contains the:
 - a) Profit and loss of the company
 - b) Estimated realizable value of assets and liabilities
 - c) Dividend payable to shareholders
 - d) Share capital of the company
3. The grounds for compulsory winding-up are provided under:
 - a) Section 248 of the Companies Act, 2013
 - b) Section 271 of the Companies Act, 2013
 - c) Section 272 of the Companies Act, 2013
 - d) Section 274 of the Companies Act, 2013
4. List F in compulsory liquidation contains:
 - a) Unsecured creditors
 - b) Preferential creditors
 - c) Fully secured creditors
 - d) Debenture holders under floating charge
5. The responsibility for realizing the assets and distributing the proceeds lies with the:
 - a) Auditor
 - b) Company Secretary
 - c) Liquidator
 - d) Director

B) True or False.

1. Compulsory liquidation is also known as winding-up by the Tribunal.
2. The Liquidator prepares the Statement of Affairs during compulsory liquidation
3. List A contains fully secured creditors.
4. The Deficiency Account explains the reasons for the company's financial deficiency.

5. The National Company Law Tribunal (NCLT) appoints the Company Liquidator after passing the winding-up order.

4.2.9 Important Statements to be Prepared in the Process of Compulsory Liquidation :

When a company is ordered to be wound up by the Tribunal under the provisions of the Companies Act, 2013, the company stops carrying on its normal business activities except to the extent necessary for the beneficial winding up of the company. The main objective of compulsory winding up is to realize the assets of the company, to pay the liabilities in the order prescribed by law, and to distribute any remaining amount among the shareholders. For this purpose, two important statements are prepared to show the financial position of the company at the date of winding up.

1. Statement of Affairs: The Statement of Affairs is prepared to show the assets of the company, their estimated realizable values, the liabilities of the company, the amount expected to be paid to various classes of creditors, and the probable deficiency or surplus available to shareholders. It provides a complete picture of the financial condition of the company at the date of liquidation.

2. Deficiency Account (List H): The Deficiency Account is prepared to explain how the deficiency has arisen, the losses suffered by the company, reductions in asset values, trading losses, non-trading losses, and other reasons responsible for the failure of the company.

In simple words, while the Statement of Affairs shows the present financial position, the Deficiency Account explains the reasons for that financial position.

Statement of Affairs is a statement showing what the company owns, what the company owes and how much creditors and shareholders are likely to receive during liquidation.

It is not prepared on the basis of book values alone. It is prepared using the estimated realizable values of assets and the expected amounts payable to creditors

3. Legal Position under Companies Act, 2013: The provisions relating to the Statement of Affairs are contained mainly in Section 274 Section 281, Section 283 Section 285 of the Companies Act, 2013. Under Section 274, when a petition for winding up is filed and the Tribunal considers it necessary, the company is required to submit a Statement of Affairs in the prescribed manner.

The directors and officers responsible for the company must provide complete details of the company's financial position to the liquidator and Tribunal. Failure to comply may result in penalties, fines and legal action. Statement of Affairs is a special statement prepared at the date of winding up showing the estimated realizable value of assets and the expected amount payable to various classes of creditors and shareholders.

4. Purpose of Statement of Affairs: The Statement of Affairs serves several important purposes.

- (i) *To know the financial position of the company:* It shows whether the company is financially strong or insolvent.
- (ii) *To estimate realizable value of assets:* Book values may differ from actual sale values during liquidation. The statement shows the estimated amount expected to be realized from the sale of assets.
- (iii) *To determine the amount payable to creditors:* Different creditors enjoy different priorities during liquidation. The statement helps determine secured creditors, preferential creditors, unsecured creditors, debenture holders, shareholders.
- (iv) *To calculate deficiency or surplus:* The statement determines deficiency suffered by creditors, or surplus available for shareholders.
- (v) *To assist the liquidator:* The liquidator uses the statement as a roadmap for taking possession of assets, selling assets, paying liabilities, distributing remaining funds.
- (vi) *To help the Tribunal:* The Tribunal obtains a complete picture of the company's financial condition before final liquidation proceedings begin.
- (vii) *To identify causes of failure:* The accompanying Deficiency Account explains why the company failed. Examples include trading losses, bad debts, speculation losses, penalties, depreciation losses, losses on sale of assets.

5. Main Characteristics of Statement of Affairs:

- (a) *Prepared on Estimated Realizable Values:* Assets are shown at expected selling prices and not at book values.

Example:

Asset	Book Value	Estimated Value
Machinery	₹ 10,00,000	₹ 6,50,000

The statement uses ₹ 6,50,000.

- (b) *Prepared only during liquidation:* A normal company does not prepare a Statement of Affairs. It is prepared only during winding up.
- (c) *Shows order of payment:* The statement follows the legal order of payment prescribed under company law.
- (d) *Prepared by directors and officers:* The directors and officers of the company provide the information to the liquidator.
- (e) *Includes estimated deficiency:* The statement calculates. Deficiency as regards creditors and member.

6. Contents of Statement of Affairs: The Statement of Affairs is divided into eight lists.

List A – Assets Not Specifically Pledged: These are assets which are free from any fixed charge. These assets are available for preferential creditors, floating charge holders, unsecured creditors Examples: cash in hand, stock, debtors, bills receivable, machinery, furniture, patents.

List B – Assets Specifically Pledged: These assets are pledged or mortgaged to specific creditors Examples: land and building mortgaged to a bank, machinery pledged to financial institutions. The list shows realizable value of security, amount due to secured creditors, deficiency, surplus.

List C – Preferential Creditors: These creditors are paid before floating charge holders and unsecured creditors Examples include: wages for four months, salaries for four months, government taxes, workmen compensation.

List D – Creditors Secured by Floating Charge: These creditors hold a floating charge over general assets. Examples: debentures secured by floating charge, bank overdraft secured by floating charge. When winding up begins, the floating charge becomes fixed. This process is called Crystallization of Floating Charge.

List E – Unsecured Creditors: These creditors do not possess any security. Examples: trade creditors, bills payable, unsecured loans, contingent liabilities, dishonoured bills discounted.

List F – Preference Shareholders: Preference shareholders receive payment only after all creditors have been satisfied. They are entitled to repayment of preference capital, arrears of cumulative preference dividend where applicable.

List G – Equity Shareholders: Equity shareholders are the last claimants. They receive payment only if assets remain after all prior claims have been settled.

List H – Deficiency Account: This account explains the reasons for the company's financial failure. Typical items include: opening deficiency, trading losses, speculation losses, penalties, bad debts, depreciation losses, losses on realization of assets.

7. Order of Payment in Liquidation:

The legal order of payment is:

Priority	Payment
1	Fixed charge secured creditors
2	Liquidation expenses
3	Preferential creditors
4	Floating charge holders
5	Unsecured creditors
6	Preference shareholders
7	Equity shareholders

8. Difference between Balance Sheet and Statement of Affairs:

Basis	Balance Sheet	Statement of Affairs
Purpose	Shows financial position during normal business	Shows financial position during liquidation
Asset Values	Book values	Estimated realizable values
Preparation	Every year	Only during winding up
Objective	Profit measurement	Settlement of liabilities
Legal Status	Statutory financial statement	Liquidation statement

1. Use the estimated realizable value of assets while preparing the Statement of Affairs. Do not use the book value unless specifically asked.
2. Separate the assets into specifically pledged assets and assets not specifically pledged. Prepare List A by taking all assets that are not pledged to any secured creditor.
3. Prepare List B for assets specifically pledged to secured creditors. Compare the realizable value with the amount due. Any surplus is added to free assets, and any deficiency is treated as an unsecured claim.
4. Prepare List C by including only preferential creditors, such as wages, salaries (within the legal limit), taxes, and workmen's compensation.
5. Prepare List D by including all creditors secured by a floating charge, such as debentures or bank overdraft secured by floating charge.
6. Prepare List E by including all unsecured creditors, such as trade creditors, bills payable, contingent liabilities, and bills discounted expected to rank.
7. Prepare List F by showing the paid-up Preference Share Capital and any arrears of cumulative preference dividend, if applicable.
8. Prepare List G by showing the paid-up Equity Share Capital after deducting calls in arrears, if any.

9. While preparing the Statement of Affairs, first pay secured creditors from the assets specifically pledged to them. Then pay preferential creditors, floating charge holders, unsecured creditors, preference shareholders, and finally equity shareholders.
10. Prepare the Deficiency Account (List H) by recording all items that increase the deficiency, such as opening deficiency, trading losses, losses on realization of assets, bad debts, contingent liabilities, and other losses. Deduct any profits or gains that reduce the deficiency.

Specimen of Statement of Affairs and Deficiency Account

Statement of Affairs of Anil Company Ltd.as on 1-4-2026

Assets					Estimated Realizable Value (₹)
Assets Not Specifically Pledged (List-A)					-
Cash in hand					-
Debtors					-
Furniture and Fixture					-
Assets Specifically Pledged (List-B)					-
Particulars	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency Ranking as Unsecured ₹	Surplus ₹	-
					-
					-
Estimated surplus from specifically pledged assets					-
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, carried forward					-

Summary of Gross Assets		₹	-
Gross Realizable value of assets specially pledged Other Assets			-
			-
			-
			-
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, brought forward			-
Gross Liabilities	Liabilities		-
			-
	Secured creditors (as per List-B) to the extent to which claims are estimated to be covered by assets specifically pledged (gross liabilities only)		-
	Preferential Creditors (as per List-C)		-
	Estimated Balance of Assets available for Debenture holders and creditors secured by a floating charge, and unsecured creditors		-
	Debenture holders secured by a first floating charge (as per List -D)		
	Estimated surplus as regards Debenture holders and other creditors secured by a floating charge		
	Unsecured Creditors (List-E)		
	Estimated unsecured balance of claims of creditors partly secured on a specific asset		-
			-
	Estimated Deficiency as regards creditors being the difference between Gross Assets and Gross Liabilities		-
			-

	Issued and called up capital :	-
	——— Equity shares of ₹ —— each fully paid (As per List-G)	-
	Estimated Deficiency as regards Member	-

List -H: Deficiency Account

Sr. No.	Particulars	₹
A) Items Contributing to Deficiency		-
1	Excess of Capital and Liabilities over Assets on ----- as shown by Balance sheet	- -
2	Net dividend and bonuses declared during the period	-
3	Net trading losses after charging depreciation, interest on debentures, etc.	- -
4	Losses other than trading losses written off or for which provision has been made in the books during the same period:	-
5	Estimated Losses now written off or for which provision has been made for the	-
6	Other items contributing to deficiency	-
	Total (A)	-
B) Items Reducing Deficiency		-
7	Excess of assets over capital and liabilities on as shown in the Balance sheet 1-4-2025	-

8	Net trading profits (after charging depreciation, taxation, interest on debentures, etc)	-
9	Profits and income other than trading profit during the same period	-
10	Other items reducing deficiency -profit expected on realisation of Freehold Land and Building	-
	Total (B)	-
	Deficiency as shown by the Statement of Affairs (A-B)	-

4.2.10 Accounting Illustrations :

(I) Illustrations:

Illustration-1: A winding-up order was passed against Hope Ltd. on 31 March 2026. The following particulars were extracted from the books of the company:

Particulars	₹
Equity Share Capital (10,000 shares of ₹ 10 each fully paid)	1,00,000
10% Preference Share Capital (5,000 shares of ₹10 each fully paid)	50,000
Debentures secured by floating charge on all assets	60,000
Secured Creditors having mortgage on Land and Building	80,000
Trade Creditors	70,000
Bills Payable	20,000
Salaries outstanding for 4 months	12,000
Income Tax payable	8,000
Cash in Hand	2,000
Debtors	50,000
Bills Receivable	15,000
Stock	60,000
Plant and Machinery	80,000
Land and Building	1,20,000

Estimated Realizable Values

Asset	Estimated Value (₹)
Debtors	40,000
Bills Receivable	15,000
Stock	50,000
Plant and Machinery	60,000
Land and Building	1,00,000
Cash in Hand	2,000

From the above information prepare list A to List H

Solution:

List-A: Assets Not Specifically Pledged

Asset	Estimated Realizable Value (₹)
Cash in Hand	2,000
Debtors	40,000
Bills Receivable	15,000
Stock	50,000
Plant and Machinery	60,000
Total	1,67,000

List-B: Assets Specifically Pledged

Asset	Estimated Value (₹)	Amount Due (₹)	Deficiency Ranking as Unsecured (₹)	Surplus (₹)
Land and Building	1,00,000	80,000	Nil	20,000

List- C: Preferential Creditors

Particulars	(₹)
Salaries outstanding	12,000
Income Tax payable	8,000
Total	20,000

List-D:

Creditors Secured by Floating Charge = Debentures secured by floating charge=60.000

List- E: Unsecured Creditors

Particulars	(₹)
Trade Creditors	70,000
Bills Payable	20,000
Total	90,000

List- F:

Preference Shareholders 5,000 Preference Shares of ₹10 each fully paid=50000

List- G:

Equity Shareholders: 10,000 Equity Shares of ₹10 each fully paid:1,00,000

List-H:

