Class : B.Com. Part II

Subject : Corporate Accounting.

paper : IV

unit : IV

Topic : Winding up Companies (Voluntary Only).

Lecture sequence. 1

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Liquidation of Company (Voluntary Liquidation only).

Meaning of Liquidation:

Liquidation is a formal insolvency procedure in which a company is brought to an end, all of its assets are liquidated and the proceeds from the sale of assets is used to repay Creditors.

According to. S.C. kuchhal. "The winding-up or Liquidation of company means that process which brings the life of a company to an end".

An administrator, namely a liquidator is appointed and he takes control of the company, collects its assets, pays its debts and finally distributes any surplus among the members in accordance with their rights. Unlike an insolvent individual or partnership firm, insolvency proceedings are not applicable to a company. A solvent as well as insolvent may be liquidated.

Therefore according to: Gower "Windingup of a company is that method, according to which the life of a company comes to an end its assets are used for the benefits of its Creditors and members".

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Modes of Windingup or Liquidation:

The enforcement of a companies Act 2013 the winding-up of a company can be done only by the following two methods:

Modes of Winding-up (section 270)

- On Inability to Pay Debts.
  - Insolvency and Bankrupcy Code, 2016 with its Regulations
- Grounds than inability to Pay debts.
  - Companies Act 2013 with Court Rules
- Voluntary winding up.
  - Companies Act 2013 with Court Rules
    - Upto 31.3.2017
  - Section 59 of the IBC code with voluntary liquidation process Regulation 2017
    - From 1st April 2017

Difference between Liquidation and Insolvency.

Basis of Difference.	Liquidation	Insolvency.
① Act.	Liquidation of a company is done under Companies Act 2013.	Insolvency of company is done under State Insolvency Act or Presidency Town Insolvency Act.
② Existence	In case of liquidation, the company remains in existence until all the dues are paid off by selling the assets of the company.	The company does not remain in existence after the order of Court is issued for insolvency.
③ Directors Right	The right of directors still remains in some specific circumstances in Liquidation.	All rights of directors are taken away in case of insolvency.
④ Capacity of Payment.	Liquidation of company can be possible in both the cases i.e. being capable of paying Liabilities or not.	A person or firm is declared insolvent when becomes incapable to pay the liabilities.
⑤ Appointment of Liquidator	Liquidator is appointed for Liquidation of the Company.	Govt Receiver is appointed in case of insolvency.
⑥ Relationship.	Relation of liquidation is with the company.	Relation is with firm, individual, Hindu undivided family.