

AK Hai Bhai sahab Exclusive

Q. No	Imp Adj
Q1	Full Ques
Q4	Adj (i)
Q6	Adj 4
Q12	Full Ques
Q13	Full Ques
Q15	Full Ques
Q16	Adj iii) (Ma 4 & 2 settlement)
Q17	Adj iii)
Q21	Full Ques (shares surrender)
Q22	Adj i) & vii)
Q23	NOT LDR But good for practice

Internal Reconstruction (4 marks - 14 marks)

1. Introduction

→ meaning of the term Reconstruction "is to rebuild or rearrange".

Reconstruction
{

 External Reconstruction → Covered by AS 14
 Internal Reconstruction → Re-organisation within the same entity
 (Covered in this chapter)

→ Internal Reconstⁿ means restructuring the Balance sheet position of the company **without liquidating the company**.

→ In order to implement the scheme a special account is created called "**Capital Reduction A/c or Reconstruction A/c**". This account is a "nominal account" which is created to transfer the sacrifice made by the shareholders or outside lab or losses from reduction of assets.

Eg: Forgo AK Hd

Esc (3cr) 10cr	PPE 10cr
10% Deb (1cr) 8cr	Debtors 5cr
Trade payable 6cr	Inventory 4cr
(1cr)	PL (Dr. Bal) 5cr
<u>24cr</u>	<u>24cr</u>

AK Hd "AND REDUCED"

Esc 7cr	PPE 10cr
10% Deb 7cr	Dis 5cr
T.P 5cr	Inv 4cr
<u>12cr</u>	<u>19cr</u>

J.E. Esc A/c Dr 3cr
To Cap. Redⁿ A/c 3cr

10% Deb A/c Dr 1cr
To Cap Redⁿ A/c 1cr

T.P A/c Dr 1cr
To Cap Redⁿ A/c 1cr

Cap Redⁿ A/c Dr 5cr
To PL 5cr

19cr

19cr

2. Journal Entries

1.) For Increase / Decrease in value of Assets

a) For Increase in Asset

Asset Alc Dr

To Capital Reduction

b) For Decrease in Asset

Cap Redn Alc Dr

To Asset

2) For claims waived off by Creditors / Debentureholders / outside Liab.

Creditors / Deb / Liab Alc Dr

To Cap. Reduction Alc.

3) For contingent Liab cancelled

No entry.

Reason: Because in B/s such Liab was NOT recorded. $\therefore$ NO entry on waiver of this Liab.

(eg of Contingent Liab)

i) Arrears of Pref div

ii) Capital Expenditure commitment

iii) Any other contingent Liab specified in ques

B/s	
<u>Liab</u>	<u>Asset</u>

Cont Liab $\rightarrow$ IL

4] Contingent Liab paid off

Option 1

Cap Redⁿ Alc Ds. 1cr
~~To Liab 1cr~~

~~Liab Alc Ds. 1cr~~
To ClB Alc. 1cr

Option 2

Cap Redⁿ Alc Ds 1cr
To ClB 1cr

5. For Reconstruction Expenses

Cap Redⁿ Alc Ds.
To ClB

6. For Intangible Assets appearing in Bk

a) In case of goodwill

(w/ off if nothing is mentioned)

Cap Redⁿ Alc Ds
To Glw

Bk

Intangible

Glw

Patent

Copyrights etc.

b) For other Intangibles

(Do as per question info)

7. For Reduction of share capital

a) When face value of shares is reduced

eg: Co. had 10000 Eq shares of ₹10 each. The Co. reduced the face value of shares to ₹4 each. Pass J-E.

Esc Acc Dr (£10)	1,00,000	(10000 shares x £10)
To Esc (£4)	40000	(10000 shares x £4)
To Cap Reduction	60000	

b. When only paid up value is reduced.

eg: Co had 10000 eq shares of £10 each fully paid up. The Co. reduced the paid up value of shares to £4 each (face value is still £10)

Net entry {	Esc Acc Dr	60000	(10000 shares x £6)
	To Cap Reduction Acc	60000	

Reason: why in case (b) we passed Net entry? As the face value of shares is still £10.

Imp Note: If in the question, no specific info is given as to whether paid up value is reduced or face value is reduced, it is to be assumed that face value is reduced & JF should be passed as per 7@

8. Write off Dr Bal of P/L or Misc Expenditure or Acc. losses

This is to be done ALWAYS whether mentioned or not in the ques.

Cap Redⁿ Acc Dr
To P/L / Misc Exp / Acc. losses

9. For Any Credit Balance left in Cap Redⁿ Acc (if any)

Cap Redⁿ Acc Dr
To Capital Reserve.

Note: When the BS is prepared after Internal Reconⁿ scheme, the words "AND REDUCED" should be added with the name of the Co.

Q1 (10R)

J] Journal entries

i) Pref Sh. Cap (£100) A/c Dr 400000 (4000 shares x £100)
To Pref Sh. Cap (£75) 300000 (4000 shares x £75)
To Cap Redⁿ 100000

ii) Eq Sh Cap (£10) A/c Dr 750000 (75000 shares x 10)
To Esc (£2) 150000 (75000 shares x 2)
To Cap Redⁿ 600000

iii) Arrears of Pref div → 4 years $(4L \times 6\% \times 4yrs) = 96000$

Cap Redⁿ A/c Dr 24000
To Esc (£2) 24000
(No. of shares = 12000 shares)

3 yrs (72000)
waived
↓
No entry

1 yr (24000)
↓
give eq shares.

