

**1 Alteration of Share Capital**

**Q.1.1 2013 - Nov [7] (b) Practical**

Pass journal entries for the following transactions:

- (i) Conversion of 2 lakh fully paid equity shares of ₹ 10 each into stock of ₹ 1,00,000 and balance has 12% fully convertible Debenture.
- (ii) Consolidation of 40 lakh fully paid equity shares of ₹ 2.50 each into 10 lakh fully paid equity share of 10 each.
- (iii) Sub-division of 10 lakh fully paid 11% preference shares of ₹ 50 each into 50 lakh fully paid 11% preference shares of ₹ 10 each.

(3 marks) [IPCC Gr. I]

**Answer :**

**Journal Entries**

Sl. No.	Particulars	LF	Dr. (₹)	Cr. (₹)
1.	Equity Share Capital A/c Dr. To Equity Stock A/c To 12% Fully Convertible Debenture A/c (Being equity shares of ₹ 10 converted into stock)		20,00,000	1,00,000 19,00,000
2.	Equity Share Capital A/c Dr. To Equity Share Capital A/c (Being 40 lakh shares of Face Value converted into equity shares of face value ₹ 10 each)		1,00,00,000	1,00,00,000
3.	11% Preference Share Capital A/c Dr. To Preference Share Capital A/c (Being 10 lakh 11% Preference shares of ₹ 50 each converted into Preference Shares)		5,00,00,000	5,00,00,000

Space to write important points for revision

**2 Variation of Shareholders Right**

**Q.2.1 2013 - Nov [7] (b) (iv) Practical**

Conversion of 12% preference shares of ₹ 5,00,000 into 14% preference shares ₹ 3,00,000 and remaining balance as 12% Non-cumulative preference shares. (1 mark) [IPCC Gr. I]

**Answer:**

**Journal Entries**

Sl. No.	Particulars	LF	Dr. (₹)	Cr. (₹)
1.	12% Preference Share Capital A/c Dr. To 14% Preference Share Capital A/c To 12% Non- Cumulative Preference Share Capital A/c (Being 12% Preference share capital of ₹ 5,00,000 converted into 14% preference shares of ₹ 3,00,000 and remaining into 12% Non - cumulative preference shares.)		5,00,000	3,00,000 2,00,000

Space to write important points for revision

**3 Entries in Case of Internal Reconstruction**

**Q.3.1 2014 - Nov [4], RTP Practical**

The Balance Sheet of X Ltd. as at 31<sup>st</sup> March, 2014 was as follows:  
**X Limited**  
**Balance Sheet as at 31.03.2014**

Particulars	Amount (₹)
<b>I Equity and Liabilities</b>	
1 Shareholders' Funds	

Share Capital		
(a) 40000 equity shares of ₹ 100 each fully paid	40,00,000	
(b) 20000, 10% preference shares of ₹ 100 each fully paid	20,00,000	
Reserve & Surplus		
(a) Securities Premium Account	1,50,000	
(b) Profit & Loss Account	(23,00,000)	
<b>2 Non Current Liabilities</b>		
Long Term Borrowings		
7% Debentures of ₹ 100 each	4,00,000	
<b>3 Current Liabilities</b>		
Other Current Liabilities		
(a) Creditors	10,00,000	
(b) Loan from Director	2,00,000	
<b>Total Liabilities</b>	<b>54,50,000</b>	

**Assets**

<b>1 Non Current Assets</b>		
Property Plant and Equipment and Intangible Assets		
PPE		
(a) Land & Building	20,00,000	
(b) Plant & Machinery	<u>12,00,000</u>	32,00,000
Intangible Assets		
Goodwill		4,00,000

<b>2 Current Assets</b>		
(a) Debtors	12,00,000	
(b) Stock	5,00,000	
(c) Cash at Bank	<u>1,50,000</u>	18,50,000
<b>Total Assets</b>		<b>54,50,000</b>

No Dividend on Preference Shares has been paid for last 5 years.

The following scheme of reorganisation was duly approved by the Court:

- (i) Each equity share to be reduced to ₹ 25.
- (ii) Each existing Preference Share to be reduced to ₹ 75 and then exchanged for one new 13% Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each.
- (iii) Preference Shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity shares of ₹ 25.
- (iv) The Debenture Holders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference Shares of ₹ 50 each issued at par. One-fourth (in value) of the Debenture Holders accepted Preference Shares for their claims. The rest were paid in cash.
- (v) Contingent Liability of ₹ 2,00,000 is payable which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the Company.
- (vi) Goodwill does not have any value in the present. Decrease the value of Plant & Machinery, Stock and Debtors by ₹ 3,00,000 ; ₹ 1,00,000 and ₹ 2,00,000 respectively. Increase the value of Land & Building to ₹ 25,00,000.
- (vii) 50,000 new Equity Shares of ₹ 25 each are to be issued at par payable in full on application. The issue was underwritten for a commission of 4%. Shares were fully taken up.

(viii) Total expenses incurred by the Company in connection with the Scheme excluding Underwriting Commission amounted to ₹ 20,000. Pass necessary Journal Entries to record the above transactions. (16 marks)

Answer :

In the books of X Ltd.  
Journal Entries

Particulars	L.F.	Amount (₹)	Amount (₹)
Equity Share Capital (₹ 100) A/c Dr.		40,00,000	
To Equity Share Capital (₹ 25) A/c			10,00,000
To Capital Reduction A/c			30,00,000
(Being Equity Shares of ₹ 100 each reduced to ₹ 25 each and balance transferred to Capital Reduction A/c)			
10% Preference Share Capital (₹ 100) A/c Dr.		20,00,000	
To 10% Preference Share Capital (₹ 75) A/c			15,00,000
To Capital Reduction A/c			5,00,000
(Being Preference Shares of ₹ 100 each reduced to ₹ 75 each and balance transferred to Capital Reduction A/c)			
10% Preference Share Capital (₹ 75) A/c Dr.		15,00,000	
To 13% Preference Share Capital (₹ 50) A/c			10,00,000
To Equity Share Capital A/c			5,00,000

(Being one new 13% Preference Share of ₹ 50 each and one Equity Share of ₹ 25 each issued against 10% Preference Share of ₹ 75 each)			
Capital Reduction A/c Dr.		2,00,000	
To Preference Share Dividend Payable A/c			2,00,000
(Being arrear of Preference Share Dividend payable for one year)			
Preference Share Dividend Payable A/c Dr.		2,00,000	
To Equity Share Capital A/c (₹ 25)			2,00,000
(Being Equity Shares of ₹ 25 each issued for arrears of Preference Share Dividend)			
7% Debenture A/c Dr.		4,00,000	
To Debenture Holders A/c			4,00,000
(Being balance of 7% Debentures transferred to Debenture Holders A/c)			
Debenture Holders A/c Dr.		4,00,000	
To 13% Preference Share Capital A/c			1,00,000
To Bank A/c			2,70,000
To Capital Reduction A/c			30,000
(Being 25% of Debenture Holders opted to take 13% Preference Shares at par and remaining took 90% cash payment for their claims)			
Loan from Director Dr.		2,00,000	
To Provision for Contingent Liability A/c			2,00,000



(Being contingent liability of ₹ 2,00,000 is payable and adjusted against loan from Director A/c)			
Bank A/c Dr.	12,50,000		
To Equity Share Application & Allotment A/c		12,50,000	
(Being application money received on 50,000 Equity Shares @ ₹ 25 each)			
Equity Share Application & Allotment A/c Dr.	12,50,000		
To Equity Share Capital A/c		12,50,000	
(Being application money transferred to Capital A/c on allotment)			
Underwriting Commission A/c Dr.	50,000		
To Bank A/c		50,000	
(Being underwriting commission paid)			
Land & Building A/c Dr.	5,00,000		
To Capital Reduction A/c		5,00,000	
(Being value of land & Building appreciated)			
Expenses on Reconstruction A/c Dr.	20,000		
To Bank A/c		20,000	
(Being payment of expenses on reconstruction)			
Capital Reduction A/c Dr.	38,30,000		
To Goodwill A/c		4,00,000	
To Plant & Machinery A/c		3,00,000	
To Stock A/c		1,00,000	

To Debtors A/c	2,00,000
To Profit & Loss A/c	23,00,000
To Expenses on Reconstruction A/c	20,000
To Underwriting Commission A/c	50,000
To Capital Reserve A/c	4,60,000
(Being various losses written off and balance of Capital Reduction A/c transferred to Capital Reserve A/c)	

— Space to write important points for revision —

**Q.3.2**    **2014 - Nov [4] (a)**    **Practical**

The Balance Sheet of Vaibhav Ltd. as on 31<sup>st</sup> March, 2014 is as follows:

Liabilities	₹	Assets	₹
Equity Shares of ₹ 100 each	2,00,00,000	PPE	2,50,00,000
6% Cumulative Preference Shares of ₹ 100 each	1,00,00,000	Investments (Market Value ₹ 19,00,000)	20,00,000
5% Debentures of ₹ 100 each	80,00,000	Current Assets	2,00,00,000
Sundry Creditors	1,00,00,000	P & L A/c	12,00,000
Provision for taxation	2,00,000		
<b>TOTAL</b>	<b>4,82,00,000</b>	<b>TOTAL</b>	<b>4,82,00,000</b>

The following scheme of Internal Reconstruction is sanctioned:

- (i) All the existing equity shares are reduced to ₹ 40 each.
- (ii) All preference shares are reduced to ₹ 60 each.
- (iii) The rate of interest on Debentures is increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.



