

Illustration 1

On 31-12-20X1, B Ltd. had 20,000, ₹ 10 Equity Shares as authorized capital and the shares were all issued on which ₹ 8 was paid up. In June, 20X2 the company in general meeting decided to sub-divide each share into two shares of ₹ 5 with ₹ 4 paid up. In June, 20X3 the company in general meeting resolved to consolidate 20 shares of ₹ 5, ₹ 4 per share paid up into one share of ₹ 100 each, ₹ 80 paid up.

Pass entries and show how share capital will appear in notes to Balance Sheet as on 31-12-20X1, 31-12-20X2 and 31-12-20X3.

$$\begin{array}{l}
 1 \rightarrow 2 \\
 10 \rightarrow 5 \\
 20 \rightarrow 5 \\
 \frac{40000}{20}
 \end{array}
 \quad
 \begin{array}{l}
 20000 [10] \rightarrow 40000 \\
 \frac{40000}{20} \\
 5- \\
 20 \times 5 = 100
 \end{array}$$

2000 shares of 100 each
80 paid up

In the books of B Ltd
Journal

June 2022
 Equity share capital (F10) Dr. 160000
 To Equity share capital (F5) 160000
 (Being 20000 equity shares of F10 each, F8 paid up subdivided into 40000 shares of F5 each, F4 paid up)

$$\begin{array}{l}
 \frac{20000 \times 10}{10} = 20000 \\
 \frac{20000 \times 10}{5} = 40000 \\
 \frac{20000 \times 10}{100} = 2000
 \end{array}$$

June 2023
 Equity share capital (F5) Dr. 160000
 To Equity share capital (F100) 160000
 (Being 40000 equity shares of F5 each, F4 paid up consolidated into 2000 shares of ₹ 100 each, ₹ 80 paid up)

Notes

AS on 31.12.2021

Share Capital

Authorised share Capital
 20000 equity shares of ₹ 10 each 200000

Issued, subscribed and Paid up Capital
 20000 equity shares of ₹ 10 each, ₹ 8 paid up 160000

AS on 31.12.2022

Share Capital

Authorised share Capital
 40000 equity shares of ₹ 5 each 200000

Issued, subscribed and Paid up Capital
 40000 equity shares of ₹ 5 each, ₹ 4 paid up 160000

AS on 31.12.2023

Share Capital

Authorised share Capital
 2000 equity shares of ₹ 100 each 200000

Authorized share Capital		
2000 equity shares of ₹100 each		<u>200000</u>
Issued, subscribed and Paid up Capital		
2000 equity shares of ₹100 each, ₹80 paid up		160000

Illustration 2

C Ltd. had ₹5,00,000 authorized capital on 31-12-20X1 divided into shares of ₹100 each out of which 4,000 shares were issued and fully paid up. In June 20X2 the Company decided to convert the issued shares into stock. But in June, 20X3 the Company re-converted the stock into shares of ₹10 each, fully paid up.

Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-20X1, 31-12-20X2 and 31-12-20X3.

In the books of C Ltd
Journal

June 2022	Equity share Capital To Equity stock	Dr. 400000	400000
	(Being 4000 equity shares of ₹100 each fully paid up converted into stock of ₹400000)		
June 2023	Equity stock To Equity share Capital	Dr. 400000	400000
	(Being ₹400000 equity stock converted into 40000 shares of ₹10 each fully paid up)		

Notes to Accounts
AS at 31.12.2021

Share Capital

Authorized share Capital		
5000 equity shares of ₹100 each		<u>500000</u>
Issued, subscribed and paid up Capital		
4000 equity shares of ₹100 each fully paid up		400000

AS at 31.12.2022

Share Capital

Authorized share Capital		
5000 equity shares of ₹100 each		<u>500000</u>
Issued, subscribed and paid up Capital		
Equity stock - 4000 equity shares of ₹100 each		400000

Issued, subscribed and paid up Capital
 Equity Stock - 4000 equity shares of ₹ 100 each 400000
 Converted into stock

