

Tricky Topic



①

Internal Reconstruction

DO NOT WRITE ANYTHING HERE

→ Holding 7,50,000 Eq.sh @ 102 → Eq.share Capital A/c Dr. 75,00,000
 - New eq.sh $\frac{3}{5}$ @ 102 To Eq.sh. Capital ($\frac{3}{5} \times 75L$) 45,00,000
 - 6% Pref.sh @ 102, $\frac{2}{5}$ of New Eq.sh. To 6% Pref.sh. Capital ($\frac{2}{5} \times 45$) 18,00,000
 - 7% Debenture 2,50,000 To 7% Debenture A/c 2,50,000
 To Capital Reduction (Remaining) 9,50,000

→ In case of shortfall in Capital Reduction, Use Free Reserve → Free Res. Dr.
 ↓ To Capital Reduction
 Excess Balance → To Capital Reserve A/c

→ Balance Sheet → In Balance sheet provision for Taxation 2,00,000 and Notes:-
 Provision for Taxation 2,00,000 Company income tax liability settled 3,20,000.
 Capital Reduction A/c Dr. 1,20,000

(Case 1.) Bank/Cash Not Available:- → To Provision for Taxation 1,20,000 (Increase Provision)

(Case 2.) Bank/Cash Available → Provision for Taxation 2,00,000
 Capital Reduction A/c 1,20,000
 To Bank/Cash A/c 3,20,000

→ Contingent Liability is created due to a wrong action by a third party. →

→ Mr. A (Third Party) A/c Dr.
 To Provision for Contingent Liab. A/c
 (if Bank not available)

→ Mr. A A/c Dr.
 To Bank A/c
 (if Bank Available)

Balance Sheet
 Third Party 2L
 Mr. A

→ Contingent liabilities notes of A/c. →

Balance Sheet
 Liabilities Assets
 Notes: Contingent Liabilities.

- if Contingent liability Cancel → No Entry
 Capital Reduction A/c Dr.
 - if Contingent liability Paid → To Bank A/c.

→ Underwriting Commission Paid:- → Underwriting Commission A/c → Capital Reduction A/c
 To Bank To Underwriting Commission

Case 2:

Balance Sheet (Extract)

Liabilities	₹
Share Capital	
50,000 shares of ₹ 50 each fully paid up	25,00,000
1,00,000 shares of ₹ 50 each, ₹ 40 paid up	40,00,000
8% Debentures of ₹ 100 each	4,00,000
12% Debentures of ₹ 100 each	6,00,000
O/s Debenture Interest (1 year)	1,04,000
Trade Creditors	10,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

INTERNAL RECONSTRUCTION

Following is the interest of Mr. Ravi and Mr. Suresh:

	Mr. Ravi	Mr. Suresh
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Trade Creditors	1,00,000	2,00,000
	8,00,000	5,00,000
Fully paid up ₹ 50 shares	4,00,000	3,00,000
Partly paid up shares (₹ 40 paid up)	5,00,000	2,00,000

O/S Interest
1,04,000

Ravi $\frac{7}{10}$ = 72,800
Suresh $\frac{3}{10}$ = 31,200

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 20 each.
- (2) Mr. Ravi is to cancel ₹ 5,00,000 of his total debt including O/s interest (other than equity shares) and to pay ₹ 2 lakhs to the company and to receive new 10% First Debentures for the balance amount.
- (3) Mr. Suresh is to cancel ₹ 3,00,000 of his total debt including O/s interest (other than equity shares) and to accept new 14% First Debentures for the balance.
- (4) Trade Creditors (other than Ravi & Suresh) are given option of either to accept fully paid equity shares of ₹ 20 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade Creditors for ₹ 5,00,000 accept equity shares & rest of them opted for cash towards full and final settlement of their claim.