- (iv) PPE are to be written down by 20%.
  - (v) Current assets are to be revalued at ₹ 90,00,000.
  - (vi) Investments are to be brought to their market value.
  - (vii) One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.
  - (viii) The taxation liability is to be settled at ₹ 3,00,000.
  - (ix) It is decided to write off the debit balance of Profit & Loss A/c.
- Pass journal entries and show the Balance Sheet of the company after giving effect to the above. (12 marks) [IPCC Gr. I]

**Answer :**

**Journal Entries**

**In the books of Vaibhav Ltd.**

	Particulars	₹	₹
(i)	Equity Share Capital (₹ 100) A/c Dr. To Equity Share Capital (₹ 40) A/c To Capital Reduction A/c (Being conversion of equity share capital of ₹ 100 each into ₹ 40 each as per reconstruction scheme)	2,00,00,000	80,00,000 1,20,00,000
(ii)	6% Cum. Pref. Sh. Capital (₹ 100) A/c Dr. To 6% Cum. Pre. Sh. Capital (₹ 60) A/c To Capital Reduction A/c (Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)	1,00,00,000	60,00,000 40,00,000
(iii)	5% Debenture A/c (₹ 100) Dr. To 6% Debenture A/c (₹ 70) To Capital Reduction A/c	80,00,000	56,00,000 24,00,000

	(Being 6% debentures of ₹ 70 each issued to existing 5% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)			
(iv)	Sundry Creditors A/c Dr. To Equity Share Capital (₹ 40) A/c To Capital Reduction A/c (Being a creditor of ₹ 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of ₹ 40 each in full statement of his dues as per reconstruction scheme)	40,00,000		24,00,000 16,00,000
(v)	Provision for Taxation A/c Dr. Capital Reduction A/c Dr. To Liability for Taxation A/c (Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)	2,00,000 1,00,000		3,00,000
(vi)	Capital Reduction A/c Dr. To P&L A/c To Property Plant and Equipment A/c To Current Assets A/c To Investments A/c To Capital Reserve A/c (Bal. Fig.) (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr. Balance,) PPE, Current Assets, Investments and the Balance transferred to Capital Reserve)	1,99,00,000		12,00,000 50,00,000 1,10,00,000 1,00,000 26,00,000
(vii)	Liability for Taxation A/c Dr. To Current Assets (Bank A/c) (Being the payment of tax liability)	3,00,000		3,00,000

In the books of Vaibhav Ltd.  
Balance Sheet as at 31.3.02  
(And reduced to...)

Equity & Liabilities	Notes No.	Amount
<b>1. Shareholders' Fund</b>		
(a) Share Capital	1	1,64,00,000
(b) Reserves & Surplus	2	26,00,000
<b>2. Non current liabilities</b>		
(a) Long term borrowings	3	56,00,000
<b>3. Current liabilities</b>		
(a) Trade Payables	4	60,00,000
<b>Total</b>		<u>3,06,00,000</u>
<b>2. Assets</b>		
<b>1. Non Current Asset</b>		
(a) Property Plant and Equipment and Intangible Assets		
(i) PPE	5	2,00,00,000
(ii) Intangible Assets		19,00,000
(b) Non current investments	6	87,00,000
<b>2. Current Assets</b>		
<b>Total</b>		<u>3,06,00,000</u>

Notes:

1. Share Capital

Authorised, Issued, Subscribed & Paid-up

(i) Equity Share Capital

2,00,000 share of 40 each

80,00,000

60,000 share of 40

24,00,000

1,04,00,000

(ii) Preference Shares

6% Pref. share

60,00,000

1,00,000 share of 60

1,64,00,000

2. Reserves & Surplus

Capital Reserve

26,00,000

26,00,000

3. Long Term Borrowings

6% debentures

(80,000 deb. of 70 cash)

56,00,000

56,00,000

4. Trade Payables

Creditors

1,00,00,000

(-) Settled

(40,00,000)

60,00,000

60,00,000

5. PPE

(-) written down

2,50,00,000

(50,00,000)

2,00,00,000

2,00,00,000

6. CA 90,00,000 - 3,00,000

87,00,000

**Working Note:**

**Capital Reduction Account**

To Liability for Taxation A/c	1,00,000	By Equity Share Capital	1,20,00,000
To P & L A/c	12,00,000	By 6% Cumulative Preferences	
To PPE	50,00,000	Share Capital	40,00,000
To Current Assets	1,10,00,000	By 5% Debentures	24,00,000
To Investment	1,00,000	By Sundry Creditors	16,00,000
To Capital Reserve (Bal. fig.)	26,00,000		
	2,00,00,000		2,00,00,000

Space to write important points for revision

Q.3.3	2015 - Nov [2]	Practical	
The Balance Sheet of M/s Clean Ltd. as on 31 <sup>st</sup> March, 2015 was summarized as follows:			
Liabilities	Amount ₹	Assets	Amount ₹
Share Capital:		Land & Building	75,00,000
Equity Shares of ₹ 50 each fully paid up	60,00,000	Plant & Machinery	22,00,000
9% Preference Shares of ₹ 10 each fully paid up	40,00,000	Trade Investment	16,50,000
7% Debentures (secured by plant & machinery)	23,00,000	Inventories	9,50,000
8% Debentures	17,00,000	Trade Receivables	18,00,000
Trade Payables	6,00,000	Cash and Bank	
Provision for Tax	75,000	Balances	3,60,000
		Profit & Loss Account	2,15,000
	<b>1,46,75,000</b>		<b>1,46,75,000</b>

The Board of Directors of the company decided upon the following scheme of reconstruction duly approved by all concerned parties:

- The equity shareholders agreed to receive in lieu of their present holding of 1,20,000 shares of ₹ 50 each as under:
  - New fully paid equity shares of ₹ 10 each equal to 2/3<sup>rd</sup> of their holding.
  - 9% preference shares of ₹ 8 each to the extent of 25% of the above new equity share capital.
  - ₹ 2,80,000, 10% debentures of ₹ 80 each.
- The preference shareholders agreed that their ₹ 10 shares should be reduced to ₹ 8 by cancellation of ₹ 2 per share. They also agreed to subscribe for two new equity shares of ₹ 10 each for every five preference shares held.
- The taxation liability of the company is settled at ₹ 66,000 and the same is paid immediately.
- One of the trade creditors of the company to whom the company owes ₹ 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of ₹ 10 each in full satisfaction of his balance claim.
- Other trade creditors of ₹ 5,00,000 are given option of either to accept fully paid 9% preference shares of ₹ 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹ 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.
- Company's contractual commitments amounting to ₹ 6,50,000 have been settled by paying 4% penalty of contract value.
- Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.
- The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debenture of ₹ 50 each and agreed to accept 10% debenture of ₹ 80 each for every two debentures held by them.
- The land and building to be depreciated by 5%.
- The debit balance of profit and loss account is to be eliminated.



(11) 1/4<sup>th</sup> of trade receivables and 1/5<sup>th</sup> of inventory to be written off.  
 Pass Journal Entries and prepare Balance Sheet after completion of the reconstruction scheme in the books of M/s Clean Ltd. as per Schedule III to the Companies Act, 2013.  
 (16 marks) [IPCC Gr. I]

Answer :

In the books of M/s. Clean Ltd.  
 Journal Entries

Particulars	L.F.	Dr. (₹)	Cr. (₹)
1. Equity Share Capital A/c (₹ 50) Dr. To Equity Share Capital A/c (₹ 10) To 9% Pref. Share A/c (25,000 × ₹ 8) To 10% Debentures A/c (35,000 × ₹ 80) To Capital Reduction A/c (Being the equity shares are paid off by the equity share, pref. shares and debentures)		60,00,000	8,00,000 2,00,000 2,80,000 47,20,000
2. 9% Pref. Share Capital A/c (₹ 10) Dr. To 9% Pref. Shares Capital A/c (₹ 8) To Capital Reduction A/c (Being share reduced to (₹ 8) change in face value)		40,00,000	32,00,000 8,00,000
3. Bank A/c Dr. To Equity Share Capital A/c (Being preference share holders subscribed for 2 new equity share of 10 each against every 5 share)		16,00,000	16,00,000
4. Provision for Tax A/c Dr. To Cash (Bank A/c) To Capital Reduction A/c (Being the taxation liability paid)		75,000	66,000 9,000
5. Trade Creditor A/c Dr. To Capital Reduction A/c To Equity Share Capital A/c (₹ 10)		1,00,000	30,000 70,000

	(Being Trade Creditor are settled by 30% forgo and 70% settled via conversion through equity shares)		
6.	Other Trade Creditor A/c Dr. To 9% Pref. Share Capital A/c (₹ 8) To Cash A/c To Capital Reduction A/c (Being Trade Creditor settled via Cash and Preference Share of company)	5,00,000	3,50,000 1,20,000 30,000
7.	Capital Reduction A/c Dr. To Bank A/c (Being contractual liability settled)	26,000	26,000
8.	7% Debentures A/c Dr. To Plant and Machinery A/c To Capital Reduction A/c (Being debentures are settled by giving plant and machinery)	23,00,000	22,00,000 1,00,000
9.	8% Debentures A/c (₹ 50) Dr. To 10% Debentures A/c (₹ 80) To Capital Reduction A/c (Being debenture are converted to new issue of 10% debentures)	17,00,000	13,60,000 3,40,000
10.	Capital Reduction A/c Dr. To Land and Building A/c (Being Land and Building depreciated)	3,75,000	3,75,000
11.	Capital Reduction A/c Dr. To P&L A/c (Being P&L A/c w/off)	2,15,000	2,15,000

12.	Capital Reduction A/c	Dr.	6,40,000	
	To Trade receivable A/c			4,50,000
	To Inventory A/c			1,90,000
	(Being Trade receivable and inventory are w/off)			
13.	Capital Reduction A/c	Dr.	47,73,000	
	To Capital Reserve A/c			47,73,000
	(Being amount in Capital Reduction account transferred to Capital Reserve A/c)			

(ii) Balance Sheet of M/s Clean Ltd. (as reduced) as on 31.3.2015

Particulars	Notes	₹
<b>Equity and Liabilities</b>		
<b>1 Shareholders' funds</b>		
(a) Share capital	1	62,20,000
(b) Reserves and Surplus	2	47,73,000
<b>2 Non-current liabilities</b>		
(a) Long-term borrowings	3	16,40,000
<b>Total</b>		<b>1,26,33,000</b>
<b>Assets</b>		
<b>1 Non-current assets</b>		
(a) Property Plant and Equipment and Intangible Assets		
(i) PPE	4	71,25,000
(b) Investments		16,50,000
<b>2 Current assets</b>		
(a) Inventories	5	7,60,000
(b) Trade receivables	6	13,50,000
(c) Cash and cash equivalents		17,48,000
<b>Total</b>		<b>1,26,33,000</b>