As at 31.12.2023

Share Capital

Authorised share Capital
 50000 equity shares of ₹ 10 each 50000

Issued, subscribed and paid up Capital
 40000 equity shares of ₹ 10 each 400000
 fully paid up

Illustration 3

The Balance Sheet of A & Co. Ltd. as at 31-3-20X2 is as follows:

	Particulars	Notes	₹
Equity and Liabilities			
1	Shareholders' funds		
A	Share capital	1	11,50,000
B	Reserves and Surplus	2	(5,35,000)
2	Non-current liabilities		
A	Long-term borrowings	3	3,75,000
3	Current liabilities		
A	Trade Payables		3,00,000
B	Short term borrowings - Bank Overdraft		1,95,000
C	Other current liabilities	4	1,22,500
	Total		16,07,500
Assets			
1	Non-current assets		
A	Property, plant and equipment	5	4,75,000
B	Intangible assets	6	1,67,500
C	Non-current investments	7	55,000

564000
 -
 385000
 300000
 -
 122500
 1249000

2	Current assets		
A	Inventories		4,25,000
B	Trade receivables		4,85,000
	Total		16,07,500

360000
 416500
 35000
 1249000

Notes to accounts

	Particulars	₹
1	Share Capital	
	Equity share capital: 15000 + 24000 + 90000	
	75,000 Equity Shares of ₹ 10 each 13200 shares of ₹ 2	7,50,000
	Preference share capital:	
	4,000 6% Cumulative Preference Shares of ₹ 100 each	4,00,000
		11,50,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(5,35,000)
3	Long-term borrowings	
	Secured 375000 - 120000 = 255000	
	6% Debentures (secured on the freehold property)	3,75,000
	8% debenture 130000	3,75,000

264000
 300000
 564000
 0
 385000

Secured	3,75,000 - 1,20,000 = 2,55,000	
6% Debentures (secured on the freehold property)	3,75,000	3,75,000
8% debenture	13,00,000	3,75,000
4 Other current liabilities		
Loan from directors	1,00,000	0
Interest payable on 6% debentures	22,500	0
	1,22,500	
5 Property plant and Equipment		
Freehold property	4,25,000	→ 4,25,000
Plant	50,000	
	4,75,000	
	3,87,500	
	50,000	
	4,37,500	
6 Intangible assets		
Goodwill	0	1,30,000
Patents	0	37,500
		1,67,500
7 Non-current investments		
Investments at cost		55,000
		55,000

$100,000 \rightarrow 120,000 \rightarrow$ debenture
 $3,25,000 \rightarrow 3,87,500$
 $4,25,000 \rightarrow 50,750$
 Difference $\rightarrow 8,250$

The Court approved a Scheme of re-organization to take effect on 1-4-20X2, whereby:

- The Preference shares to be written down to ₹75 each and Equity Shares to ₹2 each.
- Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹2 each to be allotted for the remaining quarter.
- Interest payable on debentures to be paid in cash.
- Debenture-holders agreed to take over freehold property, book value ₹1,00,000 at a valuation of ₹1,20,000 in part repayment of their holdings and to provide additional cash of ₹1,30,000 secured by a floating charge on company's assets at an interest rate of 8% p.a.
- Patents and Goodwill to be written off.
- Inventory to be written off by ₹65,000.
- Amount of ₹68,500 to be provided for bad debts.
- Remaining freehold property after giving to debenture holders, to be re-valued at ₹3,87,500.
- Investments be sold for ₹1,40,000.
- Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹2 each and as to 5% in cash, and balance 5% being waived.
- There were capital commitments totalling ₹2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
- Ignore taxation and cost of the scheme.

$400,000 \times 6\% = 24,000 \times 4 \text{ year}$
 $96,000$
 $72,000 \times 24,000$

$150,000 \leftarrow \begin{matrix} 90\% \text{ (90,000) ESC} \\ 5\% \text{ 5000 Bank} \\ 5\% \text{ CR} \end{matrix}$

You are requested to show Journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the Scheme.

