External Reconstruction

Meaning of external reconstruction
Reconstruction refers to certain arrangements made by financially unsound companies. The reconstruction arrangement made by a company, to come out of its financial difficulties, may be external or internal. External reconstruction refers to closing/liquidating the company and starting again a new or a fresh. That is technically, a new company will be floated or formed to take over the existing company. Internal reconstruction refers to making internal arrangements for overcoming financial difficulties. A detailed discussion of internal reconstruction of companies.

Differences between amalgamation and external reconstruction
1. Amalgamation of companies involves liquidation of two or more companies, while external reconstruction involves liquidation of only one company,
2. Amalgamation of companies results in combination of companies, but external reconstruction does not result in any such combination.

Differences between absorption and external reconstruction
1. Absorption of companies does not involve formation of a new company, however, external reconstruction involves formation of a new company,
2. Absorption of companies results in liquidation of one or more companies while external reconstruction results in liquidation of only one company.
3. Absorption of companies involves combination of companies, whereas external reconstruction does not involve any combination.

Accounting for external reconstruction
The accounting procedure in case of external reconstruction is the same as in case of amalgamation or absorption in the nature of purchase. However, there are no different kinds in this case, unlike in case of amalgamation or absorption, which were of two kinds viz, in nature of merger and in the nature of purchase. The steps in accounting for external reconstruction are outlined below:

Calculation of purchase consideration:
I. Ascertainment of discharge of purchase consideration
II. Closing the books of vendor company (Vendor company is the company which is being liquidated and taken over) or transferor company
III. Passing opening entries in the books of purchasing company (i.e., transferee company or the new company floated)
Purchase Consideration
Purchase Consideration refers to the consideration payable by the purchasing company to the vendor company for taking over the assets and liabilities of Vendor Company.
Para 3(g) of Accounting Standard – 14 defines the term purchase consideration as the “aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company”. Although, purchase consideration refers to total payment made by purchasing company to the shareholders of Vendor Company, its calculation could be in different methods, as explained below:

- a. Lump sum method
- b. Net payments method
- c. Net Assets Method
- d. Other basis for purchase consideration

**Lump sum Method:** strictly speaking, this is not a method. Where the purchase consideration amount is mentioned in the problem itself, it is called Lump Sum consideration. This method, does not involve any calculation regarding purchase consideration.

**Net Payments Method:** under this method, the purchase consideration will be the total of payments made (in any form)by purchasing company to vendor company, on any basis. Generally, purchasing company decides the payment to be made towards liabilities of Vendor Company, not taken over and towards expenses. The total of such payments will be the purchase consideration.

**Net Assets Method:** under this method, purchase consideration will be the excess of value of assets taken over by the purchasing company, over the value of liabilities taken over. that is, under this method, the purchase consideration will be

\[
Purchase\ Consideration = Assets\ taken\ over - Liabilities\ taken\ over\ (at\ ‘taken\ over\ ‘values) - Liabilities\ taken\ over\ (at\ ‘taken\ over\ ‘value)
\]

**Other basis of arriving at Purchasing Consideration**
1. Intrinsic value
2. Exchange Ratio

**How to identify the method of purchase consideration, applicable for the given problem?**
1. If the problem specifies the method to be adopted – adopt the method specified
2. If the method is not specified in the problem, but the amount of purchase consideration is given, it is lump sum method and does not need any calculation
3. When the payments made by purchasing company to vendor company is given, with the statement “Balance in......” then, “Net Asset Method” must be adopted.

4. When the payment made by purchasing company to Vendor Company is given liability wise or any other item wise without the statement “Balance in......” then, “Net Payments Method” must be adopted.

**Discharge of purchase consideration**

Discharge of purchase consideration refers to the form in which, the purchase consideration is discharged by the purchasing company. Under net payments method calculation and discharge of purchase consideration would be one and the same. Under net Assets Method and Lump Sum Method based on the information in the problem the mode of discharge must be ascertained. When the problem is silent about the mode of discharge of purchase consideration, it must be assumed that purchase consideration is discharged by issue of equity shares of purchasing company.

