

CHAPTER 4

INTERNAL RECONSTRUCTION

C1

Problem.1.1

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. **[T.8]**

Problem.1.2

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 3/5th of their holding.
 - b) 10% Preference shares fully paid to the extent of 1/5th of the above new equity shares.
 - c) ₹ 40,000, 8% Debentures.
- (ii) An issue of ₹ 1 lakh 10% first debentures were 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. **[T.9]**

Problem.1.3

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

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

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

[July 2021, 5 Marks]

Solution**Journal Entries**

		₹	₹
Equity Share Capital (old) A/c	Dr.	75,00,000	
To Equity Share Capital (₹ 10) A/c			45,00,000
To 6% Preference Share Capital (₹ 10) A/c			18,00,000
To 7% Debentures A/c			2,50,000
To Capital Reduction A/c			9,50,000
(Being new equity shares, 6% Preference Shares, 7% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)			
Building A/c	Dr.	1,50,000	
Capital Reduction A/c	Dr.	9,53,000	
To Goodwill Account			2,70,000
To Plant and Machinery Account			1,00,000
To Furniture Account			88,000
To Investment A/c			4,20,000
To Profit & Loss A/c			2,25,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery, furniture, investment and Profit & Loss as per the scheme)			
General reserve A/c	Dr.	3,000	
To Capital Reduction A/c			3,000
(Being general reserve utilized to write off the balance in Capital reduction A/c)			

Problem.1.4

X Ltd. had ₹ 1,00,000 equity share capital divided into 1,000 shares of ₹ 100 each out of which ₹ 80 per share was called up and paid up. It has ₹ 1,500 cumulative preference shares of ₹ 100 each fully paid up. Intangible assets include Goodwill of ₹ 80,000 and patents of ₹ 27,800. Preference dividends are in arrears of ₹ 33,000.

You are required to show the entries (Ignore dates) under each of the following conditions:

- (i) If X Ltd. resolves to subdivide the equity shares into 10,000 equity shares of ₹ 10 each of which ₹ 8 per share is called up and paid up.
- (ii) If X Ltd. resolves to convert its 1,000 equity shares of ₹ 100 each (assume fully-paid) into ₹1,00,000 worth of stock.
- (iii) The preference shares are to be converted into 11% unsecured debentures of ₹ 100 each (including arrears of dividends).
- (iv) Patents and Goodwill to be written-off.

[May 2023, 5 Marks]

Solution**Journal Entries in the books of X Ltd.**

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c To Equity Share Capital (₹ 10) A/c (Being the sub-division of 1,000 shares of ₹ 100 each with ₹80 paid up into 10,000 shares ₹ 10 each with ₹ 8 paid up by resolution in general meeting dated)	Dr.	80,000	80,000
(ii)	Equity Share Capital (₹ 100) A/c To Equity Stock A/c (Being conversion of 1,000 fully paid Equity Shares of ₹ 100 into ₹ 1,00,000 Equity Stock as per resolution in general meeting dated...)	Dr.	1,00,000	1,00,000
(iii)	Cumulative Preference Share Capital A/c Capital Reduction (Reconstruction) A/c To 11% Debentures (Unsecured) (Being 1,500 cumulative preference shares of ₹ 100 each fully paid up converted into 11% debentures of ₹ 100 each (including arrears of dividends amounting ₹ 33,000))	Dr. Dr.	1,50,000 33,000	1,83,000
(iv)	Capital Reduction (Reconstruction) A/c To Goodwill To Patents (Writing off patents, goodwill)	Dr.	1,07,800	80,000 27,800

C2**Problem.2.1**

Vaibhav Ltd. gives the following ledger balances as at 31st March, 20X1:

	₹
Property, Plant and Equipment	2,50,00,000
Investments (Market-value ₹ 19,00,000)	20,00,000
Current Assets	2,00,00,000
P & L A/c (Dr. balance)	12,00,000
Share Capital: Equity Shares of ₹ 100 each	2,00,00,000
6%, Cumulative Preference Shares of ₹ 100 each	1,00,00,000
5% Debentures of ₹ 100 each	80,00,000
Creditors	1,00,00,000
Provision for taxation	2,00,000

The following scheme of Internal Reconstruction is sanctioned:

- (i) All the existing equity shares are reduced to ₹ 40 each.
- (ii) All preference shares are reduced to ₹ 60 each.
- (iii) The rate of Interest on Debentures is increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.
- (iv) Property, Plant and Equipment is to be written down by 20%.
- (v) Current assets are to be revalued at ₹ 90,00,000
- (vi) Investments are to be brought to their market value.
- (vii) One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60,000 equity shares of ₹ 40 each in full and final settlement of his claim.
- (viii) The taxation liability is to be settled at ₹ 3,00,000.
- (ix) 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.

[S.M. 5]

Problem.2.2

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	11,50,000
B	Intangible assets	5	70,000
C	Non-current investment	6	68,000
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	<u>6,00,000</u>
	<u>26,00,000</u>
2 Reserves and Surplus	
Debit balance of Profit and loss A/c	<u>(4,05,000)</u>
	<u>(4,05,000)</u>
3 Long-term borrowings	
9% debentures	<u>12,00,000</u>
	<u>12,00,000</u>
4 Property, Plant and Equipment	
Plant and machinery	9,00,000
Furniture and fixtures	<u>2,50,000</u>
	<u>11,50,000</u>
5 Intangible assets	
Patents and copyrights	<u>70,000</u>
	<u>70,000</u>
6 Non-current investments	
Investments (market value of ₹ 55,000)	<u>68,000</u>
	<u>68,000</u>

The following scheme of reconstruction was finalized:

- (i) Preference shareholders would give up 30% of their Capital in exchange for allotment of 11% Debentures to them.
- (ii) Debenture holders having charge on Plant and Machinery would accept Plant and Machinery in full settlement of their dues.
- (iii) Inventory equal to ₹ 5,00,000 in book value will be taken over by Trade payables in full settlement of their dues.
- (i) Investment value to be reduced to Market price.
- (ii) 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. **[S.M. 6]**

Problem.2.3

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

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

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	<u>Authorized share capital</u>	
	1,50,000 Equity shares of ₹ 50 each	<u>75,00,000</u>

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

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	<u>2,00,000</u>	<u>1,00,000</u>
	<u>12,00,000</u>	<u>6,00,000</u>
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.

