

Internal Reconstruction

- 1) Reconstruction means Changing the Capital Structure of the Company by way of Change in Voting Rights, Dividend Rights & Reduction of Capital.
- 2) Reconstruction also includes Compromise & Arrangements with Outside Liabilities if Company is not in position to settle entire dues.
Ex:- Waiver request to Creditors & Debentureholders.
- 3) Entity is Lossmaking with negative R&S (Accumulated Losses). Company is trying to save its business by entering into agreement with SH | Debentureholders | Creditors so that it could generate profits by reducing its Capital & Liabilities.

Such profits will be used to
work off the Accumulated Losses.

→ This process is known as "Internal
Reconstruction"

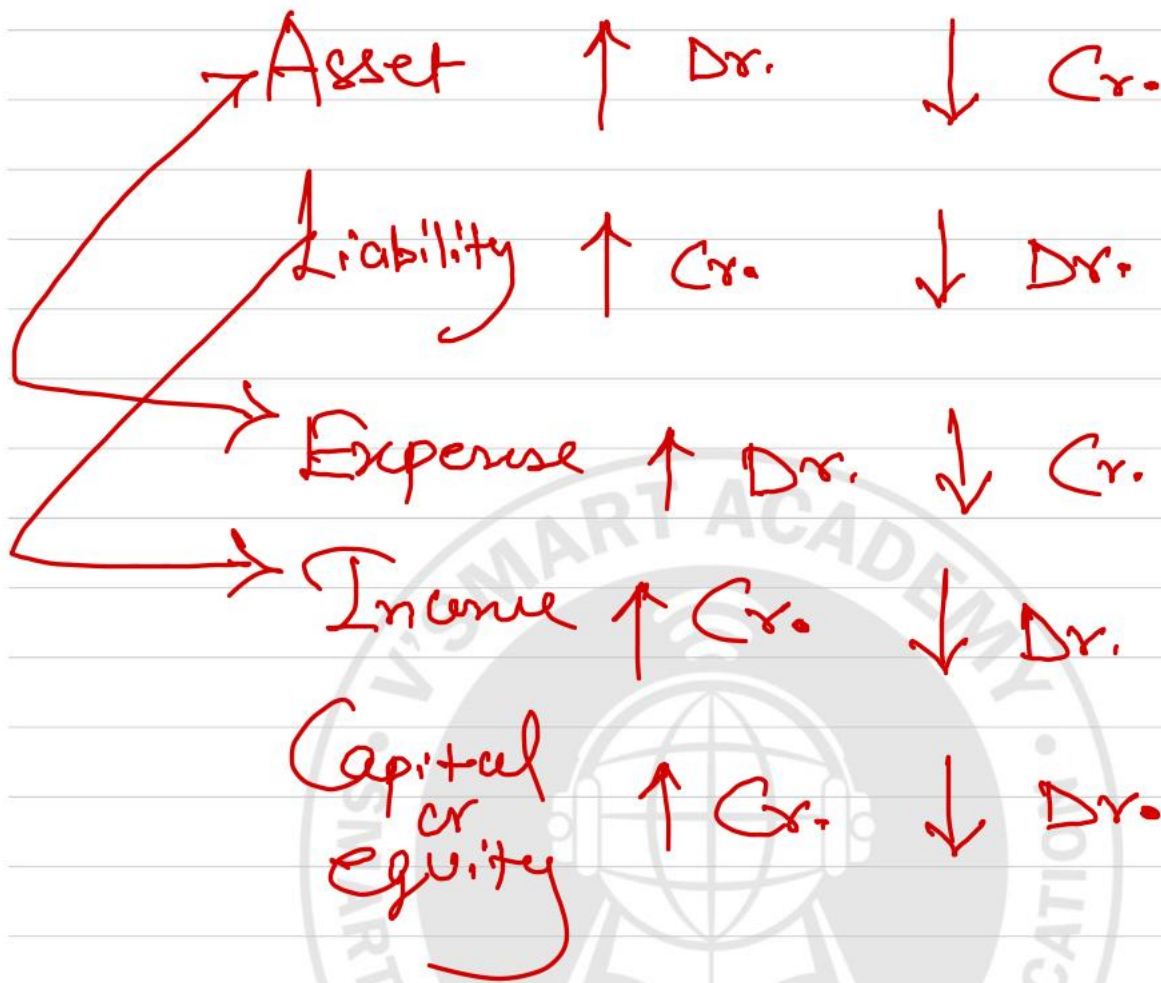
4) The profit generated under "Internal
Reconstruction" is a Capital nature
& it should be transferred to
a special account "Capital Reduction"
A/c
also known as "Reconstruction a/c"