Deficiency Account

a) Items Contributing to Deficiency

Particulars	(₹)
Excess of Capital and Liabilities over Assets on 1-4-2025	80,000
Trading Losses during the year	30,000
Loss on Land and Building	20,000

Loss on Debtors	10,000
Loss on Stock	10,000
Loss on Plant and Machinery	20,000
Total (A)	1,70,000

b) Items Reducing Deficiency= Profit on sale of investments = 10,000

Deficiency as shown by Statement of Affairs = 1,70,000 - 10,000 = 1,60,000

Therefore, Deficiency as regards Members = ₹ 1,60,000

Illustration-2:

A winding-up order was passed against Practice Ltd. on 31 March 2026. The following particulars were extracted from the books of the company:

Particulars	(₹)
Equity Share Capital – 20,000 shares of ₹ 10 each, fully paid	2,00,000
12% Preference Share Capital–10,000 shares of ₹ 10 each, fully paid	1,00,000
Calls in arrears on Equity Shares (expected to realize ₹ 4,000)	6,000
10% Debentures secured by floating charge on all assets	1,50,000
Creditors secured by first mortgage on Land and Building	1,20,000
Creditors secured by second charge on Land and Building	50,000
Trade Creditors	90,000
Bills Payable	25,000
Bills Discounted (₹ 10,000 expected to be dishonoured)	20,000
Bank Overdraft secured by floating charge	40,000
Income Tax payable	15,000
Property Tax due	5,000
Salaries due for 5 months	20,000
Wages due for 4 months	16,000
Workmen Compensation payable	8,000
Unclaimed Dividend	6,000
Cash in Hand	3,000

Bills Receivable	18,000
Good Debtors	70,000
Doubtful Debtors (expected to realize ₹8,000)	20,000
Bad Debtors	10,000
Stock in Trade (estimated to realize ₹75,000)	90,000
Plant and Machinery (estimated to realize ₹85,000)	1,10,000
Furniture and Fixtures (estimated to realize ₹15,000)	25,000
Patents (estimated to realize ₹30,000)	50,000
Land and Building (estimated to realize ₹1,80,000)	2,20,000

Additional Information:

1. Preference dividend has not been paid for two years.
2. Trading losses after depreciation and interest amounted to ₹2,50,000.
3. Speculation loss amounted to ₹ 40,000.
4. Penalty imposed by tax authorities amounted to ₹25,000.
5. Excess of capital and liabilities over assets on 1 April 2025 was ₹1,80,000.

From the above information prepare List A to List H

Solution:

List- A: Assets Not Specifically Pledged

Particulars	Estimated Realizable Value (₹)
Cash in Hand	3,000
Bills Receivable	18,000
Good Debtors	70,000
Doubtful Debtors	8,000
Calls in Arrears	4,000
Stock in Trade	75,000
Plant and Machinery	85,000

Furniture and Fixtures	15,000
Patents	3,08,000
Total	3,08,000

List-B: Assets Specifically Pledged

Asset	Estimated Value (₹)	Amount Due (₹)	Deficiency Ranking as Unsecured (₹)	Surplus (₹)
Land and Building	1,80,000	1,70,000	Nil	10,000

Working Note : First Mortgage Creditors = ₹1,20,000, Second Charge Creditors = ₹50,000 Total secured on Land and Building = ₹1,70,000, Realization value = ₹1,80,000, Surplus transferred to List A = ₹10,000

List-C : Preferential Creditors

Particulars	(₹)
Four Months Wages	16000
Four Months Salaries (out of 5 months due)	16000
Income Tax Payable	15000
Property Tax Due	5000
Workmen Compensation	8000
Total Preferential Creditors	60,000

List-D: Creditors Secured by Floating Charge

Particulars	(₹)
10% Debentures	1,50,000
Bank Overdraft secured by floating charge	40,000
Total	1, 90,000

List-E: Unsecured Creditor

Particulars	(₹)
Trade Creditors	90,000
Bills Payable	25,000
One Month Salary not preferential	4,000
Liability on Bills Discounted likely to rank	10,000
Unclaimed Dividend	6,000
Total Unsecured Creditors	1,35,000

List-F: Preference Shareholders

Particulars	(₹)
10,000 Preference Shares of ₹ 10 each fully paid	1,00,000
Arrears of Preference Dividend (2 years × 12%)	24,000
Total	1,24,000

List-G: Equity Shareholders

Particulars	(₹)
Equity Share Capital	2,00,000
Less: Calls in Arrears	(6,000)
Paid-up Equity Capital	1,94,000

List-H: Deficiency Account**(a) Items Contributing to Deficiency**

Particulars	(₹)
Excess of Capital and Liabilities over Assets on 1-4-2025	1,80,000
Trading Losses	2,50,000

Speculation Loss	40,000
Penalty imposed by Tax Authorities	25,000
Loss on Land and Building	40,000
Loss on Stock	15,000
Loss on Plant and Machinery	25,000
Loss on Furniture	10,000
Loss on Patents	20,000
Loss on Doubtful Debtors	12,000
Loss on Bad Debtors	10,000
Bills Discounted expected to rank	10,000
Total (a)	6,37,000

(b) Items Reducing Deficiency

Particulars	(₹)
Nil	Nil
Total (b)	Nil

Deficiency as per Statement of Affairs Deficiency = ₹ 6,37,000Top of Form

Illustration-3:

On 1st April 2026 a compulsory order for winding up was made against Amit Company Ltd, the following particulars being disclosed.

Particulars	Book Value (₹)	Estimated to produce (₹)
Cash in hand	1,000	1,000
Debtors	40,000	36,000
Land and Building	6,00,000	4,80,000
Furniture and Fixtures	2,00,000	2,00,000
Unsecured Creditors	2,00,000	-

Debentures:	-	-
Secured on Land and Building	4,20,000	-
Secured on Floating Charge	1,00,000	-
Preferential Creditors	60,000	-
Share capital (3200, shares of ₹ 100 each)	32,00,000	-

Additional Information :

- Estimated liability for bills discounted bills discounted was ₹ 60,000 estimated to rank at ₹ 60,000.
- Other contingent liabilities were ₹ 1,20,000 estimated to rank at ₹ 1,20,000.
- The company was formed on the 1st April 2023 and has made losses of ₹ 31,39,000

Prepare a Statement of Affairs and Deficiency Account.

Solution:

Statement of Affairs of Amil Company Ltd.as on 1-4-2026

Assets					Estimated Realizable Value (₹)
Assets Not Specifically Pledged (List-A)					-
Cash in hand					1,000
Debtors					36,000
Furniture and Fixture					2,00,000
					2,37,000
Assets Specifically Pledged (List-B)					-
Particulars	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency Ranking as Unsecured ₹	Surplus ₹	-
Land and Building	4,80,000	4,20,000	-	60,000	-

Estimated surplus from specifically pledged assets		60,000
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, carried forward		2,97,000
Summary of Gross Assets		-
Gross Realizable value of assets specially pledged Other Assets Total	₹	-
	4,80,000	-
	2,37,000	-
	7,17,000	-
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, brought forward		2,97,000
Gross Liabilities	Liabilities	
4,20,000	Secured creditors (as per List-B) to the extent to which claims are estimated to be covered by assets specifically pledged (gross liabilities only)	-
60,000	Preferential Creditors (as per List-C)	60,000
	Estimated Balance of Assets available for Debenture holders and creditors secured by a floating charge, and unsecured creditors	-
1,00,000	Debenture holders secured by a first floating charge (as per List -D)	1,00,000
	Estimated surplus as regards Debenture holders and other creditors secured by a floating charge	1,37,000

	Estimated unsecured balance of claims of creditors partly secured on a specific asset	
3,80,000	Unsecured Creditors (List-E) (2,00,000+60,000+1,20,000) Estimated Deficiency as regards creditors being the difference between Gross Assets and Gross Liabilities	3,80,00
	Estimated Deficiency as regards Member (as per list H)	34,43,000

List H -Deficiency Account

Sr. No.	Particulars	₹
A) Items Contributing to Deficiency		
1	Excess of Capital and Liabilities over Assets on 1-4-2023 as shown by Balance sheet	31,39,000
2	Net dividend and bonuses declared during the period	Nil
3	Net trading losses after charging depreciation, interest on debentures, etc.	-
4	Losses other than trading losses written off or for which provision has been made in the books during the same period: Estimated Losses now written off or for which provision has been made for the	-
5	Land and Building 1,20,000	-
	Debtors 4,000	-
	Contingent Liabilities (60,000+1,20,000) 1,80,000	3,04,000
6	Other items contributing to deficiency	-
	Total (A)	34,43,000

B) Items Reducing Deficiency		
7	Excess of assets over capital and liabilities on as shown in the Balance sheet 1-4-2025	Nil
8	Net trading profits (after charging depreciation, taxation, interest on debentures, etc.)	Nil
9	Profits and income other than trading profit during the same period	Nil
10	Other items reducing deficiency -profit expected on realization of Freehold Land and Building	Nil
Total (B)		
	Deficiency as shown by the Statement of Affairs (A-B)	34,43,000

List of Unsecured Creditors List -E

Particulars	(₹)
Unsecured Creditors	2,00,000
Bills Discounted	60,000
Contingent Liabilities	1,20,000
Total	3,80,000

Illustration-4:

On 1st April 2026, a compulsory winding-up order was passed against Sunset Company Ltd. The following particulars were disclosed.

Particulars	Book Value (₹)	Estimated to Produce (₹)
Cash in Hand	1,500	1,500

Debtors	60,000	54,000
Land and Building	9,00,000	7,20,000
Furniture and Fixtures	3,00,000	3,00,000
Unsecured Creditors	3,00,000	-
Debentures secured on Land and Building	6,30,000	-
Debentures secured by Floating Charge	1,50,000	-
Preferential Creditors	90,000	-
Share Capital (48,000 Equity Shares of ₹ 100 each fully paid)	48,00,000	-

Additional Information :

1. Estimated liability on bills discounted was ₹9,000 expected to rank in full.
2. Other contingent liabilities amounted to ₹18,000 expected to rank in full.
3. Excess of Capital and Liabilities over Assets on 1-4-2023 as shown by Balance sheet was ₹ 42,37,650
4. The company incurred trading losses amounting to ₹4,70,850 since incorporation.

Solution:

Statement of Affairs Sunset Company Ltd. as on 1-4-2026

Assets	Estimated Realizable Value (₹)
Assets Not Specifically Pledged (List-A)	-
Cash in hand	1,500
Debtors	54,000
Furniture and Fixture	3,00,000
	3,55,500
Assets Specifically Pledged (List-B)	-

Particulars	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency Ranking as Unsecured ₹	Surplus ₹	- - -
Land and Building	7,20,000	6,30,000	-	90,000	
Estimated surplus from specifically pledged assets					90,000
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, carried forward					4,45,500
Summary of Gross Assets				₹	-
Gross Realizable value of assets specially pledged Other Assets				7,20,000	-
				3,55,000	-
				10,75,500	-
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, brought forward					4,45,000 - -
Gross Liabilities	Liabilities				- -
6,30,000 - -	Secured creditors (as per List-B) to the extent to which claims are estimated to be covered by assets specifically pledged (gross liabilities only)				- - -
90,000	Preferential Creditors (as per List-C)				90,000
-	Estimated Balance of Assets available for Debenture				3,55,500

-	holders and creditors secured by a floating charge, and	
-	unsecured creditors	
1,50,000	Debenture holders secured by a first floating charge	1,50,000
-	(As per List -D)	
-	Estimated surplus as regards Debenture holders and other	2,05,000
-	creditors secured by a floating charge	
3,27,000	Unsecured Creditors (List-E) (3,00,000+9,000+	3,27,000
-	80,000)	
-	Estimated unsecured balance of claims of creditors partly	-
-	secured on a specific asset	-
-	Estimated Deficiency as regards creditors being	1,21,500
-	the difference between Gross Assets and Gross	-
-	Liabilities	-
-	Issued and called up capital :	-
11,97,000	48000 Equity shares of ₹100 each fully paid (As per	48,00,000
	List - G)	
-	Estimated Deficiency as regards Member	49,21,500

List H -Deficiency Account

Sr. No.	Particulars	₹
A) Items Contributing to Deficiency		
1	Excess of Capital and Liabilities over Assets on 1-4-2023 as shown by Balance sheet	42,37,650
2	Net dividend and bonuses declared during the period	Nil
3	Net trading losses after charging depreciation, interest on debentures, etc.	4,70,850

4	Losses other than trading losses written off or for which provision has been made in the books during the same period:	-
	Estimated Losses now written off or for which provision has been made for the	-
5	Land and Building (90,00,000+7,20,000) 1,80,000	-
	Debtors 6,000	-
	Contingent Liabilities (9,000+18,000) 27,000	2,13,000
6	Other items contributing to deficiency	-
	Total (A)	49,21,500
B) Items Reducing Deficiency		
7	Excess of assets over capital and liabilities on as shown in the Balance sheet 1-4-2025	Nil
8	Net trading profits (after charging depreciation, taxation, interest on debentures, etc.)	Nil
9	Profits and income other than trading profit during the same period	Nil
10	Other items reducing deficiency -profit expected on realization of Freehold Land and Building	Nil
	Total (B)	
	Deficiency as shown by the Statement of Affairs (A-B)	49,21,000