iv) Int on Deb → cash paid

Int on Deb A/c Dr 22500
To Cash A/c 22500

v) Freehold prop value increase

Freehold prop	Alc	Dr	20000
To Cap Red ⁿ	Alc		20000

(BV 100000, agreed value = 120000)

vi) Freehold prop given to debtholder

6% Deb	Alc	Dr	120000
To Freehold Prop			120000

vii) Additional cash raised from Deb. holder

ClB	Alc	Dr	130000
To 8% Deb	Alc		130000

viii) Wloff Patent & Glw

Cap Red ⁿ	Alc	Dr	167500
To Glw			130000
To Patent			37500

ix) Inventory wloff

Cap Red ⁿ	Alc	Dr	65000
To Inventory			65000

x) Prov for B.D create

Cap Red ⁿ	Alc	Dr	68500
To Prov for B.D			68500

xvi) Trf Bal of Cap Retⁿ to Cap Reserve → Cap Retⁿ Bal.
Add all Cr. Bal & less all Dr. Bal

"Bal in Cap Red" is NIL

Balance sheet of A2 Co. "AND REDUCED" as at 1st April 'x1

<u>Eq & Liab</u>		
<u>SHF</u>		
a) <u>Share Cap</u>	①	564000
b) <u>RES</u>		-
<u>NEL</u>		
long term Borrowings	②	385000
<u>CL</u>		
T-P		300000
Bank old → w/o from cash Bal.		
<u>Other Curr Liab</u> (fully settled)		NIL
		<u>1249000</u>
<u>Assets</u>		
<u>NCA</u>		
PPE	③	437500
Intangible Asset (fully w/o)		-
Non Curr Invest (sold)		-
<u>CA</u>		
Inventories (425000 - 65000)		360000
T.R (485000 (-) Prov 68500)		416500
CCE (-22500 + 130000 + 140000 - 5000 - 12500 (-) 195000)		<u>35000</u>
	Bank old	<u>1249000</u>

① Share Cap

ESC $(750000 \rightarrow 750000 + 150000 + 24000 + 90000)$ 264000

(No. of share - 132000 shares of ₹ 2 each)

PSC $(400000 \rightarrow 400000 + 300000)$ 300000

(No. of shares - 4000 shares of ₹ 75 each)

564000

② Long term Borr

6% Deb $(375000 - 120000)$ 255000

8% Deb (130000) 130000

385000

③ PPE

Free hold Prop

425000

Add: Appreciation under Internal Recon

20000

less: Given to Deb holder's

(120000)

Add: Appreciation under Internal Recon

62500

387500

Plant

50000

437500

For all ques $\rightarrow$ Notes to Alc's $\rightarrow$ Pictor & B.

In exam prepare $\rightarrow$ only if time permits.

Q2

J] Journal entry

① Esc (£50) A/c Dr	750000	(15000 shares x £50)
TO Esc (£25)	37500	(15000 shares x £25)
TO Cap Red ⁿ	<u>712500</u>	

② New shares Subscribed

CIB A/c Dr	112500	(15000 shares x $\frac{3}{1}$ x £2.5)
TO Esc (£2.5)	112500	

③ Pref shares

7% Pref Sh Cap (£50) Dr	600000	(12000 shares x £50)
Cap Red ⁿ Dr (BIF)	<u>60000</u>	
TO 5% Pref shares (£10)	480000	(12000 shares x 4 x £10)
TO Esc (£2.5)	180000	(12000 shares x 6 x £2.5)

④ Loan of £150000 settled

Loan A/c Dr	150000	
TO 5% Pref Sh Cap	120000	(12000 shares x 10)
TO Esc Cap	30000	(12000 shares x 2.5)

⑤ New shares Subscribed

CIB A/c Dr	100000	(40000 shares x £2.5)
TO Esc (£2.5)	100000	

6) loan ₹2L repaid

loan A/c Dr 200000
TO CB 200000

7) wloff PL A/c Bal

Cap Redⁿ A/c Dr 451000
TO PL 451000

8) wloff Plant

Cap Redⁿ Dr 35000
TO Plant 35000

9) wloff G/W/Trademark

Cap Redⁿ 166500
TO G/W & Trademark 166500

Cr. → Cap Red Dr Cap Redⁿ
Add less

(wloff only to the extent of Bal in Cap Redⁿ)

B/s of Rebuilt 1H "AND REDUCED"

<u>Eq & Lab</u>		
SHF		
⑥ Share Cap	①	1060000
⑦ Ret		-
<u>NCL</u>		
L.T.B (loan) $(573000 - 15L - 2L)$		223000
<u>CL</u>		
T.P		207000
Other Cur Lab		35000
		<u>15,25,000</u>
<u>Assets</u>		
<u>NCA</u>		
PPE $(668000 - 35000)$		633000
Intangible $(318000 - 166500)$		151500
<u>CA</u>		
Inv		400000
T.R		328000
CLE $(112500 + 100000 - 200000)$		12500
		<u>15,25,000</u>

① Share Cap

Esc $(750000 - 750000 + 37500 + 112500 + 180000 + 30000 + 100000)$
(No. of shares $\rightarrow 184000$ shares @ ₹ 25 each) $\rightarrow 460000$

Psc $(600000 + 600000 + 480000 + 120000)$ 600000

(No. of shares $\rightarrow 60000$ shares @ ₹ 10 each)

1060000

Q3

Adj viii) Option ①

Prov for tax Alc Dr 200000

Cap Redⁿ Dr 100000

To ClB Alc 300000

Option ②

Prov for tax Alc Dr 200000

Cap Redⁿ Alc Dr 100000

To Crub for taxation 300000

Crub for taxatⁿ Alc Dr 300000

To ClB 300000

Best Over $\rightarrow$ H.W.