[T.10]

Problem.2.4

The following is the Balance Sheet of X Ltd. as at 31st March, 20X1:

		Particulars	Notes	₹
Equity and Liabilities				
1		Shareholders' funds		
	A	Share capital	1	36,00,000
	B	Reserves and Surplus	2	(14,40,000)
2		Non-current liabilities		
	A	Long-term borrowings	3	6,00,000
3		Current liabilities		
	A	Trade Payables		3,00,000
	B	Short term borrowings - Bank overdraft		<u>6,00,000</u>
		Total		<u>36,60,000</u>
Assets				
1		Non-current assets		
	A	Property, plant and equipment	4	30,00,000
	B	Intangible assets	5	90,000
2		Current assets		
	a	Inventories		2,60,000
	b	Trade receivables		2,80,000
	c	Cash and cash equivalents		<u>30,000</u>
		Total		<u>36,60,000</u>

Notes to accounts

		₹
1	Share capital	
	24,000 Equity Shares of ₹ 100 each	24,00,000
	12,000, 10% Preference Shares of ₹ 100 each	12,00,000
	Total	36,00,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(14,40,000)
		(14,40,000)
3	Long-term borrowings	
	10% debentures	6,00,000
		6,00,000
4.	Property, plant and Equipment	
	Land and Building	12,00,000
	Plant and Machinery	18,00,000
		30,00,000

5	Intangible assets Goodwill	90,000
		90,000

On the above date, the company adopted the following scheme of reconstruction:

- (i) The equity shares are to be reduced to shares of ₹ 40 each fully paid and the preference shares to be reduced to fully paid shares of ₹ 75 each.
- (ii) The debenture holders took over Inventories & Trade receivables in full satisfaction of their claims.
- (iii) The Land and Building to be appreciated by 30% and Plant and machinery to be depreciated by 30%.
- (iv) The debit balance of profit and loss account and intangible assets are to be eliminated.
- (v) Expenses of reconstruction amounted to ₹ 5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet. [T.12]

C3

Problem.3.1

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

Notes to accounts

		₹
1	Share Capital	
	Equity share capital:	
	75,000 Equity Shares of ₹ 10 each	7,50,000
	Preference share capital:	
	4,000 6% Cumulative Preference Shares of ₹ 100 each	<u>4,00,000</u>
		<u>11,50,000</u>
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	<u>(5,35,000)</u>
		<u>(5,35,000)</u>
3	Long-term borrowings	
	Secured	
	6% Debentures (secured on the freehold property)	<u>3,75,000</u>
		<u>3,75,000</u>
4	Other current liabilities	
	Loan from directors	1,00,000
	Interest payable on 6% debentures	<u>22,500</u>
		<u>1,22,500</u>
5	Property plant and Equipment	
	Freehold property	4,25,000
	Plant	<u>50,000</u>
		<u>4,75,000</u>
6	Intangible assets	
	Goodwill	1,30,000
	Patents	<u>37,500</u>
		<u>1,67,500</u>
7	Non-current investments	
	Investments at cost	<u>55,000</u>
		<u>55,000</u>

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

- (i) The Preference shares to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.
- (ii) 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
- (iii) Interest payable on debentures to be paid in cash.
- (iv) 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.

- (v) Patents and Goodwill to be written off.
- (vi) Inventory to be written off by ₹ 65,000.
- (vii) Amount of ₹ 68,500 to be provided for bad debts.
- (viii) Remaining freehold property after giving to debenture holders, to be re-valued at ₹ 3,87,500.
- (ix) Investments be sold for ₹ 1,40,000.
- (x) 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.
- (xi) There were capital commitments totaling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
- (xii) Ignore taxation and cost of the scheme.

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. **[S.M.3]**

Problem.3.2

Given below is the Balance sheet of Rebuilt Ltd. as on 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		<u>35,000</u>
		Total		<u>17,14,000</u>
		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		<u>3,28,000</u>
		Total		<u>17,14,000</u>

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	7,50,000
	15,000 Equity Shares of ₹ 50 each	

	Preference share capital	
	12,000, 7% Cumulative Preference Shares of ₹ 50 each (Preference dividend is in arrears for five years)	<u>6,00,000</u>
	Total	<u>13,50,000</u>
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	<u>(4,51,000)</u>
		<u>(4,51,000)</u>
3	Long-term borrowings	
	Loan	<u>5,73,000</u>
		<u>5,73,000</u>
4	Property, plant and Equipment	
	Building at cost less depreciation	4,00,000
	Plant at cost less depreciation	<u>2,68,000</u>
		<u>6,68,000</u>
5	Intangible assets	
	Trademarks and Goodwill at cost	<u>3,18,000</u>
		<u>3,18,000</u>

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:

- (a) 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.
- (b) 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.
- (c) 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.
- (d) 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.
- (e) 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.
- (f) The equity share capital cancelled is to be applied:
 - (i) to write off the debit balance in the profit and loss A/c; and
 - (ii) to write off ₹ 35,000 from the value of plant.

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. **[S.M. 4]**

Problem.3.3

Recover Ltd. decided to reorganize its capital structure owing to accumulated losses and adverse market condition. The Balance Sheet of the company as on 31st March 20X1 is as follows-

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	3,50,000
	B Reserves and surplus	2	(70,000)
2	Non-current liabilities		
	A Long-term borrowings	3	50,000
3	Current liabilities		
	A Trade Payables		80,000
	B Short term Borrowings – Bank overdraft		90,000
	C Other Current Liabilities (Interest payable on Debentures)		5,000
			5,05,000
	Assets		
1	Non-current assets		
	A Property, Plant Equipment	4	3,35,000
	B Intangible assets	5	50,000
	C Non-current investments	6	40,000
2	Current assets		
	A Inventories		30,000
	B Trade receivables		50,000
			5,05,000

Notes to accounts:

1	Share Capital		₹
	Equity share capital:		
	20,000 Equity Shares of ₹ 10 each		2,00,000
	Preference share capital:		
	15,000 8% Cumulative Preference Shares of ₹ 10 each (preference dividend has been in arrears for 4 years)		1,50,000
			3,50,000
2	Reserves and surplus		
	Profit and loss account (debit balance)		(70,000)
			(70,000)

3	Long-term borrowings Secured 10% Debentures (secured on the freehold property)	50,000
		50,000
4	Property, Plant and Equipment Freehold property Leasehold property Plant and machinery	1,20,000
		85,000
		1,30,000
		3,35,000
5	Intangible assets Goodwill	50,000
		50,000
6	Non-current investments Non-Trade investments at cost	40,000
		40,000

Subsequent to approval by court of a scheme for the reduction of capital, the following steps were taken:

1. The preference shares were reduced to ₹ 2.5 per share, and the equity shares to ₹ 1 per share.
2. One new equity shares of ₹ 1 was issued for the arrears of preferred dividend for past 4 years.
3. The debenture holders took over the freehold property at an agreed figure of ₹ 75,000 and paid the balance to the company after deducting the amount due to them.
4. Plant and Machinery was written down to ₹ 1,00,000.
5. Non-trade Investments were sold for ₹ 32,000.
6. Goodwill and obsolete stock (included in the value of inventories) of ₹ 10,000 were written off.
7. A contingent liability of which no provision had been made was settled at ₹ 7,000 and of this amount, ₹ 6,300 was recovered from the insurance.

You are required (a) to show the Journal Entries, necessary to record the above transactions in the company's books and (b) to prepare the Balance Sheet, after completion of the scheme. **[S.M. 8]**

Problem.3.4

The summarized Balance Sheet of SK Ltd. as on 31st March, 2018 is given below.

(₹ in '000)

Liabilities	Amount
Equity Shares of ₹ 10 each	35,000
8%, Cumulative Preference Shares of ₹ 100 each	17,500
6% Debentures of ₹ 100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
Total	84,350

Assets	Amount
Fixed Assets	43,750
Investment (market value ₹ 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 into effect on 31st March, 2018.

- (i) Investments are to be brought to their market value.
- (ii) The Taxation Liability is settled at ₹ 5,25,000 out of current Assets.
- (iii) The balance of Profit and Loss Account to be written off.
- (iv) All the existing equity shares are reduced to ₹ 4 each.
- (v) All preference shares are reduced to ₹ 60 each.
- (vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹ 80 each. Each old debenture is exchanged is exchanged for one new debenture.
- (vii) Balance of Current Assets left after settlement of taxation liability are revalued at ₹1,57,50,000.
- (viii) Fixed Assets are written down to 80%.
- (ix) One of the creditors of the Company for ₹ 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹ 4 each in full and final settlement of his claim.