List-A: Assets Not Specifically Pledged

Particulars	Estimated Realizable Value (₹)
Cash in Hand	1,500
Debtors	54,000
Furniture and Fixtures	3,00,000
Total	3,55,500

List-B: Assets Specifically Pledged

Particulars	Estimated Realizable Value (₹)	Amount Due to Secured Creditors (₹)	Deficiency Ranking as Unsecured (₹)	Surplus (₹)
Land and Building	7,20,000	6,30,000	Nil	90,000

Estimated surplus transferred to List A = ₹90,000

Total assets available for preferential creditors, floating charge holders and unsecured creditors = ₹ 4,45,500

List-C: Preferential Creditors = 90,000

List-D: Creditors Secured by Floating Charge = Debentures secured by Floating Charge = 1,50,000

List-E: Unsecured Creditors

Particulars	(₹)
Unsecured Creditors	3,00,000
Bills Discounted Liability	9,000
Contingent Liabilities	18,000
Total Unsecured Creditors	3,27,000

Statement of Affairs

Summary of Gross Assets

Particulars	(₹)
Gross value of specifically pledged assets	7,20,000
Other Assets	3,55,500
Gross Assets	10,75,500

Distribution of Assets

Particulars	(₹)
Assets available for distribution	-
Less: Preferential Creditors	4,45,500
Balance available for Floating Charge Holders	(90,000)
Less: Debentures secured by Floating Charge	3,55,500
	(1,50,000)
Surplus available for Unsecured Creditors	2,05,500

Estimated Deficiency as Regards Creditors

Particulars	(₹)
Total Unsecured Creditors	3,27,000
Less: Amount Available	(2,05,500)
Deficiency as Regards Creditors	1,21,500

Issued and Called-up Share Capital - 48,000 Equity Shares of ₹100 each fully paid = ₹ 48,00,000

Estimated Deficiency as Regards Members

Particulars	(₹)
Deficiency as Regards Creditors	1,21,500
Equity Share Capital	48,00,000
Estimated Deficiency as Regards Members	49,21,500

List-H : Deficiency Account**A) Items Contributing to Deficiency**

Particulars	(₹)
Excess of Capital and Liabilities over Assets on 1 April 2023	42,37,650
Net Trading Losses	4,70,850
Loss on Land and Building	1,80,000
Loss on Debtors	6,000
Bills Discounted Liability	9,000
Contingent Liabilities	18,000
Total A	49,21,500

List-E: Unsecured Creditors

Particulars	(₹)
Unsecured Creditors	3,00,000
Bills Discounted Liability	9,000
Contingent Liabilities	18,000
Total	3,27,000

Illustration -5 :

On 31 March 2026, a winding-up order was passed against Dark Ltd. The following information was available:

Particulars	Book Value (₹)	Estimated to produce (₹)
Cash in hand	5,000	5,000
Debtors	80,000	70,000
Stock	1,20,000	1,00,000
Plant and Machinery	2,00,000	1,50,000
Land and Building	5,00,000	4,20,000
Unsecured Creditors	1,50,000	-
Debentures secured by Land and Building	3,50,000	-
Debentures secured by Floating Charge	1,00,000	-
Preferential Creditors	40,000	-
Equity Share Capital	10,00,000	-

Additional Information :

- Bills discounted expected to rank = ¹ 20,000.
- Trading losses suffered since incorporation = ¹ 1,80,000.
- Excess of Capital and Liabilities over Assets on 1-4-2026 was 5,55,000

Prepare Statement of Affairs and Deficiency Account

Statement of Affairs Sunset Company Ltd.as on 1-4-2026

Assets	Estimated Realizable Value (₹)
Assets Not Specifically Pledged (List-A)	-
Cash in hand	5,000
Debtors	70,000
Stock	1,00,000
Plant and Machinery	1,50,000
	3,25,000

Assets Specifically Pledged (List-B)					-
Particulars	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency Ranking as Unsecured ₹	Surplus ₹	-
Land and Building	4,20,000	3,50,000	-	70,000	-
Estimated surplus from specifically pledged assets					70,000
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, carried forward					3,95,000
Summary of Gross Assets					₹
Gross Realizable value of assets specially pledged					4,20,000
Other Assets					3,25,000
					7,75,000
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, brought forward					3,95,000
Gross Liabilities	Liabilities				
3,50,000	Secured creditors (as per List-B) to the extent to which claims are estimated to be covered by assets specifically pledged (gross liabilities only)				-
-					-
-					-
40,000	Preferential Creditors (As per List-C)				40,000

-	Estimated Balance of Assets available for Debenture holders and creditors secured by a floating charge, and unsecured creditors	3,55,000
-		-
-		-
1,00,000	Debenture holders secured by a first floating charge (as per List -D)	<u>1,00,000</u>
-		2,55,000
-	Estimated surplus as regards Debenture holders and other creditors secured by a floating charge	-
1,70,000		<u>1,70,000</u>
-	Unsecured Creditors (List-E)	-
-	Estimated unsecured balance of claims of creditors partly secured on a specif asset	-
-		-
-		-
10,00,000	Estimated Deficiency as regards creditors being the difference between Gross Assets and Gross Liabilities Issued and called up capital :	85,000
	10000 Equity shares of ₹100 each fully paid (As per List - G)	-
		-
		10,00,000
	Estimated Deficiency as regards Member (as per list H)	9,15,000

List H -Deficiency Account :

Sr. No.	Particulars	₹
A) Items Contributing to Deficiency		
1	Excess of Capital and Liabilities over Assets on 1-4-2023 as shown by Balance sheet	5,55,000
2	Net dividend and bonuses declared during the period	Nil
3	Net trading losses after charging depreciation, interest on debentures, etc.	1,80,000

4	Losses other than trading losses written off or for which provision has been made in the books during the same period:	-
	Estimated Losses now written off or for which provision has been made for the	
5	Land and Building	80,000
	Debtors	10,000
	Stock	20,000
	Plant and Machinery	50,000
	Contingent Liabilities (bill discounted)	20,000
6	Other items contributing to deficiency	-
	Total (A)	9,15,000
B) Items Reducing Deficiency		
7	Excess of assets over capital and liabilities on as shown in the Balance sheet 1-4-2025	Nil
8	Net trading profits (after charging depreciation, taxation, interest on debentures, etc.)	Nil
9	Profits and income other than trading profit during the same period	Nil
10	Other items reducing deficiency -profit expected on realization of Freehold Land and Building	Nil
	Total (B)	
	Deficiency as shown by the Statement of Affairs (A-B)	9,15,000

List-A: Assets Not Specifically Pledged

Particulars	(₹)
Cash in hand	5,000
Debtors	70,000
Stock	1,00,000
Plant and Machinery	1,50,000
Total	3,25,000

List-B: Assets Specifically Pledged

Asset	Estimated Value (₹)	Amount Due (₹)	Deficiency (₹)	Surplus (₹)
Land and Building	4,20,000	3,50,000	Nil	70,000

Surplus transferred to List A = ₹70,000

Total assets available for further distribution: = ₹3,25,000 + ₹70,000 = ₹3,95,000

List-C: Preferential Creditors = 40,000

List-D: Creditors Secured by Floating Charge =1,00,000

List-E: Unsecured Creditors

Particulars	(₹)
Trade Creditors	1,50,000
Bills Discounted Liability	20,000
Total	1,70,000

List-F: Preference Shareholders: Nil

List-G: Equity Shareholders: 10,00,000

Statement of Affairs

Particulars	(₹)
Assets available after List B surplus	3,95,000
Less: Preferential Creditors	(40,000)
Balance available for Floating Charge Holders	3,55,000
Less: Floating Charge Debentures	(1,00,000)
Amount available for Unsecured Creditors	2,55,000

Unsecured creditors are ₹ 1,70,000.

Therefore, Surplus after paying unsecured creditors = ₹ 85,000. This surplus belongs to shareholders

Deficiency as Regards Members

Particulars	(₹)
Equity Share Capital	10,00,000
Less: Surplus available to members	(85,000)
Deficiency as regards Members	₹ 9,15,000

List-H: Deficiency Account

A) Items Contributing to Deficiency

Particulars	(₹)
Excess of Capital and Liabilities over Assets	5,55,000
Trading Losses	1,80,000
Loss on Land and Building	80,000
Loss on Debtors	10,000
Loss on Stock	20,000
Loss on Plant and Machinery	50,000
Bills Discounted Liability	20,000
Total (A)	9,15,000

B) Items Reducing Deficiency = Nil**Illustration-6 :**

On 31st March 2026, a winding-up order was passed against Simple Ltd. The following particulars were available.

Particulars	Book Value (₹)	Estimated to produce (₹)
Cash in Hand	5,000	5,000
Debtors	50,000	45,000
Stock	80,000	70,000
Plant and Machinery	1,20,000	90,000
Land and Building	2,50,000	2,00,000
10% Preference Share Capital (2,000 shares of ₹ 100 each fully paid)	2,00,000	-
	-	-
Equity Share Capital (5,000 shares of ₹ 100 each fully paid)	5,00,000	-
	-	-
Debentures secured by Land and Building	1,80,000	-
Debentures secured by Floating Charge	60,000	-
Preferential Creditors	20,000	-
Trade Creditors	90,000	-

Additional Information :

1. Bills discounted likely to rank against the company = ₹10,000.
2. On 1st April 2026, the company had an excess of capital and liabilities over assets of ₹4,45,000.
3. During the period of operation, the company suffered trading losses of ₹1,00,000.

Statement of Affairs Simple Company Ltd.as on 1-4-2026

Assets					Estimated Realizable Value (₹)
Assets Not Specifically Pledged (List-A)					-
Cash in hand					1,000
Debtors					36,000
Stock					2,00,000
Plant and Machinery					90,000
					2,10,000
Assets Specifically Pledged (List-B)					-
Particulars	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency Ranking as Unsecured ₹	Surplus ₹	-
					-
					-
					-
Land and Building	2,00,000	1,80,000	-	20,000	
Estimated surplus from specifically pledged assets					20,000
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, carried forward					2,30,000 -
Summary of Gross Assets				₹	-
Gross Realizable value of assets specially pledged				2,00,000	-
Other Assets				2,10,000	-
				4,10,000	-
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, brought forward					2,30,000

Gross Liabilities	Liabilities	-
		-
1,80,000	Secured creditors (as per List-B) to the extent to which claims are estimated to be covered by assets	-
-	specifically pledged (gross liabilities only)	-
20,000	Preferential Creditors (as per List-C)	20,000
-	Estimated Balance of Assets available for Debenture holders and creditors secured by a floating charge, and unsecured creditors	2,10,000
-		-
-		-
60,000	Debenture holders secured by a first floating charge (as per List -D)	<u>60,000</u>
-	Estimated surplus as regards Debenture holders and other creditors secured by a floating charge	1,50,000
-		
1,00,000	Estimated unsecured balance of claims of creditors partly secured on a specifit asset	<u>1,00,000</u>
-		-
3,60,000	Estimated Deficiency as regards creditors being the difference between Gross Assets and Gross Liabilities	50,000
-	Issued and called up capital :	-
-	10%, 2000 Preference shares of ₹100 each fully paid	2,00,000
-	(As per List - G)	-
-	5000 Equity shares of ₹100 each fully paid	5,00,00
-	(As per List-G)	-
-	Estimated Deficiency as regards Member (as per list H)	6,50,000

List H -Deficiency Account

Sr. No.	Particulars	₹
A) Items Contributing to Deficiency		
1	Excess of Capital and Liabilities over Assets on 1-4-2023 as shown by Balance sheet	4,45,000
2	Net dividend and bonuses declared during the period	Nil
3	Net trading losses after charging depreciation, interest on debentures, etc.	1,00,000
4	Losses other than trading losses written off or for which provision has been made in the books during the same period:	-
	Estimated Losses now written off or for which provision has been made for the	
5	Land and Building 50,000	-
	Debtors 5,000	-
	Stock 10,000	1,05,000
	Plant and Machinery 30,000	-
	Contingent Liabilities (Bill discounted) 10,000	
6	Other items contributing to deficiency	-
	Total (A)	
B) Items Reducing Deficiency		
7	Excess of assets over capital and liabilities on as shown in the Balance sheet 1-4-2025	Nil

8	Net trading profits (after charging depreciation, taxation, interest on debentures, etc.)	Nil
9	Profits and income other than trading profit during the same period	Nil
10	Other items reducing deficiency -profit expected on realization of Freehold Land and Building	Nil
	Total (B)	
	Deficiency as shown by the Statement of Affairs (A-B)	6,50,000

List-A: Assets Not Specifically Pledged

Particulars	Estimated Realizable Value (₹)
Cash in Hand	5,000
Debtors	45,000
Stock	70,000
Plant and Machinery	90,000
Total	2,10,000

List-B : Assets Specifically Pledged

Asset	Estimated Value (₹)	Amount Due (₹)	Deficiency (₹)	Surplus (₹)
Land and Building	2,00,000	1,80,000	Nil	20,000

Surplus transferred to List A = ₹ 20,000. Total assets available for further distribution:

$$= ₹ 2,10,000 + ₹ 20,000 = ₹ 2,30,000$$

List-C: Preferential Creditors: ₹20,000

List-D: Creditors Secured by Floating Charge: ₹ 60,000

List-E: Unsecured Creditors

Particulars	(₹)
Trade Creditors	90,000
Bills Discounted Liability	10,000
Total	1,00,000

List-F:

Preference Shareholders 2,000 Preference Shares of ₹100 each fully paid = ₹ 2,00,000

List-G:

Equity Shareholders 5,000 Equity Shares of ₹100 each fully paid = ₹ 5,00,000

Statement of Affairs of Simple Ltd.