Ex:-1 :- Creditors outstanding = 500000

Cr.
Bal.

It is agreed that 40% is
waived.

Creditors a/c Dr. 200000
To Capital Reduction 200000



EXAMPLE 1: -

Debentures outstanding = Rs. 4,20,000 Cr.

(a) 2,50,000/- settled with Building

(b) Out of 1,70,000/-;

1. 20,000/- paid in cash

2. Remaining 1,50,000/- shall be continued.

New 5% Debenture to be issued of 1,00,000/-

a) Debⁿ a/c Dr. 270000

 TO Building 250000
 TO Bank 20000

(Being Debⁿ Partly settled by Building & Cash)

b) Bank a/c Dr. 100000
 To S.I. Debn 100000

B/s (extract)

<u>LT Borrowing</u>	
OPD Debentures	150000
S.I. Debentures	100000

EXAMPLE 2: -

Balance Sheet (extract)

6% Debenture	6,00,000	Building	7,00,000
Accrued Interest	36,000		

Entire claim of Debenture Holders is settled against Building. Debenture Holder have to pay Rs. 1,00,000 extra for Building.

Entire Claim = 636000 Cr. Bal.

6% Debn a/c Dr. 600000
 Accrued Int. a/c Dr. 36000
 Bank a/c Dr. 100000

To Building a/c 700000
 To Capital Reduction a/c 36000

(Being Debn Claims Settled by way of Building & Cash)