Q4

i) Pref Shares

8% PSC Alc Dr 600000
To Cap Redⁿ (30%) 180000
To 11% Deb (70%) 420000

~~Wrong entry~~

~~8% PSC Dr 180
To 11% Deb 180~~

ii) Old Deb settled with Plant

9% Deb Alc Dr 1200000
To Plant 900000
To Cap Redⁿ 300000

iii) T-P settled → Inventory

Trade Payable Dr 592000
To Inventory 500000
To Cap Redⁿ 92000

iv) Invst bring down to Mkt Value

Cap Redⁿ Alc Dr 13000
To Invst 13000
(68000 - 55000)

v) Issue 11% Deb

CLB Alc Dr 300000
To 11% Deb 300000

vi) Repay Bank OLD

Bank OLD Alc Dr 150000
To CLB 150000

vii) coloff PLC Dr. Bal (Bhui na jaana)

Cap Red ⁿ	405000
TO PIL	405000

viii) Trf Bal of Cap Redⁿ to Cap Res.

Cap Red ⁿ	154000
TO Cap Reserve	154000

(Add all Cr Bal of Cap Redⁿ
less all Dr — " —)

Dr.	Cap Reduction		Cr.
TO Invst	13000	By 8% PSC	180000
TO PIL	2105000	By 9% Deb	300000
TO Cap Rese	154000	By T.P	92000
	<u>572000</u>		<u>572000</u>

Bls $\rightarrow$ QOTD $\rightarrow$ 27,74,000

Q5

I] Journal entries

① PSC FV reduced

PSC (FV £10) A/c Dr 150000 (15000 shares x £10)
To PSC (FV £2.5) A/c 87500 (15000 shares x £2.5)
To Cap Redn A/c 112500

② ESC FV reduced

ESC (FV £10) A/c Dr 200000 (20000 shares x £10)
To ESC (FV £1) A/c 20000 (——— £1)
To Cap Redn A/c 180000

③ Amounts of Prof div

Cap Redn A/c Dr 48000
To ESC (£1) A/c 48000
(1.5L x 8% x 4yrs)

④ Freehold Prop

Cap Redn A/c Dr 45000
To Freehold Prop 45000
(120000 → 75000)
BV agreed value

⑤ Deb Holder took over property & paid cash

10% Deb A/c Dr 50000

Int on Deb o/s A/c Dr 5000

ClB A/c Dr 20000

To Freehold prop A/c 75000

→ Deb holder gave cash to the compy.

Note: Whenever Ques uses the word "Debtors holders" → It includes Deb face value (+) Int payable on Deb.

⑥ P&M write down

Cap Redⁿ Alc Dr 30,000
 TO P&M 30,000
(130000 (-) 100000)
Bv

⑦ Invest sold

ClB Alc Dr 32000
Cap Redⁿ Dr 8000
 TO Invest 40000

⑧ Glu & 10k of Inventory coloff

Cap Redⁿ Dr 60000
 TO Glu 50000
 TO Inventory 10000

⑨ Cont Lab settled

Cap Redⁿ Alc Dr 7000
 TO ClB Alc 7000

10) Ins claim recovered

ClB Alc Dr 6300
 TO Cap Redⁿ Alc 6300

11) W/off Plc Ds. Bal. → Bhul na joana

Cap Resⁿ Alc Ds 70000
TO Plc 70000

12) Cap Resⁿ trf to cap Rese

Cap Resⁿ 30800
TO cap Rese 30800

Balance sheet of Recover Ltd as at 31/03 "AND REDUCED"

<u>Liabilities</u>		
<u>SHF</u>		
a) Share Cap	①	105500
b) Res (Cap Reserve)		30800
<u>NCL</u>		
L.T.B (Deb)		-
<u>CL</u>		
T-P		80000
S.T.B (Bank old) → Not netting off with CCE as we don't have sufficient cash bal.		90000
		<u>306300</u>
<u>Assets</u>		
<u>NCA</u>		
PPE	②	185000
<u>Intangible</u>		
CA → Inv (30k - 10k)		20000
T-R		50000
CCE (20k + 32k - 7k + 6300)		51300
		<u>306300</u>

Share Cap

Esc ($21\text{L} + 20\text{k} + 48\text{k}$)

68000

Psc ($1.5(-1.5 + 37500)$)

37500

105500

PPE

Freehold ($1.2\text{L} - 45\text{k} - 75\text{k}$)

NIL

Leasehold prop

85000

Plant ($1.3\text{L} + 30\text{k}$)

100000

185000

Q6

Journal entries

① Cap Redⁿ 55000
 TO Furniture 55000
 ($150000 - 95000$)

② Freehold Prop 55000
 TO Cap Redⁿ 55000

③ Cap Redⁿ At Dr. 184000
 TO Plant 89000
 TO Invst 95000 ($200000 - 105000$)

④ 9% Deb Acc Dr 250000

To ClB ('15) 50000

To land 72000

To Cap Redⁿ 128000

⑤ Cap Redⁿ Acc Dr 70000

To PIC 70000

⑥ ⁷⁰⁰⁰ Gen. Rese Acc Dr 126000

To Cap Redⁿ 126000

(Note: The shortfall of Cap Redⁿ is adj from G-R)

[Cr of Cap Redⁿ & Dr of Cap Redⁿ]
(+) (-)

Q 8

i) Esc (210) Acc Dr 1500000 (150000 shares x ₹10)

To ClB 50000

To 10% Deb 750000 (7500 Deb x 100)

To Sec Prem 150000 (7500 Deb x 20)

To Esc (210) 500000 (50000 shares x ₹10)

To Cap Redⁿ (BH) 50000

ii) Freehold Prop Acc Dr 95000

To Cap Redⁿ 95000

(BV 350000, (-) 445000)
agreed value

iii) 8% Deb Acc Dr 500000

To Freehold prop 445000

To Cap Redn (BIF) 55000

iv) Cap Redn

200000

To Cap Reserve

200000

Q9 (LOR)