In the books of A & Co Ltd
Journal

- 6% cum. preference share capital (₹100) Dr. 400,000

 to 6% cum preference share capital (₹75) 300,000

 to Capital Reduction 100,000
- Equity share capital (₹10) Dr. 750,000

 to Equity share capital (₹2) 150,000

 to Capital Reduction 600,000

- 3] Capital Reduction RM 24000
 to Equity share Capital 24000
 [Arrear of Dividend = $[400000 \times 6\%] \times 4 \text{ year} = 96000$]
 waived off 72000 [$\frac{3}{4}$ of 96000]
- 4] Interest payable on 6% debenture RM. 22500
 to Bank 22500
- 5] 6% debenture RM. 120000
 to freehold property 120000
- 6] freehold property RM. 82500
 to Capital Reduction 82500
- | | | | | |
|---|---------------|---|---------------|------------------|
| [| Book value | → | Revalued | |
| | 100000 | | 120000 | |
| | <u>325000</u> | | <u>387500</u> | |
| | <u>425000</u> | | <u>507500</u> | Difference 82500 |
- 7] Bank RM 130000
 to 8% debenture 130000
- 8] Capital Reduction RM. 301000
 to Patent 37500
 to Goodwill 130000
 to Inventory 65000
 to Provision for Baddebts 68500
- 9] Bank RM. 140000
 to Investments 55000
 to Capital Reduction 85000
- 10] Loan from Director RM. 100000
 to Equity share Capital 90000
 to Bank 5000
 to Capital Reduction 5000
- 11] Capital Reduction RM. 12500
 to Bank 12500
- 12] Capital Reduction RM. 535000
 to Profit and loss 535000

Balance sheet of A & Co. Ltd (and Reduced)
 as at 1st April 2022

Particulars	note no	Amount
Equity and LIABILITIES		
1. share holder funds		
Share Capital	1	564000

1. share holder funds		
Share Capital	1	564000
2. non current liabilities		
long term borrowings	2	385000
3. Current liabilities		
trade payables		300000
		<u>1249000</u>

Assets

1. Non Current assets		
Property Plant and Equipment	3	437500
Intangible Assets	4	-
2. Current Assets		
Inventories		360000
Trade Receivables	5	416500
Cash and cash Equivalents		35000
		<u>1249000</u>

Notes to Accounts

1. share capital

Equity share capital
 132000 Equity shares of £ 2 each
 (out of above 57000 shares have been issued for consideration other than cash)

264000

Preference share Capital

40000, 6% Preference shares of £ 75 each

300000

564000

2. long term borrowings

Secured

6% debenture

255000

8% debenture

130000

385000

3. Property plant and Equipment

Freehold Property

425000

Add: Appreciation due to Reconstitution

82500

507500

Add: Appreciation due to Reconstruction	82500	
	507500	
Less: taken over by debentureholders	(120000)	387500
Plant		50000
		437500

4 Intangible assets

Goodwill	130000	
(-) written off in scheme of reconstruction	(130000)	-
Patents	37500	
(-) written off in scheme of reconstruction	(37500)	-
		NIL

5 Trade Receivables	485000	
(-) Provision for Bad debts	(68500)	416500
		416500

Illustration 4

Given below is the Balance sheet of Rebuilt Ltd. as at 31.3.20X1:

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	13,50,000
B	Reserves and Surplus	2	(4,51,000)
2	Non-current liabilities		
A	Long-term borrowings (Loan)	3	5,73,000
3	Current liabilities		
A	Trade Payables		2,07,000
B	Other current liabilities		35,000
	Total		17,14,000
	Assets		
1	Non-current assets		
A	Property, plant and equipment	4	6,68,000
B	Intangible assets	5	3,18,000
2	Current assets		
A	Inventories		4,00,000
B	Trade receivables		3,28,000
	Total		17,14,000