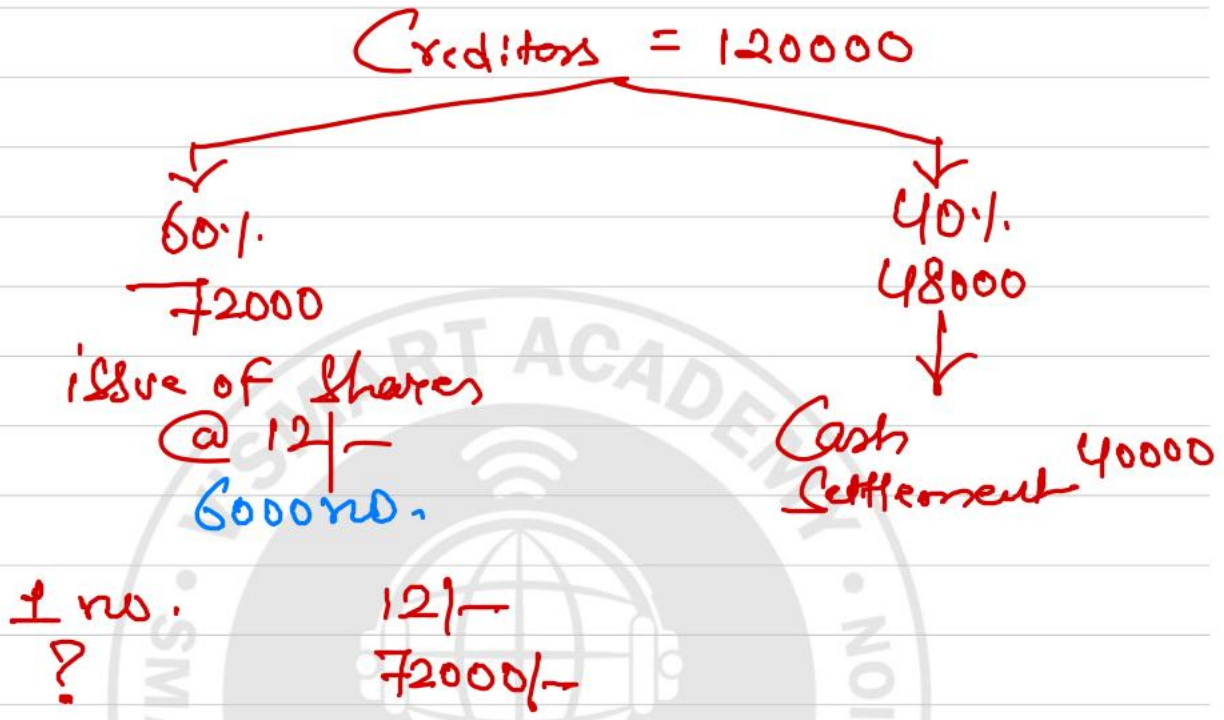
EXAMPLE 3: -

Cr.

Creditors outstanding in B/S 1,20,000/-, 60% of above are to be settled by issue of equity shares of 10/- each at 20% premium.

Rest 40% of above are settled at 40,000/- in full settlement **Cash**

SOLUTION:



a) Creditors a/c Dr. 120000

To ESC a/c	60000
To S.P a/c	12000
To Bank a/c	40000
To Capital Red. a/c	8000

(Being Creditors fully settled by issue of 6000 no. of shares & term. Cash)

(Or)

Creditors Dr. 72000

To ESC a/c	60000
To SP a/c	12000

Creditors 48000 Dr.

To Bank	40000
To CR	8000

EXAMPLE 4:-

Loan from Director is Outstanding 50,000/-, it is fully settled by issue of equity shares of 10/- each 4,500 No.

SOLUTION

Loan a/c Dr. 50000

To Esc a/c 45000

To Capital Reduc. 5000

(Being Director's Loan settled by issue of shares)

Share Split (Sub-division)

Conversion from 100/- FV to 10/- FV

Total amt. of Share Capital will not be reduced.

But no. of shares will increase.

Share split means conversion from Higher denomination (FV) to Lower denomination (FV) which results in Increase in no. of Total shares.

100000 no. of equity shares of 100/- each.
Converted into 20/- each share.

$$100000 \times 100 = \frac{10000000}{20}$$

500000 no.

Equity Share Capital a/c (100) 1,00,00,000
 —————
 To Eq. Sh. Cap a/c (20) 1,00,00,000
 (Being 100000 no. sub-divided into 50000 no.)

Ex:- Consolidation

Eq shares of 10/- each Fr = 60000 no.
 Conversion into 50/- each.

$$60000 \times 10 = \frac{600000}{50} = 12000 \text{ no.}$$

ESC a/c (10) Dr. 6,00,000
 —————
 To ESC a/c (50) 6,00,000
 (Being 60000 no. consolidated into 12000 no. of 50/- each)

5) Reconstruction also includes Revaluation of Assets if Assets are either Overvalued or Undervalued.

It also covers writing off the Assets which are Useless.

Any Difference arise due to above Revaluation or W/off shall be adjusted from "Capital Reduction A/c".

Ex:-5

15000 of 10/- each (Fully Paid)



Reduced to 6/- (Fully Paid)

Sol) Old Sh. Capital = $15000 \times 10 = 150000$

New Sh. Capital = $15000 \times 6 = 90000$

ESC a/c Dr. (10) 150000

To ESC a/c (6) 90000

To Capital Reduct. 60000

(Being 15000 no. of Shares Reduced 6/- per Share)

Comparison

Split / Consolidation

- 1) Change in no. of shares.
- 2) No Change in Total Share Capital Amt.
- 3) Mandatory Change in face value
- 4) NO Gain/Loss Hence No "Cap. Reduction A/c"

Reduction

- 1) No Change in NO. OF shares.
- 2) Change in Total Share Capital Amt. (Ex:-5)
- 3) FV will be Changed generally.
- 4) Gain/Loss transfer to Capital Reduction

Ex:- 1,00,000 no. of shares of 100/- each.

a) It was decided to sub-divide each share of 20/-

b) After sub-division, the FC value is reduced to 15/- each.