Pass Journal entries for the above transactions & prepare Reconstruction A/c. [Nov. 2018, 10 Marks]

Solution

Journal Entries in the books of SK Ltd.

	Particulars	Dr.	₹ '000	₹ '000
(i)	Equity share capital (₹ 10) A/c	Dr.	35,000	
	To Equity Share Capital (₹ 4) A/c			14,000
	To Capital Reduction A/c			21,000
	(Being conversion of equity share capital of 10 each into ₹ 4 each as per reconstruction scheme)			
(ii)	8% Cumulative Preference Share capital (₹ 100) A/c	Dr.	17,500	
	To 8% Cumulative Preference Share Capital (₹ 60) A/c			10,500
	To Capital Reduction A/c			7,000
	(Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹ 60 each as per reconstruction scheme)			
(iii)	6% Debentures (₹ 100) A/c	Dr.	14,000	
	To 9% Debentures (₹ 80) A/c			11,200
	To Capital Reduction A/c			2,800
	(Being 9% debentures of ₹ 80 each issued to existing 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)			

(iv)	Sundry Creditors A/c To Equity Share Capital (₹ 4) A/c To Capital Reduction A/c (Being a creditor of ₹ 70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of 4 each in full settlement of his dues as per reconstruction scheme)	Dr.	7,000	3,500 3,500
(v)	Provision for Taxation A/c Capital Reduction A/c To Liability for Taxation A/c (Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)	Dr.	350 175	525
(vi)	Liability for Taxation A/c To Current Assets (Bank A/c) (Being the payment of tax liability)	Dr.	525	525
(vii)	Capital Reduction A/c To P & L A/c To Fixed Assets A/c To Current Assets A/c To Investments A/c To Capital Reserve A/c (Bal. fig.) (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, investments and the Balance transferred to Capital Reserve)	Dr.	34,125	2,100 8,750 18,725 175 4,375

Working Note:**Capital Reduction Account**

Particulars	₹	Particulars	₹
To Liability for taxation A/c	175	By Equity share capital	21,000
To P & L A/c	2,100	By 8% Cumulative preferences share capital	7,000
To Fixed Assets	8,750	By 6% Debentures	2,800
To Current assets	18,725	By Sundry creditors	3,500
Investment	175		
To Capital Reserve (Bal. fig.)	4,375		
	34,300		34,300

Problem.3.5

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

Particulars	Amount (₹)
Liabilities	
Authorized and issued share capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	<u>43,750</u>
Total	<u>21,42,500</u>
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	<u>4,10,000</u>
Total	<u>21,42,500</u>

(Note: Preference shares dividend is in arrear for last five years).

The company is running with shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

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

(vi) The equity share capital cancelled is to be applied:

(a) To write off the debit balance in the Profit and Loss A/c, and

(b) To write off ₹ 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital, as reduced, is to be increased to ₹ 8,12,500 for preference share capital and ₹ 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction. [Nov. 2019, 10 Marks]

Solution

In the books of Fortunate Ltd.

Journal Entries

	Particulars		Debit (₹)	Credit (₹)
1.	Equity share capital A/c (₹ 50) Dr. To Equity share Capital A/c (₹ 5) To Capital reduction A/c (Being equity capital reduced to nominal value of ₹ 5 each)		9,37,500	93,750 8,43,750
2.	Bank A/c Dr. To Equity share capital (Being 3 right shares against each share was issued and subscribed)		2,81,250	2,81,250
3.	8% Preference share capital A/c (₹ 50) Dr. Capital reduction A/c Dr. To 6% Preference share capital (₹ 10) To equity share capital (₹ 50) (Being 8% preference shares of ₹ 50 each converted to 6% preference shares of ₹ 10 each and also given to them 3 equity shares for every share held)		7,50,000 75,000	6,00,000 2,25,000
4.	Loan A/c Dr. To 6% Preference share capital A/c (15,000 x ₹ 10) To Equity share capital A/c (7,500 x ₹ 5) (Being loan to the extent of ₹1,50,000 converted into share capital)		1,87,500	1,50,000 37,500
5.	Bank A/c (25,000 x ₹ 5) Dr. To Equity share application A/c (Being shares subscribed by the directors)		1,25,000	1,25,000
6.	Equity share application A/c Dr. To Equity share capital A/c (Being application money transferred to capital A/c)		1,25,000	1,25,000
7.	Loan A/c Dr. To Bank A/c (Being loan repaid)		2,50,000	2,50,000

8.	Capital reduction A/c	Dr.	7,68,750	
	To Profit and loss A/c			5,63,750
	To Plant A/c			43,750
	To Trademarks and Goodwill A/c (Bal. fig.)			1,61,250
	(Being losses and assets written off to the extent required)			

Balance sheet of Fortunate Ltd. (and reduced)
as on 31.3.2019

Particulars		Notes	₹
	Equity and Liabilities		
1.	Shareholders' funds		
a	Share capital	1	15,12,500
	Non-current liabilities		
2.	Long-term borrowings		2,78,750
a	(7,16,250 – 1,87,500 – 2,50,000)		
3.	Current liabilities		
a	Trade Payables		2,58,750
b	Other current liabilities		<u>43,750</u>
	Total		<u>20,93,750</u>
	Assets		
1.	Non-current assets		
a	Property, Plant and Equipment	2	7,91,250
b	Intangible assets	3	2,36,250
2.	Current assets		
a	Inventories		5,00,000
b	Trade receivables		4,10,000
c	Cash and cash equivalents	4	<u>1,56,250</u>
	Total		<u>20,93,750</u>

Notes to accounts:

			₹
1.	Share Capital		
	Authorized capital:		
	81,250 Preference shares of ₹ 10 each	8,12,500	
	1,87,500 Equity shares of ₹ 5 each	<u>9,37,500</u>	<u>17,50,000</u>
	Issued, subscribed and paid up:		
	1,52,500 equity shares of ₹ 5 each	7,62,500	
	75,000, 6% Preference shares of ₹ 10 each	<u>7,50,000</u>	15,12,500
2.	Property, Plant and Equipment		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	<u>2,91,250</u>	7,91,250

3.	Intangible assets		
	Trademark and goodwill		2,36,250
4.	Cash and cash equivalents		
	Bank (2,81,250 + 1,25,000 - 2,50,000)		1,56,250

Note: *In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used.

Problem.3.6

The following is the Balance Sheet of Purple Limited as at 31st March, 2022:

Balance Sheet of Purple Limited as at 31st March, 2022

Particulars	Notes	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	15,00,000
(b) Reserve & Surplus	2	(3,00,000)
(2) Current Liabilities		
(a) Trade Payables		2,20,000
(b) Short Term Borrowings-Bank Overdraft		<u>2,00,000</u>
Total		<u>16,20,000</u>
II. Asset		
(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		<u>7,600</u>
Total		<u>16,20,000</u>

Notes to Accounts

	₹	₹
I. Share Capital		
90,000 Equity Shares of ₹ 10 each fully paid	9,00,000	
6% Preference Share Capital	<u>6,00,000</u>	15,00,000
II. Reserve & Surplus		
Profit & Loss account		(3,00,000)
III. Property, Plant and Equipment		
Land and Building	5,40,000	
Plant and Machinery	<u>4,80,000</u>	10,20,000

IV. Intangible Assets		
Goodwill	84,600	
Patents	36,000	1,20,600

Dividend on preference shares are in arrears for 3 years.

