

14.

RECONSTRUCTION OF COMPANIES

Question 1 (Nov-2013)

(3 Marks)

Pass journal entries for the following transactions:

- 1) Conversion of 2 lakh fully paid equity shares of Rs.10 each into stock of Rs.1,00,000 and balance has 12% fully convertible Debenture.
- 2) Consolidation of 40 lakh fully paid equity shares of Rs.02.50 each into 10 lakh fully paid equity share of 10 each.
- 3) Sub-division of 10 lakh fully paid 11 % preference shares of Rs.50 each into 50 lakh fully paid 11 % preference shares of Rs 10 each.

Question 2 (Nov-2014)

(16 marks)

The Balance Sheet of X Ltd. as at 31st March, 2014 was as follows:

Balance Sheet as at 31.03.2014

Sr. No.	Particulars	Rs.	Rs.
I]	Equity and Liabilities		
(1)	Shareholders' Funds		
(a)	Share Capital		
~	40000 equity shares of Rs.100 each fully paid		40,00,000
~	20000, 10% preference shares of Rs.100 each fully paid		20,00,000
(b)	Reserve & Surplus		
~	Securities Premium Account		1,50,000
~	Profit & Loss Account		(23,00,000)
(2)	Non-Current Liabilities		
(a)	Long Term Borrowings		
~	7% Debentures of Rs 100 each		4,00,000
(3)	Current Liabilities		
(a)	Other Current Liabilities		
~	Creditors		10,00,000
~	Loan from Director		2,00,000
	Total		54,50,000

II]	Assets		
(1)	Non-Current Assets		
(a)	PPE		
~	Land & Building	20,00,000	
~	Plant & Machinery	12,00,000	32,00,000
(b)	Intangible Assets		4,00,000
~	Goodwill		
(2)	Current Assets		
(a)	Debtors	12,00,000	
(b)	Stock	5,00,000	
(c)	Cash at Bank	1,50,000	18,50,000
	Total		54,50,000

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

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

1. Each equity shares to be reduced to Rs.25.
2. Each existing Preference Share to be reduced to Rs.75 and then exchanged for one new 13% Preference Share of Rs.50 each and one Equity Share of Rs.25 each.
3. 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 Rs.25.
4. 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 Rs.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.
5. Contingent Liability of Rs.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.
6. Goodwill does not have any value in the present. Decrease the value of Plant & Machinery, Stock and Debtors by Rs.3,00,000; Rs1,00,000 and Rs.2,00,000 respectively. Increase the value of Land & Building to Rs.25,00,000.
7. 50,000 new Equity Shares of Rs.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.
8. Total expenses incurred by the Company in connection with the Scheme excluding Underwriting Commission amounted to Rs.20,000.

Pass necessary Journal Entries to record the above transactions.

Question 3 (Nov-2014)**(12 marks)**

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

Liabilities	Rs.	Assets	Rs.
Equity Shares of RS.100 each	2,00,00,000	PPE	2,50,00,000
6% Cumulative Preference Shares of Rs 100 each	1,00,00,000	Investment (Market Value Rs.19,00,000)	20,00,000
5% Debentures of RS.100 each	80,00,000	Current Assets	2,00,00,000
Sunday Creditors	1,00,00,000	P & L A/c	12,00,000
Provision for taxation	2,00,000		
Total	4,82,00,000	Total	4,82,00,000

The following scheme of Internal Reconstruction is sanctioned:

All the existing equity shares are reduced to Rs.40 each.

1. All preference shares are reduced to Rs.60 each.
2. The rate of Interest on Debentures is increased to 6%, The Debenture holders surrender their existing debentures of Rs.100 each and exchange the same for fresh debentures of Rs.70 each for every debenture held by them.
3. PPE are to be written down by 20%.
4. Current assets are to be revalued at Rs.90,00,000.
5. Investments are to be brought to their market value.
6. One of the creditors of the company to whom the company owes Rs.40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of Rs.40 each in full and final settlement of his claim.
7. The taxation liability is to be settled at Rs.3,00,000.
8. 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.