Sol):-

$$\text{Split} \Rightarrow \frac{1,00,00,000}{20} = 5,00,000 \text{ no.}$$

1) Esc a/c Dr. (100) 1,00,00,000

To Esc a/c (20) 10,00,000

(Being 1,00,000 no. of shares of 100/- each sub-divided into 5,00,000 no. of 20/- each)

Reduction

$$\text{Old Capital} = 5,00,000 \times 20/- = 1 Cr.$$

$$\text{New Capital} = 5,00,000 \times 15/- = 75 \text{ Lakhs.}$$

$$\text{Cap. Reduction} = 25 \text{ Lakhs.}$$

Esc a/c Dr. (20) 10,00,000

To Esc a/c (15) 75,00,000

To Capital Redn. a/c 25,00,000

(Bring 20% share reduced to 15% each)

Dividend

~~Pat a/c~~
To ~~Prof Divd payable~~

Liability



~~Res~~

~~Waived~~

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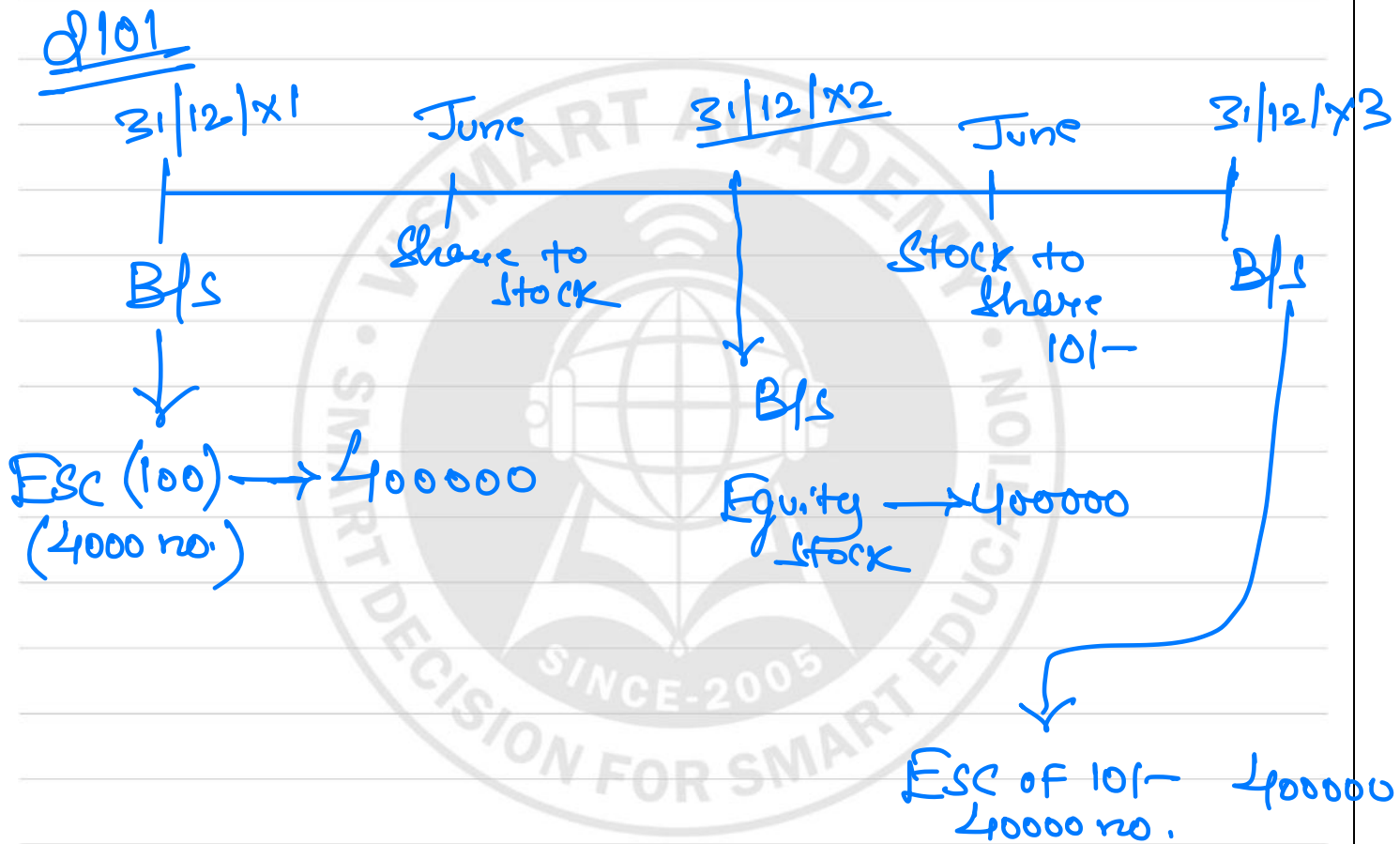
B/s