Notes to accounts

<b>1. Share Capital</b>		
<b>Equity share capital</b>		
<u>Issued, subscribed and paid up</u>		
2,47,000 equity shares of ₹ 10 each (out of which 7,000 equity shares have been issued for consideration for other than cash)		24,70,000
<b>Preference share capital</b>		
<u>Issued, subscribed and paid up</u>		
4,68,750 Preference shares of ₹ 8 each (out of which 43,750 equity shares have been issued for consideration for other than cash)		37,50,000
		<u>62,20,000</u>
<b>2. Reserves and Surplus</b>		
Capital Reserve		47,73,000
<b>3. Long-term Borrowings</b>		
Secured		
20,500 10% Debentures of ₹ 80 each		16,40,000
<b>4. PPE</b>		
Land & building	75,00,000	
Adjustment under scheme of reconstruction	(3,75,000)	71,25,000
<b>5. Inventories</b>	9,50,000	
Adjustment under scheme of reconstruction	(1,90,000)	7,60,000
<b>6. Trade receivables</b>	18,00,000	
Adjustment under scheme of reconstruction	(4,50,000)	13,50,000

Working Notes:

1. Cash at Bank Account			
Particulars	₹	Particulars	₹
To Balance b/d	3,60,000	By Taxation liability	66,000
		By Trade Creditors A/c	1,20,000

To Equity Share Capital A/c	16,00,000	By Penalty A/c	26,000
		By Balance c/d (bal. fig.)	17,48,000
	19,60,000		19,60,000

**Capital Reduction Account**

Particulars	₹	Particulars	₹
To Land & Building A/c	3,75,000	By Equity Share Capital A/c	47,20,000
To Machinery A/c	2,15,000	By Preference Share Capital	8,00,000
To Trade receivables A/c	4,50,000	By 7% Debentures	1,00,000
To Inventories A/c	1,90,000	By Provision for tax	9,000
To Bank A/c	26,000	By Trade Payables	60,000
To Capital Reserve (bal. fig.)	47,73,000	(30,000 + 30,000)	
		By 8% Debentures	3,40,000
	60,29,000		60,29,000

Space to write important points for revision

Q.3.4	2015 - Nov [4]	Practical
The following is the Balance Sheet of Star Ltd. as on 31 <sup>st</sup> March, 2015:		
<b>A. Equity and Liabilities:</b>		₹
<b>1. Shareholders' Fund:</b>		
(a) Share Capital:		
9,000 7% Preference Shares of ₹ 100 each fully paid		9,00,000
10,000 Equity Shares of ₹ 100 each fully paid		10,00,000
(b) Reserve and Surplus:		
Profit and Loss Account		(2,00,000)
<b>2. Non-current liabilities:</b>		
"A" 6% Debentures (Secured on Bombay Works)		3,00,000
"B" 6% Debentures (Secured on Chennai Works)		3,50,000

<b>3. Current Liabilities and Provisions:</b>	
(a) Workmen's Compensation Fund:	
Bombay Works	10,000
Chennai Works	5,000
(b) Trade Payables	1,25,000
<b>Total</b>	<b>24,90,000</b>
<b>B. Assets :</b>	
<b>1. Non - current Assets :</b>	
(a) Property Plant and Equipment and Intangible Assets	
(i) PPE:	
Bombay Works	9,50,000
Chennai Works	7,75,000
<b>2. Investment :</b>	
Investments for Workman's Compensation Fund	15,000
<b>3. Current Assets:</b>	
(a) Inventories	4,50,000
(b) Trade Receivables	2,50,000
(c) Cash at Bank	50,000
<b>Total</b>	<b>24,90,000</b>

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

- (i) Paid up value of 7% Preference Share to be reduced to ₹ 80, but the rate of dividend being raised to 9%.
- (ii) Paid up value of Equity Shares to be reduced to ₹ 10.
- (iii) The directors to refund ₹ 50,000 of the fees previously received by them.
- (iv) Debenture holders forego their interest of ₹ 26,000 which is included among the Sundry Creditors.
- (v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.



- (vi) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹ 4,25,000 and to accept an allotment of 1,500 equity shares of ₹ 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works), they allotted 9,000 equity shares of ₹ 10 each fully paid at par to Star Ltd.
- (vii) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of ₹ 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.
- (viii) Stock was to be written off by ₹ 1,90,000 and a provision for doubtful debts is to be made to the extent of ₹ 20,000.
- (ix) Chennai works completely written off.
- (x) Any balance of the Capital Reduction Account is to be applied as two-thirds to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect. (16 marks)

Answer :

**In the Books of Star Ltd.  
Journal Entries**

Particulars		L.F.	Amount ₹	Amount ₹
(i)	7% Preference share capital A/c (₹ 100) Dr. To 9% Preference share capital A/c (₹ 80) To Capital reduction A/c (Being preference shares reduced to ₹ 80 and also rate of dividend raised from 7% to 9%)		9,00,000	7,20,000 1,80,000
(ii)	Equity share capital A/c (₹ 100 each) Dr. To Equity share capital A/c (₹ 10 each) To Capital reduction A/c (Being reduction of nominal value of one share of ₹ 100 each to ₹ 10 each)		10,00,000	1,00,000 9,00,000

(iii)	Bank A/c Dr. To Capital reduction A/c (Being directors refunded the fee amount)		50,000	50,000
(iv)	Trade payables A/c (Interest on debentures) Dr. To Capital reduction A/c (Being interest forgone by the debenture holders)		26,000	26,000
(v)	No entry required			
(vi) (a)	'B' 6% Debentures A/c Dr. To Debentures holders A/c (Being amount due to Debentures holders)		3,50,000	3,50,000
(b)	Debenture's holders A/c Dr. To Chennai Works A/c To Equity share capital A/c (Being Chennai works taken over and equity shares issued to 'B' 6% Debenture holders)		4,40,000	4,25,000 15,000
(c)	Equity share of Zia Ltd. A/c Dr. To Debentures holders A/c (Being 9000 equity shares of Zia Ltd. issued by Debentures holders)		90,000	90,000
(vii) (a)	Chennai Works – Workmen Compensation Fund Dr. To Capital Reduction A/c (Being difference due to reduced amount of actual liability transferred to capital reduction account)		4,000	4,000
(b)	Bank A/c Dr. To Investment for Workmen Compensation Fund To Capital reduction A/c (Being investment for Workmen Compensation Fund sold @ 10% profit)		15,400	14,000 1,400

(c)	Trade Payables A/c To Bank A/c (Being part payment made to trade payables)	Dr.	15,400	15,400
(viii)	Capital reduction A/c To Provision for Doubtful Debts A/c To Inventory A/c (Being assets revalued)		2,10,000	20,000 1,90,000
(ix)	Capital reduction A/c To Profit & Loss A/c To PPE - Chennai Works (Being assets revalued and losses written off)	Dr.	5,50,000	2,00,000 3,50,000
(x)	Capital reduction A/c To PPE - Bombay Works To Capital reserve A/c (Being assets revalued and remaining amount transferred to capital reserve account)	Dr.	4,01,400	2,67,600 1,33,800

	Cash in hand of the receiver	3,24,000
		5,04,000
	Uncalled capital	3,20,000
		8,24,000
	Deficiency	8,56,000
		16,80,000
	<b>16,80,000</b>	<b>16,80,000</b>

A holds the first debentures for ₹ 3,60,000 and second debentures for ₹ 3,60,000. He is also an unsecured trade payable for ₹ 1,08,000. B holds second debentures for ₹ 3,60,000 and is an unsecured trade payable for ₹ 72,000.

The following scheme of reconstruction is proposed.

- A is to cancel ₹ 2,52,000 of the total debt owing to him; to bring ₹ 36,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 6,12,000 in satisfaction of all his claims.
- B to accept ₹ 1,08,000 in cash in satisfaction of all claims by him.
- In full settlement of 60% of the claim, unsecured trade payable (other than A and B) agreed to accept three shares of ₹ 25 each, fully paid against their claim for each ₹ 100.  
The balance of 40% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.
- Uncalled capital is to be called up in full and ₹ 75 per share cancelled, thus making the shares of ₹ 25 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries. (16 marks) [IPCC Gr. I]

Q.3.5	2016 - Nov [2]	Practical
Proficient Infosoft Ltd. is in the hands of a Receiver for Debenture Holders who holds a charge on all asset except uncalled capital. The following statement shows the position as regards creditors as on 30 <sup>th</sup> June, 2016:		
Liabilities	₹	Assets
8000 shares of ₹ 100 each ₹ 60 paid up	–	Property (cost is ₹ 3,80,800) estimated at Plant & Machinery
First Debentures	3,60,000	(Cost is ₹ 2,87,200)
Second Debentures	7,80,000	estimated at
Unsecured trade payables	5,40,000	
		1,08,000
		72,000

Answer :

**Journal Entries**  
In the books of Proficient Infosoft Ltd.

Sr. No.	Particulars	L.F.	Dr.	Cr.
			Amount (₹)	Amount (₹)
1.	First debentures A/c	Dr.	3,60,000	
	Second debentures A/c	Dr.	3,60,00	
	Unsecured trade payables A/c	Dr.	1,08,000	
	To A (Being A's total liability ascertained)			8,28,000
2.	A	Dr.	2,52,000	
	To Capital reduction A/c (Being cancellation of debt up to ₹ 2,52,000)			2,52,000
3.	Bank A/c	Dr.	36,000	
	To A (Being cash received in course of settlement)			36,000
4.	A	Dr.	6,12,000	
	To First debentures A/c (Being liability of A, discharged against first debentures)			6,12,000
5.	Second debentures A/c	Dr.	3,60,000	
	Unsecured trade payables A/c	Dr.	72,000	
	To B (Being B's liability ascertained)			4,32,000