Solution

$$\text{Total} = 7,00,000 - 5,00,000 = 2,00,000 \times 70\% (140,000) = 2,00,000 - 140,000 = 60,000 \text{ C. Red.}$$

29.5h 45h

Journal Entries

		L.F.	Dr. (₹)	Cr. (₹)
1a	Bank A/c (1,00,000 x ₹10) Dr.		10,00,000	
	To Equity share capital A/c			10,00,000
1b	Equity share capital (₹50) A/c Dr.		75,00,000	
	To Equity share capital (₹20) A/c			30,00,000
	To Capital Reduction A/c			45,00,000
2a	8% Debentures A/c Dr.		3,00,000	
	12% Debentures A/c Dr.		4,00,000	
	O/s Debenture Interest A/c Dr.		72,000	
	Trade Creditors A/c Dr.		1,00,000	
	To Ravi A/c			8,72,000
2b	Ravi A/c Dr.		5,00,000	
	To Capital Reduction A/c			5,00,000
2c	Bank A/c Dr.		2,00,000	
	To Ravi A/c			2,00,000
2d	Ravi A/c Dr.		5,72,000	
	To 10% Debentures A/c			5,72,000
3a	8% Debentures A/c Dr.		1,00,000	
	12% Debentures A/c Dr.		2,00,000	
	O/s Debenture Interest A/c Dr.		32,000	
	Trade Creditors A/c Dr.		2,00,000	
	To Suresh A/c			5,32,000
3b	Suresh A/c Dr.		5,32,000	
	To Capital Reduction A/c			3,00,000
	To 14% Debentures A/c			2,32,000
4	Trade payables A/c Dr.		7,00,000	
	To Equity share capital A/c			5,00,000
	To Bank A/c (2,00,000 x 70%) (70-50 = 20 x 70% = 140)			1,40,000
	To Capital Reduction A/c			60,000



3

DO NOT WRITE ANYTHING HERE

- 6% Pref. share = 600,000 in Balance sheet, the pref. share are converted from 6% to 8% but resulted in a manner in which the Total Return on the remain same.

$$\rightarrow 6,00,000 \times 6\% = \frac{36,000}{8\%} = 4,50,000 \rightarrow \begin{array}{l} \text{6\% Pref. share (Capital A/c Dr. 6,00,000)} \\ \text{To 8\% Pref. Sh. (Capital A/c 4,50,000)} \\ \text{To (Capital) Reduction A/c 1,50,000} \end{array}$$

- PKL (Dr.) = 300,000
question specified → profit will be there in future for next 3 year 90,000 P/A.

with which losses can be set-off.

$$= 3,00,000 - (90,000 \times 3) 270,000$$

$$= 30,000$$

∴ 3,00,000 → 2,70,000 As it is show in BLS

30,000 written off → Capital Reduction A/c Dr. 30,000
To PKL A/c 30,000

$$\therefore 3,00,000$$

$$270,000$$

$$30,000$$

written-off

∴ As it is
BLS in future.

∴ C.R A/c Dr. 30,000

To PKL A/c 30,000

- 10% Debenture = 3,00,000, Freehold property = 5,00,000, value of freehold property is 3,50,000 given to debenture holder & excess settled in cash.

→ Capital Reduction A/c Dr. (5L - 3.5L) 1,50,000 → Debenture holder A/c Dr. 3,00,000
To Freehold property A/c 1,50,000 Cash A/c Dr. 50,000

To Freehold property A/c 3,50,000

- Current liabilities

short term borrowing - Bank overdraft → Re-pay → Bank overdraft
To Cash/Bank → B/L ✓
C/L ✓
- Bank O/D ✓

- Arrows of Pref. share dividend:

Cumulative Pref. sh

Non-cumulative Pref. sh.