1060000	
-	
223000	
207000	
35000	
1525000	
633000	
151500	
400000	
328000	
1250000	C & C
1525000	

Notes to accounts

	Particulars	₹
1	Share Capital	
	<u>Equity share capital</u>	7,50,000
	15,000 Equity Shares of ₹ 50 each	184000
	<u>Preference share capital</u>	460000
	12,000, 7% Cumulative Preference Shares of ₹ 50 each	65000

	15,000 Equity Shares of ₹ 50 each	184000	184000 E sh of 2.50 = 460000
	Preference share capital	65000	5% Pref of ₹ 10 each 65000
	12,000, 7% Cumulative Preference Shares of ₹ 50 each	6,00,000	(Preference dividend is in arrears for five years)
	Total	13,50,000	paid up
2	Reserves and Surplus		
	Debit balance of Profit and loss Account	(4,51,000)	
3	Long-term borrowings		
	Loan	5,73,000	573000 - 150000 - 200000
		5,73,000	

600000
1060000

4	Property, plant and Equipment		
	Building at cost less depreciation	4,00,000	400000
	Plant at cost less depreciation	2,68,000	233000
		6,68,000	633000
5	Intangible assets		
	Trademarks and Goodwill at cost	3,18,000	318000 - 166500
		3,18,000	151500

400000
233000
633000
151500

The Company is not earning profits, short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

- The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 2.50 by cancellation of ₹ 47.50 per share. They have also agreed to subscribe for three new equity shares of ₹ 2.50 each for each equity share held.
- The preference shareholders have agreed to cancel the arrears of dividends and to accept for each ₹ 50 share, 4 new 5% preference shares of ₹ 10 each, plus 6 new equity shares of ₹ 2.50 each, all credited as fully paid.
- Lenders to the company for ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹ 10 each and 12,000 new equity shares of ₹ 2.50 each.
- The directors have agreed to subscribe in cash for 40,000, new equity shares of ₹ 2.50 each in addition to any shares to be subscribed by them under (a) above.
- Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the company.
- The equity share capital cancelled is to be applied:
 - to write off the debit balance in the profit and loss A/c; and
 - to write off ₹ 35,000 from the value of plant.

600000
120000 → 48000 P-f sh @ ₹ 10
480000
72000 E sh @ 2.50
180000

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of the company after reconstruction. The nominal capital as reduced is to be increased to ₹ 6,50,000 for preference share capital and ₹ 7,50,000 for equity share capital.

In the books of Rebuild Ltd
Journal

1]	Equity share capital [₹ 50]	Dr.	750000	
	(15000 x 2.50)	To	Equity share capital [₹ 2.50]	375000
	(15000 x 47.50)	To	Capital Reduction	712500
2]	Bank	Dr.	112500	
	(45000 x 2.50)	To	Equity share capital	112500
3]	7% cumulative Preference Share Capital	Dr.	600000	
	Capital Reduction	Dr.	60000	
	(48000 x 10)	To	5% Preference share capital	480000

3]	7% cumulative Preference Share Capital	Dr. 60000	
	Capital Reduction	Dr. 60000	
(48000 × 10)	to 5% Preference share capital		48000
(72000 × 2.50)	to Equity share Capital		18000
4]	loan	Dr. 150000	
(12000 × 10)	to 5% Preference share Capital		120000
(12000 × 2.50)	to Equity share Capital		30000
5]	Bank	Dr. 100000	
(40000 × 2.50)	to Equity share Capital		100000
6]	loan	Dr. 200000	
	to Bank		200000
7]	Capital Reduction	Dr. 652500	
	to Profit and loss a/c		450000
	to Plant		35000
	to Trademark and Goodwill		166500

Balance sheet of Rebuilt Ltd. (and reduced)
as at 31.3.20X1

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	10,60,000
2	Non-current liabilities		
a	Long-term borrowings		2,23,000
3	Current liabilities		
a	Trade Payables		2,07,000
b	Other current liabilities		35,000
	Total		15,25,000
	Assets		
1	Non-current assets		
a	Property, plant and equipment	2	6,33,000
b	Intangible assets	3	1,51,500
2	Current assets		
a	Inventories		4,00,000
b	Trade receivables		3,28,000
c	Cash and cash equivalents	4	12,500
	Total		15,25,000