6.	B	Dr.	4,32,000	
	To Bank A/c To Capital reduction A/c (Being B's liability discharged in satisfaction of all claims)			1,08,000 3,24,000
7.	Unsecured Trade Payable A/c	Dr.	3,60,000	
	To Equity Share Capital A/c			1,62,000
	To Loan (Unsecured) A/c			1,44,000
	To Capital Reduction A/c (Being settlement of unsecured trade payables)			54,000
8.	Share call A/c	Dr.	3,20,000	
	To Share Capital A/c (Being final call money due)			3,20,000
9.	Bank A/c	Dr.	3,20,000	
	To Share call A/c (Being final call money received)			3,20,000
10.	Share Capital A/c (Face value ₹ 100)	Dr.	8,00,000	
	To Share Capital (Face value ₹ 25)A/c			2,00,000
	To Capital Reduction A/c (Being share capital reduced to ₹ 25 each)			6,00,000
11.	Capital Reduction A/c	Dr.	11,68,000	
	To Profit and Loss A/c (Being reconstruction surplus used to write off losses W.N. 2)			11,68,000



12.	Capital Reduction A/c	Dr.	62,000	
	To Capital Reserve A/c			62,000
	(Being balance in capital reduction account transferred to capital reserve account)			

**Working Notes:**

1.	<b>Settlement of claim of remaining unsecured Trade payables</b>	(₹)
	60% of ₹ 3,60,000	2,16,000
	Considering their claim for share of ₹ 100 each	
	2,16,000/100 = 2,160 shares	
	Less: Number of shares to be issued	
	2,160 x 3 = 6,480 shares of ₹ 25 each	(1,62,000)
	Transferred to Capital Reduction A/c	54,000

**2. Ascertainment of profit and loss account's debit balance at the time of reconstruction.**

	(₹)	(₹)
<b>Assets</b>		
Property Plant and Equipment (3,80,800 + 2,87,200)	6,68,000	
Cash	<u>3,24,000</u>	9,92,000
<b>Less: Capital &amp; Liabilities:</b>		
Share Capital	4,80,000	
1 <sup>st</sup> Debentures	3,60,000	
2 <sup>nd</sup> Debentures	7,80,000	
Unsecured trade payables	5,40,000	(21,60,000)
<b>Profit and Loss A/c (Debit balance)</b>		<b>(11,68,000)</b>

— Space to write important points for revision —

Q.3.6	2017 - Nov [2]	Practical
M/s Planet Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31 <sup>st</sup> March, 2017 before reconstruction:		
Particulars	Note No.	Amount (₹ in lakh)
<b>Equity and Liabilities</b>		
<b>Shareholders' Funds</b>		
Share Capital	1	2,100
Reserves and Surplus	2	(783)
<b>Non-Current Liabilities</b>		
Long term Borrowings	3	1,050
<b>Current Liabilities</b>		
Trade Payables	4	153
Other Liabilities	5	36
<b>Total</b>		<b>2,556</b>
<b>Assets</b>		
<b>Non-Current Assets:</b>		
<b>PPE and Intangible Assets</b>		
PPE	6	1,125
<b>Current Assets</b>		
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash and Cash Equivalents	10	6
<b>Total</b>		<b>2,556</b>

## Notes to Accounts:

	₹ in lakh
(1) Share Capital	
Authorised:	
300 lakh shares of ₹ 10 each	3,000
12 lakh, 8% Preference Shares of ₹ 100 each	1,200
	4,200
Issued, Subscribed and Paid up:	
150 lakh Equity Shares of ₹ 10 each, fully paid up	1,500
6 lakh 8% Preference Shares of ₹ 100 each, fully paid up	600
	2,100
(2) Reserves and Surplus	
Debit balance of Profit and Loss A/c	(783)
(3) Long Term Borrowings	
6% Debentures (Secured by Freehold Property)	600
Director's Loan	450
	1,050
(4) Trade Payables	
Trade payables for Goods	153
(5) Other Liabilities	
Interest Accrued and Due on 6% Debentures	36
(6) PPE	
Freehold Property	825
Plant and Machinery	300
	1,125

(7) Current Investment	300
Investment in Equity Instruments	
(8) Inventories	450
Finished Goods	
(9) Trade Receivables	675
Trade receivables for Goods	
(10) Cash and Cash Equivalents	6
Balance with Bank	

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

- (1) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.
- (2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3<sup>rd</sup> and for balance 1/3<sup>rd</sup>, Equity Shares of ₹ 2 each to be allotted.
- (3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
- (4) Interest accrued and due on Debentures to be paid in cash.
- (5) Remaining Freehold Property to be valued at ₹ 550 lakh.
- (6) All investments sold out for ₹ 425 lakh.
- (7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allotted.
- (8) 40% of Trade receivables and 80% of Inventories to be written off.
- (9) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying 8% penalty of contract value.

You are required to:

- (a) Pass Journal Entries for all the transactions related to internal reconstruction;
- (b) Prepare Capital Reduction Account, Bank Account; and
- (c) Prepare Notes to Accounts on Share Capital and PPE, immediately after the implementation of internal reconstruction.

(16 marks) [IPCC Gr. II]

Answer:

**Journal Entry of Planet Ltd.**  
(As on 31<sup>st</sup> March, 2017)

S. No.	Particulars	Dr. Amount	Cr. Amount
1	8% Preference Share Capital A/c Dr. To 8% Preference Share Capital A/c To Capital Reduction A/c (Being Preference Shares of ₹ 100 each reduced to ₹ 75 each, balance transferred to Reconstruction A/c)	600	450 150
2	Equity Share Capital A/c Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being equity shares of ₹ 100 each reduced to ₹ 20 each, and balance transferred to Reconstruction A/c)	1,500	300 1,200
3	Capital Reduction A/c Dr. To Equity Share Capital A/c (Being Preference Share dividend in arrears of 3 years waived by 2/3 <sup>rd</sup> and for balance 1/3 <sup>rd</sup> equity shares of ₹ 2 each allotted)	48	48
4	6% Debentures A/c Dr. To Freehold Property A/c (Being transfer of title deed on freehold property to debenture holders of the company)	450	450
5	Interest Accrued & due on Debentures A/c Dr. To Cash A/c (Being Interest Accrued and due on debentures paid in cash)	36	36
6	Freehold Property A/c Dr. To Capital Reduction A/c (Being balance freehold property re-valued)	175	175
7	Bank A/c Dr. To Investment A/c To Capital Reduction A/c (Being investments sold for ₹ 425 lakhs)	425	300 125
8	Loan for Director's A/c Dr. To Capital Reduction A/c	450	315

9.	To Equity Share Capital A/c (Being 70% of Director's loan waived off and the balance equity shares allotted)	Dr.	1,485	135
	Capital Reduction A/c			360
	To Stock A/c			270
	To Trade Receivables A/c			783
	To Profit & Loss A/c			72
	To Bank A/c			
	(Being writing off of losses, penalty paid for contractual commitments, and reduction in the value of assets)			
10.	Capital Reduction A/c Dr. To Capital Reserve A/c (Being balance in Capital Reduction A/c transferred to Capital Reserve)	Dr.	432	432

**(b) Capital Reduction A/c**

Dr.		Cr.	
Particulars	Amt.	Particulars	Amt.
To Equity Share Capital A/c	48	By 8% Preference Share Capital A/c	150
To Stock A/c	360		
To Trade Receivable A/c	270	By Equity Share Capital A/c	1,200
To Profit & Loss A/c	783	By Freehold Property A/c	175
To Bank A/c	72	By Loan from directors A/c	315
To Capital Reserve A/c (Balancing fig.)	432	By Bank	125
	<b>1,965</b>		<b>1,965</b>

**Bank A/c**

Dr.		Cr.	
Particulars	Amt.	Particulars	Amt.
To Balance b/d	6	By Interest accrued & due on debentures A/c	36
To Investment A/c	300		
To Capital Reduction A/c (Gain of Sale)	125	By Capital Reduction A/c	72
	<b>431</b>	By Balance c/d	323
			<b>431</b>



(c) Note to Accounts on Share Capital and PPE  
After implementation of internal reconstruction

Share Capital	(₹ in lakhs)
<b>Authorised:</b>	
300 lakh shares of ₹ 2 each	600
12 lakh, 8% Preference shares of ₹ 75 each	<u>900</u>
	1,500
<b>Issued, subscribed and paid up:</b>	
241.5 lakhs Equity shares of ₹ 2 each (out of which 91.5 lakh shares have been issued for consideration other than cash)	483
6 lakhs, 8% Preference shares of ₹ 75 each fully paid up	<u>450</u>
Total	<u>933</u>
<b>PPE:</b>	
Freehold property	825
Less: Utilized to pay Debenture holders	(450)
Add: Appreciation	<u>175</u>
Plant and machinery	<u>300</u>
Total	850

**Working Note:**

Calculation of number of equity shares issued:

To equity shareholders	150 lakhs
To Preference shareholders (in lieu of arrear of preference dividend)	24 lakhs
To Directors	<u>67.5 lakhs</u>
	<u>241.5 lakhs</u>

**Note:** In place of Capital Reduction Account Re-organization or Reconstruction Account may also be used.

Space to write important points for revision

Q.3.7	2018 - Nov [3] (b)	Practical
The summarized Balance Sheet of SK Ltd. as on 31 <sup>st</sup> March, 2018 is given below.		
(₹ in '000)		
<b>Liabilities</b>		<b>Amount</b>
Equity Shares of ₹ 10 each		35,000
8%, Cumulative Preference Shares of ₹ 100 each		17,500
6% Debentures of ₹ 100 each		14,000
Sundry Creditors		17,500
Provision for taxation		350
<b>Total</b>		<b>84,350</b>
<b>Assets</b>		
Property Plant and Equipment		43,750
Investments (Market value ₹ 3325 thousand)		3,500
Current Assets (Including Bank Balance)		35,000
Profit and Loss Account		2,100
<b>Total</b>		<b>84,350</b>

The following Scheme of Internal Reconstruction is approved and put into effect on 31<sup>st</sup> March, 2018.