**Closing of Books of Transferor Company**

Closing vendor company books involves the following steps and entries. While solving problems students are advised to follow the below order strictly to avoid confusion in both amalgamation in the nature of purchase and amalgamation in the nature of merger:

**Accounting Entries in the books of Transferor Company**

1. For transfer of various assets including cash at their book value

   *Realisation Account*      *Dr.*
   *To concerned Asset Account*

   **Note:** cash and bank balance is transferred to realization account only when it is taken over by the transferee company.

   Gross value of assets and provisions against that are separately transferred to realization account. For example: Balance of debtors Rs 20,000 and provision for doubtful debts Rs 10,000 are transferred separately because in the ledger book, there are two separate accounts, namely, debtor account showing a balance of Rs 20,000 (debit) and provision for doubtful debts accounts showing a balance of RS 10,000 (credit) and both these accounts are to be closed for final closure of books of the transferor company.

2. For transfer of various liabilities including debenture at their book value and statutory reserve

   *Concerned Liability Account*      *Dr.*
   *To Realisation Account*

3. For purchase consideration due
Purchasing company account Dr. To Realisation Account

4. For the payment of realization expenses
   a. If it is paid by Transferor company:
      Realisation Account Dr.
      To Cash/Bank Account

   b. If it is paid by Purchasing Company:
      i. For making payment
         Purchasing company account Dr.
         To cash/bank account

      ii. For collecting the amount from purchasing company
         Cash/Bank Account Dr.
         To Purchasing Company Account

5. For sale of assets not taken over by the Transferee Company
   Cash/Bank Account Dr.
   To Realisation Account

6. For payments of liabilities not taken over by the Transferee company (including debenture if not taken over)
   Realisation Account Dr.
   To Cash/Bank Account

7. For preference share capital due:
   i. Payable at par
      Preference Share Capital Account Dr.
      To Preference Share Holder’s Account

   ii. Payable at a higher value
      Preference Share Capital Account Dr. (with face value)
      Realisation Account Dr. (with premium on redemption)
Preference Share Capital Account Dr.
   To Realisation Account
   To Preference Shareholders Account

8. For closing realisation account

   i. In case of profit
   Realisation Account Dr.
   To Equity Shareholders Account

   ii. In case of loss
   Equity Shareholders Account Dr.
   To Realisation Account

9. For transfer of Share Capital, reserves and profits

   Equity Share Capital Account Dr.
   Reserve Account Dr.
   Profit and Loss Account Dr.
   To Equity Shareholder’s Account

10. For transfer of preliminary expenses, underwriting commission, discount on issue of shares and debentures and Profit and loss account (loss) etc. 
    Equity Shareholder’s Account Dr.
    To Preliminary Expenses Account
    To underwriting Commission Account
    To discount on Issue of shares and Debentures Account
    To Profit and Loss Account

   Note: in case of amalgamation in the nature of merger, only share capital must be transferred to equity shareholders account and all other items belonging to shareholders must be transferred to realisation account. In case of amalgamation in the nature or purchase, all items relating to equity shareholders must be transferred to the equity shareholders account other than statutory reserves, which must be transferred to realisation account.

11. For the receipt of purchase consideration

   Equity Shares in Purchasing Company Account Dr.
   Preference Shares in purchasing of Transferee Company account Dr.
Cash/Bank Account  To Purchasing Company Account  Dr.

12. For the final payment made of preference shareholders

Preference Shareholder’s Account  To Cash/Bank Account  Dr.

To shares or debentures in Transferee company account (if distributed)

13. For the final payment made to Equity Shareholders

Equity shareholders Account  To Equity shares in purchasing company Account  Dr.