Dividend payable (S)	216000
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Div. Payable Dr. 216000

To Bank 72000

To CapRed. 144000



Balance Sheet

	31/12/x1	31/12/x2	31/12/x3
Esc 100/- 4000 no.	400000	-	-
Equity Stock	-	400000	-
Esc 10/- 40000			400000

Q201

(1)

$$\begin{aligned} 24000 \times 100/- &= 2400000 \text{ Old} \\ 24000 \times 40/- &= 960000 \text{ New} \\ \hline &1440000 \end{aligned}$$

(2)

$$\begin{aligned} 12000 \times 100/- &= 1200000 \text{ Old} \\ 12000 \times 75/- &= 900000 \text{ New} \\ \hline &300000 \end{aligned}$$

(i) Esc a/c Dr. (100) 2400000
 To Esc a/c (40) 960000
 To Capital Reduction a/c 1440000

(ii) 10% Psc a/c Dr. (100) 1200000
 To 10% Psc a/c (75) 900000
 To Capital Reduction 300000

(iii) 10% Debentures a/c Dr. 600000
 To Inventory a/c 260000
 To Tr. Receivable a/c 280000
 To Capital Reduct. a/c 60000

(Being 100% Debt settled with Int. & T.R)

(iv) Land & Building a/c Dr. 360000
 To Capital Reduction 360000
(Being L&B appreciated ^{a/c} by 30%)

(v) Capital Reduction a/c Dr. 540000
 To Plant & Mach. 540000
(Being P&M depreciated by 30%)

(vi) Capital Reduction a/c Dr. 5000
 To Bank a/c 5000
(Being Jewellery Exp. incurred)

Capital Reduction Balance = 16,15,000

(vii) Capital Reduction Dr. 16,15,000
 To P&L a/c 14,40,000
 To Goodwill a/c 90,000
 To Capital Reser. 85,000

(Being Goodwill & P&L w/o & Bal. transfer)

to CR)

X Ltd.
Balance Sheet (as reduced)
31/03/21

<u>Particulars</u>	<u>Note</u>	<u>Amnt.</u>
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Equity & Liabilities

1) Shareholders' fund

a) Share Capital	1	18,60,000
b) Reserves & Surplus (Capital Res.)		85000

2) Current Liabilities

a) Short Term Borrowing		600000
b) Trade Payables		300000

ASSETS

Total 28,45,000

1) Non-Current Assets

a) PPE	2	28,20,000
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2) Current Assets

Cash & Cash Equ.		25000
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Total 28,45,000

Notes

1) Share Capital :-

(i) 24000, Equity shares of 40/- Each	960000
(ii) 12000, 10% Psc of 75/- each	900000
	<hr/>
	1860000

2) PPE

Land & Building	1560000
P&M	1260000
	<hr/>
	2820000

Note:- Free Cash Exp. is used out of
C&CE, alternative Bank of D
Can also be used.