Notes to accounts

			₹
1.	Share Capital		
	Authorized capital:		
	65,000 Preference shares of ₹ 10 each	6,50,000	
	3,00,000 Equity shares of ₹ 2.50 each	7,50,000	<u>14,00,000</u>
	Issued, subscribed and paid up:		
	1,80,000 equity shares of ₹ 2.5 each	4,60,000	
	60,000, 5% Preference shares of ₹ 10 each	<u>6,00,000</u>	10,60,000
2.	Property plant and equipment		
	Building at cost less depreciation	4,00,000	
	Plant at cost less depreciation	<u>2,33,000</u>	6,33,000
3.	Intangible assets		
	Trademarks and goodwill		1,51,500
4.	Cash and cash equivalents		
	Bank (1,12,500+1,00,000-2,00,000)		12,500

Illustration 6

Following is the Balance Sheet of ABC Ltd. as at 31st March, 20X1:

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	26,00,000
B	Reserves and Surplus	2	(4,05,000)
2	Non-current liabilities		
A	Long-term borrowings	3	12,00,000
3	Current liabilities		
A	Trade Payables		5,92,000
B	Short term borrowings - Bank overdraft		<u>1,50,000</u>
	Total		<u>41,37,000</u>

	Assets		₹
1	Non-current assets		
A	Property, plant and equipment	4	12,20,000
B	Non-current investment	6	68,000
C			
2	Current assets		
A	Inventory		14,00,000
B	Trade receivables		14,39,000
C	Cash and cash equivalents		<u>10,000</u>
	Total		<u>41,37,000</u>

Notes to accounts:

		₹
1	Share Capital	
	Equity share capital:	
	2,00,000 Equity Shares of ₹ 10 each	20,00,000
	6,000, 8% Preference shares of ₹ 100 each	6,00,000
		<u>26,00,000</u>
2	Reserves and Surplus	
	Debit balance of Profit and loss A/c	(4,05,000)
		<u>(4,05,000)</u>
3	Long-term borrowings	
	9% debentures	12,00,000
		<u>12,00,000</u>
4	Property, Plant and Equipment	
	Plant and machinery	9,00,000
	Furniture and fixtures	3,20,000
		<u>12,20,000</u>

5	Non-current investments	
	Investments (market value of ₹55,000)	68,000
		68,000

The following scheme of reconstruction was finalized:

- Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
- Debenture holders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
- Inventory equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
- Investment value to be reduced to market price.
- The company would issue 11% Debentures for ₹ 3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital Reduction account and Balance Sheet of the company after internal reconstruction.

In the books of ABC Ltd Journal

1]	8% Preference Share Capital	RM. 600000	
	To 11% Debenture		420000
	To Capital Reduction		180000
2]	9% debenture	RM. 1200000	
	To Plant & Machinery		900000
	To Capital Reduction		300000
3]	Trade Payables	RM 592000	
	To Inventories		500000
	To Capital Reduction		92000
4]	Capital Reduction	RM 13000	
	To Investment		13000
5]	BANK	RM 300000	
	To 11% debenture		300000
6]	Bank overdraft	RM 150000	
	To Bank		150000
7]	Capital Reduction	RM. 559000	
	To Profit and loss		405000
	To Capital Reserve		154000

Capital Reduction A/c

To Investment	13000	By 8% Preference share Capital	180000	
To Profit & loss	405000	By 9% debenture	300000	
To Capital Reserve	154000	By Trade Payable	92000	
	572000		572000	

Balance Sheet of ABC Ltd (and Related)
as at 31st March 2021

Particulars	note no	Amount
Equity and Liabilities		
Shareholders' Funds		
Share Capital	1	20,00,000
Reserves and Surplus	2	154000
Non Current Liabilities		
Long term borrowings	3	720000
Total		<u><u>2874000</u></u>