To Cash/Bank Account

Note: When purchasing company issue debenture of discharge of vendor company debentures, in the books of vendor company the debentures must be shown as taken over, by purchasing company and credited to realisation account and later in the books of purchasing company the discharge must be recorded by way of entry for exchange (as per requirements of AS 14)

I. Opening Entries in the Books of Transferee Company or Purchasing Company

The accounting treatment under External Reconstruction in the books of transferee, only Business Purchase Method (i.e., Amalgamation in the nature of purchase) is applied because it involves substantial changes in values of assets and liabilities. Moreover, there is only one company and in fact, there is no merger.

The following entries will be passed in the books of purchasing company in the case of external reconstruction.

A. Opening Entries in the case of Amalgamation in the nature of purchase (Business Purchase Method)

1. For Purchase Consideration payable

Business Purchase account  To liquidators of Transferor company  Dr.

(With the amount of purchase consideration)

2. For incorporation of Assets and Liabilities

Plant and machinery account (revised value)  Dr.
Land and building account (revised value)  \[ Dr. \]
Other fixed assets account (revised value)  \[ Dr. \]
Debtors account (revised value)  \[ Dr. \]
Stock account (revised value)  \[ Dr. \]
Bank account  \[ Dr. \]
Goodwill account (balancing figure)(if any)

- \[ To Creditors \]
- \[ To Bills Payable \]
- \[ To Other liabilities \]
- \[ To Capital Reserve account (bal. fig) (if any) \]

**Note:**
1. Revised value or fair value and not book values of assets and liabilities taken over are recorded.
2. Reserves and surplus are not incorporated along with assets and liabilities. But to carry forward “Statutory Reserve” a separate entry is passed through “amalgamation adjustment account”
3. The difference between purchase consideration and fair value of net assets (Assets – Liabilities) is transferred to capital reserve or goodwill account as the case may be.

3. **For incorporation of Statutory Reserves:**

   **Amalgamation Adjustment account**  \[ Dr. \]
   **To Statutory Reserve account**
   (With the amount of statutory reserves such as development rebate reserve, investment allowance reserve, export profit reserve etc.)

4. **When there is no need for maintaining statutory reserves:**

   **Statutory Reserve account**  \[ Dr. \]
   **To Amalgamation Adjustment account**

5. **For discharge of Purchase Consideration**

   **Liquidator of Transferor Company account**  \[ Dr. \]
   **Discount on issue of securities account**  \[ Dr. \]
   **To Bank account**
   **To Equity share capital account**
   **To Preference share capital account**
   **To Debenture account**
   **To Securities premium account**
(With the amount paid in different form and separate recording of par value of securities issued and
discount or premium if any one issue of securities)

6. For making payment of debentures and other liabilities of transferor company:

Debenture/items of liability (i.e. creditors) account Dr.
Discount on issue of debentures account Dr.
To debentures account
To premium on issue of debentures account

(With the issue of new debenture of transferee company to debenture holders of transferor company)

7. For incurring formation expenses:

Formation expenses/preliminary expenses account Dr.

To Bank account

8. For set off goodwill against Capital Reserve:

Capital reserve account Dr.

To Goodwill account

TREATMENT OF REALISATION EXPENSES

Various circumstances

1. Payment by transferor company and also burden on transferor company:

Realization account Dr.

To cash

Note: no entry in the books of the transferee company

2. Payment by transferee company and also burden on transferee company: (payment in the form of reimbursement)

A. In the books of Transferor Company
   a. At the time of payment

Transferee Company account Dr.