Q202

(₹ in lakhs)

1) 8.1.PSC a/c Dr. (100) 400
 To 8.1.PSC a/c (80) 320
 To Cap. Reduct. a/c 80

2) Esc a/c Dr. (10) 1000
 To Esc a/c (2) 200
 To Cap. Red. a/c 800

3) Capital Reduction Dr. 32
 To Esc a/c 32

(Bring 16 lakh equity sh. issued)
for 1 yr. Dividend

4) 6.1. Debentures a/c Dr. 300
 To Freehold prop. a/c 300

5) Interest Acc. & Div a/c Dr. 24
 To Bank a/c 24

9) Capital Reduction 420
 ↳ To Inventory 240
 ↳ To T. Receivable 180

10) Capital Reduction 30
 ↳ To Bank 30

Cap. Reduction Bal. 808 Cr. Bal.

11) Cap. Reduct a/c Dr. 808
 ↳ To P&L a/c 522
 ↳ To Cap. Reserve 286

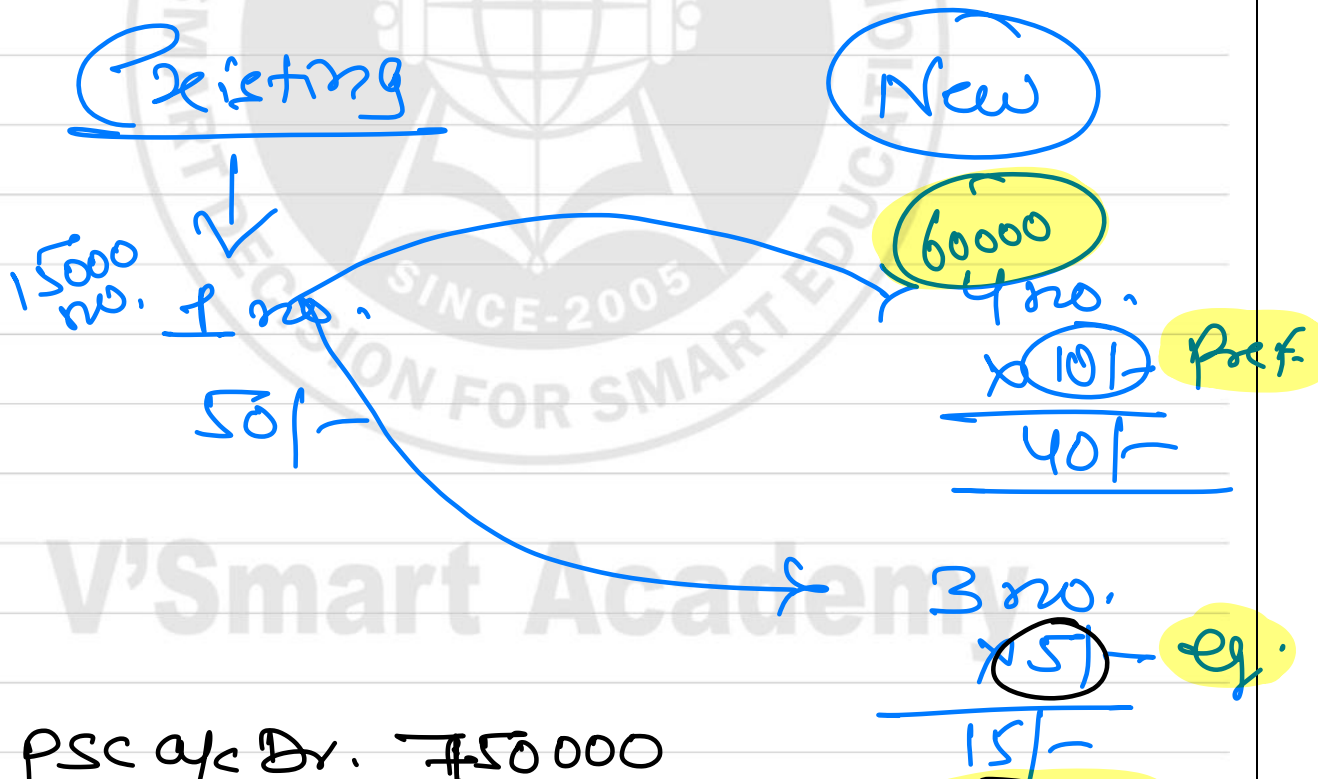
Reserv. a/c

↳ To Ee	32	By Esc	800
↳ To T. Receiva	180	By S.I. Psc	80
↳ To Inv. (fg)	240	By Freehold prop.	150
↳ To Bank	30	By Bank	50
↳ To P&L	522	By D. Loan	210
↳ To CR	286		

Q203

1) Esc a/c Dr. (5) 93750
 To Esc a/c (5) 93750
 To Cap. Red. a/c 843750
 (18750 no.) eq.