- Investments are to be brought to their market value.
- The Taxation Liability is settled at ₹ 5,25,000 out of **current Assets**.
- The balance of Profit and Loss Account to be written off.
- All the existing equity shares are reduced to ₹ 4 each.
- All preference shares are reduced to ₹ 60 each.
- The rate of interest on debentures is increased to 9%.  
The Debenture holders surrender their existing debentures of ₹ 100 each and exchange them for fresh debentures of ₹ 80 each. Each old debenture is exchanged for one new debenture.

- (vii) Balance of Current Assets left after settlement of taxation liability are revalued at ₹ 1,57,50,000.
- (viii) Property Plant and Equipment are written down to 80%.
- (ix) One of the creditors of the Company for ₹ 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹ 4 each in full and final settlement of his claim.
- Pass Journal entries for the above transactions. (10 marks)

Answer:

**Journal Entries in the books of SK Ltd.**

	Particulars	Dr. ₹	Cr. ₹
(i)	Provision for taxation A/c Dr. Capital Reduction A/c Dr. To Liability for taxation (Being conversion of the provision for taxation into liability for settlement of the amount due).	3,50,000 1,75,000	5,25,000
(ii)	Equity Share Capital (₹ 10) Dr. To Equity Share Capital (₹ 4) To Capital Reduction A/c (Being conversion of equity share capital of ₹ 10 each into ₹ 4 each as per reconstruction scheme).	3,50,00,000	1,40,00,000 2,10,00,000
(iii)	8% Cumulative Preference Share Capital (₹ 100) A/c Dr. To 8% cumulative preference share capital (₹ 60) A/c To Capital Reduction (Being conversion of 8% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme).	1,75,00,000	1,05,00,000 70,00,000

(iv)	6% Debentures A/c Dr. To 9% Debentures To Capital Reduction (Being 9% debentures of ₹ 80 each issued to existing to 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme).	1,40,00,000	1,12,00,000 28,00,000
(v)	Sundry Creditors A/c Dr. To Equity Share Capital (₹ 4) To Capital Reduction A/c (Being a creditor of ₹ 70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of ₹ 4 each in full settlement of his dues as per reconstruction scheme).	70,00,000	35,00,000 35,00,000
(vi)	Capital Reduction A/c Dr. To P & L A/c To Investments To Current Assets To Fixed Assets To Capital Reserve (Bal. Fig.) (Being amount of Capital Reduction utilized in writing off P and L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve).	3,41,25,000	21,00,000 1,75,000 1,87,25,000 87,50,000 43,75,000
(vii)	Liability for Taxation Dr. To Current Assets (Bank A/c) (Being the payment of tax liability).	5,25,000	5,25,000

Q.3.8 2019 - Nov [3] (a)

Practical

Following is the summarized Balance Sheet of Fortunate Ltd. as on 31<sup>st</sup> March, 2019.

Particulars	Amount (₹)
<b>Liabilities</b>	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
<b>Total:</b>	<b>21,42,500</b>
<b>Assets</b>	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000
<b>Total:</b>	<b>21,42,500</b>

(Note: Preference shares dividend is in arrear for last five years).  
The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

- (i) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 5 by cancellation of ₹ 45.00 per share. They have also agreed to subscribe for three new equity shares of ₹ 5.00 each for each equity share held.
- (ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹ 50 preference share, 4 new 6% preference shares of ₹ 10 each, plus 3 new equity shares of ₹ 5.00 each, all credited as fully paid.
- (iii) Lenders to the company for ₹ 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹ 10 each and 7,500 new equity shares of ₹ 5.00 each.
- (iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹ 5.00 each in addition to any shares to be subscribed by them under (i) above.
- (v) Of the cash received by the issue of new shares, ₹ 2,50,000 is to be used to reduce the loan due by the company.
- (vi) The equity share capital cancelled is to be applied:
  - (a) To write off the debit balance in the Profit and Loss A/c, and
  - (b) To write off ₹ 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital as reduced is to be increased to ₹ 8,12,500 for preference share capital and ₹ 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction.

(15 marks)



Answer:

In the books of Fortunate Ltd.  
Journal Entries

Particulars	Debit (₹)	Credit (₹)
Equity share capital A/c (₹ 50) Dr. To Equity share capital A/c (₹ 5) To Capital reduction A/c (Being equity capital reduced to nominal value of ₹ 5 each)	9,37,500	93,750 8,43,750
Bank A/c Dr. To Equity share capital (Being 3 right shares against each share was issued and subscribed)	2,81,250	2,81,250
8% Preference share capital A/c (₹ 50) Dr. Capital reduction A/c Dr. To 6% Preference share capital (₹ 10) To Equity share capital (Being 8% preference shares of ₹ 50 each converted to 6% preference shares of ₹ 10 each and also given to them 3 equity shares for every share held)	7,50,000 75,000	6,00,000 2,25,000
Loan A/c Dr. To 6% Preference share capital A/c (₹ 10) To Equity share capital A/c (Being loan to the extent of ₹ 1,87,500 converted into share capital)	1,87,500	1,50,000 37,500
Bank A/c Dr. To Equity share application money A/c (Being shares subscribed by the directors)	1,25,000	1,25,000

6. Equity share application money A/c Dr. To Equity share capital A/c (Being application money transferred to capital A/c)	1,25,000	1,25,000
7. Loan A/c Dr. To Bank A/c (Being loan repaid)	2,50,000	2,50,000
8. Capital Reduction A/c Dr. To Profit and Loss A/c To Plant A/c To Trademarks and goodwill (Being losses and assets written off to the extent required)	7,68,750	5,63,750 43,750 1,61,250

Balance Sheet of Fortunate Ltd. (and reduced) as on 31.03.19

Particulars	Notes	₹
<b>Equity and Liabilities</b>		
<b>(1) Shareholders Funds</b>		
(a) Share capital	1	15,12,500
<b>(2) Non-Current Liabilities</b>		
(a) Long-term borrowings		2,78,750
<b>(3) Current Liabilities</b>		
(a) Trade Payables		2,58,750
(b) Other Current Liabilities		43,750
<b>Total</b>		<b>20,93,750</b>
<b>Assets</b>		
<b>(1) Non-Current Assets</b>		
(a) Property Plant and Equipment and Intangible Assets		
PPE	2	7,91,250
Intangible Assets	3	2,36,250

(2)	<b>Current Assets</b>		
	(a) Inventories		5,00,000
	(b) Trade receivables		4,10,000
	(c) Cash and Cash equivalents	4	1,56,250
	<b>Total</b>		<b>20,93,750</b>

**Notes to Accounts**

			₹
1.	<b>Share Capital</b>		
	Authorised Capital:		
	81,250, 6% Preference shares of ₹ 10 each	8,12,500	
	1,87,500 Equity shares of ₹ 5 each	9,37,500	17,50,000
	Issued, subscribed and paid up:		
	1,52,500 equity shares of ₹ 5 each	7,62,500	
	75,000, 6% Preference shares of ₹ 10 each	7,50,000	15,12,500
2.	<b>PPE</b>		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	2,91,250	7,91,250
3.	<b>Intangible Assets</b>		
	Trademarks and goodwill		2,36,250
4.	<b>Cash and Cash Equivalents Bank (2,81,250 + 1,25,000 - 2,50,000)</b>		1,56,250

Space to write important points for revision

**Q.3.9 2021 - July [6] (e)****Practical**

Answer the following:

Sapra Limited has laid down the following terms upon the sanction of the reconstruction scheme by the court.

- (i) The shareholders to receive in lieu of their present holding at 7,50,000 shares of ₹ 10 each, the following :
- New fully paid ₹ 10 Equity Shares equal to 3/5<sup>th</sup> of their holding.
  - Fully paid ₹ 106% Preference Shares to the extent of 2/5<sup>th</sup> of the above new equity shares.
  - 7% Debentures of ₹ 2,50,000.
- (ii) Goodwill which stood at ₹ 2,70,000 is to be completely written off.
- (iii) Plant & Machinery to be reduced by ₹ 1,00,000, Furniture to be reduced by ₹ 88,000 and Building to be appreciated by ₹ 1,50,000.
- (iv) Investment of ₹ 6,00,000 to be brought down to its existing market price of ₹ 1,80,000.
- (v) Write off Profit & Loss Account debit balance of ₹ 2,25,000.
- In case of any shortfall, the balance of General Reserve of ₹ 42,000 can be utilized to write off the losses under reconstruction scheme.
- You are required to show the necessary Journal Entries in the books of Sapra Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses. (5 marks)

**Answer:****Journal Entries in the books of Sapra Ltd.**

Particulars	Dr. (₹)	Cr. (₹)
Equity Share Capital A/c	Dr. 75,00,000	
To Equity share capital A/c (75,00,000 × 3/5)		45,00,000
To Preference share capital A/c (45,00,000 × 2/5)		18,00,000
To 7% Second Debentures		2,50,000
To Capital Reduction A/c		9,50,000
(Being new equity shares, 6% preference shares, 7% debentures issued and the balance transferred to reconstruction account as per scheme)		

Building A/c	Dr.	1,50,000	
To Capital Reduction A/c (Being Building Appreciated)			1,50,000
Capital Reduction A/c	Dr.	11,03,000	
To Goodwill A/c			2,70,000
To Plant & Machinery A/c			1,00,000
To Furniture A/c			88,000
To Investments A/c			4,20,000
To Profit & Loss A/c			2,25,000
(Being Capital Reduction Account utilized for writing off of goodwill, Plant & Machinery, Furniture and Investment and Profit & Loss A/c debit Balance)			
General Reserves A/c	Dr.	3,000	
To Capital Reduction A/c (Being General Reserves is used for shortfall)			3,000

Space to write important points for revision

Q.3.10	2022 - Nov [2]	Practical
The following is the Balance Sheet of Purple Limited as at 31 <sup>st</sup> March, 2022: <b>Balance Sheet of Purple Limited as at 31<sup>st</sup> March, 2022</b>		
Particulars	Notes	Amount in ₹
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital	1	15,00,000
(b) Reserves & Surplus	2	(3,00,000)