To Cash account

   b. At the time of reimbursement
Cash account  
   To transferee company account

B. In the Books of Transferee Company
   a. In case of Pooling of Interest Method

Profit and loss or Reserve account  
   To Cash account

   b. In case of Purchase Method

Goodwill or Capital Reserve Account  
   To Cash Account

3. Payments by Transferor company out of cash retained out of cash taken over by the Transferee Company
In this case, as cash has been retained out of the cash taken over by the transferee company, the burden will be on the transferee company. As transferor company is not be bear these expenses, it transfers at the time of transfer of assets, only that part of cash to realisation account which is actually handed over to the transferee company. On payment of realisation expenses the following entry is passes:

Realisation Account  
   To Cash Account
Internal Reconstruction

Introduction
A company might have suffered huge losses in the past or might have the problem of over capitalization or might have over valued its fixed assets because of inadequate provision for depreciation. Such a company faces the danger of going onto liquidation either voluntarily or because of a petition by any of its creditors or Debenture holders. In these circumstances companies have three options:

3. To Liquidate the company (Liquidation)
4. To Reconstruct Externally (External Reconstruction)
5. To Reconstruct Internally (Internal Reconstruction)

Meaning of Internal Reconstruction
Internal Reconstruction is an arrangement made by companies whereby the claims of shareholders, Debenture holders, creditors and other liabilities are altered/reduced, so that the accumulated losses are written off, assets are valued at its fair value and the balance sheet shows the true and fair view of the financial position.

Forms of Internal Reconstruction
Internal Reconstruction may take any of the following two forms:

1. Re-organization or Alteration of Share Capital
2. Reduction of Share Capital and other Liabilities

Re-organization or Alteration of Share Capital
Re-organization or alteration of share capital refers to the arrangement of the capital of the company and include the following:

a. Increase the share capital by making fresh issue of shares
b. Decreasing the share capital by cancelling the unissued shares.
c. Conversion of shares into stock and vice versa
d. Consolidation of shares of smaller amounts into shares of larger amounts
e. Sub-division of shares of larger amounts into share of smaller amounts.

A company can alter its share capital if it is authorized by its Articles of Association.

Reduction of Share Capital and other Liabilities
Reduction of Share Capital is an arrangement under which the capital of the shareholder and sometimes even the claims of debenture holders and the creditors are reduced. The amount made available by...
capital reduction is utilized in writing off the accumulated losses, fictitious assets and the overvalued portion of the other assets.
A company can reduce its paid-up capital if
   a. It is authorized by its articles
   b. A special resolution is passed and
   c. A sanction of the court is obtained

Differences between Internal Reconstruction and External Reconstruction

   a. No new company is formed in case of Internal Reconstruction. A new company is formed in case of External Reconstruction.
   b. In case of Internal Reconstruction, no company is liquidated. In case of External Reconstruction one company is liquidated
   c. Internal Reconstruction requires court’s confirmation. But External Reconstruction can be effected without court’s confirmation
   d. Internal Reconstruction is a slow and tedious process. But External Reconstruction can be carried out easily
   e. In the case of Internal Reconstruction, the company is able to set off its past losses against future profits. Whereas, in the case of External Reconstruction, the past losses of the old company can’t be set off against the future profits of the new company.

ACCOUNTING ENTRIES

1. For reduction of Equity Share Capital:

   (Old) Equity Share Capital Account  Dr.
      To (new) Equity Share Capital Account
      To Capital Reduction Account

2. For reduction of Preference Share Capital:

   (Old) Preference Share Capital Account  Dr.
      To (new) Preference Share Capital Account
      To Capital Reduction Account

3. For reduction of the amount due to debenture holders:

   Debenture holders Account  Dr.
To Capital Reduction Account

4. For reduction of the amount due to Creditors:

Creditors Account Dr.
   To Capital Reduction Account

5. For appreciation in the value of Assets:

Assets Account Dr.
   To Capital Reduction Account

6. For the payment of Reconstruction expenses:

Reconstruction Expenses Account Dr.
   To Bank Account

7. For utilization of capital reduction account in writing off accumulated losses and various fictitious assets:

Capital Reduction Account Dr.
   To Profit and Loss account (loss)
   To Preliminary Expenses
   To Discount of issue of shares or debentures account
   To underwriting commission account
   To Advertising Suspense’s account
   To Reconstruction Expenses account
   To Good will account
   To Patents or Trade Marks account
   To Fixed assets account (over valued assets)
   To Other assets account
   To Capital Reserves account (if some balance is still left)
Liquidation of Companies

Meaning of Liquidation:
Liquidation or the winding up of a company means the termination of the legal existence of a company. Under such circumstances, the assets of the company are disposed off and the debts are paid, out of the amount realized from assets or from the contributions made by the members and the surplus if any is distributed among members in proportion to their holding.