**Assets available for Preferential Creditors, Floating Charge Holders and
Unsecured Creditors**

Particulars	(₹)
Assets as per List-A	2,10,000
Add: Surplus from List-B	20,000
Total Assets Available	2,30,000

Less: Preferential Creditors = ₹20,000

Balance available for Floating Charge Holders = ₹ 2,10,000

Less: Debentures secured by Floating Charge = ₹ 60,000

Balance available for Unsecured Creditors = ₹ 1,50,000

Unsecured Creditors amount to only ₹1,00,000.

Therefore, there is a surplus of:

$$₹1,50,000 + ₹1,00,000 = ₹50,000$$

This surplus is available for shareholders

Deficiency as Regards Members

Particulars	(₹)
Preference Share Capital	2,00,000
Equity Share Capital	5,00,000
Total Share Capital	7,00,000
Less: Surplus available for shareholders	(50,000)
Estimated Deficiency as Regards Members	₹ 6,50,000

List H – Deficiency Account of Simple Ltd.

A) Items Contributing to Deficiency

Particulars	(₹)
Excess of Capital and Liabilities over Assets on 1-4-2026	4,45,000
Net Dividend and Bonus declared during the period	Nil
Net Trading Losses during the period	1,00,000
Losses other than Trading Losses	Nil
Estimated Losses now written off or provided for:	-
Loss on Land and Building	50,000
Loss on Debtors	5,000
Loss on Stock	10,000
Loss on Plant and Machinery	30,000
Bills Discounted expected to rank	10,000
Other items contributing to deficiency	Nil
Total (A)	6,50,000

B) Items Reducing Deficiency

Particulars	(₹)
Excess of Assets over Capital and Liabilities on 1-4-2026	Nil
Net Trading Profits	Nil
Other Income and Profits	Nil
Profit on Realization of Assets	Nil
Total (B)	Nil

Deficiency as shown by Statement of Affairs

$$\text{Deficiency} = A - B$$

$$= ₹6,50,000 - ₹0$$

$$= ₹6,50,000$$

Illustration - 7:

The following information was extracted from the books of Kiran Limited Company on 31st March 2026 on which date of winding up order was made.

Particulars	(₹)
Equity share capital -20000 equity shares of ₹ 10 each	2,00,000
14% Preference share capital -30000 equity shares of ₹ each	3,00,000
Calls in arrears on Equity share (estimated to realize ₹2000)	4,000
14% First Mortgage Debentures secured by a floating charge on the whole of the assets of the company (interest paid to date)	--
Creditors having a mortgage on the Freehold Land and Building	85,000
Creditors having a second charge on Freehold Land and Building	90,000
Trade Creditors	2,70,000
Bills Discounted (of these bills for ₹15,000 are expected to be dishonoured)	40,000
	--

Unclaimed Dividends	6,000
Bills Payable	10,000
Income-tax due	25,000
Salaries and Wages (for five months)	40,000
Bank Overdraft secured by a second charge on the whole of the assets of the company	20,000
Cash in hand	--
Debtors (of these ₹ 60,000 are good; ₹ 15,000 are doubtful, estimated to realize ₹ 5,000 and the rest bad)	1,200
Bills of Exchange (considered good)	90,000
Freehold Land and Buildings (estimated to realize ₹1,65,000)	-
Plant and Machinery (estimated to produce ₹ 90,000)	35,000
Fixtures and Fittings (estimated to produce ₹ 8,000)	1,50,000
Stock in trade (estimated to produce 25% less)	1,20,000
Patents (estimated to produce ₹ 45,000)	12,000
	80,000
	70,000

On 31st March, 2020, the company's share capital stood at the same figures as on 31st March, 2026 but in addition, there was a General Reserve of ₹ 65,000. In 2020-21, the company earned a profit of ₹ 1,43,000, but thereafter it suffered trading losses totaling ¹ 4,67,000. In 2022-23, a speculation loss of ₹91,000 was incurred. Preference dividend was paid for 2020-21 and 2021-22 only and on equity shares a dividend of 15% was paid for 2020-21 only. Excise authorities imposed a penalty of ₹ 1,60,000 for evasion of excise and income tax authorities imposed a penalty of ₹60,400 for evasion of tax.

You are required to prepare the Statement of Affairs and the Deficiency Account.

Solution :

List - A : Assets Not Specifically Pledged -

List A contains all those assets of the company which are not subject to any fixed charge, mortgage or specific security in favour of any creditor. Because none of these assets are specifically charged to any secured creditor.

Therefore, under winding up provisions, these assets become part of the general asset available for payment of remaining creditors

Particulars	Estimated Realizable Value (₹)
Cash in Hand	1,200
Bills of Exchange	35,000
Trade Debtors	62,000
Calls in Arrears Recoverable	2,000
Stock in Trade	60,000
Plant and Machinery	90,000
Fixtures and Fittings	8,000
Patents	45,000
Total	3,06,200

List-B: Assets Specifically Pledged

List B contains those assets which are charged or mortgaged in favour of a secured creditor

Asset included in List-B

Freehold Land and Building: Estimated Value ₹1,65,000

Secured Creditors against this asset

1. Mortgage creditor :

Amount due = ₹85,000, Security value = ₹1,65,000. Since security exceeds debt, creditor is fully secured. Surplus left: ₹1,65,000 - ₹85,000 = ₹ 80,000

2. Second charge holder :

A second charge holder receives payment only after the first charge holder has been fully paid.

Debt due = ₹ 90,000, Available security after first charge = ₹80,000

Hence, Secured portion = ₹ 80,000, Unsecured portion = ₹ 10,000

Therefore, this creditor becomes partly secured creditor

List - C: Preferential Creditors :

Preferential creditors are those creditors who receive payment before floating charge holders and unsecured creditors. Section 326 of the Companies Act, 2013 provides for overriding preferential payments. Section 326 gives preference only for wages and salary relating to a limited statutory period (i.e. 4 months) immediately preceding winding up.

Preferential Payments Include

1. Government dues: Income tax due = ₹ 25,000. Hence it is preferential.
2. Wages and salaries: Total wages outstanding = ₹ 40,000. Only four months qualify as preferential. Therefore: $\frac{4}{5} \times ₹ 40,000 = ₹ 32,000$.

List of Preferential Creditors (List-C)

Particulars	(₹)
Income Tax Due	25,000
Four months Salaries and Wages	32,000
Total	57,000

List-D : Debenture Holders and Creditors Secured by Floating Charge :

This list contains creditors having a floating charge on the whole or substantially the whole of company assets. A floating charge is a charge on changing assets such as stock, debtors, cash, inventory. Section 77 of the Companies Act, 2013 deals with registration of charges.

Creditors Included :

1. First Floating Charge Debentures:

14% Mortgage Debentures = ₹ 2,00,000. These are paid after preferential creditors.

2. Bank Overdraft :

Bank overdraft = ₹ 20,000. It is secured by second floating charge.

Therefore, it is paid after debenture holders

Distribution :

Available assets from List-A =	₹ 3,06,200
Less preferential creditors =	₹ 57,000
Balance =	₹ 2,49,200
Less debenture holders =	₹2,00,000
Balance =	₹ 49, 200
Less bank overdraft =	₹ 20,000
Balance surplus =	₹ 29,200

List- E : Unsecured Creditors

Unsecured creditors are creditors who do not possess any security over company assets. They rank after secured creditors and preferential creditors.

Creditors Included

Particulars	(₹)
Trade Creditors	2,70,000
Bills Discounted likely to be dishonoured	15,000
Unclaimed Dividend	6,000
One month Salary not preferential	8,000
Deficiency of partly secured creditor	10,000
Bills Payable	10,000
Total	3,19,000

(**Note:** Trade Creditors: Ordinary suppliers of goods and services., Bills Discounted: Only expected dishonoured bills become contingent liabilities. Hence ₹15,000 is included., Unclaimed Dividend: After declaration dividend becomes debt payable by company and therefore ranks as unsecured creditor., One Month Salary: Since only four months wages are preferential, the remaining one-month salary becomes unsecured., Deficiency of Partly Secured Creditor: The second charge creditor could recover only ₹80,000 against ₹90,000 due. The unpaid ₹ 10,000 becomes unsecured.)

List- F: Preference Share Capital :

Preference shareholders are members and not creditors. They are repaid only after all creditors have been fully paid. Sections 43 and 55 of the Companies Act, 2013 govern preference shares.

Amount Included: 30,000 preference shares of ₹10 each fully paid: ₹ 3,00,000

Position in Liquidation : Preference shareholders' rank:

1. After all creditors
2. Before equity shareholders

List- G : Equity Share Capital :

Equity shareholders are residual owners of the company. They receive payment only if any surplus remains after all other claims. Section 43(a) of the Companies Act, 2013 defines equity share capital.

Amount Included:

20,000 equity shares $\times$ ₹10 = ₹2,00,000

Less calls in arrears = ₹2,000

Paid-up capital = ₹1,98,000

Position in Liquidation :

Equity shareholders stand last in order of repayment. They bear the ultimate loss of liquidation.

List- H : Deficiency Account :

The Deficiency Account explains how the company's deficiency arose between the last solvent balance sheet date and the date of liquidation. It is similar to a reconciliation statement. It explains losses suffered, dividends paid, penalties incurred, asset losses, profits earned, reserves available.

Relevant Provision : The Deficiency Account forms part of the Statement of Affairs submitted under Section 274 of the Companies Act, 2013.

Items Contributing to Deficiency :

1. Dividends Paid :

Preference dividend : (2004-05) = ₹ 42,000, (2005-06) = ₹42,000

Equity dividend: 15% on ₹2,00,000 = ₹30,000

Less calls in arrears adjustment.

Total dividends = ₹ 1,13,400

2. Trading Losses:

Trading losses from 2021 onwards: ₹ 4,67,000

3. Speculation Loss: ₹ 91,000. This is non-trading loss.

4. Excise Penalty: ₹ 1,60,000

5. Income Tax Penalty: ₹ 60,400

6. Estimated Loss on Assets

Asset	Loss (₹)
Plant and Machinery	30,000
Fixtures and Fittings	4,000
Stock	20,000
Patents	25,000
Debtors	25,000
Bills Discounted	15,000
Total	1,19,000

Items Reducing Deficiency :

1. Opening General Reserve: ₹ 65,000

2. Trading Profit during 2020-21: ₹1,43,000

3. Profit on Realization of Freehold Property: Book value = ₹ 1,50,000, Realization = ₹1,65,000, Profit = ₹15,000

Final Deficiency: Total items contributing to deficiency: ₹ 10,10,800, Less items reducing deficiency: ₹ 2,23,000, Therefore deficiency as regards members = ₹ 7,87,800

In the books of Kiran Ltd.

