

# A Detailed Research on Liquidation of a Company



M.Deepthi, B. Sangeetha Tomer

**Abstract—** Liquidation is a process of closing the business affairs of a company. It also means closing of all the business activities of a company. In certain circumstances if the company has been involved in illegal business then liquidation is made compulsory. The main reasons for Liquidation of a company is due to insolvency of a company, obsolescence of the products made by the company continuous losses or any other compelling reasons. As per Companies Act, 1956 liquidation of a company can be done in 3 ways, Compulsory liquidation, Voluntary liquidation and winding up under the supervision of the court. The process of liquidation is done by the appointed liquidator who would look into the interests of the company, its members and its creditors. Compulsory liquidation is usually initiated by the creditors. The essentiality of winding up a company is to save the creditors and members from further losses and also distribution of assets and liabilities among the creditors and members. A company is liquidated when it is ascertained that the business is not in any state to continue. This may be due to various reasons such as insolvency unwillingness to carry on with the operations, etc. An empirical study is done where the samples are collected by using probability sampling and random sampling method. Samples of approximately 1512 respondents are collected. Using the spss tool the value of the chi square is found and the output of the research is that there is no significant association between the process of liquidation of company done by the liquidator and gender and there is a significant association between the compulsory liquidations initiated by the creditors as per court order and its concluded that most of the company undergo liquidation process in order to save the company from loss and also the money which is raised will be distributed to the creditors as well as the shareholders the liquidation process is done only when the business is not in any state to continue

**Key Words:** Liquidator, Losses, Business affairs, Insolvency, Creditors

## I. INTRODUCTION

The expression 'Liquidation' is a process by which existence or life of a company is put to an end. It is also termed as 'Winding up'. Liquidation is a process by which the life of a company is ended and all its properties are

administered for the benefit of its members and creditors. The person who has been appointed for administering the assets and liabilities is called 'Liquidator'. In the process of liquidation, the company's name will be deleted from the list of companies by the Register of Companies (ROC) and it will be published in the official Gazette. When a private or public Ltd company is closed it is called as winding up of a company. The essentiality of winding up a company is to save the creditors and members from further losses and also distribution of assets and liabilities among the creditors and members. There are different modes of liquidation which includes, compulsory liquidation, voluntary liquidation and winding up by the tribunal these modes are dealt under the Section 271 of Companies Act, 2013. As per Section 271 of Companies Act, 2013 a company on petition may be wound by the tribunal if the company is unable to pay the debts. Voluntary liquidation means winding up by the members or creditors of a company without interference by the court and voluntary liquidation of a company is considered as the normal mode of liquidation, the essentiality of voluntary liquidation is that members as well as creditors are allowed to settle their affairs without the consent of the Court. There are two kinds of voluntary winding up which includes, Members voluntary winding up and Creditors voluntary winding up. Section 309 of the Companies Act deals with the effects of voluntary winding up which states that winding up shall be deemed to commence on the date of passing of the resolution for voluntary winding up of the company. Compulsory liquidation is a formal Insolvency procedure which results in closure of company. Compulsory liquidation is usually initiated by the creditors as per court application. Compulsory liquidation is the final and most essential step taken by the creditors against the company if the debts are unpaid. The procedure of Compulsory liquidation is to file a petition at the court which is then later decided by the judge. The person appointed to administer the assets and liabilities is called as Liquidator. A liquidator's function is to collect in and realise the company's assets, and to distribute the proceeds to the company's creditors and members of the company. The following are some of the duties of the company Liquidator. Duty to take the property of the company in to his custody, Duty to Settle list of contributories, Duty to admit or reject proof of debts, Duty to make calls, Duty to pay company's debt and Duty to maintain proper accounts. Liquidation of a company means, closing down the business activities of a company. A company is liquidated when it is ascertained that the business is not in any state to continue.