TYPES OF WINDING UP

There are three models of liquidation of a company.
A. Compulsory winding up by the court.
B. Voluntary winding up:
   (i) Member’s voluntary winding up.
   (ii) Creditor’s voluntary winding up.
C. Voluntary winding up under the supervision of the court.

Compulsory Winding up
It can take place when the company is directed to be wound-up by an order of court.

Grounds for compulsory winding up [SecA33].
1. If the company has, by special resolution, resolved that the company be wound up by the court.
2. If a default is made in delivering the statutory report of the Registrar of Companies or in holding the statutory meeting of the company.
3. If the company does not commence its business within a year from its incorporation or suspends its business for a whole year.
4. If the number of members falls below seven in case of a public company or below two in case of a private company.
5. If the company is unable to pay its debts.
6. If the court is of the opinion that it is just and equitable that the company should be wound up.

B. Voluntary Winding up
A company can be wound up voluntarily under the following circumstances:
1. By an ordinary Resolution:
   (a) Where the duration of the company was fixed by the articles and the period has expired; and
   (b) Where the articles provided for winding up on the occurrence of any event and the specified event has occurred.
2. By a Special Resolution:
   When a resolution is passed by the members in all other cases for voluntary winding up, it must be notified to the public by an advertisement in the Official Gazette and in newspapers.
Types of Voluntary Winding up

**Member's voluntary winding up:**
At the time of winding up if the company is a solvent company i.e., able to pay its debts and Directors, make a declaration to that effect. it is called a Member's Voluntary Winding up.

**Creditor's voluntary winding up:**
When the declaration of solvency is not made and filed with the Registrar, it may be presumed that the company is insolvent. In that case, the company must call a meeting of its creditors for passing the resolution for winding up.

**Voluntary Winding up under the Supervision of Court**
At any time after a company has passed a resolution for voluntary winding up; the court makes an order that the voluntary winding up shall continue, but subject to such supervision of the court and with such liberty for creditors, contributories or others to apply to the court and generally on such terms and conditions as the court thinks just. This type of liquidation is called "voluntary winding up under the supervision of the court."

**CONTRIBUTORY**
According to Section 428 of the Companies Act, a contributory is "every person liable to contribute to the assets of a company in the event of its being wound up, and includes the holder of any shares which are fully paid up and also any person alleged to be a contributory"

In the event of a company being wound up all present and past members (called contributories) are liable to jointly contribute to the assets of the company an amount sufficient for payment of its debts and liabilities, to meet the cost of liquidation and adjust the rights of contributories among themselves.

**LIQUIDATOR**
When there is liquidation of a Company, one or more persons are required to be appointed specially for conducting the liquidation or winding up proceedings of the company. Such a person/s are called Liquidator/s.

In case of a compulsory winding up, an official liquidator is appointed by the court. In the case of a member's voluntary winding up, the liquidator is appointed by the members at their general meeting. In case of a creditor's voluntary liquidation, both the creditors and the members of the company nominate the liquidator in their respective meetings: if the creditors and the members nominate different persons as the liquidator, the liquidator nominated by creditors will act as liquidator. Where winding up takes place at the supervision of the court, the liquidator may be appointed by the members or the creditors or by the court. The liquidator appointed by the court as well as the members and creditors may together function as liquidators.
FUNCTIONS OF LIQUIDATOR

The liquidator is required to perform certain functions at the time of liquidation. The main functions are as follows:

1. The primary function of a liquidator is to realise the assets of the company.
2. He has to collect the money due from the contributories.
3. He has to distribute the amount realised from sale of assets and amount received from contributories in the order of preference as per Rule 329 of Companies Act.
4. He has to maintain and submit the record of receipts and payments of cash to the members in the case of voluntary winding-up and to the court in the case of compulsory winding up.