3] Journal entries

1) Uncalled Capital called up

CIB Acc Dr 10,00,000

(100000 shares x £10)

To FSC 10,00,000

2) Esc Fu reduce

Esc (£50) Dr 75,00,000

(150000 shares x £50)

To Esc (£20) 30,00,000

(150000 shares x £20)

To Cap. Reductn 45,00,000

3) M&A Settlement

12% First Deb Acc Dr 300000

12% Sec Deb Acc Dr 700000

Trade payable Acc Dr 200000

CIB Acc Dr 200000

To M&A Acc 1400000

M2 x Alc Dr 1400000

To Cap Redn Alc 700000

To 14% First Deb Alc 700000

4) M2.4 settlement

12% First Deb Dr 200000

12% Second Deb Dr 300000

T.P Dr 100000

To M2.4. 600000

M2.4 Alc Dr 600000

To Cap Redn 300000

To 14% First Deb 300000

⑤ Wloff Glw to PIL Dr. Bal

Cap Redn Alc Dr 40,00,000

To Glw 20,00,000

To PIL 20,00,000

⑥ Bal to Wloff Computers (Bal. Fig)

Cap Redn Alc Dr 15,00,000

To Computers 15,00,000

Balance sheet of Green Ltd "AND REDUCED"

Eq & Liab

SHF

a) Share Cap (65L + 10L(-) 75L + 30L)

30,00,000

b) Res

-

NCL

L.T.B (14% First Deb)

10,00,000

CL

T.P (5L + 2L + 1L)

200000

42,00,000

Assets

NCA

PPE (45L - 15L)

30,00,000

Intangible

-

CA

CCE (10L + 2L)

1200000

42,00,000

Q12 (WR)

J Journal entries

① Uncalled Cap Being called

ClB	Alc	Dr	10,00,000
	TO ESC Alc		10,00,000

(100000 shares x ₹10 each)

② ESC reduce, FV

ESC (₹50) Alc	Dr	75,00,000	(150000 shares x ₹50)
TO ESC (₹40) Alc		60,00,000	(——— x ₹40)
TO Cap Redn Alc		1500000	

③ New Issue of Eq Shares

ClB	Alc	Dr	1250000
	TO ESC		1250000

$\left(\frac{1250000}{₹40} \right) = 31250 \text{ shares}$

④ T.P Settlement

T.P Alc	Dr	1240000
TO ESC (₹40) Alc		750000
TO Cash		343000
TO Cap Redn		147000

T.P → 1240000

₹750000 ↳ Eq shares	Bal. 490000 @ 70% Cash = 343000
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⑤ Mr. A Settlement

8% Deb Acc Dr 300000

12% Deb Acc Dr 400000

clB Acc Dr 100000

TO Mr. A 800000

Mr. A Acc Dr 800000

TO Cap Redn 200000

TO 15% NewDeb 600000

⑥ Mr. B Settlement

8% Deb Acc Dr 100000

12% Deb Acc Dr 200000

TO Mr. B 300000

Mr. B Acc Dr 300000

TO Cap Redn 50000

TO 15% NewDeb 250000

⑦ Land Acc Dr 914000

TO Cap Reduction 914000

⑧ Cap Redn Dr 130000

TO Machine 130000

⑨ Cap Redn Dr 120000

TO Computers 120000

⑩ Inventories 30000
 TO Cap Redⁿ 30000

⑪ Cap Redⁿ 109000
 TO Prov for B.D 109000
 (10.92 × 10%)

12) o/c exp Vab DA 10,60,000
 TO UB 10,60,000

13) Cap Redⁿ Alc DA 2982000
 TO PIL 2982000

14) Shortfall in Cap Reduction (Cr. Bal of Cap To DA bal of Cap
 Cap Rese Alc DA 500000 Redⁿ → Add Redⁿ → less
 TO Cap Reduction 500000)

As → Char pe

Esc (£10) A/c Dr 1,00,000 (10000 shares x £10)
 To Equity stock 1,00,000 (1 share x £1,00,000)

Q13 **Wb**

1] Journal entries

1) PSC FV reduce

PSC (£10) A/c Dr 400000 (40000 shares x £10)
 To PSC (£5) A/c 200000 (40000 shares x £5)
 To Cap Redⁿ A/c 200000

2) Esc FV reduce

Esc (£10) A/c Dr 300000 (30000 shares x £10)
 To Esc (£7) A/c 210000 (30000 shares x £7)
 To Cap Reduction 90000

3) Re-consolidate Prof Shares

PSC (£5) A/c Dr 200000 (40000 shares x £5)
 To PSC (£10) A/c 200000 (20000 " x £10)

4) Re-consolidate Eq Shares

Esc (£7) A/c Dr 210000 (30000 shares x £7)
 To Esc (£10) A/c 210000 (21000 shares x £10)

(30000 shares x £7)
 £10
 21000 shares.

5) Invest Sold

CLB Acc Dr 64000
To Invest 64000

6) Means of Prof Div

$$\begin{aligned} \text{PSC } 400000 \times 8\% \times 4 \text{ yrs} &= 1,28,000 \times \frac{210}{240} \\ &= \text{₹ } 32000 \rightarrow \text{Total value of shares} \end{aligned}$$

Cap Redn Acc Dr 32000
To Esc (Fto) 32000

7) Exp of Reconstruction

Cap Reductn Acc Dr 10000
To CLB 10000

8) Revalue Freehold

Freehold land Dr 90000
To Cap Reduction 90000

9) Settle Deb holder

9% Deb Acc Dr 120000

Acc Int Acc Dr 5400

CLB Acc Dr 84600

To Freehold land 210000

10) Cont Liab settled

Cap Redⁿ Alc Dr \$4000
 TO ClB \$4000

11) Ins claim rec'd

ClB Alc Dr 12500
 TO Cap Redⁿ 12500

12) Intangible / Inv / FR w/off

Cap Redⁿ Dr 168100
 TO Trademarks 110000
 TO Goodwill 36100
 TO Inventory 10000
 TO Prov for FR 12000 (120000 x 10%)

13) Settle Bank old with Bal of ClB

Bank old Dr 97100
 TO ClB 97100

} Ault from ledger.