Assets

 Non Current Assets

Property Plant and Equipment	4	320000
Non Current Investment	5	55000

 Current Assets

Inventories	900000
Trade Receivables	1439000
Cash and Cash Equivalents	160000

Total 2874000

Notes to Accounts

1	Share Capital	
	20000 equity shares of ₹10 each	<u>20,00,000</u>
2	Reserves and Surplus	
	Capital Reserve	<u>154000</u>
3	Long term borrowings	
	11% debentures	<u>720000</u>
4	Property Plant & Equipment	
	Furniture & fixture	<u>320000</u>
5	Non Current Investment	
	Investment (68000 - 13000)	<u>55000</u>
6	Cash and Cash Equivalents	

6 Cash and Cash Equivalents

Cash at Bank

$$[10000 + 30000 - 15000]$$

16000

Illustration 7

The Balance Sheet of Revise Limited as at 31st March, 20X1 was as follows :

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	10,00,000
B	Reserves and surplus	2	(6,00,000)
2	Non-current liabilities		
A	Long-term borrowings	3	2,00,000
3	Current liabilities		
A	Trade Payables		72,000
B	Other current liabilities	4	24,000
C	Short term provisions	5	24,000
	Total		7,20,000

	Assets		₹
1	Non-current assets		
A	Property, Plant and Equipment	6	1,00,000
2	Current assets		
A	Inventory		3,20,000
B	Trade receivables		2,70,000
C	Cash and cash equivalents		30,000
	Total		7,20,000

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	10,000 Equity Shares of ₹ 100 each	10,00,000
		10,00,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(6,00,000)
		(6,00,000)
3	Long-term borrowings	
	12% debentures	2,00,000
		2,00,000
4	Other current liabilities	
	Interest payable on debentures	24,000
		24,000
5	Short term provisions	
	Provision for taxation	24,000
		24,000
6	Property, Plant and Equipment	
	Machinery	1,00,000
		1,00,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly, it was decided that:

- Each share is sub-divided into ten fully paid up equity shares of ₹ 10 each.
- After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.
- Out of shares surrendered, 10,000 shares of ₹ 10 each shall be converted into 12% preference shares of ₹ 10 each, fully paid up.
- The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of shares surrendered.
- Trade payables claim shall be reduced to 50 per cent, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- Balance of profit and loss account to be written off.
- The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet

$$72000 \rightarrow \frac{36000}{10} \text{ settle each}$$

In the books of Revise Ltd

In the books of Revice Ltd
Journal

1]	Equity share capital [£100]	RM.	10,00,000	
	to Equity share capital [£10]			10,00,000
	(Being 10000 Equity shares of £100 each subdivided into 100000 Equity shares of £10 each)			
2]	Equity share capital	RM.	500000	
	to Share Surrender			500000
	(Being share surrendered)			
3]	Share Surrender	RM.	100000	
	to 12% Preference share capital			100000
4]	12% debenture (200000 x 7.5%)	RM.	150000	
	Interest Payable on debenture (240000 x 7.5%)	RM.	18000	
	to Capital Reduction			168000
5]	Trade Payable	RM.	72000	
	to Capital Reduction			72000
6]	Share Surrender	RM.	36000	
	to Equity share capital			36000
7]	Capital Reduction	RM.	60000	
	to Profit & Loss			60000
8]	Share Surrender	RM.	364000	
	to Capital Reduction			364000
9]	Capital Reduction	RM.	4000	
	to Capital Reserve			4000

Balance sheet of Revice Ltd (and Reduced)
as at 31st March 2021

Particulars	NOTE NO	Amount
Equity and Liabilities		
Shareholder funds		
Share Capital	1	636000
Reserves and surplus	2	4000