<b>(2) Current Liabilities</b>		
(a) Trade Payables		2,20,000
(b) Short Term Borrowings-Bank Overdraft		2,00,000
	<b>Total</b>	<b>16,20,000</b>
<b>II. Assets</b>		
<b>(1) Non-Current Assets</b>		
(a) Property, Plant and Equipment	3	10,20,000
(b) Intangible Assets	4	1,20,600
<b>(2) Current Assets</b>		
(a) Inventories		1,70,000
(b) Trade Receivables		3,01,800
(c) Cash and Cash equivalents		7,600
	<b>Total</b>	<b>16,20,000</b>

**Notes to Accounts**

	₹	₹
<b>(1) Share Capital</b>		
90,000 Equity Shares of ₹ 10 each fully paid	9,00,000	
6% Preference Share Capital	6,00,000	15,00,000
<b>(2) Reserves &amp; Surplus</b>		
Profit & Loss Account		(3,00,000)
<b>(3) Property, Plant and Equipment</b>		
Land and Building	5,40,000	
Plant and Machinery	4,80,000	10,20,000
<b>(4) Intangible Assets</b>		
Goodwill	84,600	
Patents	36,000	1,20,600



Dividends on preference shares are in arrears for 3 years. On the above date, the company adopted the following scheme of reconstruction:

- (i) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.
- (ii) The value of equity shares is brought down to ₹ 8 per share.
- (iii) The arrears of dividend on preference shares are cancelled.
- (iv) The debit balance of Goodwill account is written off entirely.
- (v) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.
- (vi) Book debts amounting to ₹ 14,400 are to be treated as bad and hence to be written off.
- (vii) The company expects to earn a profit at the rate of ₹ 90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and Loss Accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.
- (viii) The balance of total capital reduction is to be utilized in writing down Patents.
- (ix) A secured loan of ₹ 4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital. You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet. (20 marks)

**Answer:**

**Journal entries in the books of Purple Ltd.**

	Particulars	Dr.	Cr.
(i)	6% Preference Share Capital A/c Dr. To 8% Preference Share Capital A/c To Capital Reduction A/c [Being preference shares are recovered (6,00,000 × 6%/8%)]	6,00,000	4,50,000 1,50,000

(ii)	Equity Share Capital A/c (₹ 10) Dr. To Equity Share Capital A/c (₹ 8) To Capital Reduction A/c (Being equity shares reduced to ₹ 8 each)	9,00,000	7,20,000 1,80,000
(iii)	Capital Reduction A/c Dr. To Goodwill A/c To Land & Building A/c To Plant & Machinery A/c To Book debts To Profit & Loss A/c (3,00,000 - 2,70,000) To Patent (Balancing figure) (Being Balances are written off)	3,30,000	84,600 81,000 96,000 14,400 30,000 24,000
(iv)	Bank A/c Dr. To 12% Bank Loan A/c (Being Loan taken on mortgage of tangible Fixed Assets)	4,80,000	4,80,000
(v)	Bank Overdraft A/c Dr. To Bank A/c [Being Bank od Paid]	2,00,000	2,00,000

**Capital Reductions A/c**

Particulars	₹	Particulars	₹
To Goodwill	84,600	By Preference Capital	1,50,000
To Land and Building	81,000	By Equity Share Capital	1,80,000
To Plant and Machinery	96,000		
To Book Debts	14,400		
To Profit and Loss A/c (3,00,000 - 2,70,000)	30,000		
To Patent (Balancing figure)	24,000		
	<b>3,30,000</b>		<b>3,30,000</b>

Balance Sheet of Purple Ltd. as at 31<sup>st</sup> March, 2022 (and reduced).

Particulars	Notes	Amounts (₹)
<b>Equity and Liabilities</b>		
<b>(1) Shareholders' Funds</b>		
Share Capital	1	11,70,000
Reserves and Surplus (Profit and Loss A/c)		(2,70,000)
<b>(2) Current Liabilities</b>		
12% Bank Loan (Secured on Tangible Fixed Assets)		4,80,000
Trade Payables		2,20,000
<b>Total</b>		<b>16,00,000</b>
<b>Assets</b>		
<b>(1) Non-Current Assets</b>		
PPE and Intangibles		
Tangible		
Land & Building (5,40,000 × 85%)		4,59,000
Plant & Machinery (4,80,000 × 80%)		3,84,000
Intangible (Patents) (36,000 - 24,000)		12,000
<b>(2) Current Assets</b>		
Inventories		1,70,000
Trade receivables (3,01,800 - 14,400)		2,87,400
Cash and Cash Equivalent (7,600 + 4,80,000 - 2,00,000)		2,87,600
<b>Total</b>		<b>16,00,000</b>

Note 1: Share Capital

Issued, Subscribed, called up and Paid up Capital		
Equity Share Capital (90,000 Equity shares of ₹ 8 each)		7,20,000
8% preference shares capital		4,50,000
		<b>11,70,000</b>

Space to write important points for revision

Q.3.11	RTP	Practical	
The Balance Sheet of XYZ Ltd. as on 31 <sup>st</sup> March is as under:			
Liabilities	₹	Assets	₹
Authorized, Issued Equity Share Capital 20,000 Shares of ₹ 100 each	20,00,000	Goodwill	2,00,000
10,000 Preference Shares (7%) of ₹ 100 each	10,00,000	Plant and Machinery	18,00,000
Sundry Creditors	7,00,000	Stock	3,00,000
Bank Overdraft	3,00,000	Debtors	7,50,000
		Preliminary Expenses	1,00,000
		Cash	1,50,000
		Profit and Loss Account	7,00,000
<b>Total</b>	<b>40,00,000</b>	<b>Total</b>	<b>40,00,000</b>

Two years' Preference Dividends are in Arrears. The Company had bad time during the last two years and hopes for better business in future, earning profit and paying dividend, provided the capital base is reduced. An Internal Reconstruction Scheme as follows was agreed to by all concerned:

- Creditors agreed to forego 50% of the claim.
- Preference Shareholders withdrew Arrear Dividend claim. They also agreed to lower their Capital claim by 20% by reducing Nominal Value, in consideration of 9% Dividend effective after reorganization, in case Equity Shareholders' Loss exceed 50% on the application of the scheme.
- Bank agreed to convert Overdraft into Term Loan to the extent required for making Current Ratio equal to 2:1.
- Revalued figure for Plant and Machinery was accepted as ₹ 15,00,000.
- Debtors to the extent of ₹ 4,00,000 were considered good.
- Equity Shares shall be exchanged for same number of Equity Shares, at a revised denomination as required after reorganisation.

Show:

- Total Loss to be borne by the Equity and Preference Shareholders for the Reorganisation,
- Share of Loss to the Individual Classes of Shareholders,
- New Structure of Share Capital after Reorganisation,
- Working Capital of the Reorganized Company, and
- A Proforma Balance Sheet after Reorganisation.

**Answer:**

**1. Loss to be borne by Equity and Preference Shareholders and Sharing of Loss**

Particulars	₹
Profit and Loss Account (Debit Balance)	7,00,000
Preliminary Expenses	1,00,000
Goodwill	2,00,000
Plant and Machinery (₹ 18,00,000 – ₹ 15,00,000)	3,00,000
Debtors (₹ 7,50,000 – ₹ 4,00,000)	3,50,000
<b>Amount to be Written off</b>	<b>16,50,000</b>
Less: 50% of Sundry Creditors = Claim foregone	3,50,000

<b>Total Loss to be Borne by the Equity and Preference Shareholders</b>	<b>13,00,000</b>
Total Loss of ₹ 13,00,000 being more than 50% of Equity Share Capital, i.e. ₹ 10,00,000	
(a) Preference Shareholders' Share of Loss (20% of ₹ 10,00,000), contributed by Preference Capital Reduction	2,00,000
(b) Balance being Equity Shareholders' Share of Loss (₹ 13,00,000 – ₹ 2,00,000), contributed by Equity Capital Reduction	11,00,000

**Note:** Two years' Preference Dividend (Arrears) has been ignored in the computation of Loss to be borne by Equity and Preference Shareholders.

**2. New Structure of Share Capital after Reorganisation**

Particulars	₹
<b>Equity Shares:</b> 20,000 Equity Shares of ₹ 45 each fully paid up (₹ 20,00,000 – ₹ 11,00,000)	9,00,000
<b>Preference Shares:</b> 10,000, 9% Preference Shares of ₹ 80 each fully paid up (₹ 10,00,000 – ₹ 2,00,000)	8,00,000
<b>Total</b>	<b>17,00,000</b>

**3. Working Capital of the Reorganized Company:**

Particulars	₹	₹
<b>Current Assets:</b>		
Stock	3,00,000	
Debtors	4,00,000	
Cash	1,50,000	8,50,000
<b>Less: Current Liabilities:</b>		
Creditors	3,50,000	
Bank Overdraft (See Note)	75,000	4,25,000
<b>Working capital</b>		<b>4,25,000</b>



Note: Required Current Ratio = 2:1. So, required Current Liabilities  

$$= \frac{CA}{2} = \frac{8,50,000}{2} = ₹ 4,25,000$$
, of which Revised Creditors  

$$= ₹ 3,50,000$$
. Hence, balance Bank Overdraft = ₹ 4,25,000 – ₹ 3,50,000 = ₹ 75,000

4. Balance Sheet of Shiva Ltd. as on 31<sup>st</sup> March (after Reconstruction)

Particulars as at 31 <sup>st</sup> March	Note	This Year	Prev. Year
<b>i. Equity and Liabilities:</b>			
<b>Shareholders' Funds:</b>			
Share Capital	1	17,00,000	
<b>Non-Current Liabilities:</b>			
Long Term Borrowings -Term Loan with Bank (Secured)		2,25,000	
<b>Current Liabilities:</b>			
(a) Short Term Borrowings -Bank Overdraft		75,000	
(b) Trade Payables -Sundry Creditors		3,50,000	
<b>Total</b>		<b>23,50,000</b>	
<b>ii Assets</b>			
<b>Non-Current Assets</b>			
PPE and Intangible Asset:			
PPE			
• Plant and Machinery (Cost 18,00,000 - Decr. under Reconstruction 3,00,000)		15,00,000	
<b>Current Assets:</b>			
(a) Inventories - Stock-in-Trade		3,00,000	
(b) Trade Receivables - Sundry Debtors		4,00,000	
(c) Cash and Cash Equivalents - Cash on Hand		1,50,000	
<b>Total</b>		<b>23,50,000</b>	