14) Fresh issue of shares to raise money for Bank old

Bal of Bank old = 223100 (-) 97100 = 126000

a) Fresh issue

ClB 126000
 TO ESC 126000

b) Pay off Bank old

Bank old Alc Dr 126000
 TO ClB 126000

15) w/loff P/L Dr. Bal

Cap Redn A/c Dr 128400
TO P/L A/c 128400
Bal in cap Redn

Alternate entry

Cap Redn 138400
TO P/L 138400

Cap Reserve A/c Dr 10000
TO Cap Redn 10000

Shortfall
Debited to
Cap Reserve

Dr.		Cap Red ⁿ A/c		Cr.	
			By PSC	200000	
To ESC	32000		By ESC	90000	
To cIB	10000		By Freehold land	90000	
To cIB	54000		By Cash/Bank	12500	
To Trademarks	110000				
To Goodwill	36100				
To Inventory	10000				
To Prov for FR	12000				
To P/L (Dr. Bal w/off)	128400				

		Cash/Bank A/c	
To bal b/d	NIL		
To Invest	64000	By Cap Red ⁿ	10000
To Freehold land (Deb Holder)	84600	By Cap Red ⁿ	54000
To Cap Red ⁿ	12500	By Bank old	97100
To ESC	<u>126000</u>	By Bank old	<u>126000</u>

Q14

₹ in lakhs)

Journal entries

- ① 8% PSC (₹100) Dr 400
 To 8% PSC (₹80) 320
 To Cap Reduction (80)
- ② ESC (₹10) Dr 1000
 To ESC (₹2) 100
 To Cap Redn (800)
- ③ Prefer Shares Arrears → 3yrs $\begin{cases} 2yrs \rightarrow \text{waived} \rightarrow \text{No entry} \\ 1yr \rightarrow (400 \times 8\% \times 1yr) = 32 \end{cases}$
 Cap Redn Alc Dr 32
 To ESC (₹2) 32
- ④ 6% Deb Alc Dr 300
 To Freehold Prop 300
- ⑤ Int Acc'd Due on 6% Deb Alc Dr 24
 To ClB 24
- ⑥ Freehold Prop Alc Dr 150
 To Cap. Redn 150
- ⑦ ClB Alc Dr 250
 To Intst Alc 200
 To Cap Redn Alc (50)

BV	₹ 550
Given to Deb (300)	
Bal	250
FV	400
↑	150

⑧ Director's loan A/c Dr 300

TO Cap Redⁿ (70%) 210

TO ESC (30%) 90

⑨ Cap Reduction A/c Dr 420

TO Prov for TR 180 (450 x 40%)

TO Inventories 240 (300 x 80%)

⑩ Penalty paid on Cont. Liab

Cap Redⁿ A/c Dr 30

TO CLB 30

(600 x 5%)

⑪ w/ off P/L

Cap Redⁿ 522

TO P/L 522

12) Trf Bal to Cap Resc

Cap Redⁿ 286

TO Cap Reserve 286

II]		Cap Reduction	
To FSC	32	By FSC	80
To Prov for FR	180	By FSC	800
To Inventories	240	By Freehold Prop	150
To CLB	30	By CLB (Impt sold)	50
To P/L	522	By Director's loan	210
To Cap Reserve	286		

III] Notes of Share Cap & Tangible Assets → Refer Q. B

Q15 (LOR)

J] Journal entries

1] PSC Paid up reduce

7% PSC (£100) A/c Dr	900000	(9000 shares x £100)
To 9% PSC (£80) A/c	720000	(9000 shares x £80)
To Cap Reduction A/c	180000	

(Even if Only paid up value reduced, we passed full entry as % of Pref Shares has changed)

2) ESC Paid up value reduced

ESC (£100) A/c Dr	10,00,000	(10000 shares x £100)
To ESC (£10) A/c	100000	
To Cap Redn	900000	

(OR)

Correct Entry

ESC A/c Dr	900000
To Cap Redn	900000

3) Director's refund H/o fees

ClB A/c Dr	50,000
To Cap Redn	50,000

4) Forgo Int on Deb

Trade payable (Int on Deb) A/c Dr	26000
To Cap Redn	26000

5) No entry (for recovery of arrears of Pref share div)

June
6) B' 6% Deb Settled

350000

Takeover

PPE (Chennai works) 425000

ESC (1500 shares x 10) 15000

440000

excess takeover = 90,000

Deb will give eq shares of Zia Ltd
(Hemant iye Invest)

B' 6% Deb A/c Dr 350000

~~CLB~~ Invest (Eq sh of Zia Ltd) ^{Dr} 90000 (9000 shares x ₹10)

To PPE (Chennai works) 425000

To ESC (1500 x 10) 15000

7) Liab (Chennai - workmen comp fund) Dr 4000

To Cap Redn

4000

Bl of Liab 5000

Actual Liab (1000)

w/o off 4000

8) Invest sold @ 10% Profit (Retain 1000 of Invest against Liab of Chennai workmen comp fund)

CLB A/c Dr 15400

To Invest A/c 14000

To Cap Redn A/c 1400

Invest 15000

Return (1000)