On the above date, the company adopted the following scheme of reconstruction:

- (i) The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.
- (ii) The value of equity shares is brought down to ₹ 8 per share.
- (iii) The arrears of dividend on preference shares are cancelled.
- (iv) The debit balance of Goodwill account is written off entirely.
- (v) Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.
- (vi) Book debts amounting to ₹ 14,400 are to be treated as bad and hence to be written off.
- (vii) The company expects to earn a profit at the rate of ₹ 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.
- (viii) The balance of total capital reduction is to be utilized in writing down Patents.
- (ix) A secured loan of ₹ 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. [Nov. 2022, 20 Marks]

Solution

Journal Entries In the books of Purple Ltd.

	Particulars		Debit (₹)	Credit (₹)
1.	6% Preference share capital A/c To 8% Preference share capital A/c To Capital reduction A/c (Being 6% preference shares converted to 8% preference shares so that return to pref. shareholders remains unaffected)	Dr.	6,00,000	4,50,000 1,50,000
2.	Equity shares capital A/c (₹ 10) To Equity share capital A/c (₹ 8) To Capital reduction A/c (Being equity capital reduced to nominal value of ₹ 8 each)	Dr.	9,00,000	7,20,000 1,80,000

3.	Capital Reduction A/c To Goodwill A/c To Land and Building A/c To Plant and Machinery A/c To Trade Receivables A/c (Book debts) To Patents A/c (Bal. fig.) To Profit and loss A/c (Being losses and assets written off to the extent required)	Dr.	3,30,000	
				84,600 81,000 96,000 14,400 24,000 30,000
4.	Bank A/c To Bank Loan A/c (Being Loan taken)	Dr.	4,80,000	
				4,80,000
5.	Bank overdraft A/c To Bank A/c (Being Bank overdraft repaid)	Dr.	2,00,000	
				2,00,000

Capital Reduction Account

Particulars		₹	Particulars		₹
To	Goodwill A/c	84,600	By	Equity Share Capital A/c	1,80,000
To	Land & Building A/c	81,000	By	6% Preference Share Capital A/c	1,50,000
To	Plant and Machinery A/c	96,000			
To	Trade receivables (Book Debts)	14,400			
To	Profit & Loss A/c	30,000			
To	Patents A/c (Bal. fig.)	24,000			
		3,30,000			3,30,000

Balance Sheet of Purple Ltd. (and reduced) as at 31.3.2022

Particulars		Notes	₹
Equity and Liabilities			
1	Shareholders' funds		
a	Share capital	1	11,70,000
b	Reserves and surplus	2	(2,70,000)
2	Current liabilities		
a	Short term borrowings (Secured Bank Loan)		4,80,000
b	Trade Payables		2,20,000
	Total		16,00,000
Assets			
1	Non-current assets		
a	Property, plant and equipment	3	8,43,000
b	Intangible assets	4	12,000

2	Current Assets		
a	Inventory		1,70,000
b	Trade receivables	5	2,87,400
c	Cash and cash equivalents (7,600 + 4,80,000 - 2,00,000)		2,87,600
	Total		16,00,000

Notes to Accounts:

			₹
1. Share Capital			
Authorized			
Issued, subscribed and paid up:			
90,000 equity shares of ₹ 8 each fully paid	7,20,000		
8% Preference share capital*	4,50,000		11,70,000
2. Reserves and Surplus			
Profit and Loss Account (Dr. balance)			(2,70,000)
3. Property plant and equipment			
Land and Building	4,59,000		
Plant and Machinery	3,84,000		8,43,000
4. Intangible assets			
Patent ₹ (36,000 - 24,000)			12,000
5. Trade Receivables			
Sundry Debtors	3,01,800		
Less: Bad debts	(14,400)		2,87,400

Note: *Face value of preference share is not given in the question (pre and post reconstruction) and hence any suitable value of preference share may be assumed.

Working Notes:

1. Calculation of new Preference Shares

Rate of return : 6% on Preference Shares
 Dividend : (6/100) x ₹ 6,00,000 = ₹ 36,000
 Rate of return : 8% on Preference Shares
 Dividend : (8/100) x X = ₹ 36,000
 $X = (36,000/8) \times 100 = ₹ 4,50,000$

New Preference Share Capital = ₹ 4,50,000

Old Preference Share Capital = ₹ 6,00,000

(6,00,000 – 4,50,000) = ₹ 1,50,000 Amount taken to Capital Reduction A/c.

2. Since the company expects to earn a profit of ₹ 90,000 p.a. consecutively for three years and it shall be used to write-off debit balance of P & L account, hence ₹ 2,70,000 being loss shall be shown in the Balance Sheet under Reserve & Surplus head and ₹ 30,000 shall be written-off from Capital Reduction A/c.

3. Calculation of Amount written off on Land & Building and Plant & Machinery

Land & Building = $(85/100) \times 5,40,000 = ₹ 4,59,000$

Plant & Machinery Reduced by: = $(80/100) \times 4,80,000 = ₹ 3,84,000$

Land & Building = $(5,40,000 - 4,59,000) = ₹ 81,000$

Plant & Machinery = $(4,80,000 - 3,84,000) = ₹ 96,000$

Problem.3.7

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

Particulars	Notes	₹ in Lakhs
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 - Bank Overdraft		1.40
C. Other current liabilities	4	0.32
D. Short term provisions	5	0.42
Total		21.39
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:

		₹ in Lakhs
1	Share Capital	
	<u>Equity share capital</u>	
	16,000 Equity Shares of ₹ 100 each	16.00
	8,000 6% Preference Shares of ₹ 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 ₹ 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:

- (i) Each equity share is to be sub-divided into ten fully paid-up equity shares of ₹ 10 each. After sub-division, each shareholder shall surrender to the company 40% of his holding, for the purpose of re-issue to trade payables as necessary.
- (ii) Preference shareholders would give up 30% of their capital and 12% Debentures (face value ₹ 100 each) shall be issued to them for balance holdings.
- (iii) The company would issue additional 12% Debentures (face value ₹ 100 each) for ₹ 4,00,000 for meeting its working capital requirement and final settlement of Bank Overdraft at 90% of the amount.
- (iv) Existing debenture holders would accept Furniture & Fixture in full settlement of their dues.
- (v) Trade payables claim shall be reduced to 70%, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- (vi) The shares surrendered and not re-issued shall be cancelled.
- (vii) The taxation liability is to be settled at ₹ 50,000.
- (viii) Investments value to be reduced to market price.
- (ix) Balance of profit and loss account is to be written off.

- (x) The value of inventories is to be increased by ₹ 32,000 and Provision for Doubtful Debts is to be created at 5% of Trade Receivables.

