

# INSOLVENCY ACCOUNTS

**PROJECTED BY :-**

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# **INSOLVENCY ACCOUNTS**

**When a person becomes heavily indebted due to various circumstances and it becomes impossible for him to pay his debts fully, he takes shelter under the Insolvency Act. Under this Act, debtor is exempted from his various debts and his property is sold under the supervision of Government Officer. The amount realised by sale of his property is distributed amongst his creditors according to the provisions of law.**

## **MEANING OF INSOLVENCY**

**Any person, who fulfils the following two conditions, is called insolvent.**

- 1. His liabilities should be more than his assets; and**
- 2. He must be adjudged insolvent by a competent Court.**

# INSOLVENCY LAW

In India, insolvency is governed by two Acts namely: The presidency Towns Insolvency Act, 1909 and the Provincial Insolvency Act, 1920.

## The Presidency Towns Insolvency Act

This Act applies in the Presidency towns of Mumbai, Chennai and Kolkata.

The Preferential Creditors are described in Sec.49 of this Act as under :

1. All debts to the Government or to any Local Authority;
2. All salaries or wages of any *clerk, servant or labourer* in respect of services rendered to the insolvent during *four months* before the date of the presentation of the petition, not exceeding *three hundred rupees* for each clerk, and *one hundred rupees* for each such servant or labourer; and

**(3).** Rent due to a landlord from the insolvent, provided the amount payable under this Clause shall not exceed *one month's rent*.

**(4).** Compensation payable under Workmen's Compensation Act or any other Act.

# The Provincial Insolvency Act, 1920

It applies in whole of India except the Presidency towns of Bombay, Madras, and Calcutta.

Preferential Creditors are described in Sec.61 of this Act as under :

1. All debts due to the Government or to any Local Authority;
2. All salaries or wages, not exceeding *twenty rupees* in all, of any *clerk, servant, or labourer* in respect of services rendered to the insolvent during four months before the presentation of the petition.
3. Compensation payable under Work – Men’s Compensation Act or any other Act.

# **TYPES OF LIABILITIES**

**All the liabilities are grounded in four heading, for each group there is a list and thus four lists are prepared for all the liabilities :**

**List A - Unsecured Creditors;**

**List B – Fully Secured Creditors;**

**List C – Partly Secured Creditors;**

**List D – Preferential Creditors.**

# STATEMENT OF AFFAIRS

GROSS LIAB.	LIABILITIES	EXPTD TO BANK Rs.	ASSETS	ESTD TO PROD. Rs.
Rs.	<p>Unsecured Creditors as per list A</p> <p>Fully Secured Creditors as per list B</p> <p style="padding-left: 20px;">Loan _____</p> <p style="padding-left: 20px;">(-) Value of Sec. _____</p> <p style="padding-left: 40px;">Surplus _____</p> <p>Partly Secured Creditors as per list C</p> <p style="padding-left: 20px;">Loan _____</p> <p style="padding-left: 20px;">(-) Value of Sec _____</p> <p>Preferential Creditors as per list D</p> <p style="padding-left: 20px;">Deducted as per contra _____</p> <p style="text-align: center;">(B/F)</p>	<hr style="width: 50%; margin: 0 auto;"/> <p><b>TOTAL</b></p>	<p>Property as per list E viz</p> <p>(a) Cash at Bank</p> <p>(b) Cash in Hand</p> <p>(c) Stock-in-Trade</p> <p>(d) Machinery</p> <p>(e) Furniture</p> <p>Book debts as per list list F viz</p> <p style="padding-left: 20px;">Good</p> <p style="padding-left: 20px;">Doubtful</p> <p style="padding-left: 20px;">Bad</p> <p>Bills of Exchange as per List G</p> <p>Surplus from Securities</p> <p>Deducted as per contra</p> <p>Deficiency as per List H</p> <p style="text-align: center;">(B/F)</p>	<hr style="width: 50%; margin: 0 auto;"/> <p><b>TOTAL</b></p>

**QUES.** From the following particulars prepare the Statement of Affairs and Deficiency Account of Ramesh of Allahabad who is an insolvent debtor :

Unsecured Creditors, Rs. 15,050; Creditors partly secured, Rs. 19,080 (holding Security of the value of Rs. 18,100 which is estimated to realise only Rs. 600), Preferential Creditors, Rs. 500; Bills Receivable discounted Rs. 2,060 (upon which it is estimated that there will be liability of Rs. 280); Stock-in-Trade, Rs. 10,010 (estimated to realise Rs. 8,000); Book Debts: Good Rs. 7,860; Doubtful and Bad Rs. 650 (estimated to realise Rs. 178); Land and Buildings, Rs. 8,000 (estimated to realise Rs. 5,000); Machinery and Plant Rs. 12,500 (estimated to realise Rs. 5,500). Cash in hand, Rs. 2.

He started business five years ago with a Capital of Rs. 25,000. The trading, after charging interest on capital at Rs. 1,000 per year resulted in a profit of Rs. 602 for the first year and losses of Rs. 370, Rs. 450, Rs. 500 and Rs. 700 for the subsequent years, His drawings were at the rate of Rs. 900 a year and there was a speculation loss Rs. 1,590 During the whole period of five years.



## SOLUTION : Statement of Affairs (as at .....)

GROSS LIAB. Rs.	LIABILITIES	EXPTD TO RANK Rs.	ASSETS	ESTD TO PROD Rs.
17,110	Unsecured Creditors as per List A	15,330	Property as per List E :	
			Cash in hand	2
			Stock-in-Trade    10,010	8,000
	Fully Secured Creditors as per List B	-----	Machinery, etc.    12,500	5,500
			Land, etc. <u>8,000</u>	<u>5,000</u>
			Total as per List E	18,502
19,080	Partly Secured Creditors as per List C :            19,080		Book Debts as per List F :	
	Less : Estimated of Securities <u>6,000</u>	13,080	Good            }	
			Doubtful        }	7,860
			Bad                            650	
			Estimated to produce	178
500	Preferential Creditors as per List D		Bills of Exchange as per List G	-----
	<i>Deducted as per contra</i> <u>500</u>			<u>26,540</u>
			Deduct : Preferential Creditors as per <i>contra</i>	<u>500</u>
				26,040
			Deficiency as per List H	<u>2,370</u>
<u>36,690</u>	Total	<u>28,410</u>	Total	<u>28,410</u>

# DEFICIENCY ACCOUNT

	<b>Amount</b>		<b>Amount</b>
Capital	25,000	Losses from Business	2,020
Interest on Capital	5,000	Drawings	4,500
Profit	602	Bad Debts	472
Deficiency as per List 'H' in the Statement of Affairs	2,370	Other Losses :	
		Stock	2,010
		Machinery	7,000
		Land, etc.	3,000
		Bills discounted and Dishonoured	280
		Security	12,100
		Loss in Speculation	<u>1 590</u>
<b>Total</b>	<u>32,972</u>	<b>Total</b>	<u>25,980</u> <u>32,972</u>

*Thank You*