Invest sold 14000 By
@ 10% Profit

9) Trade payable 15400

To CLB 15400

(Part payment to T.P from money of Invest sold)

10) Cap Reduction 210000
 TO Inventory 190000
 TO Prov for B.D 20000

11) Cap Redⁿ Dr 350000 By 775000
 TO PPE (Chennai Works) 350000 (-) Given to (425000)
 Deb
 Bal 350000 → wloff

12) Cap Redⁿ Dr 200000 } Bhul jaoge humesha
 TO PL 200000

13) Cap Redⁿ Dr. 401400
 TO PPE Bombay works (2/3) 267600
 TO Cap Reserve (1/3) 133800

Q16

Journal entries

1) Esc (£10) A/c Dr 50,00,000

To Esc (£5) A/c 25,00,000

To Cap Redⁿ A/c 25,00,000

2) ^{9%} Psc (£100) A/c Dr 20,00,000

To ^{10%} Psc (£50) A/c 10,00,000

To Cap Redⁿ 10,00,000

3) Settlement of Y

10% Deb (Y's share) Dr 960000

Int on Deb (→r→) Dr 96000

Trade payables Dr 100000

CLB A/c Dr 100000

To Mx. Y. 1256000

→ 50%

Mx. Y A/c Dr 1256000

To Cap Redⁿ

To 12% New Deb (Bk) 678000

578000

→ $(960000 + 96000 + 100000) \times 50\%$
Total Debt

iv) Settlement of Z

10% Deb (Z's share) Dr 640000

Int on Deb (→r→) Dr 64000

Trade payables Dr 60000

CLB A/c	Dr	60000
TO Mr. Z		824000

Mr. Z A/c	Dr	824000
TO Cap Red ⁿ		382000
TO 12% New Deb (Bk)		442000

$(640000 + 64000 + 60000) \times 50\%$

v) T-P		170000
TO Cap Red ⁿ		170000

$(500000 - 100000 - 60000) \times 50\%$
 $\downarrow \quad \downarrow$
 4 2

vi) Directors loan A/c	Dr	100000
TO Cap Red ⁿ A/c		60000
TO Esc		40000

vii) Cap Red ⁿ		15000
TO CLB		15000

} Cap Commit. Penalty

viii) CLB		100000
TO Cap Red ⁿ		100000

} Director's fees refund

ix) Cap Red ⁿ		15000
TO CLB		15000

} Recours. exp.

x) Prov for tax Dr	100000
TO CLB	75000
TO Cap Red ⁿ	25000

xi) Land & Bldg Dr 200000
 To Cap Reduction 200000

xii) Cap Redn All Dr 42,10,000
 To Plant & Mach 650000
 To Inventory 250000
 To T.R 100000
 To Furniture 100000
 To Trade Invest 50000
 To Glw 1000000
 To Patent 500000
 To P/L 1460000
 To Disc on Issue of Deb 100000

xiii) Cap Redn 775000
 To Cap Rese 775000

Hidden Adj Settle Bank o/d
Bank o/d Dr 100000
 To CB 100000

Cash / Bank

TO M&Y	100000	By Cap Red ⁿ	15000
TO M&Z	60000	By Cap Red ⁿ	15000
TO Cap Red ⁿ	100000	By Prov for tax	75000
		By Bank old (Extra Adj)	100000
		By bal old.	55000

Cap Reduction

TO ClB	15000	By Esc	25,00,000
TO ClB	15000	By PSC	10,00,000
TO Plant & Machs	650000	By M&Y	578000
TO Inventory	250000	By M&Z	382000
TO T-R	100000	By Trade payable	170000
TO Furniture	100000	By Director loan	60000
TO Trade Invest	50000	By ClB	100000
TO Glw	1000000	By Prov for tax	25000
TO Patent	500000	By Land & Bldg	200000
TO P/L	1460000		
TO Disc on Issue of Deb	100000		
TO Cap Reserve	775000		

Q.17 (LDR)

i) Sub-divide

Esc (£100) A/c Dr 60,00,000 (60000 shares x £100)
 TO Esc (£10) 60,00,000 (600000 shares x £10)

ii) ESC (£10) A/c Dr 60,00,000 (600000 shares x 10)
 TO ESC (£6) 36,00,000 (600000 shares x £6)
 TO Cap Reduction 24,00,000

iii) Pay arrears of Pref div (212 x 8% x 14y)
 Cap Redⁿ 168000
 TO CLB 168000

* Calⁿ of Own Deb = 576000 (NV 600000) = No. of Deb = $\frac{600000}{100}$

Cost per deb = $\frac{576000}{6000 \text{ Deb}}$ = £96 per deb. = 6000 Deb.

iv) Own Deb sold
 (240000 NV) (2400 Deb)

CLB A/c Dr 235200 (2400 x 98)
 TO Own Deb (Inst) 230400 (2400 x 96)
 TO Cap Redⁿ (Bif) 4800

v) Own Deb cancelled
 (3600 Deb) (NV 360000)

Rule {
 1) Deb cancel FV INV
 2) Own Deb Invest → cancel cost
 3) Diff → 7% to Cap Redⁿ.

10% Deb A/c Dr 360000
 TO Own Deb (Inst) 345600
 TO Cap Redⁿ (Bif) 14400

vi) 10% Deb A/c Dr 600000
 Cap Redⁿ Dr 200000
 TO Machinery A/c 900000

vii) Cap Redⁿ 300000
 TO Plant & Machinery 300000

(By 7200000
 Given to (900000)
 deb

6300000
 FY 6000000
 ↓ by 300000

viii) T.P A/c Dr 180000
 TO Cap Redⁿ 180000

ix) Cap Redⁿ 75000
 TO T.R 75000

x) Cap Redⁿ 36000
 TO Inventory 36000

xi) Cap Redⁿ 13,16,000
 TO G.W 81000
 TO P/L 1235000

xii) Cap Redⁿ 60000
 TO C.B 60000

xiii) Cap Redⁿ 344200
 TO Cap Res 344200

Assumed that effect is already

Note: Int on Deb is paid on 31st March → there in B/s as B/s date is also 31/03.