Shareholder Funds		
Share Capital	1	636000
Reserves and Surplus	2	4000
Non Current Liabilities		
Long term borrowings	3	50000
Current Liabilities		
Other Current Liabilities	4	6000
Short term provisions	5	24000
total		<u>720000</u>

Assets

1. Non Current Assets		
Property Plant & Equipment	6	100000
2. Current assets		
Inventories		320000
Trade Receivables		270000
Cash and Cash Equivalents		30000
total		<u>720000</u>

Notes to Accounts

- Share Capital
 - Equity share capital
 - (issued, subscribed and Paid up Capital)
 - 53600 shares of £10 each 536000
 - (out of above 3600 shares have been issued for consideration other than cash)

Preference Share Capital

10000 12% preference shares of £10 each 100000
 (out of above all shares have been issued by way of consideration other than cash in pursuance of reconstruction scheme)

636000

- Reserves and Surplus
 - Capital Reserve 4000
 - Profit & Loss A/c 600000
 - Adjustment for Reconstruction (600000)
 - 4000

Adjustment for reconstruction (₹0000),

	₹16
	4000

3	Long term borrowings secured 12% debentures	50000
4	other current liabilities interest payable on debentures	6000
5	Short term Provision Provision for taxation	24000
6	Property Plant & Equipment Machinery	100000

8. Parth Ltd, had laid down the following terms upon the sanction of the reconstruction plan by the court-

1. Furniture and Fixtures which stood at the books at ₹ 1,50,000 to be written down to ₹ 95,000. The freehold premises which was valued at ₹ 7,00,000 showed an appreciation of ₹ 55,000.
2. Plant and machinery showed fall in value of ₹ 89,000, to be recorded in the books. Investment at ₹ 2,00,000 was brought down to the existing market value at ₹ 1,05,000.
3. Debenture holders accepted to receive the following in lieu of their present 9% debentures of ₹ 2,50,000-
 - a. 1/5th of the total to be paid in cash to them.
 - b. To take over the land and buildings of value ₹ 72,000.
 - c. To forgo the remaining unpaid portion as a policy of reconstruction.

Write off the profit and loss A/c debit balance at ₹ 70,000 which had been accumulated over the years. In case of any shortfall, the balance of the General reserve of ₹ 1,50,000 can be utilized to write off the losses under reconstruction scheme.

Show the necessary journal entries as part of the reconstruction process considering that balance in general reserve utilized to write off the losses as per reconstruction scheme.

In the books of Parth Ltd
Journal

1)	Capital Reconstruction To Furniture & Fixture To Plant & Machinery To Investment	Dr. 239000 Cr. 55000 Cr. 89000 Cr. 95000
2)	Freehold premises To Capital Reconstruction	Dr. 55000 Cr. 55000
3)	9% debenture To Bank To land & building To Capital Reconstruction	Dr. 250000 Cr. 50000 Cr. 72000 Cr. 128000

	to land & building	Dr.	72000	
	to Capital Reconstruction			128000
4)	Capital Reconstruction	Dr.	70000	
	to Profit and loss			70000
5)	General Reserve	Dr.	126000	
	to Capital Reconstruction			126000

9. The following scheme of reconstruction has been approved for Win Limited:

(i) The shareholders to receive in lieu of their present holding at 1,00,000 shares of ₹10 each, the following:

- (a) New fully paid ₹10 Equity shares equal to $\frac{3}{5}$ th of their holding.
- (b) 10% Preference shares fully paid to the extent of $\frac{1}{5}$ th of the above new equity shares.
- (c) ₹40,000, 8% Debentures.
- (ii) An issue of ₹1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.
- (iii) Goodwill which stood at ₹1,40,000 was completely written off.
- (iv) Plant and machinery which stood at ₹2,00,000 was written down to ₹1,50,000.
- (v) Freehold property which stood at ₹1,50,000 was written down by ₹50,000.