Question 4 (Nov-2015)**(16 marks)**

The Balance Sheet of M/s Clean Ltd. As on 31st March, 2015 was Summarized as follows:

Liabilities	Amount RS.	Assets	Amount Rs.
Share Capital:		Land & Building	75,00,000
Equity Shares of Rs.50 each fully paid up	60,00,000	Plant & Machinery	22,00,000
9% Preference Shares of Rs. 10 each fully paid up	40,00,000	Trade Investment	16,50,000

		Inventories	9,50,000
7% Debentures (secured by Plant & Machinery)	23,00,000	Trade Receivables	18,00,000
8% Debentures	17,00,000	Cash & Bank	
Trade payables	6,00,000	Balances	3,60,000
Provision for Tax	75,000	Profile & Loss A/c	2,15,000
	1,46,75,000		1,46,75,000

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

- 1) The equity shareholders agreed to receive in lieu of their present holding of 1,20,000 shares of RS.50 each as under:
 - a) New fully paid equity shares of Rs.10 each equal to 2/3 of their holding.
 - b) 9% preference shares of Rs.8 each to the extent of 25% of the above new ESC.
 - c) RS.2,80,000, 10% debentures of Rs.80 each.
- 2) The preference shareholders agreed that their Rs.10 shares should be reduced to Rs.8 by cancellation of Rs.2 per share. They also agreed to subscribe for two new equity shares of Rs.10 each for every five-preference share held.
- 3) The taxation liability of the company is settled at Rs.66,000 and the same is paid immediately.
- 4) One of the trade creditors of the company to whom the company owes RS.1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of RS.10 each in full satisfaction of his balance claim.
- 5) Other trade creditors of RS.5,00,000 are given option of either to accept fully paid 9% preference shares of Rs.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 Rs. 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.
- 6) Company's contractual commitments amounting to Rs.6,50,000 have been settled by paying 4% penalty of contract value
- 7) Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.
- 8) The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debenture of Rs.50 each and agreed to accept 10% debenture of Rs.80 each for every two debentures held by them.
- 9) The land and building to be depreciated by 5%.
- 10) The debit balance of profit and loss account is to be eliminated.
- 11) 1/4th of trade receivables and 1/5th 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.

Question 5 (2015 – Nov)**(16 marks)**

The following is the Balance Sheet of Star Ltd. as on 31st March, 2015:

Sr. No.	Particulars	Rs.
I]	Equity & Liabilities	
(1)	Shareholders' Fund:	
(a)	Share Capital:	
	9,000 7% Preference Shares of Rs 100 each fully paid	9,00,000
	10,000 Equity Shares of f 100 each fully paid	10,00,000
(b)	Reserve and Surplus:	
	Profit and Loss Account	(2,00,000)
(2)	Non-current liabilities:	
	"A" 6% Debentures (Secured on Bombay Works)	3,00,000
	"B" 6% Debentures (Secured on Chennai Works)	3,50,000
(3)	Current Liabilities and Provisions:	
(a)	Workmen's Compensation Fund:	
	Bombay Works	10,000
	Chennai Works	5,000
(b)	Trade Payables	1,25,000
	Total	24,90,000
II]	Assets:	
(1)	Non - current Assets:	
(a)	Property Plant and Equipment	
	Bombay Works	9,50,000
	Chennai Works	7,75,000
(2)	Investment:	
	Investments for Workman's Compensation Fund	15,000
(3)	Current Assets:	
(a)	Inventories	4,50,000
(b)	Trade Receivables	2,50,000

(c)	Cash at Bank	50,000
	Total	24,90,000

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

- 1) Paid up value of 7% Preference Share to be reduced to Rs.80, but the rate of dividend being raised to 9%.
- 2) Paid up value of Equity Shares to be reduced to Rs.10.
- 3) The directors to refund Rs.50,000 of the fees previously received by them.
- 4) Debenture holders forego their interest of Rs.26,000 (Included among the Sundry Creditors)
- 5) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.
- 6) "B" 6% Debenture holders agreed to take over the Chennai Works at RS.4,25,000 and to accept an allotment of 1,500 equity shares of Rs.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 Rs.10 each fully paid at par to Star Ltd.
- 7) The Chennai Workmen's compensation fund disclosed that there were actual liabilities of Rs.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.
- 8) Stock was to be written off by Rs.1,90,000 and a provision for doubtful debts is to be made to the extent of Rs.20,000.
- 9) Chennai works completely written off.
- 10) 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 out.

