

Internal Reconstruction

Meaning — Process for reorganizing the capital structure of a financially struggling company without liquidation.

- Methods**
- Reduction of Share Capital
 - Alteration of Share Capital
 - Writing off Accumulated Losses
 - Compromise with Creditors
 - Utilization of Reserves

- Accounting Entries**
- Capital Reduction
 - Old Share Capital A/c Dr.
 - New Share Capital A/c Cr.
 - Capital Reduction A/c Cr.
 - Writing off Losses or Fictitious Assets
 - Capital Reduction A/c Dr.
 - Profit & Loss A/c (Accumulated Losses) Cr.
 - Fictitious Assets A/c Cr.
 - Revaluation of Assets
 - Assets A/c Dr.
 - Capital Reduction A/c Cr.

- Objectives**
- Improve financial position by eliminating losses.
 - Reorganize and strengthen capital base.
 - Avoid liquidation and revive the company.

Example — A company reduces nominal value of shares from ₹10 to ₹7 to eliminate losses.

- Statutory Provisions**
- Governed by Companies Act, 2013 (India).
 - May require court approval in certain cases.