Statement of Affairs as on March 31, 2026

Assets					Estimated Realizable Value (₹)
Assets Not Specifically Pledged (List-A)					-
Cash in hand					1200
Bills of Exchange					35,000
Trade Debtors					65,000
Unpaid Calls					2,000
Stock					60,000
Plant and Machinery					90,000
Fixtures and Fittings					8,000
Patents					45,000
					-
					-
					-
Assets Specifically Pledged (List-B)					-
Particulars	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency Ranking as Unsecured ₹	Surplus ₹	-
					-
					-
Freehold Land & Building	1,65,000	1,75,000	10,000	-	
Estimated surplus from specifically pledged assets					

Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, carried forward		3,06,000
Summary of Gross Assets	₹	-
Gross Realizable value of assets specially pledged	1,65,000	-
Other Assets	3,06,000	-
	4,71,000	-
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, brought forward		3,06,200
		-
		-
Gross Liabilities	Liabilities	-
		-
1,65,000	Secured creditors (as per List-B) to the extent to which	-
-	claims are estimated to be covered by assets	-
-	specifically pledged (gross liabilities only)	-
57,000	Preferential Creditors (as per List-C)	57,000
-	Estimated Balance of Assets available for Debenture	2,49,000
-	holders and creditors secured by a floating charge, and	-
-	unsecured creditors	-
2,00,000	Debenture holders secured by a first floating charge	2,00,000
-	(as per List -D)	49,200
-	Estimated Balance of Assets available for Bank Overdraft	-
20,000	secured by a floating charge and unsecured creditors	20,000
-	List -D	29,200

-	Bank Overdraft secured by a second floating charge	-
-	Estimated surplus as regards Debenture holders and other	-
-	creditors secured by a floating charge	-
-	Unsecured Creditors (List - E)	-
2,90,000	Estimated unsecured balance of claims of creditors partly	-
6,000	secured on a specific asset	-
8,000	Trade Creditors 10,000	-
15,000	Unclaimed Dividend 2,80,000	-
	Outstanding Expenses 6,000	-
	Contingent Liability on Bills Discounted 15,000	-
7,61,000	Estimated Deficiency as regards creditors being	2,89,000
	the difference between Gross Assets and Gross Liabilities	-
	Issued and called up capital :	-
	30,000 14%, 2000 Preference shares of each fully paid	2,00,000
	(As per List - F) 30,000	-
	20,000 Equity shares of ₹10 each fully paid 1,98,00	-
	less calls (As per List-G)	4,98,000
	Estimated Deficiency as regards Member	7,87,000

List H -Deficiency Account :

Sr. No.	Particulars	₹
	A) Items Contributing to Deficiency	
1	Excess of Capital and Liabilities over Assets on 1st April 2020 as shown by Balance sheet	Nil

2	Net dividend and bonuses declared during the period from 1st April 2020 to 31st March 2026	1,13,400
3	Net trading losses after charging depreciation, interest on debentures, etc.	4,67,000
4	Losses other than trading losses written off or for which provision has been made in the books during the same period:	-
	Speculation loss 91,000	-
	Penalty imposed by Excise Authorities 1,60,000	-
	Penalty imposed by Taxation Authorities 60,000	3,11,000
5	Estimated Losses now written off or for which provision has been made for the	
	Plant and Machinery 30,000	
	Fixtures and Fittings 4,000	
	Stock in trade 20,000	
	Patents 25,000	
	Book debts 25,000	
	Bills discounted 15,000	1,19,000
6	Other items contributing to deficiency	Nil
	Total (A)	10,10,800
B) Items Reducing Deficiency		
7	Excess of assets over capital and liabilities on 1st April 2020 as shown in the Balance sheet	65,000
8	Net trading profits (after charging depreciation, taxation, interest on debentures, etc.)	1,43,000

9	Profits and income other than trading profit during the same period	Nil
10	Other items reducing deficiency -profit expected on realization of Freehold Land and Building	15,000
	Total (B)	2,23,000
	Deficiency as shown by the Statement of Affairs (A-B)	7,87,000

Working Note:

List-E: Unsecured Creditors :

Particulars	(₹)
Estimated unsecured balance of claims of creditors partly secured on a specific asset	10,000
Trade Creditors	-
Unclaimed Dividends	2,80,000
Outstanding Expenses	6,000
Contingent Liability on Bills Discounted	8,000
Total	3,19,000

Illustration -8:

K Limited was ordered to be wound up on 31-3-2026 on which date the following balances were extracted from its books.

Particulars	(₹)
Goodwill	1,00,000
Building	3,50,000
Plant	5,50,000
Fixture	23,000

Stock	38,000
Debtors	25,000
Cash	500
Profit and Loss account (Dr. Balance)	1,38,000
Share Capital:10000 equity shares of ₹ 100 each	10,00,000
5% Debentures (Secured by floating charge on all assets)	1,60,000
Interest payable on these debentures	4,000
Bank overdraft (Secured by hypothecation of stock)	25,000
Creditors	36,000

The amount estimated to be Realized are: Goodwill 1,000, Building ₹3,00,000, Plant 1 5,25,000, Fixtures ₹ 10,000, Stock ₹ 31,000, Debtors ₹ 20,000.

Creditors included ₹6,000 on account of wages of 15 men at ₹ 100 per month for 4month immediately before the date of winding up:₹ 9,000 being the salaries of 5 employees at ₹300 month for the previous 6 months, Rent for godown for the last six months amounting to ₹ 3,000, Income -tax deducted outa of salaries of employees ₹1000 and Director Fees ₹ 500.

Three years ago, the debit balance in the Profit and Loss was ₹77,925 and since that date the accounts of the company have been shown the following figures.

Particulars	31-3-2020	31-3-2021	31-3-2022
Net Profit	65,000	45,000	40,000
Wages and Salary	40,500	36,000	34,000
Electricity and water Tax	5,750	6,380	5,260
Debentures interest	8,000	8,000	8,000
Bat debts	8,540	7,600	6,700
Depreciation	6,700	-	-
Directors Fees	1,000	1,000	1,000
Misc. Expenses			
Total	80990	66245	63340

In addition, it is estimated that the company would have to pay ₹ 5000 as compensation to an employee for injuries suffered by him which was contingent liability not accepted by company. Prepare the statement of affairs and deficiency Account

Solution:

Working Notes:

Preferential Creditors

Particulars	(₹)
Wages (100 ₹ P.M.*4 Months *15 Employees)	6,000
Salary (300 ₹ P.M. *4 Months*5 Employees)	6,000
Income Tax	1,000
Workmen Compensation	5,000
Total	18,000

Unsecured Creditors

Particulars	(₹)
Salary (300 ₹ P.M.*2 Months*5 Employees)	3,000
Rent	3000
Director Fees	500
Total	6500

Unsecured creditors as per List-E = Trade creditors = ₹ 36000-6500-6000-6000-1000=16500+ Outstanding Expenses (6500) = ₹ 23000

Statement of Affairs

Particulars	Estimated Realizable Value (₹)
Assets Not Specifically Pledged (List-A)	-
Cash in hand	500

Goodwill					1,000
Buildings					3,00,000
Plant					5,25,000
Fixtures					10,000
Debtors					20,000
					8,56,500
Assets Specifically Pledged (List-B)					-
Particulars	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency Ranking as Unsecured ₹	Surplus ₹	-
					-
					-
Stock	31,000	25,000	-	6,000	6,000
Estimated surplus from specifically pledged assets					-
Estimated Total Assets available for Preferential Creditors, Debenture holders having a floating charge and unsecured creditors c/f					8,62,500
Summary of Gross Assets ₹					-
Gross realizable value of assets specially pledged				31,000	-
Other Assets				<u>8,56,500</u>	-
				8,87,500	-
Estimated Total Assets available for Preferential Creditors, Debenture holders having floating charge and unsecured creditors, brought forward					8,62,500
					-
					-
Gross Liabilities	Liabilities				-
					-
25,000	Gross Liabilities				-

-	(To be deducted from total assets from surplus or added to deficiency as the case may be)	-
-	Secured creditors (as per List-B) to the extent to which claims are estimated to be covered by assets specifically pledged (gross liabilities only)	-
18,000	Preferential Creditors (as per List-C)	<u>18,000</u>
-	Estimated balance of assets available for debenture holders and creditors secured by a floating charge, and unsecured creditors	8,44,500
-	Debenture holders secured by a first floating charge (as per List -D)	-
1,64,000	(Including Interest on debentures due for 3 months @9%)	<u>1,64,400</u>
-	Estimated surplus as regards debenture holders	-
-	Unsecured creditors (List - E)	-
23,000	Trade Creditors (36,000-19,500) 16,500	-
-	(+) Outstanding expenses <u>6500</u>	<u>23,000</u>
-	Estimated deficiency as regards creditors (Being difference between gross assets and gross liabilities)	6,57,500
-	<u>Issued and called up capital</u>	-
10,00,000	10,000 equity shares of ₹ 10 each	10,00,000
	Estimated deficiency as regards contributories (As per List-H)	3,42,000

Deficiency Account (List-H)

Particulars	(₹)	(₹)
Excess of capital and liabilities over assets 3 years ago	-	77,925
Dividend declared	-	-
Trading Loss (150000-210575)	-	60,575
Non-Trading Loss	-	-
Estimated Loss while preparing statement of affairs	-	-
Goodwill (100000-1000)	99,000	-
Building (350000-300000)	50,000	-
Plant (550000-525000)	25,000	-
Fixtures (23000-10000)	13,000	-
Stock (38000-31000)	7,000	-
Workmen compensation	5,000	-
Debtors (25000-20000)	5,000	2,04,000
Deficiency as shown by Statement of Affairs		3,42,500

Working Note :

$$\begin{aligned}
 \text{Trading Loss} &= \text{Gross profit} - \text{Indirect expenses} \\
 &= (65000 + 45000 + 40000) - (80900 + 66245 + 63340) \\
 &= 150000 - 210575 = 60575
 \end{aligned}$$

Illustration-9 :

The following information is extracted from the books of Unfortunate Ltd on December 31, 2025 On which date the winding up order was made:

Particulars	(₹)
Unsecured creditors	4,56,000
Salaries due for 5 months	24,000
Bills payable	1.28,000
Bank Overdraft	48,000

Weekly wages unpaid	7,000
Liabilities under workmen's Compensation Act	1,000
Income Tax due	10,000
Debtors -Good	4,50,000
Doubtful (estimated to produce ₹ 1,00,000)	2,00,000
Bad	1,28,000
Bills Receivable (Good ₹ 15,000)	20,000
Stock (Estimated to produce ₹ 7,00,000)	9,90,000
Cash in hand	14,000
Furniture and Fixtures (Estimated to produce ₹90,000)	1,00,000
Land (Estimated to produce ₹ 6,00,000)	4,32,000
Estimated liabilities for bills discounted	50,000
Secured creditors holding first mortgage on land	4,80,000
Partly secured creditors holding second mortgage on land	2,40,000
6,000, 9% Mortgage debentures of Estimated to produce ₹100	6,00,000
each, interest payable to September 30 and March 31 paid	-
to September 30 ,2024 (interest not provided for 3 Months)	-
Share Capital	-
24,000,10% Preference shares of ₹10 each	2,40,000
60,000 Equity shares of ₹10 each	6,00,000
General Reserve since December 31,2021	1,10,000

In 2021, the company earned a profit of ₹ 5,50,000 but there after it suffered trading losses totaling ¹ 7,00,000. The company also suffered a speculation loss ₹ 60,000 during the year 2022. Excise authorities imposed a penalty of ₹ 4,00,000 in 2023 for evasion of tax which was paid in 2024.

Prepare the statement of Affairs and the Deficiency Account.

Solution :

List-E: Unsecured Creditors

Particulars	(₹)
Unsecured Creditors	4,56,000
One month's salaries (4 Months Salaries are preferential)	4,800
Bills payable	1,28,000
Bank overdraft	48,000
Amount not covered in respect of partly secured creditors (₹2,40,000-1,20,000 value of security of second mortgage on hand)	-
Liability on bills discounted	50,000
Total	8,06,800

List-C: Preferential Creditors

Particulars	(₹)
Salaries for four months	19,200
Weekly wages	7,000
Liabilities under Workmen Compensation Act	1,000
Income tax due	10,000
Total	37,200

Statement of Affairs as on 31-12-2025

Assets	Estimated Realizable Value (₹)
Assets Not Specifically Pledged (List-A)	-
Cash in hand	14,000
Bills Receivable	15,000
Trade Debtors	5,50,000
Stock	7,00,000

Furniture and fixtures					90,000
Assets Specifically Pledged (as per List-B)					-
Particulars	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency ranking as Unsecured ₹	Surplus ₹	-
Land	6,00,000	7,20,000	1,20,000	-	-
Estimated Total assets available for Preferential Creditors, Debenture holders secured by a floating charge and unsecured creditors c/d					Nil
Summary of Gross Assets ₹					13,69,000
Gross realizable value of assets specially pledged					6,00,000
Other Assets					13,69,000
					19,69,500
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and unsecured creditors b/d					13,69,000
Gross Liabilities	Liabilities				₹
6,00,000	(To be deducted from surplus or added to deficiency as the case may be)				-
-	Secured Creditors (As per List-B) to the extent to which claims are estimated to be covered by assets specifically pledged				-
-					-
-					Nil
37,200	Preferential Creditors as per List-C				37,200
-	Estimated balance of assets available for debenture				13,31,800

-	holders and creditors secured by a floating charge, and	-
-	unsecured creditors	-
-	Debenture holders secured by floating charge	-
-	(As per List -D)	-
-	6,00,000	-
6,13,500	Interest due for 3 Monts @9%) <u>13,500</u>	6,13,500
-	Estimated surplus as regards debenture holders	7,18,300
8,06,800	Unsecured creditors (List - E)	8,06,800
20,57,000	Estimated deficiency as regard creditors	88,500
	Gross Assets and Gross Liabilities)	-
	Issued and called up capital :	-
	24,000 , 10% Preference shares of ₹10 each, fully paid	2,40,000
	(As per List-F)	
	60,000 , Equity shares of ₹10 each, fully paid (As per	6,00,000
	(As per List-G)	
	Estimated deficiency as regards contributories (As per	9,28,500
	List-H)	

Deficiency Account (List-H)

Particulars	(₹)	(₹)
Excess of capital and liabilities over assets on	-	-
December 31st 2024 as shown by the balance sheet	-	-
Dividend declared	-	-
Trading Loss after charging depreciation, taxation,	-	-
on debentures etc. (Loss 7,00,000 + 13,500 Interest	-	7,13,500
debenture)		

Non-Trading Loss	-	-
Speculation Loss	60,000	-
Penalty imposed by excise authorities	4,00,000	-
Estimated Loss while preparing statement of affairs	-	-
Furniture and Fixtures	10,000	-
Stock	2,90,000	-
Book Debts	2,28,000	-
Bill Receivable	5,000	-
Contingent Liability for bills discount	50,000	5,83,000
Other items contributing to deficiency		Nil
Total (A)		17,56,500
B) Item reducing Deficiency		-
Excess of assets over capital and liabilities on December 31st 2024		1,10,000
Net Trading profit after charging depreciation, taxation, on debentures etc.		-
Profit and income other than trading profits		-
Other items reducing deficiency - profit expected on realization of land		1,68,000
Total (B)		8,28,000
Deficiency as shown by statement of Affairs (A-B)		9,28,500

Working Notes:

List-A: Assets Not Specifically Pledged

Assets Included in List-A

Particulars	Estimated Realizable Value (₹)
Cash in hand	14,000
Bills Receivable	15,000
Trade Debtors	5,50,000
Stock	7,00,00
Furniture and Fixtures	090,000
Total	13,69,000

Debtors taken at ₹5,50,000 because Good Debtors: ₹4,50,000 These will be collected fully.