Liquidator’s Final Statement of Account

At the time of liquidation of a company, the liquidator realises all the assets and discharge the liabilities and capital. The statement prepared to record such receipts and payments is called ‘Liquidator’s Final Statement of Account.’ This statement is prepared after the affairs of the company are fully wound-up. The liquidator must make payments in the following order:

1. Secured Creditors.
2. Legal expenses (including liquidation expenses and cost of winding up).
3. Liquidator’s remuneration.
4. Payments to debenture holders and other creditors having floating charge on the assets of the company.
5. Payments to Preferential Creditors.
6. Payments to unsecured Creditors.
7. Calls in advance, if any.
8. Arrears of dividends on cumulative preference shares.
9. Amount due to preference shareholders.
10. Amount due to equity shareholders.
The form of the Liquidator's Final Statement of Account is given below:

![Image of the Liquidator's Final Statement of Account]

**PROVISIONS**

The following important points to be borne in mind while preparing the Liquidator's Final Statement of Account:

1. **The words 'To' and 'By' need not be used, since it is a statement and not all Account.**

2. **When a specific asset pledged as security is realised by the liquidator:**

   Where a specific asset is provided as security towards debentures or creditors, the amount realised on that should be used by liquidator for discharge of such debentures or creditors before making any other payment. That is, on the Receipts side, the amount realised from the assets pledged, will be recorded and on the payments side, the amount payable towards secured creditors, will be recorded to the extent of amount due or amount realised whichever is less, Where the amount realised on the asset pledged is less than the amount due towards secured creditors, the difference will be treated as unsecured creditors and paid after making payment to preferential creditors.

3. **When a specific asset pledged as security against debentures or creditors is realised by debenture holders or creditors:**

   In this case, surplus if any in the hands of debenture holders or creditors must be treated as receipts and recorded on the receipts side of the statement.

   However, if the amount received on realisation is less than the amount due to debenture holder or creditors, it must be paid after making payment to preferential creditors. (i.e., they must be treated as unsecured creditors).

4. **Calls in arrears:**

   Calls in arrears given in the Balance Sheet must be recovered by the liquidator from the concerned shareholders without which repayment of capital on those shares cannot be made. If the amount is not realised, the liquidator can forfeit the shares.

5. **Calls on Shares:**
Where the amount available is not sufficient to pay outside liabilities or preference shareholders, any uncalled amount on equity shares must be called to the extent required at the relevant stage of deficiency.

6. **Legal charges and other expenses on liquidation:**

Legal expenses include registration expenses, stamp duty, litigation expenses etc. The other expenses on liquidation includes cost of liquidation like auctioneers and valuers charges, cost of possession and maintenance of estate, cost of notices in Gazette and newspapers, establishment charges and other incidental expenses on liquidation. When "liquidation expenses" or "cost of winding up" is given, without mentioning the details, it can be shown before liquidator's remuneration.

7. **Liquidator's Remuneration:**

Normally a fixed amount is paid to liquidator or it is paid as a percentage on assets realised by the liquidator and/or amount paid to unsecured creditors.

A. Where the remuneration is to be paid on assets realised: The following points must be kept in mind.

(i) Until otherwise specified for calculating liquidator's remuneration, "assets realised" means any assets realised by liquidator except cash in hand and cash at Bank, because cash in hand and at bank is already in the realised form and no effort is require for realising it.

(ii) Until otherwise specified, no remuneration should be paid to liquidator on calls-in-arrears and call money realised.

(iii) Surplus received from secured creditors must be considered in calculating liquidator's remuneration, since the liquidator makes an effort to realise the surplus from secured creditors.