You are required to:

- (i) Pass necessary journal entries in the books of account of Tourma Limited.
(ii) Prepare Reconstruction Account, and
(iii) Prepare Balance Sheet of the company after internal reconstruction. **[Nov. 2023, 20 Marks]**

C4

Problem.4.1

The following is the Balance Sheet of Weak Ltd. as at 31.3.20X1:

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	1,50,00,000
	B Reserves and Surplus	2	(6,00,000)
2	Non-current liabilities		
	A Long-term borrowings	3	40,00,000
3	Current liabilities		
	A Trade Payables		50,00,000
	B Short term provisions	4	<u>1,00,000</u>
	Total		<u>2,35,00,000</u>
	Assets		
1	Non-current assets		
	A Property, plant and equipment		1,25,00,000
	B Non-current investment	5	10,00,000
2	Current assets		<u>1,00,00,000</u>
	Total		<u>2,35,00,000</u>

Notes to Accounts

	₹
1 Share Capital	
Equity share capital	
1,00,000 Equity Shares of ₹ 100 each	1,00,00,000
50,000, 12% Cumulative Preference shares of ₹ 100 each	<u>50,00,000</u>
	<u>1,50,00,000</u>
2 Reserves and Surplus	
Debit balance of Profit and loss Account	<u>(6,00,000)</u>
	<u>(6,00,000)</u>

3	Long-term borrowings	
	40,000, 10% debentures of ₹ 100 each	<u>40,00,000</u>
		<u>40,00,000</u>
4	Short term provisions	
	Provision for taxation	<u>1,00,000</u>
		<u>1,00,000</u>
5	Non-current investments	
	Investments (market value of ₹ 9,50,000)	<u>10,00,000</u>
		<u>10,00,000</u>

The following scheme of reorganization is sanctioned:

- (i) All the existing equity shares are reduced to ₹ 40 each.
- (ii) All preference shares are reduced to ₹ 60 each.
- (iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.
- (iv) One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.
- (v) Property, plant and equipment are to be written down by 30%.
- (vi) Current assets are to be revalued at ₹ 45,00,000.
- (vii) The taxation liability of the company is settled at ₹ 1,50,000.
- (viii) Investments to be brought to their market value.
- (ix) It is decided to write off the debit balance of Profit and Loss account.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above.

[T.11]

C5

Problem.5.1

On 31-12-20X1, B Ltd. had 20,000, ₹ 10 Equity Shares as authorised 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.

[S.M. 1]

Problem.5.2

C Ltd. had ₹ 5,00,000 authorised 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. [S.M. 2]

C6

Problem.6.1

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	<u>24,000</u>
		Total		<u>7,20,000</u>
		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		<u>30,000</u>
		Total		<u>7,20,000</u>

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	10,000 Equity Shares of ₹ 100 each		<u>10,00,000</u>
			<u>10,00,000</u>

2	Reserves and Surplus		
	Debit balance of Profit and loss Account		<u>(6,00,000)</u>
			<u>(6,00,000)</u>
3	Long-term borrowings		
	12% debentures		<u>2,00,000</u>
			<u>2,00,000</u>
4	Other current liabilities		
	Interest payable on debentures		<u>24,000</u>
			<u>24,000</u>
5	Short term provisions		
	Provision for taxation		<u>24,000</u>
			<u>24,000</u>
6	Property, Plant and Equipment		
	Machinery		<u>1,00,000</u>
			<u>1,00,000</u>

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:

- a) Each share to be sub-divided into ten fully paid-up equity shares of ₹ 10 each.
- b) 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.
- c) Out of shares surrendered, 10,000 shares of ₹ 10 each shall be converted into 12% preference shares of ₹ 10 each fully paid up.
- d) The claims of the debenture holders shall be reduced by 75%. In consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of shares surrendered.
- e) Trade payables claim shall be reduced to 50 percent, and to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- f) Balance of profit and loss account to be written off.
- g) 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.

[S.M. 7]

C7 : MULTIPLE CHOICE QUESTIONS

1. What is the primary purpose of the reconstruction of companies?
 - (a) To change the management team
 - (b) To reorganize a company's financial structure due to accumulated losses or overvaluation of assets
 - (c) To expand the company into new markets
 - (d) To implement new technology systems
2. What type of reconstruction involves altering share capital and reassessing liabilities without forming a new company?
 - (a) Amalgamation
 - (b) External reconstruction
 - (c) Internal reconstruction
 - (d) Liquidation
3. Under which section of the Companies Act, 2013 are the regulations for company reconstruction primarily outlined?
 - (a) Section 230-232
 - (b) Section 195-198
 - (c) Section 115-117
 - (d) Section 250-252
4. What is typically involved in the process of internal reconstruction?
 - (a) Merging with another company
 - (b) Revaluation of assets and reduction of share capital
 - (c) Creating a new company
 - (d) Selling off major business units
5. In the context of company reconstruction, what is the role of a 'Capital Reduction Account'?
 - (a) To manage increased capital investment
 - (b) To track dividends paid out to shareholders
 - (c) To record adjustments related to reduction in capital
 - (d) To monitor the company's long-term debts
6. What does 'writing off losses' mean in the process of company reconstruction?
 - (a) Increasing the company's expenses
 - (b) Eliminating accumulated losses from the company's financial records
 - (c) Transferring losses to a new financial year
 - (d) Converting losses into share capital
7. Which method of reconstruction involves varying the rights attached to different classes of shares?
 - (a) Equity restructuring
 - (b) Debt refinancing
 - (c) Asset liquidation
 - (d) Share capital alteration

8. In company reconstruction, what is typically the focus of altering share capital?
 - (a) To increase the market value of shares
 - (b) To reduce the paid-up value of shares
 - (c) To issue new shares to the public
 - (d) To buy back shares from shareholders
9. What is a common reason for a company to undergo reconstruction?
 - (a) To celebrate a company milestone
 - (b) To change the company's name
 - (c) Due to overvaluation of assets and accumulated losses
 - (d) As a routine annual procedure
10. Which type of reconstruction is described as combining two or more companies into a single entity?
 - (a) Internal reconstruction
 - (b) External reconstruction
 - (c) Amalgamation in the nature of merger
 - (d) Divestiture
11. Why is internal reconstruction often preferred over forming a new company?
 - (a) It allows for a complete change in management
 - (b) It is less time-consuming and maintains the company's identity
 - (c) It automatically increases the company's market share.
 - (d) It leads to a total reset of the company's financial position
12. How does reducing the paid-up value of shares impact shareholders during internal reconstruction?
 - (a) Increases the value of their holdings
 - (b) Does not affect their holdings
 - (c) Reduces the value of their holdings
 - (d) Converts their shares into bonds
13. What is the impact of revaluation of assets in the process of company reconstruction?
 - (a) It increases the company's operational efficiency
 - (b) It provides a more accurate representation of the company's financial position
 - (c) It results in immediate cash inflows
 - (d) It increases the company's long-term liabilities
14. Why is a Capital Reduction Account used during internal reconstruction?
 - (a) To track the increased investment in capital assets
 - (b) To manage the distribution of increased dividends
 - (c) To record adjustments related to capital reduction
 - (d) To document new capital raised through loans