Doubtful Debtors: ₹2,00,000. Expected realization = ₹1,00,000

Bad Debtors: ₹1,28,000. Nothing will be recovered.

Therefore: ₹4,50,000 + ₹1,00,000 = ₹5,50,000

Stock taken at ₹7,00,000 because Book value of stock = ₹9,90,000. Estimated realization = ₹7,00,000. Expected loss: ₹9,90,000 “₹7,00,000 = ₹2,90,000 (shown under List-H)

List-A assets are available for all remaining creditors after satisfying secured creditors having fixed charges.

List-B: Assets Specifically Pledged

Asset Included-Land -Estimated Value- ₹6,00,000

Creditors secured on Land: First Mortgage Holder. Amount due = ₹4,80,000

The first mortgage holder gets paid first. Second Mortgage Holder. Amount due = ₹2,40,000

After paying first mortgage holder: ₹6,00,000 - ₹4,80,000 = ₹1,20,000 remains.

Therefore, second mortgage holder receives only ₹1,20,000.

Balance unpaid: ₹2,40,000 - ₹1,20,000 = ₹1,20,000. This unpaid amount becomes unsecured.

Order of Payment: 1-First charge holder. 2-Second charge holder. 3.Third charge holder.

List-C: Preferential Creditors

Particulars	(₹)
Salaries for four months	19,200
Weekly wages	7,000
Liabilities under Workmen Compensation Act	1,000
Income tax due	10,000
Total	37,200

Preferential Creditors :

1. Salaries for four months

Total salary outstanding = ₹ 24,000 for five months. Monthly salary: ₹ 24,000 ÷ 5 = ₹4,800

Four months qualify: ₹4,800 × 4 = ₹19,200

2. Weekly wages unpaid: ₹ 7,000. Workers are given special protection by law.
3. Workmen Compensation: ₹ 1,000. Compensation payable under labour laws receives priority.
4. Income Tax Due: ₹10,000. Government dues falling within statutory limits are preferential.

List-D: Debenture Holders Secured by Floating Charge

Creditor Included

9% Mortgage Debentures: 6,000 Debentures × ₹100= ₹ 6,00,000

Interest Due: Interest paid up to:30 September 2024: Interest due for:3 months

Interest: ₹6,00,000 × 9% × 3/12= ₹ 13,500Total claim: ₹ 6,13,500

Order of Payment: Assets available after paying preferential creditors: = ₹13,69,000
- ₹37,200 = ₹13,31,800. Debenture holders receive: ₹ 6,13,500. Balance left:
₹7,18,300

List-E: Unsecured Creditors :

Particulars	(₹)
Unsecured Creditors	4,56,000
One month's salaries (4 Months Salaries are preferential)	4,800
Bills payable	1,28,000
Bank overdraft	48,000
Amount not covered in respect of partly secured creditors (₹2,40,000-1,20,000 value of security of second mortgage on hand)	- -
Liability on bills discounted	50,000
Total	8,06,800

One month salary is unsecured: Only four months receive priority. The fifth month loses priority and becomes ordinary unsecured debt.

Second mortgage deficiency is unsecured. Security available: ₹1,20,000. Amount due: ₹2,40,000. Unpaid balance: ₹1,20,000. This amount joins unsecured creditors

List-F:

Preference Shareholders: 24,000 shares × ₹10 = ₹ 2,40,000

List- G: Equity Shareholders: 60,000 shares × ₹10 = ₹ 6,00,000

List-H: Deficiency Account

Items Contributing to Deficiency

1. Trading Losses: The company suffered losses: ₹ 7,00,000
2. Debenture Interest: Outstanding interest: ₹13,500
3. Speculation Loss: ₹60,000. Speculation means risky transactions undertaken to earn quick profits.
4. Excise Penalty: ₹4,00,000. Penalty for tax evasion reduced company funds.
5. Loss on Furniture: Book value: ₹1,00,000. Realization: ₹90,000. Loss: ₹10,000

6. Loss on Stock: ₹ 9,90,000 - ₹7,00,000 = ₹ 2,90,000
7. Loss on Debtors: Book value: ₹7,78,000. Realization: ₹5,50,000. Loss: ₹ 2,28,000
8. Bills Receivable Loss: Book value: ₹20,000. Realization: ₹15,000. Loss: ₹ 5,000
9. Bills Discounted Liability: Expected liability: ₹50,000

Items Reducing Deficiency

General Reserve: Opening reserve: ₹ 1,10,000. This reduced deficiency.

Trading Profit: Profit earned in 2021 ₹5,50,000

Profit on Sale of Land: Book value of land: ₹4,32,000, Expected realization: ₹6,00,000

Profit: ₹ 1,68,000

Final Deficiency: Total items increasing deficiency: ₹ 17,56,500. Less items reducing deficiency: ₹8,28,000. Final deficiency: ₹9,28,500

Illustration-10:

The following particulars were extracted from the books of X Ltd. On 31-3-2026 on which date a winding up order was made.

Particulars	(₹)
Equity share capital	-
20,000 Share of ₹10 each ₹5 paid up capital	1,00,000
6% Pref shares 20,000 shares of ₹10 each fully paid	2,00,000
6% Debentures, secured by a floating charge upon the whole of assets of the company exclusive of the uncalled capital	1,50,000
Fully secured creditors (estimated value of securities ₹ 35,000)	30,000
Partly secured creditors (estimated value of securities ₹ 10,000)	20,000
Preferential creditors for rates, taxes, wages etc.	6,000
Bills Payable	1,00,000

Unsecured creditors (Trade Accounts)	70,000
Bank overdraft 10,000	-
Bills receivable in hand	15,000
Bills Discounted (One bill for value of securities ₹ 10,000 known to be bad)	40,000
Book debts-Good	-
Doubtful (Estimated to produce 50%)	10,000
Bad	7,000
Land and Building (Estimated to produce ₹ 1,00,000)	6,000
Stock in trade (Estimated to produce ₹ 40,000)	1,50,000
Machinery, Tools etc. (Estimated to Produce ₹ 2,000)	50,000
Cash in hand	5,000
	100

Prepare Statement of Affairs and Deficiency Account

Statement of Affairs of X Ltd as on 31-7-2026

Particulars	Estimated Realizable Value (₹)
Assets not specially pledged as per List-A	--
Cash in hand	100
Bills receivable	15,000
Debtors	13,500
Stock in trade	40,000
Land and Building	1,00,000
Machinery, Tools etc.	2,000
Assets Specifically pledged as per List-B	-

Particulars	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency Ranking as Unsecured ₹	Surplus ₹	
					-
					-
					-
	35,000	30,000	-	5,000	-
	10,000	20,000	10,000	-	-
Estimated surplus from Assets Specifically Pleased					-
					5,000
Estimated total Assets available for Preferential creditors, debenture holders secured by a floating charge, and unsecured creditors (carried forward)					1,75,600
					-
					-
Summary of Gross Assets					-
Gross Realizable value of Assets Specifically				₹	-
Pledged				45,000	-
Other Assets				1,70,600	-
Gross Assets				2,15,600	-
Estimated total assets available for preferential creditors, debenture holders, secured by a floating charge and unsecured creditors (brought forward)					1,75,600
Gross Liabilities (₹)	Liabilities				₹
-	(to be deducted from surplus or added to deficiency as the case may be)				-
-					-
40,000	Secured Creditors (As per List-B) to the extent which claims are estimated to be covered by assets specifically pledged				-
-					Nil

6,000	Preferential Creditors as per List-C	6,000
	Estimated balance of assets available for debenture holders	1,69,600
-	secured by floating charge and unsecured creditors	-
1,50,000	Debenture holders secured by floating charge (As per List-D)	1,50,000
-	Estimated surplus as regards debenture holders	19,600
-	Unsecured creditors (As per List-E)	-
10,000	Estimated unsecured balance of claims of creditors party secured	-
-	on specific assets	10,000
70,000	Trade Accounts	70,000
1,00,000	Bills Payable	1,00,000
10,000	Bank Overdraft	10,000
40,000	Contingent Liabilities (bill discounted)	<u>10,000</u>
		<u>2,00,000</u>
4,26,000	Estimated Deficiency as regards creditors (Gross Asset - Gross Liability)	1,80,400
-	Issued and Called up Capital:	-
-	20,000, 6% Preference shares of ¹ 10 each, fully paid (As per List- F)	2,00,000
-	20,000 Equity shares of ¹ 10 each, ¹ 5 called up (As per List-G)	1,00,000
-	Estimated deficiency as regards contributories (As per List-H)	-
		4,80,400

List H -Deficiency Account :

Sr. No.	Particulars	₹
A) Items Contributing to Deficiency		
1	Excess of Capital and Liabilities over Assets on 31st July 2026 as shown by Balance sheet	2,97,900 -
2	Net dividend and bonuses declared during the period from 1st April 2020 to 31st March 2026	Nil -
3	Net trading losses after charging depreciation, interest on debentures, etc.	Nil
4	Losses other than trading losses written off or for which provision has been made in the books during the same period:	Nil -
5	Estimated Losses now written off or for which provision has been made for the	- -
	On Land and Building 50,000	
	Machinery, Tools etc. 3,000	
	Stock in trade 10,000	
	Patents 25,000	
	Book debts 9,500	
	Bills discounted 10,000	1,19,000
6	Other items contributing to deficiency	Nil
	Total (A)	4,80,400
B) Items Reducing Deficiency		
7	Excess of assets over capital and liabilities on 1st April 2020 as shown in the Balance sheet	Nil

8	Net trading profits (after charging depreciation, taxation, interest on debentures, etc.)	1,43,000
9	Profits and income other than trading profit during the same period	Nil
10	Other items reducing deficiency -profit expected on realization of Freehold Land and Building	Nil
	Total (B)	Nil
	Deficiency as shown by the Statement of Affairs (A-B)	4,80,400

The amount of loss will be calculated by preparing trial balance as on 31-7-2026

Particulars	(₹)	Particulars	(₹)
Book Debts	23,000	Equity Share Capital	1,00,000
Land and Building	1,50,000	Preference Share Capital	2,00,000
Stock in Trade	50,000	Debentures	1,50,000
Machinery, Tools etc.	5,000	Fully secured creditors	30,000
Cash in hand	100	Partly secured Creditors	20,000
Security (Fully secured ₹)	35,000	Preferential Creditors	6,000
Security (Partly secured ₹)	10,000	Bills Payable	1,00,000
Bills Receivable	15,000	Unsecured Creditors	70,000
Excess of capital and liabilities over assets (Balancing Figure)	3,97,900	Bank Overdraft	10,000
Total	6,86,000	Total	6,86,000

Working Notes:**List-A: Assets not specially pledged**

Asset	Book Value (₹)	Estimated to produce (₹)
Cash in Hand	100	100
Bills Receivable	15,000	15,000
Debtors	23,000	13,500
Stock in Trade	50,000	40,000
Land and Building	1,50,000	1,00,000
Machinery and Tools	5,000	2,000
Total	2,43,100	1,70,600

Asset included in List A :

1. Cash in Hand ₹ 100: Cash is never pledged to any creditor in this problem. Therefore, it belongs to List-A. The liquidator can immediately use this cash for paying liabilities.
2. Bills Receivable ₹15,000: Bills receivables are expected to be collected in full. Since no creditor has a charge on these bills, they are included in List A.
3. Debtors ₹13,500: Book debts are divided into: Good Debtors: ₹ 6,000. These are expected to be collected fully.

Doubtful Debtors: ₹10,000. Only 50% is expected to be collected. Therefore:
 $50\% \times ₹10,000 = ₹5,000$

Bad Debtors: ₹ 7,000. Nothing will be recovered.

Therefore: Good debtors = ₹6,000

Plus recovery from doubtful debtors = ₹ 5,000

Total realization: ₹13,500

4. Stock in Trade ₹40,000: Book value: ₹50,000, Estimated realization: ₹40,000
Expected loss: ₹10,000. During liquidation stock is sold quickly, therefore it generally realizes less than book value.
5. Land and Building ₹1,00,000. Book value: ₹ 1,50,000. Expected realization: ₹1,00,000
Loss: ₹50,000. Since no specific mortgage exists on land and building in this problem, it forms part of List A.
6. Machinery and Tools ₹2,000. Book value: ₹ 5,000. Estimated realization: ₹2,000.
Expected loss: ₹3,000 Second-hand machinery generally realizes very low value during liquidation.