Note 1: Share Capital

Particulars	This Year	Previous Year
<b>Authorised:</b> 20,000 Equity Shares of ₹ 45 each 10,000 9% Preference Shares of ₹ 80 each	9,00,000 8,00,000	
<b>Issued, Subscribed and Paid up:</b> 20,000 Equity Shares of ₹ 45 each 10,000 9% Preference Shares of ₹ 80 each	9,00,000 8,00,000	
<b>Total</b>	<b>17,00,000</b>	

Space to write important points for revision

Q.3.12 RTP

Practical

XYZ Ltd. which had experienced trading difficulties decided to reorganise its finances. On 31<sup>st</sup> March, a Final Trial Balance extracted from the books of the Company showed the following position: (in ₹)

Particulars	Dr.	Cr.
Share Capital, Authorised and Issued:		
1,500 6% Cumulative Preference Shares of ₹ 100 each		1,50,000
2,000 Equity Shares of ₹ 100 each		2,00,000
Capital Reserve		36,000
Profit and Loss Account	1,10,375	
Preliminary Expenses	7,250	
Goodwill at Cost	50,000	
Trade Creditors		42,500

Debtors	30,200	
Bank Overdraft		51,000
Leasehold Property at Cost	80,000	
Lease hold Property Provision for Depreciation		30,000
Plant and Machinery at Cost	2,10,000	
Plant and Machinery Provision for Depreciation		57,500
Stock-in-Trade	79,175	
<b>Total</b>	<b>5,67,000</b>	<b>5,67,000</b>

Approval from appropriate authorities was obtained for the following scheme for Reduction of Capital:

1. Preference Shares to be reduced to ₹ 75 per Share and Equity Shares to be reduced to ₹ 12.50 per Share.
2. One ₹ 12.50 Equity Share to be issued for each ₹ 100 of Gross Preference Dividend Arrears, the Preference Dividend had not been paid for three years.
3. The balance in Capital Reserve Account to be utilized.
4. Plant and Machinery to be written down to ₹ 75,000.
5. Profit and Loss Account balance and all Intangible Assets to be written off.

At the same time as the resolution to reduce Capital was passed, another resolution was approved restoring the Total Authorised Capital to ₹ 3,50,000 consisting of 1,500 6% Cumulative Preference Shares of ₹ 75 each and the balance in Equity Shares of ₹ 12.50 each. As soon as the above resolution had been passed, 5,000 Equity Shares were issued at par for cash payable in full upon application. The same were fully subscribed and paid.

You are required:

1. To show the Journal Entries necessary to record the above transaction in the Company's books, and
2. To prepare the Balance Sheet of the Company, after completion of the scheme.

**Answer:**

**Note:** Since the Scheme involves arrangements with Shareholders only, the A/c Head Name "Capital Reduction" Account may be used. Alternatively, the term "Reconstruction" A/c is used in this Illustration.

**1. Journal Entries in the books of XYZ Ltd.**

Particulars	Dr. (₹)	Cr. (₹)
6% Cum. Preference Share Capital (₹ 100 each) A/c Dr.	1,50,000	
To 6% Cumulative Pref. Share Capital (₹ 75 each) A/c		1,12,500
To Reconstruction A/c		37,500
(Being 1,500 6% Cum. Preference Shares converted into equal number of 6% Cum. Preference Shares of ₹ 75 each, balance of the amount transferred to Reconstruction Account vide approved Scheme of Reconstruction dated....)		
Equity Share Capital (₹ 100 each) A/c Dr.	2,00,000	
To Equity Share Capital (₹ 12.50 each) A/c		25,000
To Reconstruction A/c		1,75,000
(Being 2,000 Equity Shares of ₹ 100 each reduced to Equity Shares of ₹ 12.50 each, balance transferred to Reconstruction A/c vide approved Reconstruction Scheme dated....)		
Reconstruction A/c Dr.	3,375	
To Equity Share Capital A/c		3,375
(Being allotment of 270 Equity Shares of ₹ 12.50 each to Pref. Shareholders as under Preference Dividend due for 3 years = ₹ 1,50,000 × 6 × 3 years = ₹ 27,000)		

No. of Equity Shares to be issued for every ₹ 100			
Dividend due = $\frac{27,000}{100} = 270$			
Equity Shares. Nominal Value of ESC issued = 270 Shares × ₹ 12.50 = ₹ 3,375)			
Capital Reserve A/c	Dr.	36,000	
To Reconstruction A/c			36,000
(Being balance of Capital Reserve transferred to Reconstruction A/c vide Scheme of Reconstruction dated....)			
Reconstruction A/c	Dr.	77,500	
To Plant and Machinery A/c			77,500
(Being Net Amount of Plant and Machinery reduced to ₹ 75,000 vide approved Scheme of Reconstruction dated....) (2,10,000 – 57,500 – 75,000 = 77,500)			
Reconstruction A/c	Dr.	1,67,625	
To Profit and Loss A/c			1,10,375
To Preliminary Expenses			7,250
To Goodwill			50,000
(Being Dr. balance of P&L Account, Preliminary Expenses and Goodwill written off against Reconstruction Account vide approved Scheme of Reconstruction dated.....)			
Bank A/c	Dr.	62,500	
To Share Application and Allotment A/c			62,500
(Being money received on 5,000 Equity Shares at ₹ 12.50 per share)			
Share Application and Allotment A/c	Dr.	62,500	
To Equity Share Capital A/c			62,500
(Being allotment of 5,000 Equity Shares of ₹ 12.50 each vide Board Resolution dated.....)			

**Reconstruction Account**

Particulars	₹	Particulars	₹
To Equity Share Capital (Arrears of Dividend)	3,375	By 6% Cum. Pref. Share Capital (₹ 100)	37,500
To Plant and Machinery (Reduction)	77,500	By Equity Share Capital (₹ 100)	1,75,000
To Profit and Loss A/c (written off)	1,10,375	By Capital Reserve (transfer)	36,000
To Preliminary Expenses (written off)	7,250		
To Goodwill (written off)	50,000		
<b>Total</b>	<b>2,48,500</b>	<b>Total</b>	<b>2,48,500</b>

**Cash/Bank Account**

Receipts	₹	Payments	₹
To Equity Share Capital - fresh issue	62,500	By balance b/d – given	51,000
		By balance c/d (bal. fig.)	11,500
<b>Total</b>	<b>62,500</b>	<b>Total</b>	<b>62,500</b>

**Balance Sheet of XYZ Ltd. as on 31<sup>st</sup> March (after reconstruction)**

Particulars as at 31 <sup>st</sup> March	Note	This Year	Prev. Year
<b>I. Equity and Liabilities:</b>			
<b>1. Shareholders' Funds:</b> - Share Capital	1	2,03,375	
<b>2. Current Liabilities:</b> Trade Payables - Sundry Creditors		42,500	
<b>Total</b>		<b>2,45,875</b>	



<b>II. Assets</b>			
<b>1. Non-Current Assets:</b>			
Property Plant and Equipment and Intangible Asset			
PPE	2	1,25,000	
<b>2. Current Assets:</b>			
(a) Inventories- Stock-In-Trade		79,175	
(b) Trade Receivables - Sundry Debtors		30,200	
(c) Cash and Cash Equivalents		11,500	
<b>Total</b>		<b>2,45,875</b>	

**2. PPE**

Particulars	This Year	Prev. Year
(a) Plant and Machinery A/c (Cost 2,10,000 – Accum. Deprn 57,500 Less Decr in Revaluation 77,500)	75,000	
(b) Leasehold Property (Cost 80,000 – Accum. Deprn 30,000)	50,000	
<b>Total</b>	<b>1,25,000</b>	

Space to write important points for revision

**Note to Account:**

**1. Share Capital**

Particulars	This Year	Prev. Year
<b>Authorised:</b>		
19,000 Equity Shares of ₹ 12.50 each	2,37,500	
1,500 6% Cum. Preference Shares of ₹ 75 each	1,12,500	3,50,000
<b>Issued, Subscribed and Paid up:</b>		
7,270 Equity Shares of ₹ 12.50 each	90,875	
(Of the above, 270 Shares of ₹ 12.50 each issued for Arrears of Preference Dividend)		
1,500 6% Cum. Preference Shares of ₹ 75 each	1,12,500	
<b>Total</b>	<b>2,03,375</b>	

**Q.3.13**

**RTP**

**Practical**

The summarized balance sheet of Z Limited as on 31<sup>st</sup> March, 2017 is as under:

Liabilities	Amount in ₹
<b>Share Capital:</b>	
5,00,000 Equity shares of ₹ 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of ₹ 100 each fully paid up	20,00,000
<b>Reserves and Surplus:</b>	
Profit and Loss Account	(14,60,000)
<b>Non-Current Liabilities:</b>	
10% Secured Debentures	16,00,000
<b>Current Liabilities:</b>	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
<b>Total</b>	<b>81,00,000</b>

Assets:	
<b>Non-Current Assets:</b>	
Property Plant and Equipment	
<b>(i) PPE:</b>	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
<b>(ii) Intangible Assets:</b>	
Goodwill	10,00,000
Patents	5,00,000
<b>Current Assets:</b>	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000
Discount on issue of debentures	1,00,000
<b>Total</b>	<b>81,00,000</b>

**Note:** Preference dividend is in arrears for last 2 years. Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

The following scheme of reconstruction has been agreed upon and duly approved.

- (i) All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.
- (ii) The Preference shares be reduced to ₹ 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.