Question 6 (Nov-2016)

(16 marks)

Proficient info soft 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 30th June, 2016:

Liabilities	Rs.	Assets	Rs.
8000 shares of Rs.100 each Rs.60 paid up	~	Property (cost is Rs.3,80,800) estimated at	1,08,000
First Debentures	3,60,000	Plant & Machinery (Cost is Rs.2,87,200) estimated at	72,000
Second Debentures	7,80,000	Cash in hand of receiver	3,24,000
Unsecured trade payables	5,40,000	Uncalled capital	3,20,000

		Deficiency	8,56,000
	16,80,000		16,80,000

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

The following scheme of reconstruction is proposed.

- 1) A is to cancel Rs.2,52,000 of the total debt owing to him; to bring Rs.36,000 in cash and to take first debentures (in cancellation of those already issued to him) for Rs.6,12,000 in satisfaction of all his claims.
- 2) B is to accept Rs.1,08,000 in cash in satisfaction of all claims by him.
- 3) In full settlement of 60% of the claim, unsecured trade payable (other than A and B) agreed to accept three shares of Rs.25 each, fully paid against their claim for each Rs. 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.

- 4) Uncalled capital is to be called up in full and Rs.75 per share cancelled, thus making the shares of Rs.25 each.

Assuming that the scheme is duly approved by all parties interested and by the Court, give necessary journal entries.

Question 7 (Nov-2017)

(16 marks)

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 31st March, 2017 before reconstruction:

Sr. No.	Particulars	Note No.	Amount (Rs. in lakh)
I]	Equity and Liabilities		
(1)	Shareholders' Funds		
(a)	Share Capital	1	2,100
(b)	Reserves and Surplus	2	(783)
(2)	Non-Current Liabilities		
(a)	Long term Borrowings	3	1,050
(3)	Current Liabilities		
(a)	Trade Payables	4	153
(b)	Other Liabilities	5	36
	Total		2,556

II]	Assets		
(1)	Non-Current Assets:		
(a)	PPE	6	1,125
(2)	Current Assets		
(a)	Current Investments	7	300
(b)	Inventories	8	450
(c)	Trade Receivables	9	675
(d)	Cash and Cash Equivalents	10	6
	Total		2,556

Notes to Accounts:

Sr. No.	Notes to Accounts:	(Rs. in lakh)
(1)	Share Capital	
	Authorised:	
	300 lakh shares of Rs.10 each	3,000
	12 lakh, 8% Preference Shares of Rs.100 each	1,200
	Total	4,200
	Issued, Subscribed and Paid up:	
	150 lakh Equity Shares of Rs.10 each, fully paid up	1,500
	6 lakh 8% Preference Shares of Rs.100 each, fully paid up	600
	Total	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
	Total	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 & Machinery	300
		1,125
(7)	Current Investment	
	Investment in Equity Instruments	300
(8)	Inventories	
	Finished Goods	450
(9)	Trade Receivables	
	Trade receivables for Goods	675
(10)	Cash and Cash Equivalents	
	Balance with Bank	6

The Board of Directors of the company decided upon the following scheme of reconstruction:

- 1) Preference Shares are to be written down to Rs.75 each and Equity Shares to Rs.2 each.
 - 2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs.2 each to be allotted.
 - 3) Debenture holders agreed to take one Freehold Property at its book value of Rs.450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
- The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:
- 4) Interest accrued and due on Debentures to be paid in cash.
 - 5) Remaining Freehold Property to be valued at Rs.550 lakh.
 - 6) All investments sold out for Rs.425 lakh.
 - 7) 70% of Directors' loan to be waived and for the balance, Equity Shares of Rs.2 each issue.
 - 8) 40% of Trade receivables and 80% of Inventories to be written off.
 - 9) Company's contractual commitments amounting to Rs.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.

