Chapter - 14 | Internal Reconstruction

Situation of Company	Process of reconstruction	Compliance of Companies Act
- huge accumulated losses	> Revalue assets	Section 48 - Variation of rights
- overvalued assets	> Restate liabilities	Section 61 - Alteration of SC
- overdue payments	> reorganise capital	Section 66 - Reduction of SC
- unsettled liabilities	> write off accumulated losses	

Section 48 - Variation of rights

Change in rights of the shareholders without changing the amont of share capital

Example - Change in dividend rate of Preference Shares

Section 61 - Alteration of Share Capital

Types of Alteration

- Subdivision or Splitting → *dividing shares into smaller denomination*
- Consolidation → *consolidating shares into higher denomination*
- Converting Shares into Stock → *no fraction & no denomination*
- Stock into Shares → *dividing stock into fractions & denomination*

} Share Capital remains same

Compliance requirements for alteration

> Power in Articles of Association

> Ordinary Resolution in General Meeting

Section 66 - Reduction of Share Capital

Types of Reduction

- Reduction on Paid up value only → *NV remains unchanged, only paid up value decreases*
- Reduction on Nominal & Paid up value → *NV reduces along with reduction in paid up value*

Share Surrender

- Share holders surrender shares
- Surrendered shares are used to settle liabilities

Capital Reduction

Reserves created by	Reserves will be used to
- writing off liabilities	- write off assets
- reducing liabilities	- write off accumulated loss
- reduction of Sh Cap.	

Excess in Capital Reduction will be transferred to **Capital Reserve**

Disclosure in Financial Statements

> Balancesheet to be followed by words ***"and reduced as on"***

> Assets written off to be disclosed for 5 years

Build your Accounting Quotient

AQ	
1	**Variation of Shareholders rights**
2	**Sub-division (split) of shares**
3	**Consolidation of shares**
4	**Conversion of shares into stock**
5	**Conversion of stock into shares**
6	**Reduction of Share Capital - Paid up only**
7	**Reduction of Share Capital - Paid up & NV**
8	**Share Surrender**

Accounting Quotient - 1 : Variation of rights

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund a. Share Capital (i) 10% Preference Share Capital *1,000 shares of ₹ 100 each*	 1,00,000

Resolution has been passed to change rate of dividend from 10% to 12%.
Account & redraft Balancesheet (Extract)

Particulars	Debit (₹)	Credit (₹)
10% Preference Share Capital A/C Dr.	1,00,000	
To 12% Preference Share Capital A/C		1,00,000
(being dividend rate of 10% changed to 12% of preference shares)		

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund a. Share Capital (i) **12%** Preference Share Capital *1,000 shares of ₹ 100 each*	 1,00,000

Accounting Quotient - 2 : Sub-division of Shares

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund a. Share Capital (i) Equity Share Capital *1,000 shares of ₹ 100 each*	 1,00,000

Resolution has been passed to split (sub-divide) each share into 5 shares.
Account & redraft Balancesheet (Extract)

1 share	5 shares
1,000 shares	**5,000 shares** *1,000 shares x ₹ 5 / ₹ 1*
₹ 1,00,000 i.e, 1,000 shares of ₹ 100 / share	₹ 1,00,000 i.e, 5,000 shares of ₹ 20 / share *₹ 1,00,000 / 5,000 shares*

Particulars	Debit (₹)	Credit (₹)

Equity Share Capital A/C (₹100) Dr.	1,00,000		*1,000 sh x ₹ 100/each*
To Equity Share Capital A/C (₹20)		1,00,000	*5,000 sh x ₹ 20/each*
(being 1,000 shares of ₹ 100 split into 5,000 shares of ₹ 20/share)			

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Share Capital	1,00,000
5,000 shares of ₹ 20 each	

Accounting Quotient - 3 : Consolidation of Shares

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Share Capital	1,00,000
1,000 shares of ₹ 100 each	

Resolution has been passed to consolidate 4 shares into 1 share.
Account & redraft Balancesheet (Extract)

4 shares	1 share
1,000 shares	**250 shares** *1,000 shares x ₹ 1 / ₹ 4*
₹ 1,00,000 i.e, 1,000 shares of ₹ 100 / share	₹ 1,00,000 i.e, 250 shares of ₹ 400 / share *₹ 1,00,000 / 250 shares*

Particulars	Debit (₹)	Credit (₹)	
Equity Share Capital A/C (₹100) Dr.	1,00,000		*1,000 sh x ₹ 100/each*
To Equity Share Capital A/C (₹400)		1,00,000	*250 sh x ₹ 400/each*
(being 1,000 shares of ₹ 100 consolidated into 250 shares of ₹ 400/share)			

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Share Capital	1,00,000
250 shares of ₹ 400 each	