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\* Correspondence Author

**M. Deepthi**,\* BBA.,LLB (HONS) 2nd year, Saveetha Institute Of Medical and Technical Sciences (SIMATS), Saveetha School of Law, Saveetha University, Chennai, Tamilnadu, India. (Email: deepthianand499@gmail.com)

**Sangeetha Tomer**, Assistant professor, Saveetha Institute Of Medical and Technical Sciences (SIMATS), Saveetha School of Law, Saveetha University, Chennai, Tamilnadu, India. (Email: sangeethab.ssl@saveetha.com)

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This may be due to various reasons such as insolvency unwillingness to carry on with the operations, etc. A company's business is wound up by disposing the assets of a company and the money realised from sale of assets used for the payment towards creditors and members of the company. The main aim of this paper is to examine a detailed study on Liquidation of a company.

### II. OBJECTIVES

- To determine the procedure of liquidating a company.
- To explore the types of Liquidation.
- To examine the causes and effects of Liquidation.
- To reveal the essentiality of compulsory liquidation.
- To establish a detailed study on liquidation of company .

### III. REVIEW OF LITERATURE

**Thanuja Ramachandra, James Olabode Bamidele Rotimi** (Ramachandra and Rotimi 2012) has determined the causes of liquidation and distribution of losses to construction parties and the author has analysed financial difficulties due to non payment which drop in property prices and the liquidation of related companies. **Livya Rathna , Arya.R (2018)**("[No Title]" n.d.) have examined the procedures and winding of company which is brought forth by the Insolvency and Bankruptcy code 2016 and also stated that winding up of company is required due to the number of reasons including closure of business . **Aashish Jaangda and Kannappa (2018)**("[No Title]" n.d.) have focused on the effects of winding up of company as per the order mentioned in the Sec 278 & 309 of the Companies Act 2013 moreover the authors has also stated the statutory provisions of winding up of the company in which the procedures are dealt under chapter XX of the Companies Act. **Julie Davoren (January 2019)**("Accounting Entries for a Closing Company" n.d.)has revealed the accounting entries for a closing company in which he stated that the company must undergo a monitored liquidation process in which all the company assets are realized and explored that while liquidating a company the remaining assets should be settled. **Howard .B Levy (July 2019)**(Howard B. Levy 2019) has explored the basis of liquidation as well as accounting and reporting , the author has mentioned that liquidation is approved by the persons with authority to make an effective plan and the author has also states that financial report does not necessarily if enterprises shifts to expected liquidation and liquidation basis of accounting is part of GAAP. **Michael J . Alderson and Brian L Betker. (1996)** ("Liquidation Costs and Accounting Data on JSTOR" n.d.) have examined the relation between liquidation costs and proxies for those costs which has been used in capital structure and found that liquidation costs have strong negative relation and there are many variations in liquidation costs is left unexplained by the accounting variables . **Lubinisha Saha (2006)** ("The Concept of Liquidation/Winding Up in India" n.d.) has explored the concept of liquidation / winding up in India and mentioned that the bankruptcy of a company is not the same thing as of winding up of a company the also stated that dissolution of company takes place only after all the entire