Question 8 (Nov-2018)**(10 marks)**

The summarized Balance Sheet of SK Ltd. as on 31st March, 2018 is given below (Rs in 000)

Liabilities	Amount
Equity Shares of Rs.10 each	35,000
8%, Cumulative Preference Shares of Rs.100 each	17,500
6% Debentures of Rs.100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Total	84,350
Assets	
Property Plant and Equipment	43,750
Investments (Market value Rs.3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account	2,100
Total	84,350

The following Scheme of Internal Reconstruction is approved and put in effect on 31st March, 2018.

- Investments are to be brought to their market value.
- The Taxation Liability is settled at Rs.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 Rs 4 each.
- All preference shares are reduced to Rs.60 each.
- The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of Rs.100 each and exchange them for fresh debentures of Rs.80 each. Each old debenture is exchanged for one new debenture.
- Balance of Current Assets left after settlement of taxation liability are revalued at Rs. 1,57,50,000.
- Property Plant and Equipment are written down to 80%.
- One of the creditors of the Company for Rs.70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of Rs.4 each in full and final settlement of his claim.

Pass Journal entries for the above transactions.

Question 9 (Nov-2019)**(10 marks)**

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

Sr. No.	Particulars	Amount (Rs.)
A]	Liabilities	
	Authorized and Issued Share Capital	
	(a) 15,000 8% Preference shares of Rs.50 each	7,50,000
	(b) 18,750 Equity shares of Rs.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
	Total	21,42,500
B]	Assets	
	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
	Total	21,42,500

(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.

1. The equity shareholders have agreed that their Rs.50 shares should be reduced to Rs.5 by cancellation of Rs.45.00 per share. They have also agreed to subscribe for three new equity shares of Rs.5.00 each for each equity share held.
2. The preference shareholders have agreed to forego the arrears of dividends and to accept for each Rs.50 preference share, 4 new 6% preference shares of Rs.10 each, plus 3 new equity shares of Rs.5.00 each, all credited as fully paid.
3. Lenders to the company for Rs.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 Rs.10 each and 7,500 new equity shares of Rs.5.00 each.
4. The directors have agreed to subscribe in cash for 25,000 new equity shares of Rs.5.00 each in addition to any shares to be subscribed by them under (I) above.
5. Of the cash received by the issue of new shares, Rs.2,50,000 is to be used to reduce the loan due by the company.

Question 10 (July-2021)**(10 marks)**

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

- 1) The shareholders to receive in lieu of their present holding at 7,50,000 shares of Rs.10 each, the following:
 - a) New fully paid Rs 10 Equity Shares equal to $\frac{3}{5}$ th of their holding.
 - b) Fully paid Rs.106% Preference Shares to the extent of $\frac{2}{5}$ th of the above new equity shares.
 - c) 7% Debentures of Rs.2,50,000.
- 2) Goodwill which stood at Rs.2,70,000 is to be completely written off.
- 3) Plant & Machinery to be reduced by Rs.1,00,000, Furniture to be reduced by Rs.88,000 and building to be appreciated by Rs.1,50,000.
- 4) Investment of Rs.6,00,000 to be brought down to its existing market price of Rs. 1,80,000.
- 5) Write off Profit & Loss Account debit balance of Rs.2,25,000.

In case of any shortfall, the balance of General Reserve of Rs.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.

Question 11 (July-2022)**(20 marks)**

Sr. No.	Particulars	Notes	Amount in Rs.
I]	Equity and Liabilities		
(1)	Shareholder's Funds		
(a)	Share Capital	1	15,00,000
(b)	Reserves & Surplus	2	(3,00,000)
(2)	(2) Current Liabilities		
(a)	Trade Payables		2,20,000
(b)	Short Term Borrowings-Bank		2,00,000
(c)	Overdraft		
	Total		16,20,000
II]	Assets		
(1)	Non-Current Assets		
(a)	Property, Plant and Equipment	3	10,20,000
(b)	Intangible Assets	4	1,20,600
(2)	Current Assets		

(a)	Inventories		1,70,000
(b)	Trade Receivables		3,01,800
(c)	Cash and Cash equivalents		7,600
	Total		16,20,000

Notes to Accounts:

Particulars	Rs.	Rs.
1) Share Capital		
90,000 Equity Shares of Rs10 each fully paid	9,00,000	
6% Preference Share Capital	6,00,000	15,00,000
2) Reserves & Surplus		
Profit & Loss Account		(3,00,000)
3) Property, Plant and Equipment		
Land and Building	5,40,000	
Plant and Machinery	4,80,000	10,20,000
4) Intangible Assets		
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:

- 1) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.
- 2) The value of equity shares is brought down to Rs.8 per share.
- 3) The arrears of dividend on preference shares are cancelled.
- 4) The debit balance of Goodwill account is written off entirely.
- 5) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values. Book debts amounting to Rs.14,400 are to be treated as bad
- 6) and hence to be written off.
- 7) The company expects to earn a profit at the rate of Rs.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.

- 8) The balance of total capital reduction is to be utilized in writing down Patents.
- 9) A secured loan of Rs.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.

Question 12 (Nov-2023)

(20 marks)

Following is the Balance Sheet of Tourma Limited as at 31st March, 2023:

Sr. No.	Particulars		Rs.
I]	Equity and Liabilities		
(1)	Shareholders' funds		
(a)	Share Capital	1	24.00
(b)	Reserves and Surplus	2	(9.10)
(2)	Non-current liabilities		
(a)	Long-term borrowings	3	3.20
(3)	Current liabilities		
(a)	Trade payables		1.15
(b)	Short Term Borrowings		1.40
(c)	Other current liabilities	4	0.32
(d)	Short term provisions	5	0.420
	Total		21.39
II]	Assets		
(1)	Non-current assets		
(a)	Property, Plant and Equipment	6	7.80
(b)	Intangible Assets	7	1.70
(c)	Non-Current Investments	8	1.80
(2)	Current Assets		
(a)	Inventory		5.12
(b)	Trade receivables		4.32
(c)	Cash and cash equivalents		0.65
	Total		21.39

Notes to Accounts:

Sr.No.	Particulars	Rs. in Lakhs
1.	Share Capital	
	Equity share capital	
	16,000 Equity Shares of Rs.100 each	16.00
	8,000 6% Preference Shares of Rs.100 each	8.00
		24.00
2.	Reserves and Surplus	
	Debit balance of Profit and loss Account	(9.10)
		(9.10)
3.	Long-term borrowings	
	3,200 10% Debentures	3.20
		3.20
4.	Other current liabilities	
	Interest payable on debentures	0.32
		0.32
5.	Short term provisions	
	Provision for taxation	0.42
		0.42
6.	Property, Plant and Equipment	
	Plant & Machinery	5.00
	Furniture & Fixture	2.80
		7.80
7.	Intangible Assets	
	Patents & Copyrights	1.70
		1.70
8.	Non-Current Investments	
	Investments (Market Value Rs.1,10,000)	1.80
		1.80

As on 1st April, 2023, the following scheme of reconstruction was finalized for which necessary resolution was passed and approvals were obtained from appropriate authorities. Accordingly, it was decided that:

- 1) Each equity share is to be sub-divided into ten fully paid-up equity shares of Rs.10 each. After sub-division, each shareholder shall surrender to the company 40% of his holding, for the purpose of reissue to trade payables as necessary.
- 2) Preference shareholders would give up 30% of their capital and 12% Debentures (face value Rs.100 each) shall be issued to them for balance holdings.
- 3) The company would issue additional 12% Debentures (face value Rs.100 each) for Rs.4,00,000 for meeting its working capital requirement and final settlement of Bank Overdraft at 90% of the amount.
- 4) Existing debenture holders would accept Furniture & Fixture in full settlement of their dues.
- 5) Trade payables claim shall be reduced to 70%, it is to be settled by the issue of equity shares of Rs.10 each out of shares surrendered.
- 6) The shares surrendered and not re-issued shall be cancelled.
- 7) The taxation liability is to be settled at 50,000.
- 8) Investments value to be reduced to market price
- 9) Balance of profit and loss account is to be written off.
- 10) The value of inventories is to be increased by Rs.32,000 and Provision for Doubtful Debts is to be created at 5% of Trade Receivables.

You are required to:

- a) Pass necessary journal entries in the books of account of Tourma, Limited.
- b) Prepare Reconstruction Account, and Prepare Balance Sheet of the company after internal reconstruction.