List-B: Assets Specifically Pledged :

Fully Secured Creditors: Amount due: ₹ 30,000. Security value: ₹ 35,000. Since security exceeds debt, the creditor is fully protected. Security value = ₹35,000. Debt = ₹30,000
Surplus available: ₹5,000. This surplus belongs to the company and becomes available for general creditors

Partly Secured Creditors: Amount due: ₹20,000. Security value: ₹ 10,000. Thus, creditor receives: ₹10,000 from security. Balance unpaid: ₹ 20,000 - ₹10,000 = ₹ 10,000

This unpaid amount is called as unsecured creditors

List-B: Assets Specifically Pledged

Particulars	(₹)
Value of securities	45,000
Claims of secured creditors	50,000
Deficiency ranking unsecured	10,000
Surplus from fully secured creditor security	5,000

List-C: Preferential Creditors :

Rates, Taxes and Wages = ₹ 6,000.

List-D:

Debentures holders secured by a floating charge

6% Debentures: ₹1,50,000. These debentures are secured by Floating charge over the whole of the company's assets except uncalled capital. Meaning of "except uncalled capital" Equity shares are ₹5 paid on ₹10 shares. Remaining ₹5 is uncalled capital. Debenture holders do not have any claim over this uncalled amount. When winding up begins, the floating charge becomes fixed. After conversion of a floating charge into a fixed charge on the assets of the company debenture holders obtain legal rights over the remaining assets.

Distribution of Assets

Assets available from List A and surplus from List-B: ₹1,70,600 + ₹5,000 = ₹1,75,600. Less preferential creditors: ₹6,000. Balance: ₹1,69,600. Debenture claim: ₹1,50,000 Amount available: ₹1,69,600 Debenture holders are paid fully. Balance remaining: ₹19,600. This amount becomes available for unsecured creditors

List-E: Unsecured Creditors :

Particulars	(₹)
Unsatisfied balance of partly secured creditors	10,000
Trade accounts	70,000
Bills payable	1,00,000
Bank overdraft	10,000
Contingent liability-re bills discounted	10,000
Total	2,00,000

List-H: Deficiency :

Particulars	(₹)
Excess of capital over assets	397900
Estimated losses now written off or for which provision has been made for the purpose of preparing the statement	-
	-

On land and building	50,000
On machinery tools	3,000
On stock in trade	10,000
On book debts	9,500
On Bills discounted	10,000
Total	4,80,400

Illustration-11:

A winding up order has been issued against M. Ltd. The following information is obtained with regard to the assets and liabilities as on 31st March 2026

Particulars	(₹)
Freehold premises (Book value ₹ 4,50,000) valued at	3,75,000
First Mortgage of Free hold premises	3,00,000
Second Mortgage of Free hold Premises	1,12,500
8% Debentures carrying a floating charge on the undertakings,	1,50,000
interest due 1 st June and 1 st January paid on due date	-
Managing Director's emoluments (6 Months)	22,500
Staff Salary unpaid (One Month)	16,050
Trade Debtors-Good	31,500
Doubtful (estimated to realize 50%)	12,900
Bad	72,750
Plant and Machinery (Book value ₹ 2,47,500)	1,74,000
Bank Overdraft (Unsecured)	58,105
Cash in hand	825
Stock (at cost ₹ 50,850) estimated to realize	33,900
Issued Capital	-
Equity Shares of ₹ 10 each fully called up	1,50,000

Calls in arrears ₹ 3,000, Estimated to realize	1,500
Unsecured Creditors	2,96,250
Contingent Liability in respect of a claim for damages ₹37,500 - estimated to be settled for	18,000
Income Tax Liability	-
For 31-3-2024	5,250
For 31-3-2025	1,275
For 31-3-2026	2,700
The Reserves of the Company on 1-4-2024 amounted to ₹ 7,500	-

You are required to prepare

- Statement of Affairs and
- Deficiency Account

Solution:

In the books of M Ltd.

Statement of Affairs as on March 31, 2026

Assets	Estimated Realizable Value (₹)
Assets Not Specifically Pledged (List-A)	-
Cash in hand	825
Trade Debtors	37,950
Unpaid Calls	1,500
Stock	33,900
Plant and Machinery	1,74,000

Assets Specifically Pledged (List-B)					
Particulars	Estimated Realizable Value ₹	Due to Secured Creditors ₹	Deficiency Ranking as Unsecured ₹	Surplus ₹	- - - - -
Freehold	3,75,000	3,00,000	37,500	-	-
Premises					-
Estimated surplus from specifically pledged assets					-
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, carried forward					- 2,48,175
Summary of Gross Assets				₹	-
Gross Realizable value of assets specially pledged				3,75,000	
Other Assets				2,48,175	
				6,23,175	
Estimated Total Assets available for Preferential Creditors, Debenture holders secured by a floating charge and other creditors, brought forward					2,48,175
Gross Liabilities	Liabilities				
3,75,000	Secured creditors (As per List-B) to the extent to which claims are estimated to be covered by assets specifically pledged (gross liabilities only)				- - -
20,025	Preferential Creditors (As per List-C)				20,025
	Estimated Balance of Assets available for Debenture holders and creditors secured by a floating charge, and unsecured creditors				2,28,150 - -

1,53,000	Debenture holders secured by a first floating charge		1,53,000
-	(As per List-D) (1,50,000+3000)		-
-	Estimated Balance of Assets available for Bank Overdraft		-
-	secured by a floating charge and unsecured creditors		-
-	as per List -D		-
-	Bank Overdraft secured by a second floating charge		-
-	Estimated surplus as regards Debenture holders and other	75,175	
-	creditors secured by a floating charge		-
-	Unsecured Creditors (List-E)		-
-	Estimated unsecured balance of claims of creditors partly		-
-	secured on a specific asset		-
-	Estimated unsecured balance of claims of partly secured creditors	37,500 -	-
2,96,250	Trade Creditors	2,96,250	-
27,750	Outstanding expenses and Taxes	27,750	-
58,125	Bank Overdraft	58,125	-
18,000	Contingent Liability on Bills Discounted	18,000	4,37,625
9,85,650	Estimated Deficiency as regards creditors being the difference between Gross Assets and Gross Liabilities		3,62,475
	Issued and called up capital:		
	Preference Shares of each fully paid (As per List-F)		
	15,000, Equity shares of ₹ 10 each fully paid less calls in arrears ₹1,500 (As per List-G)		Nil
	Estimated Deficiency as regards Member		1,48,500
			5,10,975

List-H: Deficiency Account

Sr. No.	Particulars	₹
A) Items Contributing to Deficiency		
1	Excess of Capital and Liabilities over Assets on as shown by Balance sheet	Nil -
2	Net dividend and bonuses declared during the period	Nil
3	Net trading losses after charging depreciation, interest on debentures, etc.	2,55,825
4	Losses other than trading losses written off or for which provision has been made in the books during the same period:	-
	Estimated Losses now written off or for which provision has been made for the	- -
	On Free hold Premises (4,50,000-3,75,000) 75,000	-
5	On Trade Debtors 79,000 (50% of 12900=6450+72750)	-
	On Plant and Machinery (2,47500-1,74,000) 73,000	-
	On Stock (50,850 - 33,900) 16,950	-
	On Claim for damage 18,000	2,62,650
6	Other items contributing to deficiency	Nil
	Total (A)	5,18,475
B) Items Reducing Deficiency		
7	Excess of assets over capital and liabilities on as shown in the Balance sheet 1-4-2025	7,500

8	Net trading profits (after charging depreciation, taxation, interest on debentures, etc.)	Nil
9	Profits and income other than trading profit during the same period	Nil
10	Other items reducing deficiency -profit expected on realization of Freehold Land and Building	Nil
	Total (B)	7,500
	Deficiency as shown by the Statement of Affairs (A-B)	5,10,975

Working Note

List- C: Preferential Creditors :

Particulars	(₹)
Income Tax Liability for 31-3-2025	1,275
Income Tax Liability for 31-3-2025	2,700
Staff Salary	16,050
Total	20,025

Outstanding Interest on debentures for 3 months will be added in the amount payable to debenture holders

SECTION -3 :

Check Your Progress :

A) Choose the correct alternative from among given below each statement.

- The authority having power to order compulsory winding up of a company is

A) Registrar of Companies

B) Board of Directors

C) Tribunal

D) Auditors

2. The two statements prepared during compulsory winding up are
- A) Trading Account and Balance Sheet
 - B) Statement of Affairs and Deficiency Account
 - C) Profit and Loss Account and Balance Sheet
 - D) Cash Flow Statement and Fund Flow Statement
3. The Statement of Affairs is prepared on the basis of
- A) Historical Cos
 - B) Book Values
 - C) Estimated Realizable Values
 - D) Replacement Cost
4. Assets not specifically pledged to any creditor are shown in
- A) List-A
 - B) List-B
 - C) List-C
 - D) List-D
5. Assets specifically mortgaged or pledged to secured creditors are shown in
- A) List-A
 - B) List-B
 - C) List-E
 - D) List-H
6. Preferential creditors are shown in
- A) List-D
 - B) List -E
 - C) List- B
 - D) List -C
7. Four months' wages payable to employees are classified as
- A) Unsecured Creditors
 - B) Preferential Creditors
 - C) Secured Creditors
 - D) Contingent Liabilities
8. Debenture holders secured by a floating charge are shown in
- A) List-A
 - B) List-C
 - C) List-
 - D) List-E
9. Trade creditors are included in

- A) List-E B) List-C
- C) List-B D) List-F
10. Preference shareholders are shown in
A) List-E B) List-F
C) List-G D) List-H
11. Equity shareholders are shown in
A) List- F B) List-H
C) List-G D) List-D
12. Deficiency Account is prepared in
A) List-E B) List-F
C) List-G D) List-H
13. The conversion of a floating charge into a fixed charge is called
A) Liquidation B) Reconstruction
C) Dissolution D) Crystallization
14. The deficiency shown in List H should agree with the deficiency shown in
A) Balance Sheet B) Cash Flow Statement
C) Statement of Affairs D) Profit and Loss Account
15. The last persons to receive payment during winding up are
A) Secured Creditors B) Preferential Creditors
C) Preference Shareholders D) Equity Shareholders
16. Cash in hand is generally included in
A) List-A B) List-B
C) List-D D) List-E
17. Bills payable are generally included in

- A) List-B
B) List-C
C) List-D
D) List-E
18. Liability under the Workmen's Compensation Act is classified as
A) Secured Creditor
B) Preferential Creditor
C) Share Capital
D) Floating Charge Holder
19. Unclaimed dividends are generally included in
A) List-A
B) List-C
C) List-E
D) List-G
20. Trading losses are generally shown in
A) List-F
B) List-G
C) List-H
D) List-B

B) State 'True' or 'False.'

1. Statement of Affairs is prepared on the basis of book values of assets.
2. Trade creditors are preferential creditors
3. Fully secured creditors are shown in List E.
4. Preference shareholders are paid before creditors
5. Equity shareholders are paid before preference shareholders.
6. Floating charge holders are paid before preferential creditors
7. List A contains assets specifically pledged to secured creditors
8. List B contains unsecured creditors
9. Deficiency Account is prepared before the Statement of Affairs ₹
10. Equity shareholders have priority over unsecured creditors in winding up.
11. In compulsory winding up by the Tribunal, two statements are prepared namely Statement of Affairs and Deficiency Account.
12. Statement of Affairs is prepared on the basis of estimated realizable values of assets.

13. Deficiency Account explains the causes of deficiency and losses of the company
14. List A contains assets not specifically pledged to any creditor.
15. Cash in hand is included in List-A

(Answers: Q.No.1 to 10 — False and 11 to 15 -True)

C) Write Short Notes.

1. Statement of Affairs
2. Deficiency Account (List-H)
3. Assets Not Specifically Pledged (List-A)
4. Assets Specifically Pledged (List-B)
5. Preferential Creditors (List-C)
6. Creditors Secured by Floating Charge (List-D)
7. Unsecured Creditors (List-E)
8. Preference Shareholders (List-F)
9. Equity Shareholders (List-G)
10. Compulsory Winding-up by Tribunal
11. Accounting Treatment of Compulsory Winding-up by Tribunal Top of Form

4.3 Summary :

Compulsory liquidation is the legal process of closing a company by the order of the National Company Law Tribunal (NCLT). It is also known as winding-up by the Tribunal. The company's assets are sold to pay creditors according to legal priority. After settlement of liabilities, the company is dissolved under the applicable laws.

Compulsory liquidation means winding-up a company through an order of the NCLT. The company stops its business operations after the order is passed. A Company Liquidator takes charge of the company's assets and liabilities. The realized assets are distributed according to law before the company is dissolved.