Cap Reduction

TO CLB	168000	By Fsc	24,00,000
TO Machinery	300000	By CLB	4800
TO PPE	300000	By 10% Deb	14400
TO T-R	75000	By T-P	180000
TO Inventory	36000		
TO GLW	81000		
TO PLL	12 35000		
TO CLB	60000		
TO Cap Reserve	344200		

CLB

To bal bld	133000	By Cap Redn	168000
To Own Deb }	230400	By Cap Redn	60000
TO Cap Redn }	4800	By bal cld	140200

Q19

i) Sub divide

Esc (£100, paid up 80) Acc Dr 80,000 (1000 shares x £80)
To Esc (£10, paid up 8) Acc 80000 (10000 shares x £8)

ii)

Esc (£100) Acc Dr 100000 (Fully paid up)
To Eq Stock Acc 100000

iii) Psc Acc Dr 150000

Cap Redⁿ Dr 33000

To 11% Deb 183000

iv) Cap Redⁿ Dr 107800

To Patent 27800

To Gw 80000

v) / Cap Rese 140800
TO Cap Redⁿ 140800

Shortfall

4. Surrender of Shares

→ Under this scheme, the shareholders are expected to return a part of their holdings back to the company, which the company can reuse or reissue to the creditors/debentureholders to settle their dues.

Journal entries

① Entry for surrender of shares

Esc A/c Dr

To Share Surrender A/c

② Entry for reissue of shares surrendered to creditors or debentures

a) For Reissue

Shares surrendered A/c Dr

To Eq Share Cap A/c

b) Entry for cancellatⁿ of liab so settled

Creditors/Debtors A/c Dr

To Cap Reduction A/c.

3) Balance in the shares surrendered A/c NOT utilized.

Shares Surrendered A/c Dr

To Cap Reduction A/c.

Fig ① AK Hd	
Bls (draft)	
Esc	10,00,000
(10000 of £100 shares each)	
10%-Deb	700000
Trade payable	200000

- ① Esc 7L
TO Cap Redn 7L
- ② 10%-Deb Acc Dr 7L
TO Esc Acc 3L
TO Cap Redn 4L
- ③ T.P Acc Dr 2L
TO Esc 1.2L
TO Cap Redn 80K

- ① The shareholder's of AK Hd agreed to surrender 70% of their holdings.
 - ② Out of shares surrendered, 3000 share of £100 were issued to debenture holders against their full & final settlement.
 - ③ Out of shares surrendered, 1200 shares of £100 were issued to Trade payables against their full & final settlement.
 - ④ Balance shares surrendered, to be cancelled.
- Pass J-E.

- ① Esc Acc Dr 700000
TO Shares Surrendered 700000
(70% of Esc)

- ② Share Sur Acc Dr 300000
TO Esc 300000
(3000 shares x £100)
- } Issue of shares surrendered to Deb holder's

- ③ Deb Acc Dr 700000
TO Cap Redn 700000
- } web cancel/settled

④ Share Sell Acc Dr 120000
 To ESC 120000
 (1200 shares x 100)

⑤ T.P Dr. 200000
 To Cap Redn 200000

⑥ Shares Surrendered 280000
 To Cap Redn Acc 280000
 $(7000 \text{ shares} (-) 9000 \text{ Deb T-P} (-) 1200 \text{ shares}) = 2800 \text{ shares} \times \text{£}100$

Cap Reduction

<u>Shares</u>	<u>Normal</u>
<u>Surrender</u>	
700000	700000
+ 200000	400000
+ 280000	80000
<u>11,80,000</u>	<u>1180000</u>

Eg 2 Ak 11d

Esc
(10000 (x) 100
shares each)

10,00,000

10% Deb

500000

70% forgo

Bal 30% → accepted shares

① Eq Shareholders agree to surrender 40% of their holdings.

② Debholders agree to forgo 70% of claim, & for Bal 30%, they accepted 1200 shares from shares surrendered.

③ Bal in shares surrendered Ac to be cancelled.

Pass J-E.

① Esc Ac De 400000
TO Shares Surrendered 400000

② Deb → give Eq shares & then cancel the deb

① Shares Surr Ac De 120000
TO Esc 120000

} → jitne shares Deb ko dena
nhi uska entry

② 10% Deb Ac De ~~350000~~ 500000
TO Cap Redⁿ ~~350000~~ 500000

} Shares dekr jitna
deb settle hua
usse Amt ko trf
to Cap Redⁿ

⑧ Shares Surrendered 280000
 To Cap Redⁿ A/c 280000
 $(4000 \text{ shares} (-) 1200) = 2800 \text{ shares} \times ₹100$
 Deb

Eg 3 Same as Eg 2

Except in Adj 2) Debentureholders forgo 60% of their claim to against this 60% waiver they accept 1300 shares out of share surrendered. Bal 40% deb will stay as Unab.

