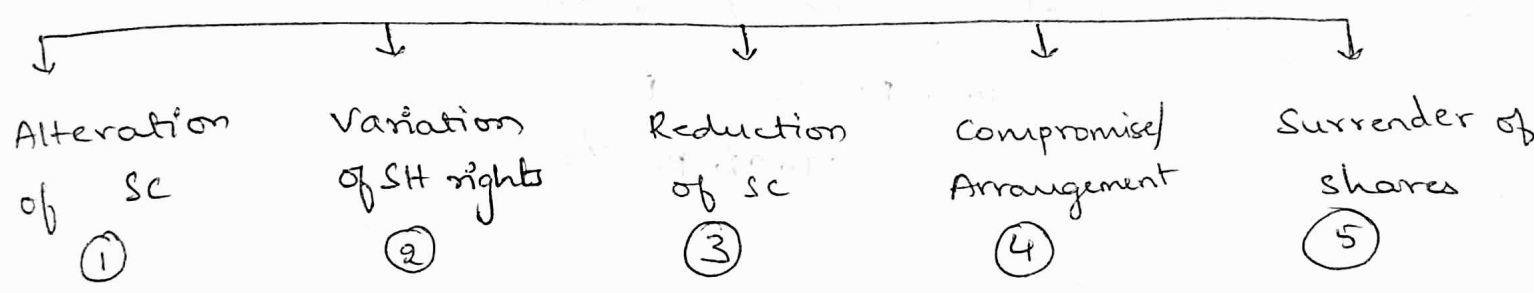


ACCOUNTING FOR RECONSTRUCTION OF COMPANIES

Reconstruction means reorganisation of co.'s financial structure. Usually the following are done:

1. Revaluation of assets
2. Writing off of losses suffered by the co. by reduction of paid up value of shares
3. Varying of rights attached to shares
4. Compounding / arrangement with creditors

Methods of Internal Reconstruction



① a. For increase in SC

* Bank a/c — Dr
 To Share app. & allot a/c

* Share app & allot. a/c — Dr
 To ESC a/c

b. For consolidation of shares

* ESC a/c (old FV) — Dr
 To ESC a/c (new FV)

c. sub-division of shares

ESC a/c (old FV) — Dr
To ESC a/c (new FV)

d. Conversion of shares to stock

ESC a/c — Dr
To Equity Stock.

e. Conversion of stock to shares

Equity stock a/c — Dr
To ESC a/c

f. Cancellation of unissued shares

No-entry.

② a. change in % of PSIT

10% Psc a/c — Dr
To 9% Psc a/c

③ a. Reducing liability in case of uncalled amt.

ESC a/c (FV) — Dr
To ESC (new FV) a/c.

b. Paying off surplus capital

* ESC a/c (FV) — Dr
To ESC (new FV) a/c

To sundry members (amt to be repaid)

* Sundry Members a/c — Dr
To Bank a/c.

c. for writing off lost paid up capital

↓
reduction in amt. of paid up capital

ESC a/c (FV) — Dr
 To Capital reduction (FV - new FV)

↓
reduction in face value

ESC a/c (FV) — Dr
 To ESC a/c (new FV)
 To Capital reduction (remaining amt)

④ a. ESH give up claim

Reserves a/c — Dr
 To Reconstruction a/c

b. outside liabilities settled at lesser amt.

Outside liabilities a/c — Dr (sacrifice amt)

Provision a/c — Dr (if any)
 To Reconstruction a/c

⑤ Surrender of shares

ESC a/c — Dr
 To Shares Surrendered a/c

↓
SS used for discharge of liabilities

SS a/c — Dr
 To ESC a/c
 To PSC a/c

↓
unutilised portion

SS a/c — Dr
 To Reconstruction a/c

* Appreciation of assets / red. of liabilities.

Concerned asset / liab. a/c — Dr

To Capital Reduction /

Reconstruction a/c

* Writing off acc. losses, intangible assets, overvalued assets, etc.

Capital Reduction a/c — Dr

To PL a/c

To Preliminary expenses

To Underwriting commission

To Disc. on issue of securities

To Goodwill a/c

To Patents a/c

To Copyright a/c

(to extent of over valuation)

To other overvalued assets

* Credit balance of Capital Reduction (Reconstruction) to be transferred to Capital Reserve (if any)

Capital Reduction a/c — Dr

To Capital Reserve a/c

Reconstruction a/c

Particulars	Particulars
To Assets a/c (↓)	By ESC
To Liability (↑)	By PSC
To Cash a/c	By Assets a/c (↑)
To P/L a/c	By Liability a/c (↓)
To Preliminary exp.	By Cash a/c
To Underwriting comm.	(unrecorded asset sale)
To Disc. on issue of shares	
To Goodwill a/c	
To Patents a/c	
To Capital Reserve a/c (bal. fig)	