Allow

Not Allow

Waived

Paid

Not
distribute

→ Capital Reduction A/c Dr.
To Cash/Bank A/c

Question 5

Pg no. _____

The summarised Balance Sheet of Preet Limited as on 31st March 2023, was as follows:

Liabilities	₹	Assets	₹
Authorised and subscribed capital:		Property, Plant & Equipment:	
20,000 Equity shares of ₹ 100 each	20,00,000	Machineries	7,00,000
Unsecured loan:		Current Assets:	
15% Debentures	6,00,000	Inventory	5,06,000
Accrued interest	90,000	Trade Receivables	4,60,000
Current Liabilities:		Bank	40,000
Trade Payables	1,04,000	Profit & loss A/c	11,60,000
Provision for income tax	72,000		
	28,66,000		28,66,000

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

- Each share be sub-divided into 10 fully paid up equity share of ₹ 10 each.
 - After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debentureholders and trade payables as necessary.
 - Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.
 - The claims of debentureholders shall be reduced by 50%. In consideration of the reduction, the debenture-holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.
 - Trade Payables claim shall be reduced by 25%. Remaining Trade Payables are to be settled by the issue of equity shares of ₹ 10 each of out of shares surrendered.
 - Balance of Profit and Loss account to be written off.
 - The shares surrendered and not re-issued shall be cancelled.
- Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

Solution**Journal Entries in the books of Preet Limited**

1.) Eq. sh. (Capital ₹100) A/c Dr. 20,00,000	
To Eq. share (Capital ₹10) 20,00,000	
2.) Equity share (Capital A/c Dr. ₹10) 10,00,000	
To Share Surrender A/c 10,00,000	
3.) 15% Deb. A/c Dr. 3,00,000	
Accrued int. A/c Dr. 45,000	
To Capital Reduction A/c 3,45,000	
4.) Share Surrender A/c 2,00,000	
To 10% pref. sh. (Capital A/c 2,00,000	
5.) Trade Payable A/c Dr. 1,04,000	
To Capital Reduction A/c 1,04,000	
6.) Share Surrender A/c Dr. 78,000	
To Eq. share (Capital A/c (104000 - 25%) 78,000	
7.) Share Surrender A/c Dr. 7,22,000	
To Capital Reduction A/c 7,22,000	
8.) Capital Reduction A/c Dr. 11,71,000	
To Profit & loss A/c 11,60,000	
To Capital Res. A/c 11,000	

Balance sheet

6% Debenture 375000	Free hold property 4,25,000
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- Debenture-holders agreed to take over freehold property, book value 1,00,000 at the valuation of 1,20,000 in part repayment of their holding and to provide additional cash of 1,30,000 secured by floating charge on company assets at an interest rate of 8% p.a.
- Remaining freehold property after giving to debenture holders, to be revalued at 3,87,500.

1.) 6% Deb. A/c Dr. 1,20,000	3.) Value 4,25,000
To Freehold property 1,00,000	- debenture 1,00,000
To Capital Reduction A/c 20,000	Book value 3,25,000
	Revalue 3,87,500
	Addition 62,500
2.) Bank/cash A/c Dr. 1,30,000	→ Freehold Property A/c Dr. 62,500
To 8% Deb. A/c 1,30,000	To Capital Reduction A/c



- Debenture-holders agreed to take over freehold property, book value 1,00,000 at the valuation of 1,20,000 in part repayment of their holding

Bal. sheet value :- • 6% Deb = 3,75,000 • Int. on 6% Debenture = 22,500

1.) 6% Debenture A/c Dr. 1,20,000
To Freehold property 1,00,000
To Capital Reduction 20,000
2.) Int. Payable on 6% Debenture 7200
To Bank A/c 7200



1.) 6% Debenture A/c Dr. 1,20,000
Int. Payable on 6% Debenture 7200
To Freehold property 1,00,000
To Capital Reduction 27200



Use when the question does mention

if, not mention

Cash Payment of interest



Balance sheet

→ 10% debenture - 50,000 Freehold Property - 1,20,000

- The debenture holders took over the freehold property at an agreed figure of 75,000 and paid the Balance to the Comp. after deducting the amount due to them.

→ 10% Debenture A/c Dr. 50,000

Int on debenture Dr. 5000 75,000

Bank A/c Dr. 25000

(Capital Reduction A/c Dr. 45000 (Bal. fig.))

To Freehold property 1,20,000