process of winding up is over and dissolution puts an end to the life of the company and the concept process of bankruptcy is not much relevance on the concept of winding up. **(September,2019)**("How Liquidation Benefits a Business | Economic Journal" n.d.) **This** article is regarding the liquidation benefits in a business , during the process of liquidation a company is brought to an end the company assets are then distributed to all applicable supplicants the liquidation will allow a company to pay off its debts .In case of compulsory liquidation a liquidator will be appointed as per court order. **Terrance R.Skantz , Roberto Marchesini** ("Error - Cookies Turned Off" n.d.) **have** analysed the shareholder wealth effects of voluntary corporate liquidation and from the sample of 37 firms that liquidated during 1982 period , the liquidation announcement is associated with the stock price . **Grant Slevin (November ,2014)**(Slevin 2015) **has** revealed about the liquidation and the corporate trustee and the states that company law remedies may assist the liquidators of a corporate trustee and trustee's indemnity were also analysed . **John D Schatzberg (1987)**("[No Title]" n.d.) has examined the possible motives and consequences of voluntary corporate liquidations and it was investigated that announcement of liquidation reduces the risk of liquidating shares in which the shareholders receive gains from the successful liquidation and suggested that voluntary liquidation leads to higher valued reallocation of corporate resources. **Wang Wei and Jiang Han (October 2017)**(Editor 2017) **have** discussed about the similarities and differences in the voluntary and compulsory liquidations of a foreign-invested enterprises in light of their experiences and concluded that the compulsory liquidation is carried out by the liquidation committee whereas voluntary liquidation proceeds at the wish of shareholders. **Elisabeth Heijmans (May 2019)**(Editor 2017; Heijmans 2019) **have** demonstrated liquidation process of companies and revealed that differing liquidation process negatively impacts company shareholders , in Perspective of shareholders it has explored the specific investor and profits are been benefiting to them. **John B. Guerard Jr , Eli Schwartz**(Guerard and Schwartz 2007) have examined the liquidation, failure , bankruptcy and reorganisation of a company and stated that the free enterprise system is one of the profits and losses **Dean Corbae , Pablo D'Erasmus (2016)**("[No Title]" n.d.) **have** explored the effects of liquidation with regard to bankruptcy choice and firm dynamics and stated that in US law the chapter 7 deals about liquidation and chapter 11 deals about the reorganisation, liquidating a corporate asserts are used to repay debt and bankruptcy costs and limited liability. **Nathan Craig and Ananth Raman ( May 2013)** ("[No Title]" n.d.) have explored the store liquidation problem to the literature and determined a technique for optimising key variables such as inventory and store closing decisions during liquidations and the authors have also identified the current practices in store liquidation which differs from optimal decisions and traces the consequences of these differences.

**October 10 ( 2016)**(“Voluntary Dissolution/liquidation of Luxembourg (unregulated) Commercial Company | Ogier” 2016) The main purpose of this article is to set out the main points to consider the voluntary dissolution or liquidation in relation to an unregulated commercial company and state that Lima’s at some stages have to be considered as successful. **Mehdi Pllashniku (2016)**(“[No Title]” n.d.) has focused on the voluntary liquidation and dissolution of trading associations and also included the conditions for voluntary dissolution of business and it was found that voluntary dissolution changes in the form of the business or ownership. (“Voluntary Dissolution/liquidation of a Company” n.d.) This article is regarding the voluntary dissolution of liquidation of a company and stated that a company which is being dissolved exists for the purpose of liquidation in which the liquidators are responsible for the full liquidation process until the final general meeting concludes the liquidation proceedings. **Iowan Markowicz (June 2019)**(Markowicz 2019) **has** analysed the risk of liquidation depending upon the age of the company and found that company liquidation comes to an end as the company grows older and essential part is that it depends upon the entity age .

**IV. METHODOLOGY**

For the purpose of this study, descriptive research is used to portray accurately the liquidation process of a company . The present study is based on primary data collection by the researcher and the secondary data from books , journals, and online sources. The present study used simple random sampling method for selection of samples because the population is too high. A total number of 1512 sample respondents in the age group 13-45 years .By using chi square the dependent variables are process of liquidation done by the liquidator and compulsory liquidation initiated by creditors and independent variables are age and gender.

**V. ANALYSIS AND DISCUSSION & RESULTS**

**Table : 1 Gender**

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		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	1039	68.7	68.7	68.7
	Male	473	31.3	31.3	100.0
	Total	1512	100.0	100.0	

**Source : Author’s calculation from primary data.**

Out of 1512 respondents , 1039 were Female which accounted to 68.7 % and 473 were Male which accounted to nearly 31.3 % .