Accounting Quotient - 4 : Conversion of Shares into stock

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Share Capital	1,00,000
1,000 shares of ₹ 100 each	

Resolution has been passed to convert share capital into stock.
Account & redraft Balancesheet (Extract)

₹ 1,00,000 i.e, 1,000 shares of ₹ 100 / share	₹ 1,00,000 no fraction & no denomination

Particulars	Debit (₹)	Credit (₹)
Equity Share Capital A/C (₹100) Dr.	1,00,000	
To Equity Stock A/C		1,00,000
(being 1,000 shares of ₹ 100 converted into equity stock)		

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Stock	1,00,000

Accounting Quotient - 5 : Conversion of Stock into shares

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Stock	1,00,000

Resolution has been passed to convert equity stock into shares of ₹ 100 each.
Account & redraft Balancesheet (Extract)

₹ 1,00,000 no fraction & no denomination	₹ 1,00,000 i.e, 1,000 shares of ₹ 100 / share *₹ 1,00,000 / ₹ 100 per share*

Particulars	Debit (₹)	Credit (₹)
Equity Share Stock A/C Dr.	1,00,000	
To Equity Share Capital A/C (₹ 100)		1,00,000
(being Equity Stock of ₹ 1,00,000 converted into 1,000 shares of ₹ 100 each)		

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Share Capital	1,00,000
1,000 shares of ₹ 100 each	

Accounting Quotient - 6 : Reduction in Paid up value only

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Share Capital	1,00,000
1,000 shares of ₹ 100 each	

Resolution has been passed to reduce paid up value / share to ₹ 70 each.
Account & redraft Balancesheet (Extract)

Old	Reduction	New
₹ 1,00,000	₹ 30,000	₹ 70,000
	₹ 30 / share or	
1,000 shares of ₹ 100 / share	*₹ 1,00,000 - ₹ 70,000*	1,000 shares of ₹ 70 / share

Particulars	Debit (₹)	Credit (₹)
Equity Share Capital A/C Dr.	30,000	
To Capital Reduction A/C or Reconstruction A/C		30,000
(being 1,000 shares of ₹ 100 paidup, reduced to ₹ 70 paidup)		

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Share Capital	70,000
1,000 shares of ₹ 100 each, ₹ 70 paid up	
b. Reserves & Surplus	
Capital Reduction	30,000

Accounting Quotient - 7 : Reduction in Paid up value and Nominal Value

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Share Capital	1,00,000
1,000 shares of ₹ 100 each	

Resolution has been passed to reduce Nominal value per share to ₹ 70 each.
Account & redraft Balancesheet (Extract)

Old	Reduction	New
₹ 1,00,000	₹ 30,000	₹ 70,000
	₹ 30 / share or	
1,000 shares of ₹ 100 / share	*₹ 1,00,000 - ₹ 70,000*	1,000 shares of ₹ 70 / share

Particulars	Debit (₹)	Credit (₹)	
Equity Share Capital A/C (₹ 100) Dr.	1,00,000		*1,000 sh x ₹ 100/each*
To Capital Reduction A/C		30,000	
To Equity Share Capital A/C (₹ 70)		70,000	
(being 1,000 shares of NV ₹ 100 , reduced to NV ₹ 70)			

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Share Capital	70,000
1,000 shares of ₹ 70 each fully paid up	

Accounting Quotient - 8 : Share Surrender

Balancesheet (Extract)

Particulars	Amount (₹)
1. Share Holder's Fund	
a. Share Capital	
(i) Equity Share Capital	1,00,000
1,000 shares of ₹ 100 each	
2. Non-Current Liabilities	
a. Long Term Borrowing	

(i) 10% Debentures	40,000

Resolution has been passed to
- to make shareholders surrender 100 Equity shares
- convert surrendered 100 Equity shares into Preference shares of same value
- 80 of the surrendered shares are issued to Debenture holders

Account & redraft Balancesheet (Extract)

Particulars	Debit (₹)	Credit (₹)	
Equity Share Capital A/C Dr.	10,000		*100 sh x ₹ 100/each*
To Share Surrender A/C		10,000	
(being shares surrendered accounted)			
No Journal Entry for conversion of surrendered Equity Shares to Preference Shares. However, entry will be passed on issue of Preference Shares.			
10% Debentures A/C Dr.	40,000		
To Capital Reduction A/C		40,000	
(being 10% Debenture due for settlement transferred to Capital Reduction)			
Share Surrender A/C Dr.	8,000		
To x % Preference Share Capital A/C		8,000	*80 sh x ₹ 100/each*
(being Preference Shares issued to debenture holders on settlement)			
Share Surrender A/C Dr.	2,000		
To Capital Reduction A/C		2,000	
(being balance in Share Surrender A/C transferred to Capital Reduction A/C)			