15. In what scenario might a company choose to write off accumulated losses?
- (a) When it decides to increase its product prices
 - (b) When undergoing internal restructuring due to financial distress
 - (c) When expanding into new markets
 - (d) When there is a change in company leadership
16. What does altering share capital in internal reconstruction typically aim to address?
- (a) To attract more investors
 - (b) To resolve issues related to overvalued assets or accumulated losses
 - (c) To change the company's line of business
 - (d) To comply with new government regulations
17. How does internal reconstruction affect a company's relationship with its creditors?
- (a) It terminates all previous agreements with creditors
 - (b) It usually remains unchanged
 - (c) It may involve renegotiation of terms or liabilities
 - (d) It results in immediate repayment of all debts
18. What is a key consideration in the process of reducing share capital for a company?
- (a) Ensuring that the market price of shares increases
 - (b) Guaranteeing dividends to shareholders
 - (c) Maintaining the proportionate ownership of existing shareholders
 - (d) Reducing the overall number of shares in the market
19. Why might a company undergo external reconstruction through amalgamation?
- (a) To reduce operational costs by merging with another company.
 - (b) To change its core business operations
 - (c) To enter into a different industry
 - (d) To comply with mandatory legal requirements
20. What role does the Companies Act, 2013 play in the reconstruction of companies?
- (a) It provides guidelines for marketing strategies during reconstruction
 - (b) It dictates the financial targets to be achieved post-reconstruction
 - (c) It outlines the legal framework and procedures for company reconstruction
 - (d) It manages the distribution of profits post-reconstruction
21. Calculate the new share value if a company with a share capital of ₹ 1,000,000 decides to reduce its share value by 20% during reconstruction.
- (a) ₹ 800,000 (b) ₹ 200,000 (c) ₹ 1,200,000 (d) ₹ 250,000
22. If a company's revalued assets amount to ₹ 500,000 and its liabilities are ₹ 300,000, what is the revised net worth after reconstruction?
- (a) ₹ 800,000 (b) ₹ 200,000 (c) ₹ 500,000 (d) ₹ 300,000

23. Determine the effect on a company's balance sheet if it writes off accumulated losses of ₹100,000 during reconstruction.
- (a) Increase in total assets
 - (b) Decrease in total assets
 - (c) No change in total assets
 - (d) Assets become liabilities
24. In a share capital reduction process, if a company decides to reduce its paid-up capital from ₹ 1,000,000 to ₹ 800,000, what is the percentage reduction?
- (a) 20%
 - (b) 25%
 - (c) 15%
 - (d) 30%
25. Calculate the adjusted share capital if a company with a share capital of ₹ 500,000 decides to write down its value by 10%.
- (a) ₹ 450,000
 - (b) ₹ 550,000
 - (c) ₹ 500,000
 - (d) ₹ 400,000
26. If a company undergoing reconstruction has its liabilities reduced by ₹ 150,000, what is the impact on the company's equity?
- (a) Increase by ₹ 150,000
 - (b) Decrease by ₹ 150,000
 - (c) No change in equity
 - (d) Equity becomes negative
27. Analyze the impact on shareholder equity when a company reduces its share capital as part of reconstruction.
- (a) Shareholder equity increases
 - (b) Shareholder equity decreases
 - (c) No change in shareholder equity
 - (d) Shareholder equity becomes variable
28. What does a reduction in accumulated losses signify for a company's future financial projections?
- (a) More accurate future earnings forecasts
 - (b) Inaccurate financial projections
 - (c) Increased future liabilities
 - (d) Decreased profitability
29. If a company undergoing reconstruction decides to revalue its assets upwards, how does it affect the balance sheet?
- (a) Decreases total assets
 - (b) Increases total assets
 - (c) No change in total assets
 - (d) Assets are converted into liabilities
30. Analyze the effect of decreasing liabilities on a company's debt-to-equity ratio during reconstruction
- (a) Ratio increases
 - (b) Ratio decreases
 - (c) No impact on the ratio
 - (d) Ratio becomes negative

31. What can be inferred if a company opts for internal reconstruction rather than forming a new company?
- (a) The company is planning to liquidate
 - (b) The company aims to preserve its identity and existing structure
 - (c) The company is changing its core business operations
 - (d) It is a mandatory legal requirement
32. How does the alteration of share capital typically affect a company's market perception during reconstruction?
- (a) Improves market perception due to increased capital
 - (b) Deteriorates market perception as it indicates financial instability
 - (c) Has no impact on market perception
 - (d) Market perception depends solely on profitability
33. Evaluate the impact of a capital reduction on a company's debt-to-equity ratio.
- (a) Increases the ratio significantly
 - (b) Decreases the ratio significantly
 - (c) No significant change in the ratio
 - (d) Makes the ratio more volatile
34. Evaluate the decision to write off accumulated losses in terms of its impact on investor confidence.
- (a) Positively affects investor confidence
 - (b) Negatively affects investor confidence
 - (c) No impact on investor confidence
 - (d) Varies depending on the market conditions
35. Assess the financial implications of reducing share capital for a company struggling with solvency issues.
- (a) Alleviates solvency issues
 - (b) Worsens solvency issues
 - (c) No effect on solvency issues
 - (d) Solvency issues become more complex
36. Create a scenario where a company's asset revaluation leads to an increase in its net worth.
- (a) Assets are revalued downwards, decreasing liabilities
 - (b) Assets are revalued upwards, with no change in liabilities
 - (c) Liabilities increase proportionally with asset revaluation
 - (d) Both assets and liabilities are revalued upwards
37. Devise a situation where internal reconstruction results in a more favorable debt-to-equity ratio.
- (a) Increasing both debt and equity equally
 - (b) Reducing debt and increasing equity
 - (c) Reducing equity and keeping debt constant
 - (d) Increasing debt and reducing equity

38. Imagine a case where a company undergoes reconstruction and emerges with a stronger market position.
- (a) The company reduces its product line
 - (b) The company writes off a significant portion of its debt
 - (c) The company merges with a competitor
 - (d) The company rebrands itself
39. Formulate a scenario where reducing paid-up capital improves a company's operational efficiency.
- (a) Reduction in capital leads to increased investment in technology
 - (b) Lower capital reduces operational expenses
 - (c) Reduced capital results in downsizing
 - (d) Capital reduction has no relation to operational efficiency
40. What does the term 'pooling of interests' method refer to in the context of company reconstruction?
- (a) Merging the interests of shareholders and creditors
 - (b) Combining the financial statements of merging companies
 - (c) Pooling resources for new investment
 - (d) Gathering diverse opinions for reconstructing the company
41. Which type of reconstruction is typically undertaken when a company is unable to pay its debts?
- (a) Amalgamation
 - (b) Internal reconstruction
 - (c) External reconstruction
 - (d) Financial restructuring
42. In the context of reconstruction, what is the purpose of alteration of share capital?
- (a) To issue new types of shares
 - (b) To change the dividend policy
 - (c) To modify the structure of existing share capital
 - (d) To attract new investors
43. What is the key objective of writing off goodwill during company reconstruction?
- (a) To increase the market value of the company
 - (b) To reflect the reduced value of intangible assets
 - (c) To distribute profits among shareholders
 - (d) To reinvest in new business ventures
44. How does external reconstruction typically occur?
- (a) Through internal adjustments and revaluations
 - (b) By merging with or acquiring another company
 - (c) Through selling off major business units
 - (d) By changing the company's management

45. What is a 'scheme of arrangement' in the context of company reconstruction?
- (a) A plan for marketing and sales strategies
 - (b) A legal procedure for reorganizing a company's structure
 - (c) All agreement for employee retention
 - (d) A strategy for new product development
46. What does 'capital reserve' represent in a reconstructed company?
- (a) Funds allocated for day-to-day operations
 - (b) Reserve created from capital profits
 - (c) The total capital raised through share issuance
 - (d) The reserve for dividend payments
47. During reconstruction, what does the reduction of liability by issuing equity entail?
- (a) Conversion of debt into equity shares
 - (b) Paying off debts using company reserves
 - (c) Increasing liabilities to match equity
 - (d) Liquidating assets to settle liabilities
48. What is the typical outcome of a successful internal reconstruction for a company?
- (a) The company ceases to exist
 - (b) The company emerges with a more sustainable financial structure
 - (c) The company becomes a public entity
 - (d) The company's operational areas are diversified
49. In reconstruction, what does the surrender of shares by shareholders mean?
- (a) Shareholders sell their shares back to the company
 - (b) Shareholders exchange their shares for bonds
 - (c) Shareholders donate their shares to the company
 - (d) Shareholders give up their voting rights
50. How does internal reconstruction affect a company's share value and why?
- (a) Increases share value due to improved financial health
 - (b) Decreases share value due to capital reduction
 - (c) No change in share value as it is an internal matter
 - (d) Share value becomes unpredictable
51. Why is asset revaluation a critical step in the process of company reconstruction?
- (a) To attract new investors with higher asset values
 - (b) To comply with regulatory requirements
 - (c) To accurately reflect the company's current financial position
 - (d) To increase the company's operational efficiency
52. In the context of reconstruction, what is the impact of writing off fictitious assets?
- (a) It leads to an increase in tax liabilities
 - (b) It cleans up the balance sheet for a true representation of value
 - (c) It results in an increase in share capital
 - (d) It has no significant impact on the financial statements