Compulsory liquidation is governed by the Companies Act, 2013 and the Insolvency and Bankruptcy Code, 2016. The Companies (Winding-up) Rules, 2020 and the IBBI

Liquidation Process Regulations prescribe the detailed procedure. Amendments up to 2026 have strengthened the legal framework. These laws ensure a transparent, efficient, and creditor-friendly liquidation process.

The liquidation process begins with a winding-up order passed by the NCLT. A Company Liquidator prepares the Statement of Affairs, Lists A to H, and other statutory statements. The company's assets are realized and liabilities are settled according to legal priority. Finally, a Deficiency Account is prepared and the company is dissolved.

Section 271 of the Companies Act, 2013 specifies the grounds for compulsory winding-up. A company may be wound up for fraud, acting against national interest, or other specified reasons. Failure to comply with legal requirements may also result in winding-up. The Tribunal may also order winding-up on just and equitable grounds.

The liquidation process starts with filing a petition before the NCLT under the Companies Act, 2013. The petition may be filed by the company, shareholders, the Registrar of Companies, or the Government. The Tribunal examines the petition and may appoint a Provisional Liquidator. If satisfied, it passes the winding-up order.

The NCLT issues the winding-up order after considering the petition and supporting evidence. The order brings the company's business operations to an end. The powers of the Board of Directors cease immediately after the order. A Company Liquidator is appointed to conduct the liquidation process.

The Company Liquidator takes control of the company's assets, books, and records. The Liquidator realizes the assets, verifies claims, and distributes the proceeds among creditors. The Statement of Affairs, Deficiency Account, and final report are prepared during liquidation. After completing all legal formalities, the Liquidator applies for dissolution of the company.

The present legal framework consists of the Companies Act, 2013, the IBC, 2016, the Companies (Winding-up) Rules, 2020, and the IBBI Liquidation Process Regulations. Judicial decisions of the NCLT, NCLAT, and the Supreme Court also guide the process. These laws promote transparency, timely resolution, and creditor protection. They ensure fair and effective compulsory liquidation proceedings.

Accounting in compulsory liquidation involves preparing Lists A to H, the Statement of Affairs, and the Deficiency Account. Assets and liabilities are classified and valued according

to statutory requirements. The realized amount is distributed among creditors and shareholders in the prescribed order. Practical problems help students understand and apply the accounting procedures for compulsory liquidation.

4.4 Terms to be remember :

- 1. Compulsory Liquidation** – Winding-up of a company by the order of the National Company Law Tribunal (NCLT).
- 2. Winding-up by Tribunal** – Legal process of closing a company under the Companies Act, 2013.
- 3. National Company Law Tribunal (NCLT)** – The authority empowered to order compulsory liquidation.
- 4. Insolvency and Bankruptcy Code (IBC), 2016** – The principal law governing insolvency resolution and liquidation.
- 5. Company Liquidator** – The person appointed to administer the liquidation process.
- 6. Statement of Affairs** – A statement showing the estimated realizable value of assets and liabilities.
- 7. Statement of Deficiency (Deficiency Account)** – A statement explaining the causes of deficiency in the company's assets.
- 8. Realizable Value** – The estimated amount expected to be received from the sale of assets.
- 9. Secured Creditors** – Creditors whose loans are secured by specific assets.
- 10. Unsecured Creditors** – Creditors who do not have any security over the company's assets.
- 11. Preferential Creditors** – Creditors who receive payment before unsecured creditors according to law.
- 12. Floating Charge** – A security interest over changing assets of the company, such as stock and receivables.
- 13. Specific Charge** – A charge created on a particular fixed asset of the company.

14. **Lists A to H** – Schedules prepared for the Statement of Affairs during compulsory liquidation.
15. **Deficiency as Regards Creditors** – The shortfall between available assets and creditors' claims.
16. **Deficiency as Regards Members** – The ultimate loss suffered by shareholders after settlement of liabilities.
17. **Contingent Liability** – A possible liability that may arise depending on the occurrence of a future event.
18. **Provisional Liquidator** – A liquidator appointed by the Tribunal before the final winding-up order, if necessary.
19. **Dissolution** – The final legal termination of the company's existence.
20. **Section 271** – The Companies Act, 2013 provision specifying the grounds for compulsory winding-up.

4.5 Answer to check your Progress :

Section - 1

A) MCQ Answer Key

1	2	3	4	5	6	7	8	9	10
c	d	c	d	d	c	c	c	b	d

B) True or False Answer Key

1	2	3	4	5
True	True	False	True	True

Section - 2

A) MCQ-Answer

1	2	3	4	5
c	b	b	c	c

B) True or False -AnswerBottom of Form

1	2	3	4	5
True	True	False	True	True

Section - 3**MCQ ANSWER-**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
c	b	c	a	b	d	b	c	a	b	c	d	d	c	d	a	d	b	c	c

True or False (Answer)

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
F	F	F	F	F	F	F	F	F	F	T	T	T	T	T

4.6 Exercise :

Exercise-1: Unfortunate Ltd. is to be wound up on 1-4-2026 as per winding up order. The following details are available.

Particulars	(₹)
Equity share capital : 30000 shares of ₹10	3,00,000
6% Preference share capital :4500 shares of ₹100 each	4,50,000
Calls in arrears (estimated to produce ₹3000)	6,000
5%First mortgage debentures, secured by a floating charge on the whole assets	3,00,000
	-
Creditors -Fully secured (Value of shares In Beta Ltd ₹ 60,000)	52,500
Creditors - partly secured (Value of shares I Gamma Ltd. 30,000)	60,000
Preferential Creditors	11,250

Unsecured Creditors	4,05,000
Bank overdraft (secured by a second charge on the whole assets)	30,000
Cash on hand	3,300
Book debts-Good	-
55,500	-
Doubtful (estimated to produce 37.5%)	74,250
12,000	1,08,000
Bad	3,15,000
<u>6,750</u>	90,000
Stock (estimated to produce ₹90,000)	18,000
Land and Building (Estimated to produce ₹ 80,000)	
Fixtures and Fittings (Estimated to produce ₹12,000)	
Prepare the Statement of affairs and deficiency Account	

(Deficiency as regards creditors ₹ 2,28,450, Deficiency as regards Contributories ₹ 9,75,450)

Exercise-2:

The following information was extracted from the books of a limited company on 31st March 2026 on which date a winding up order was made.

Particulars	(₹)
Equity share capital: 200000 shares of ₹ 101	20,00,000
4% Preference share capital :3,00,000 shares of ₹100 each	30,00,000
Calls in arrears (estimated to produce ₹3000)	40,000
14% First mortgage debentures, secured by a floating charge	20,00,000
on the whole assets (interest paid on date)	-
Creditors -Fully secured (Value of shares In Beta Ltd ₹4,00,000)	3,50,000

Creditors - partly secured (Value of shares I Gamma Ltd. 2,00,000)	4,00,000
Preferential Creditors for wages, rates and taxes etc.	75,000
Unsecured Creditors	27,00,000
Bank overdraft (secured by a second charge on the whole assets)	2,00,000
Cash on hand	12,000
Book debts-Good	3,80,000
Doubtful (estimated to produce ₹ 30,000)	80,000
Bad <u>45000</u>	75,000
Stock in trade (estimated to produce ₹6,00,000)	7,20,000
Free hold land and Building (Estimated to produce ₹18,50,000)	21,00,000
Plant and Machinery (Estimated to produce ₹ 6,30,000)	6,00,000
Fixtures and Fittings (Estimated to produce ₹12,000)	1,20,000
Prepare the Statement of affairs and deficiency Account	

Deficiency as regards creditors ₹ 15,23,000, Deficiency as regards Contributories ₹ 65,03,000)

Exercise-3:

The following information was extracted from the books of a Camel limited company on 31st March 2026 on which date a winding up order was made.

Particulars	(₹)	(₹)
10,000 ,8% Preference Shares of ¹ 100 Each fully paid	-	10,00,000
5,00,000 Equity shares of ₹5 each fully called	25,00,000	-
(-) Calls in arrears	10,000	24,90,000
Liabilities	-	-
Secured Loan (on first mortgage of Land and Building)	1,50,000	-

Secured Loan (on floating charge of the company)	8,00,000	-
Unsecured Creditors (including preferential items ₹ 60,000)	21,60,000	31,10,000
		66,00,000
Assets	Estimated to realize	Book Value
Land and Buildings	1,80,000	3,00,000
Plant and Machinery	12,00,000	15,00,000
Furniture	50,000	30,000
Vehicles	50,000	10,000
Stock	4,00,000	8,00,000
Book Debts – Good	-	8,28,000
Book Debts – Doubtful	1,00,000	1,50,000
Book Debts – Bad	-	40,000
Bills Receivable	90%	20,000
Loans (considered bad)	Nil	1,00,000
Cash	12,000	12,000
Bank	10,000	10,000

Note: Bills discounted and awaited maturity amounted to ₹20,000, out of which ₹10,000 is expected to be dishonored.

Prepare the Statement of Affairs:

1. As regards creditors
2. As regards contributories.

(Answer: Deficiency as regards creditors: ₹2,62,000, Deficiency as regards contributories: ₹37,62,000)

Exercise- 4:

The following particulars were extracted from the books of Manish Ltd. on 31st March, 2026, on which date a winding-up order was made:

Particulars	(₹)
Equity Share Capital: 20,000 shares of ₹10 each, ₹5 called up	1,00,000
Calls in arrear (₹ 6,000), estimated to produce	5,000
16% Preference Share Capital: 20,000 shares of ₹ 10 each fully called up and paid up	2,00,000
15% Debentures secured by first floating charge	-
Bank Overdraft secured by second floating charge	1,50,000
Fully Secured Creditors (secured on investments)	15,000
Rates and Taxes	30,000
Wages and Salaries	2,000
Bills Payable	4,000
Creditors	90,000
Bills Receivable in hand	80,000
Debtors – Good	12,000
Debtors – Doubtful (estimated to produce 50%)	13,000
Debtors – Bad	7,000
Bills Discounted ₹ 30,000 likely to rank	6,000
Contingent Liability	10,000
Partly secured creditors (secured on investments)	15,000
Investments (with fully secured creditors ₹40,000)	20,000
Investments (with partly secured creditors ₹25,000)	35,000
	10,000

Creditors likely to be paid	1,40,000
Land and building (estimated to produce ₹1,00,000) .	7,000
Stock-in-trade (estimated to produce ₹40,000)	60,000
Machinery estimated to produce	2,000
Cash in hand and at Bank	200

You are required to prepare a Statement of Affairs and Deficiency Account. No journal entry for rent payable ₹2,500 was made so far.

(Ans.: Deficiency as regards contributories ₹4,88,800.)

Exercise-5:

Flowing information was extracted from the books of limited company on 31-3-2026, on which date a winding up order was made.

Particulars	(₹)
Equity share capital: 2000shares of ₹ 10	20,000
6% Preference share capital:3,000 shares of ₹ 10 each	30,000
Calls in arrears (estimated to produce ₹200)	400
5%First mortgage debentures, secured by a floating charge on the whole assets (interest paid on date)	-
Creditors -Fully secured (Value of shares In Beta Ltd ₹4,000)	3,500
Creditors - partly secured (Value of shares I Gamma Ltd. 2,000)	4,000
Preferential Creditors for wages, rates and taxes etc.	750
Unsecured Creditors	27,000
Bank overdraft (secured by a second charge on the whole assets)	2,000
Cash on hand	120
Book debts-Good	3,800

Doubtful (estimated to produce ₹ 300)	800
Bad	450
Stock in trade (estimated to produce ₹6,000)	7,200
Free hold land and Building (Estimated to produce ₹ 18,500)	21,000
Plant and Machinery (Estimated to produce ₹6,300)	6,000
Fixtures and Fittings (Estimated to produce ₹ 8,00)	1,200

4.7 References for further study :

1. Institute of Chartered Accountants of India. (2025). *Corporate and allied laws*. ICAI Publications.
2. Insolvency and Bankruptcy Board of India. (2024). *IBBI (Liquidation Process) Regulations, 2016*. <https://ibbi.gov.in>
3. Ministry of Corporate Affairs. (2024). *The Companies Act, 2013* (as amended up to 2024). Government of India. <https://www.mca.gov.in>
4. Ministry of Law and Justice. (2016). *The Insolvency and Bankruptcy Code, 2016*. Government of India. <https://www.indiacode.nic.in>
5. Taxman Publications. (2025). *Companies Act with rules* (Latest ed.). Taxman Publications Pvt. Ltd.
6. Vinod Kothari Consultants. (2024). *Guide to the Insolvency and Bankruptcy Code*. Taxman Publications.
7. Ghosh, T. P. (2023). *Corporate accounting* (4th ed.). Taxman Publications Pvt. Ltd.
8. Gupta, R. L., & Radhaswamy, M. (2023). *Advanced accountancy* (Vol. II). Sultan Chand & Sons.
9. Maheshwari, S. N., & Maheshwari, S. K. (2023). *Corporate accounting*. Vikas Publishing House.
10. Shukla, M. C., Grewal, T. S., & Gupta, S. C. (2023). *Advanced accounts* (Vol. II). S. Chand Publishing.