You are required to draw up the necessary Journal entries in the Books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

	Equity share capital (old ₹10)	Dr.	10,00,000	
60000 x 10	to Equity share capital (new ₹10)			600000
12000 x 10	to 10% Preference share capital			120000
	to 8% debenture			40000
	to Capital Reduction			240000
	Bank	Dr.	100000	
	to 10% first debenture			100000
	Capital Reduction		240000	
	to Goodwill			140000
	to Plant & Machinery			50000
	to Freehold Premises			50000

10. Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the Company as at 31.3.20X1 before reconstruction:

	Particulars	Notes	₹
	Equity and Liabilities		
	Shareholders' funds		
1	A Share capital	1	65,00,000
	B Reserves and Surplus	2	(20,00,000)
	Non-current liabilities		
2	A Long-term borrowings	3	15,00,000
	Current liabilities		
3	A Trade Payables		5,00,000
	Total		65,00,000
	Assets		
	Non-current assets		
1	A Property, plant and equipment	4	45,00,000
	B Intangible assets	5	20,00,000
2	Current assets		Nil
	Total		65,00,000

30,00,000
-
10,00,000
20,00,000
42,00,000
30,00,000
0
12,00,000
42,00,000

Notes to accounts

	Particulars	₹
1	Share Capital	
	Equity share capital	
	Authorized share capital 20	30,00,000
	1,50,000 Equity shares of ₹ 50 each	75,00,000
	Issued, subscribed and paid up capital	
	50,000 Equity Shares of ₹ 50 each	25,00,000
	1,00,000 Equity shares of ₹ 50 each, ₹ 40 paid up	40,00,000
		65,00,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(20,00,000)
		(20,00,000)
3	Long-term borrowings	
	Secured: 12% First debentures	5,00,000
	12% Second debentures	10,00,000
		15,00,000
4	Property, Plant and Equipment	
	Building	10,00,000
	Plant	10,00,000
	Computers	25,00,000
		45,00,000
5	Intangible assets	
	Goodwill	20,00,000
		20,00,000

30,00,000
30,00,000
10,00,000
0
0
10,00,000
10,00,000
10,00,000
30,00,000
0

The following is the interest of Mr. X and Mr. Y in Green Limited:

	Mr. X ₹	Mr. Y ₹
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Trade payables	2,00,000	1,00,000
	12,00,000	6,00,000
Fully paid up ₹ 50 shares	3,00,000	2,00,000
Partly paid up shares (₹ 40 paid up)	5,00,000	5,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

- Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of ₹ 20 each.
- Mr. X is to cancel ₹ 7,00,000 of his total debt (other than share amount) and to pay ₹ 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.
- Mr. Y is to cancel ₹ 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.
- The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.

You are required to draw the Journal Entries to record the same and also show the Balance Sheet of the reconstructed company.

Solution

Equity share final call amt. 10,00,000
(100000 x 10) to Equity share capital 10,00,000

Bank amt 10,00,000
to Equity share final call 10,00,000

Bank ₹ 10,00,000
to Equity share final call 10,00,000

Equity share capital (₹ 50) ₹ 75,00,000
(150000 × 20) to Equity share capital (₹ 20) 30,00,000
to Capital Reduction 45,00,000

12% first debenture ₹ 300,000
12% second debenture ₹ 700,000
Trade Payable ₹ 200,000
to Mx X 120,000

Bank ₹ 200,000
to X 200,000
X ₹ 140,000
to Capital Reduction 70,000
to 14% first debenture 70,000

12% first debenture ₹ 200,000
12% second debenture ₹ 300,000
Trade Payable ₹ 100,000
to Y 600,000
Y ₹ 600,000
to Capital Reduction 300,000
to 14% first debenture 300,000

Capital Reduction ₹ 55,00,000
to Goodwill 20,00,000
to Profit and loss 20,00,000
to Computer 15,00,000

Illustration 1 ✓
2 ✓
3 ✓
4 ✓
5 hw

PE 8 ✓
9 ✓
10 ✓ BS → hw
11 hw

4 ✓
5 hw
6 ✓
7 ✓
8 hw

10 ✓ 12 ✓ hw
11 hw
12 hw