53. What is the purpose of reducing the paid-up capital in a company's reconstruction?
- (a) To increase the dividend payout
 - (b) To decrease the company's financial obligations
 - (c) To adjust the capital structure in line with reduced asset values
 - (d) To fund new investment opportunities
54. How does the conversion of debt into equity affect a company's financial structure during reconstruction?
- (a) Reduces the company's debt burden
 - (b) Increases the company's operational costs
 - (c) Leads to a decrease in overall capital
 - (d) Has no impact on the financial structure
55. Why might a company opt for external reconstruction through amalgamation?
- (a) To diversify its business operations
 - (b) For ease of liquidation
 - (c) To combine resources and strengths with another company
 - (d) To reduce the number of employees
56. What are the potential benefits of a successful scheme of arrangement in reconstruction?
- (a) It allows for a change in business model
 - (b) It can improve the company's liquidity and solvency
 - (c) It results in tax exemptions
 - (d) It leads to an automatic increase in market share
57. How does the creation of a capital reserve account from reconstruction profits impact a company?
- (a) It increases the company's liabilities
 - (b) It enhances the company's ability to invest in new projects
 - (c) It has no impact on the company's financial health
 - (d) It leads to a reduction in operational efficiency
58. In what way does decreasing liabilities during reconstruction affect the company's balance sheet?
- (a) Decreases total assets
 - (b) Increases total assets
 - (c) Improves the equity position
 - (d) Has no effect on the balance sheet
59. Why is the surrender of shares by shareholders considered in reconstruction?
- (a) To increase the market value of remaining shares
 - (b) To reduce the company's share capital
 - (c) As a mandatory regulatory requirement
 - (d) To distribute additional dividends

60. Calculate the new net worth of a company if its assets are revalued to ₹ 2,000,000 and liabilities are ₹ 1,200,000 after reconstruction.
- (a) ₹ 800,000 (b) ₹ 2,200,000
(c) ₹ 1,200,000 (d) ₹ 2,000,000
61. If a company reduces its paid-up capital from ₹ 500,000 to ₹ 400,000, what is the percentage decrease in paid-up capital?
- (a) 20% (b) 25%
(c) 15% (d) 10%
62. Determine the impact on total liabilities if a company with liabilities on ₹ 1,000,000 converts ₹300,000 of debt into equity during reconstruction.
- (a) Increases to ₹ 1,300,000
(b) Reduces to ₹ 700,000
(c) Remains unchanged at ₹ 1,000,000
(d) Reduces to ₹ 300,000
63. Given a company's total assets of ₹ 1,500,000 and a revaluation increase by 10%, what is the new value of the assets?
- (a) ₹ 1,650,000 (b) ₹ 1,500,000 (c) ₹ 1,350,000 (d) ₹ 1,750,000
64. If a company's share capital after reconstruction is ₹ 800,000 and the number of shares is 80,000, what is the value per share?
- (a) ₹ 10 (b) ₹ 20 (c) ₹ 8 (d) ₹ 100
65. Calculate the revised debt-to-equity ratio of a company if its debt is reduced from ₹ 500,000 to ₹ 400,000 and equity remains at ₹ 500,000.
- (a) 0.8 (b) 1.0 (c) 0.5 (d) 1.2
66. What could be the reason for a company's decision to convert debt into equity in the course of reconstruction?
- (a) To increase its borrowing capacity
(b) To improve its debt-to-equity ratio
(c) To expand its operations
(d) To reduce operational efficiency
67. If a reconstructed company shows a decrease in its return on equity (ROE), what might be a possible cause?
- (a) Reduction in net income (b) Increase in total equity
(c) Decrease in total debt (d) Increase in total assets
68. How does the creation of a capital reserve from reconstruction profits affect a company's financial stability?
- (a) Increases financial stability (b) Decreases financial stability
(c) No change in financial stability (d) Financial stability becomes unpredictable

69. What does a decrease in total liabilities due to debt restructuring suggest about a company's future solvency?
- (a) Improves future solvency (b) Worsens future solvency
(c) No impact on future solvency (d) Future solvency becomes uncertain
70. Analyze the effect of a capital reduction on a company's market perception.
- (a) Viewed positively as a sign of financial prudence
(b) Seen negatively due to perceived financial distress
(c) No impact on market perception
(d) Perceived as a strategic move for future growth
71. Evaluate the potential risks and benefits of converting a significant portion of debt into equity during company reconstruction.
- (a) Increases financial risk but improves liquidity
(b) Reduces financial risk but may dilute shareholder value
(c) No significant risks or benefits
(d) Increases operational efficiency but reduces financial stability
72. Evaluate the effect of internal reconstruction on a company's long-term growth prospects.
- (a) Positively impacts growth prospects by streamlining operations
(b) Negatively impacts growth prospects due to reduced capital
(c) Has no impact on growth prospects
(d) Depends on the industry and market conditions
73. Assess the impact of reducing share capital on a company's ability to distribute dividends.
- (a) Increases the ability to distribute dividends
(b) Reduces the ability to distribute-dividends
(c) No change in the ability to distribute dividends
(d) Dividend distribution becomes more flexible
74. Devise a scenario where a company's revaluation of assets leads to a significant increase in market capitalization.
- (a) Revaluation reveals hidden assets, attracting new investors
(b) Revaluation results in asset depreciation, decreasing investor interest
(c) No change in market capitalization despite revaluation
(d) Revaluation leads to a surge in stock prices
75. Create a situation in which internal reconstruction results in a more diversified product portfolio for a company.
- (a) The company merges with a competitor
(b) The company restructures its debt and invests in R & D
(c) The company sells off unprofitable business units
(d) Internal reconstruction has no impact on Product diversification