(iv) When the problem states that remuneration is to be paid as a percentage on a 'Total amount realised', then remuneration should be calculated on total Receipts (ie., including surplus, calls in-arrears and call money received)

B. Where the remuneration is to be paid on payments made: The following points must be kept in mind

(I) for calculating remuneration on payment made to unsecured creditors, preferential creditors must be considered as part of unsecured creditors.

(II) Where the balance amount available is sufficient enough to pay unsecured creditors completely, liquidator's remuneration on payment to unsecured creditors will be calculated using the following formula:

\[
\text{Amount Payable to Unsecured Creditors} \times \frac{\text{Percentage of commission}}{100}
\]

(III) When the balance amount available is 'not sufficient' enough to pay unsecured creditors completely, liquidator's remuneration on payment to unsecured creditors will be calculated using the following formula:

\[
\frac{\text{Amount available}}{100} \times \frac{\text{Percentage of commission}}{1 + \text{Percentage of commission}}
\]

Where the liquidator has to be paid remuneration on final amount payable to shareholders, then the amount or remuneration must be calculated using the following formula:

\[
\frac{\text{Balance amount available before making payment to shareholders}}{100} \times \frac{\text{Percentage of commission}}{1 + \text{Percentage of commission}}
\]

8. When Debentures are not secured against a specific asset, it must always be treated as secured on 'floating
9. Interest on Debentures:
Any outstanding interest on debentures must be paid before discharging debenture. Interest on Debentures and other loans must be paid as follows:
(i) If the company is solvent, interest must be paid up to the date of repayment of loan.
(ii) If the company is insolvent. Interest must be paid up to the date of winding up only, irrespective of when the final repayment is made.

10. Preferential Creditors
Creditor’s to whom following are due, as preferential creditors under Sec. 530 of the Companies Act.
(i) All revenues, taxes, cesses and rates due from the company to the Central Government or a State Government or to a local authority at the relevant date and having become due and payable within the twelve months next before that date;
(ii) Wages or salaries (including wages payable for time or piecework and salary earned wholly or in part by way of commission) of any employee, in respect of service rendered to the company and due for a period not exceeding 4 months within the 12 months next before the relevant date, and any compensation payable to any workman under any provisions of Chapter V A of the Industrial Disputes Act, 1947, provided the amount payable to any one claimant does not exceed Rs. 20,000;
(iii) All accrued holiday remuneration becoming payable to any employee or in the case of his death, to any other person in his right, on the termination of his employment before, or by the effect of the winding up order or resolution;
(iv) Unless the company is being wound up voluntarily for reconstruction or amalgamation with another company, all amounts due, in respect of contributions payable during the 12 months next before the relevant date, by the company as the employer of any persons under Employees’ State Insurance Act, 1948, or any other law;
(v) All sums due as compensation under the Workmen’s Compensation Act, 1923, in respect of death or disablement of any employee of the company;
(vi) All sums due to an employee, from a Provident Fund, pension fund, or any other fund for the welfare of the employees, maintained by the company; and
(vii) The expenses of any investigation held in pursuance of Section 235 or 237 in so far as they are payable by the company.
Notes: (a) Persons who advance money for the purpose of making preferential payments under (2) and (3) above will be treated as preferential creditors.
(b) When amount available is not sufficient to pay the preferential creditors completely, the amount so available should be distributed in proportion of amount due of each item.

11. Calls paid in advance
Calls paid in advance by shareholders must be paid immediately after paying unsecured creditors.

12. Preference Dividend
(i) Preference dividend declared but not paid must be treated as “unsecured creditors” and paid accordingly.
(ii) In case of cumulative preference shares, if dividends are in arrears for one or more years, but not declared, then, it must be paid before paying preference share capital.

13. Where the preference shares are participating preference shares, the balance available after paying preference share capital and equity share capital, must be proportionately distributed
14. When share capital of the company includes fully paid shares and partly paid shares, the difference amount must be paid first on fully paid shares and balance if any, must be proportionately distributed.