- (iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.
- (iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forego their 50% claims.
- (v) Directors also waived 60% of their loans and accepted equity shares for the balance.
- (vi) Capital commitments of ₹ 3.00 lacs were cancelled on payment of ₹ 15,000 as penalty.
- (vii) Directors refunded ₹ 1,00,000 of the fees previously received by them.
- (viii) Reconstruction expenses paid ₹ 15,000.
- (ix) The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.
- (x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to prepare necessary journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account and Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

Answer:

**Journal Entries in the Books of Z Ltd.**

		Dr.	Cr.
		₹	₹
(i)	Equity Share Capital (₹ 10 each) A/c Dr. To Equity Share Capital (₹ 5 each) A/c To Reconstruction A/c (Being conversion of 5,00,000 equity shares of ₹ 10 each fully paid into same number of fully paid equity shares of ₹ 5 each as per scheme of reconstruction.)	50,00,000	25,00,000 25,00,000
(ii)	9% Preference Share Capital (₹ 100 each) A/c Dr. To 10% Preference Share Capital (₹ 50 each) A/c To Reconstruction A/c (Being conversion of 9% preference share of ₹ 100 each into same number of 10% preference share of ₹ 50 each and claims of preference dividends settled as per scheme of reconstruction.)	20,00,000	10,00,000 10,00,000
(iii)	10% Secured Debentures A/c Dr. Trade payables A/c Dr. Interest on Debentures Outstanding A/c Dr. Bank A/c Dr. To 12% Debentures A/c To Reconstruction A/c (Being ₹ 11,58,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after issuing 50% as per scheme of reconstruction.)	9,80,000 1,00,000 98,000 1,00,000	6,78,000 5,78,000

(iv)	10% Secured Debentures A/c Dr. Trade Payables Interest on debentures outstanding A/c Bank A/c To 12% debentures A/c To Reconstruction A/c (Being ₹ 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)	6,40,000 60,000 64,000 60,000	4,42,000 3,82,000
(v)	Trade payables A/c Dr. To Reconstruction A/c (Being remaining trade payables sacrificed 50% of their claim.)	1,70,000	1,70,000
(vi)	Directors' Loan A/c Dr. To Equity Share Capital (₹ 5) A/c To Reconstruction A/c (Being Directors' loan claim settled by issuing 12,000 equity shares of ₹ 5 each as per scheme of reconstruction.)	1,00,000	40,000 60,000
(vii)	Reconstruction A/c Dr. To Bank A/c (Being payment made towards penalty of 5% for cancellation of capital commitments of ₹ 3 Lakhs.)	15,000	15,000
(viii)	Bank A/c Dr. To Reconstruction A/c (Being refund of fees by directors credited to reconstruction A/c)	1,00,000	1,00,000
(ix)	Reconstruction A/c Dr. To Bank A/c (Being payment of reconstruction expenses)	15,000	15,000



(x)	Provision for Tax A/c To Bank A/c To Reconstruction A/c (Being payment of tax liability in full settlement against provision for tax)	Dr.	1,00,000				
						75,000	
						25,000	
(xi)	Land and Building A/c To Reconstruction A/c (Being appreciation in value of Land & Building recorded)	Dr.	2,00,000				2,00,000
(xii)	Reconstruction A/c To Goodwill A/c To Patent A/c To Profit and Loss A/c To Discount on issue of Debentures A/c To Plant and Machinery A/c To Furniture & Fixture A/c To Trade Investment A/c To Inventory A/c To Trade Receivables A/c To Capital Reserve (bal. fig.) (Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)	Dr.	49,85,000				
						10,00,000	
						5,00,000	
						14,60,000	
						1,00,000	
						6,50,000	
						1,00,000	
						50,000	
						2,50,000	
						1,00,000	
						7,75,000	

		By Provision for tax A/c (tax paid)	75,000
		By Balance c/d	55,000
	2,60,000		2,60,000

**Reconstruction Account**

	₹		₹
To Bank (penalty)	15,000	By Equity Share Capital A/c	25,00,000
To Bank (reconstruction expenses)	15,000	By 9% Pref. Share Capital A/c	10,00,000
To Goodwill	10,00,000	By Mr. Y (Settlement)	5,78,000
To Patent	5,00,000	By Mr. Z (Settlement)	3,82,000
To P & L A/c	14,60,000	By Trade Payables A/c	1,70,000
To Discount on issue of debentures	1,00,000	By Director's loan	60,000
To P & M	6,50,000	By Bank	1,00,000
To Furniture and Fixtures	1,00,000	By Provision for tax	25,000
To Trade investment	50,000	By Land and Building	2,00,000
To Inventory	2,50,000		
To Trade Receivables	1,00,000		
To Capital Reserve (bal. fig.)	7,75,000		
	50,15,000		50,15,000

Space to write important points for revision

**Bank Account**

	₹		₹
To Reconstruction (Y)	1,00,000	By Balance b/d	1,00,000
To Reconstruction (Z)	60,000	By Reconstruction A/c (capital commitment penalty paid)	15,000
To Reconstruction A/c (refund of earlier fees by directors)	1,00,000	By Reconstruction A/c (reconstruction expenses paid)	15,000

**Q.3.14 RTP**

**Practical**

**Internal Reconstruction of a Company**

The Balance Sheet of Lion Limited as on 31-03-2018 is given below:

Particulars	Note No.	Amount (₹ in lakh)
<b>Equity &amp; Liabilities</b>		
<b>Shareholders' Funds</b>		
Shares' Capital	1	1,400

Reserves & Surplus	2	(522)
<b>Non-Current Liabilities</b>		
Long term Borrowings	3	700
<b>Current Liabilities</b>		
Trade Payables	4	102
Other Liabilities	5	24
<b>Total</b>		<b>1,704</b>
<b>Assets</b>		
<b>Non-Current Assets</b>		
<b>Property, Plant &amp; Equipment and Intangible Assets</b>		
PPE	6	750
<b>Current Assets</b>		
Current Investments	7	200
Inventories	8	300
Trade Receivables	9	450
Cash & Cash Equivalents	10	4
<b>Total</b>		<b>1,704</b>
<b>Notes to Accounts:</b>		
		₹ in Lakhs
1. Share Capital		
Authorised :		
200 lakh shares of ₹ 10 each		2,000

8 lakh, 8% Preference Shares of ₹ 100 each	800
	2,800
Issued, Subscribed and paid up:	
100 lakh Equity Shares of ₹10 each, full paid up	1,000
4 lakh 8% Preference Shares of ₹ 100 each, fully paid up	400
<b>Total</b>	<b>1400</b>
2. Reserves and Surplus	
Debit balance of Profit & Loss A/c	(522)
3. Long Term Borrowings	
6% Debentures (Secured by Freehold Property)	400
Directors' Loan	300
	700
4. Trade Payables	
Trade payables for Goods	102
5. Other Current Liabilities	
Interest Accrued and Due on 6% Debentures	24
6. PPE	
Freehold Property	550
Plant & Machinery	200
	750

7.	Current Investment	
	Investment in Equity Instruments	200
8.	Inventories	
	Finished Goods	300
9.	Trade Receivables	
	Trade receivables for Goods	450
10.	Cash and Cash Equivalents	
	Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

- Preference Shares are to be written down to ₹ 80 each and Equity Shares to ₹ 2 each.
- Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.
- Debenture holders agreed to take one Freehold Property at its book value of ₹ 300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
- Interest accrued and due on Debentures to be paid in cash.
- Remaining Freehold Property to be valued at ₹400 lakh.
- All investments sold out for ₹ 250 lakh.
- 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.
- 40% of Trade receivables and 80% of Inventories to be written off.
- Company's contractual commitments amounting to ₹ 600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

- Pass Journal Entries for all the transactions related to internal reconstruction;

- Prepare Reconstruction Account; and
- Prepare notes on Share Capital and PPE to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

Answer:

**Journal Entries in the books of Lion Ltd.**

(a)		Debit	Credit
		(₹ in lakhs)	(₹ in lakhs)
(i)	8% Preference share capital A/c (₹ 100 each) Dr.	400	
	To 8% Preference share capital A/c (₹ 80 each)		320
	To Capital Reduction A/c		80
		(Being the preference shares of ₹ 100 each reduced to ₹ 80 each as per the approved scheme)	
(ii)	Equity share capital A/c (₹ 10 each) Dr.	1,000	
	To Equity share capital A/c (₹ 2 each)		200
	To Capital Reduction A/c		800
		(Being the equity shares of ₹ 10 each reduced to ₹ 2 each)	
(iii)	Capital Reduction A/c Dr.	32	
	To Equity share capital A/c (₹ 2 each)		32
		(Being 1/3 <sup>rd</sup> arrears of preference share dividend of 3 years to be satisfied by issue of 16 lakhs equity shares of ₹ 2 each)	



(iv)	6% Debentures A/c	Dr.	300	
	To Freehold property A/c			300
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
(v)	Accrued debenture interest A/c	Dr.	24	
	To Bank A/c			24
	(Being accrued debenture interest paid)			
(vi)	Freehold property A/c	Dr.	150	
	To Capital Reduction A/c			150
	(Being appreciation in the value of freehold property)			
(vii)	Bank A/c	Dr.	250	
	To Investments A/c			200
	To Capital Reduction A/c			50
	(Being investment sold at profit)			
(viii)	Director's loan A/c	Dr.	300	
	To Equity share capital A/c (₹ 2 each)			90
	To Capital Reduction A/c			210
	(Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of ₹ 2 each)			
(ix)	Capital Reduction A/c	Dr.	972	
	To Profit and loss A/c			522
	To Trade receivables A/c (450 x 40%)			180

	To Inventories-in-trade A/c (300x 80%)		240
	To Bank A/c (600 x 5%)		30
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)		
(x)	Capital Reduction A/c		286
	To Capital reserve A/c		286
	(Being balance transferred to capital reserve account as per the scheme)		

(b) Capital Reduction Account

Particulars	Dr. (₹ in lakhs)	Particulars	Cr. (₹ in lakhs)
To Equity Share Capital	32	By Preference Share Capital	80
To Trade receivables	180	By Equity Share Capital	800
To Finished Goods	240	By Freehold Property	150
To Profit & Loss A/c	522	By Bank	50
To Bank A/c	30	By Director's Loan	210
To Capital Reserve	286		
	1,290		1,290