76. Formulate a scenario where reducing liabilities as part of reconstruction enhances a company's credit rating.
- (a) Reduction in liabilities is accompanied by a decline in assets
 - (b) Liabilities are reduced, but equity remains the same
 - (c) Credit rating agencies view the reduction as a negative signal
 - (d) The reduction in liabilities is offset by a decrease in revenue
77. Imagine a case where a company successfully emerges from reconstruction with improved operational efficiency.
- (a) The reconstruction leads to staff layoffs and reduced operational costs
 - (b) Streamlining operations results in better resource utilization
 - (c) Improved efficiency is a result of increased technology investment
 - (d) Efficiency gains are due to a reduction in the number of product lines
78. What is the accounting treatment for 'negative goodwill' identified during the process of company reconstruction?
- (a) Credited to a capital reserve
 - (b) Debited to the profit and loss account
 - (c) Added to the value of tangible assets
 - (d) Distributed among shareholders
79. In company reconstruction, what does 'a reduction of liability' often entail?
- (a) Increasing operational expenses
 - (b) Exchanging debt for 'equity'
 - (c) Liquidating a portion of assets
 - (d) Issuing new shares to creditors
80. Which term describes the situation where a company continues to operate despite having its existing share capital and debts cancelled?
- (a) Liquidation
 - (b) Amalgamation
 - (c) Phoenixing
 - (d) Recapitalization
81. What does 'schemes of compromise' generally refer to in the context of company reconstruction?
- (a) Strategies to increase market competitiveness
 - (b) Agreements between a company and its creditors to restructure debts
 - (c) Plans to merge with other companies
 - (d) Policies to compromise on product quality for cost-cutting
82. In the context of reconstruction, what is the primary purpose of a 'fresh start accounting'?
- (a) To initiate new accounting policies
 - (b) To restart the company's operations from scratch
 - (c) To restate assets and liabilities at fair value
 - (d) To introduce a new management team

83. Why is the revaluation of assets considered crucial in the process of external reconstruction?
- (a) It helps in accurate dividend distribution
 - (b) To reflect the true market value of assets post-reconstruction.
 - (c) It is a requirement for stock exchange listing
 - (d) To reduce tax liabilities
84. How does the conversion of unsecured loans into equity influence a company's financial structure?
- (a) It increases the overall capital structure
 - (b) It reduces the company's leverage
 - (c) It has no significant influence
 - (d) It leads to a higher risk of insolvency
85. What is the likely impact on a company's operational capability following a successful internal reconstruction?
- (a) Decreased operational capability due to reduced capital
 - (b) Increased operational capability due to improved financial health
 - (c) Unchanged operational capability
 - (d) Operational capability becomes dependent on market conditions
86. In the process of reconstruction, why might a company opt to surrender a part of its share capital?
- (a) To increase the return on equity
 - (b) As a strategy to reduce share capital and adjust to a lower asset base
 - (c) To facilitate a new equity issuance
 - (d) To comply with regulatory capital requirements
87. How does the creation of a capital reserve from reconstruction gains affect a company's future investment strategy?
- (a) Limits future investment opportunities
 - (b) Provides a fund for future investment
 - (c) Has no impact on investment strategy
 - (d) Forces the company to focus solely on short-term investments
88. Analyze the long-term impact on a company's financial health if it consistently engages in debt-to-equity conversions.
- (a) Improved financial health due to lower debt
 - (b) Deterioration of financial health due to increased equity obligations
 - (c) No significant impact on financial health
 - (d) Increased financial risk due to changing capital structure
89. What can be inferred about a company's financial strategy if it frequently revalues its assets upwards?
- (a) Aggressive growth strategy
 - (b) Conservative financial management
 - (c) Attempt to manipulate earnings
 - (d) Focus on maintaining asset liquidity

90. If a company's operational efficiency improves following an internal reconstruction, what does it indicate about the restructuring process?
- (a) The process was focused on cost-cutting
 - (b) It involved significant investment in new technology
 - (c) The reconstruction was not effective
 - (d) It was primarily aimed at workforce reduction
91. Evaluate the decision to reduce paid-up capital in a company with a high level of accumulated profits.
- (a) Indicates a strategic move to optimize capital structure
 - (b) Suggests financial distress despite high profits
 - (c) Reflects a tactic to increase share prices
 - (d) Implies a redistribution of profits to shareholders
92. Assess the implications of a significant increase in share capital through a fresh issue of shares during reconstruction.
- (a) Potential dilution of existing shareholders stake
 - (b) Indication of strong market confidence
 - (c) Likelihood of increased market capitalization
 - (d) Risk of decreased share value
93. Create a scenario where a company's decision to reduce its liabilities results in a surge in share prices.
- (a) The liability reduction leads to speculation of a takeover
 - (b) Reduced liabilities improve the company's creditworthiness and attract investors
 - (c) The reduction is viewed as a sign of impending bankruptcy
 - (d) The market perceives the reduction as a lack of investment opportunities
94. Formulate a case where a company's reconstruction involving asset write-downs leads to an enhanced market position.
- (a) The write-downs result in a loss of investor confidence
 - (b) Asset write-downs streamline operations, leading to increased efficiency
 - (c) The write-downs are perceived as a sign of financial instability
 - (d) Write-downs trigger regulatory scrutiny and negative publicity
95. When the object of reconstruction is usually to reorganize capital or to compound with creditors or to effect economies then such type of reconstruction is called **[ICAI Module]**
- (a) Internal reconstruction with liquidation
 - (b) Internal reconstruction without liquidation of the company
 - (c) External reconstruction
 - (d) None of the above.

96. The accumulated losses under scheme of internal reconstruction are written off against [ICAI Module]
- (a) Capital Reduction account
 - (b) Share Capital account
 - (c) Shareholders' account
 - (d) Reserve and surplus.
97. A process of reconstruction, which is carried out without liquidating the company and forming a new one is called [ICAI Module]
- (a) Internal reconstruction.
 - (b) External reconstruction.
 - (c) Amalgamation in the nature of merger.
 - (d) Amalgamation in the nature of purchase.
98. Reconstruction is a process by which affairs of a company are reorganized by [ICAI Module]
- (a) Revaluation of assets and Reassessment of liabilities.
 - (b) Writing off the losses already suffered by reducing the paid-up value of shares and/or varying the rights attached to different classes of shares.
 - (c) Both (a) and (b).
 - (d) None of the above.
99. For reduction of the share capital, the permission has to be sought from [ICAI Module]
- (a) Court
 - (b) Controller
 - (c) State government
 - (d) Shareholders
100. In case of internal reconstruction [ICAI Module]
- (a) Only one company is liquidated.
 - (b) Two or more companies are liquidated.
 - (c) No company is liquidated.
 - (d) Two companies amalgamated.

ANSWERS

1.(b)	2.(c)	3.(a)	4.(b)	5.(c)	6.(b)	7.(d)	8.(b)	9.(c)	10.(c)
11.(b)	12.(c)	13.(b)	14.(c)	15.(b)	16.(b)	17.(c)	18.(c)	19.(a)	20.(c)
21.(a)	22.(b)	23.(b)	24.(a)	25.(a)	26.(a)	27.(b)	28.(a)	29.(b)	30.(b)
31.(b)	32.(b)	33.(b)	34.(a)	35.(a)	36.(b)	37.(b)	38.(b)	39.(a)	40.(b)

41.(c)	42.(c)	43.(b)	44.(b)	45.(b)	46.(b)	47.(a)	48.(b)	49.(a)	50.(b)
51.(c)	52.(b)	53.(c)	54.(a)	55.(c)	56.(b)	57.(b)	58.(c)	59.(b)	60.(a)
61.(a)	62.(b)	63.(a)	64.(a)	65.(a)	66.(b)	67.(b)	68.(a)	69.(a)	70.(b)
71.(b)	72.(a)	73.(b)	74.(a)	75.(b)	76.(b)	77.(b)	78.(a)	79.(b)	80.(c)
81.(b)	82.(c)	83.(b)	84.(b)	85.(b)	86.(b)	87.(b)	88.(a)	89.(c)	90.(a)
91.(a)	92.(a)	93.(b)	94.(b)	95.(b)	96.(a)	97.(a)	98.(c)	99.(a)	100.(c)