**Table : 2. Age**

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		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-30	916	60.6	60.6	60.6
	30-40	596	39.4	39.4	100.0
	Total	1512	100.0	100.0	

**Source : Author’s calculation from primary data.**

Out of 1512 responses , 916 were between 18 - 30 years which accounted to 60.6 % , 596 were between 30- 40 years which accounted to 100 % ,

**Table 3: Cross Tabulation of process of liquidating a company is done by the appointed liquidator .**

**Null Hypothesis:** There is no significant association between the process of liquidation of company done by the liquidator and gender .

**Alternate Hypothesis:** There is a significant association between the process of liquidating a company done by the liquidator and gender .

		Process of liquidating a company is done by the appointed liquidator.					Total
		yes	no	Maybe	4	5	
Gender	Female	147	369	239	177	98	1030
	Male	103	123	76	66	105	473
Total		250	492	315	243	203	1503

**Source : Author’s calculation from primary data.**

In the above cross tabulation , Out of 2038 respondents 435 of them are between 13 - 18 years , 420 of the are between 19-25 years and 660 of them are between 26-35 years , 367 of them are between 36-45 years and 156 of them are above 45 years.

**Table 4 : Chi square Tests - Gender and Liquidation process of a Company done by appointed Liquidator.**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	69.106 <sup>a</sup>	4	.000
Likelihood Ratio	66.536	4	.000
Linear-by-Linear Association	5.666	1	.017
N of Valid Cases	1503		

**Source : Author’s calculation from primary data.**

Using Chi-square analysis, it is tested whether the process of liquidating a company is done by the appointed liquidator . P value is greater than 0.005 , which shows that the null hypothesis is accepted and therefore there is no significant association between the process of liquidation of company done by the liquidator and gender .

**Table 5 : Compulsory liquidations are usually initiated by the creditors accounting to the court order applications .**

**Null Hypothesis:** There is no significant association between the compulsory liquidations initiated by the creditors as per court order.

**Alternate Hypothesis:** There is a significant association between the compulsory liquidations initiated by the creditors as per court order.

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		Compulsory liquidation initiated by the creditors as per court order			Total
		Strongly Disagree	Disagree	Neutral	
Age	18-30	300	307	280	887
	30-40	192	324	80	596
Total		492	631	360	1483

**Source : Author's calculation from primary data.**

In the above cross tabulation, Out of 1512 respondents 887 of them are between 18-30 years and 596 of the are between 30 - 40 years .

**Table 6 - Chi- Square Tests - Age and Compulsory liquidation initiated by the creditors as per court order .**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	81.306 <sup>a</sup>	2	.000
Likelihood Ratio	84.564	2	.000
Linear-by-Linear Association	17.195	1	.000
N of Valid Cases	1483		

**Source : Author's calculation from primary data.**

Using Chi-square analysis, it is tested whether the compulsory liquidation is initiated by the creditors as per court order . P value is less than 0.005 which shows that the null hypothesis is rejected and therefore there is a significant association between the compulsory liquidations initiated by the creditors as per court order.

### VI. CONCLUSION

The expression 'Liquidation' is a process by which existence or life of a company is put to an end .It is also termed as 'Winding up'. Liquidation is a process by which the life of a company is ended and all its properties are administered for the benefit of its members and creditors. A company is liquidated when it is ascertained that the business is not in any state to continue. This may be due to various reasons such as insolvency unwillingness to carry on with the operations, etc.A company's business is wound up by disposing the assets of a company and the money realised from sale of assets used for the payment towards creditors and members of the company. Voluntary liquidation means winding up by the members or creditors of a company without interference by the court . Compulsory liquidation is a formal Insolvency procedure which results in closure of company . Compulsory liquidation is usually initiated by the creditors as per court application. By using chi square out of 1512 respondents it was found that there is no significant association between the process of liquidation of company done by the liquidator and gender and there is a significant association between the compulsory liquidations initiated by

the creditors as per court order and also the money which is raised will be distributed to the creditors as well as the shareholders the liquidation process is done only when the business is not in any state to continue

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