Solⁿ:

① Esc A/c Dr 400000
 To Shares Surrendered 400000

② Deb cancel & give 1300 eq shares

a) Shares Surr A/c Dr 130000
 To Esc 130000

b) 10% Deb A/c Dr 300000
 To Cap Redⁿ 300000

} Shares dekr jitna
 deb settle hua
 uss Amt ko trf
 to Cap Redⁿ

③ Shares Surr 270000
 To Cap Redⁿ 270000

Q21 (Wk)

Journal entries

① Sub division

ESC (£100) DS	10,00,000	(10000 shares x £100)
TO ESC (£10) AC	10,00,000	(100000 shares x £10)

② Shares Surrendered

ESC AC (£10) DS	5,00,000
TO Shares Surrendered	5,00,000

③ Shares Surrendered → issue Pref shares

a) Shares Surrendered AC DS	100000
TO PSC AC	100000
(10000 shares x £10)	

b) 12% Deb AC DS	150000	(2L x 75%)	} Pref sh dekr humne sirf 75% deb settle kiya
Int on Deb AC DS	18000	(24K x 75%)	
TO Cap Redn	168000		

Pref shares given to Deb holders → (No separate entry)
weh already entry No 3 @ mein aagaya

50%

100%

④ T.P settled & shares given from shares surrendered

⑥ Shares Surrendered A/c Dr 36000

To Esc A/c

36000

⑦ Trade payable A/c Dr 72000

To Cap Reduction A/c 72000

T.P = 72000

50% reduced (36000)

Bal 50% → settled & gave shares surrendered (36000)

⑤ Cap Redⁿ 600000

To Pl

600000

⑥ Shares Surrendered → CANCEL $(500000 \leftarrow 100000 \leftarrow 36000) = 364000$

Shares Surr A/c Dr 364000

To Cap Redⁿ 364000

Psc
↓
Deb

Fsc
↓
FP

⑦ Cap Redⁿ 4000

To Cap Reserve 4000

Balance Sheet of Perise Ltd "AND REDUCED"

<u>Eq & Liab</u>	
<u>SHF</u>	
a) Share Cap	① 636000
b) Res (Cap Res)	4000
<u>NCL</u>	
L.T.B (12% Deb)	50000
<u>CL</u>	
Other CL (Int on Deb)	6000
Short term Prov	24000
	<u>720000</u>
<u>Assets</u>	
<u>NCA</u>	
PPE	100000
<u>CA</u>	
Inventories	320000
TR	270000
CCE	30000
	<u>720000</u>
<u>Share Cap</u>	
ESC (10LF1 SL + 26K)	536000
PSC	100000
	<u>636000</u>

Q22 (New Adj Only)

Adj i) 6% PSC A/c Dr 600000

To 8% PSC A/c

To Cap Redⁿ

450000

150000

$$\left(\frac{600000 \times 6\%}{8\%} = 450000 \right)$$

vii) Cap Redⁿ

~~500000~~

30000

To P/L

~~500000~~

30000

Dr Bal of P/L → (300000)

Future profits to

270000

(90000 × 3 yrs)

w/lt Dr. Bal

Bal to be w/lt today (30000)

from Cap Redⁿ

Bal goes self Practice

Q 23

J] Journal entries

(₹ in lakhs)

1) Subdivision

Esc (₹100) A/c Dr	16
To Esc (₹10)	16

2) Shares Surre (40%)

Esc (₹10) A/c Dr	6.4
To Shares Surrendered	6.4

3) Psc settled

Psc A/c Dr	8
To Cap Redn (30%)	2.4
To 12% Deb (70%)	5.6

4) New Deb Issue

CLB A/c Dr	4
To 12% New Deb	4

5) Bank old Settle

Bank old A/c Dr	1.4
To CLB (90%)	1.26
To Cap Redn	0.14

6) Deb Holder given Furniture

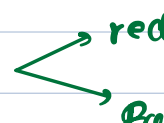
10% Deb Alc Dr 3.2

Int on Deb Alc Dr 0.32

TO Furniture Alc 2.8

TO Cap Redⁿ Alc 0.72

7) T.P cancelled & shares surrendered given

T.P 1.15  reduce 30%
Bal 70% → issue shares surrendered = 0.805

Shares Surre Alc Dr 0.805

TO Esc 0.805

T.P Alc Dr 1.15

TO Cap Redⁿ 1.15

8) Cancel shares surrendered

Bal $(6.4 - 0.805) = 5.595$

Shares Surrendered Alc Dr 5.595

TO Cap Reduction Alc 5.595

⑨ Settle Tax Liab

Prov for tax 0.42

Cap Redⁿ Dr 0.08

TO CIB 0.50

⑩ Cap Redⁿ Acc Dr 0.70

TO INVS 0.70

11) Cap Redⁿ Dr 9.10

TO PL 9.10

12) Inventories Dr 0.32

TO Cap Redⁿ 0.32

13) Cap Redⁿ 0.216

TO Prov for T-R 0.216

(4.32 x 5%)

14) Cap Redⁿ 0.229

TO Cap Rese 0.229

Cap Reduction Atc

To CB (Tax)	0.08	By PSC	2.4
To Invest	0.70	By Bank old	0.14
To PIL	9.10	By Deb Holder	0.72
To Prov for T-R	0.216	By T.P	1.15
To Cap Reserve	0.229	By Shares Surrendered	5.595
		By Inventories	0.32

Balance sheet of Tourma Htd "AND REDUCED"

I] Eq & Liab

SHF

a) Share Cap

0

10.405

b) RES (Cap Resc)

0.229

NCL

L.T.B (12% Deb) (5.6 + 4)

9.6

CL

-

20.234

Assets

NCA

PPE (Plant)

5

Intangible (Patent)

1.7

Non Curr Invest (1.8 - 0.7)

1.1

CA

Inv (5.12 + 0.34)

5.44

T.R (4.32 - 0.216)

4.104

CEE (0.65 + 4 - 1.26 - 0.50)

2.89

20.234

Share Cap

① ESC (16 - 6.4 + 0.805)

10.405

② PSC

-