2) Bank a/c Dr. 281250
 To Esc a/c (5) 281250
 (56250 no.) eq.



3) 8.1. PSC a/c Dr. 750000
 Cap. Reduct. A/c 75000 (B/F) 450000
 To 8.1. PSC (10) 600000
 To ESC (5) 225000
 (60000 pref. / 45000 eq.)

4) Loan a/c Dr. 187500
 ↳ To G.I. PSC (10) 150000
 ↳ To ESC (5) 37500
 (15000 no. Pref / 7500 no. eq)

5) Bank a/c 125000
 ↳ To Esc a/c 125000
 (no. 25000 eq)

6) Loan org = 716250
 (-) Settled by issue = 187500

Rem. Loan = 528750

(-) Payment = 250000

B/s 278750

Loan Dr. 250000
 ↳ To Bank 250000

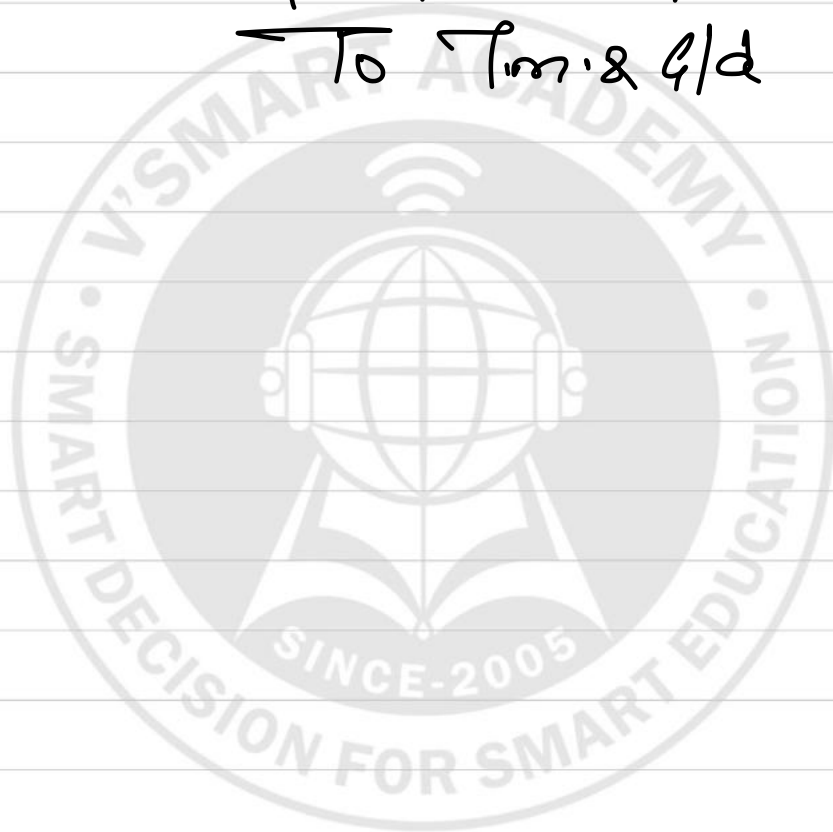
Cap. Reduction = 768750

7) Cap. Red. a/c 768750

 To Bal a/c 563750

 To Plant a/c 43750

 To Inv. & G/d 161250



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Q214

Debentureholders = 375000

① 6% Debⁿ 120000

To F.H. prop. 100000

To Cap. Reduct. 20000

120000
Property
Settlement

Bal.
255000

Freehold property = 425000 (BV)

taken over
by Debⁿ Holder
100000
BV

325000
Bal.

② Bank of Date Dr. 130000
To 8% Debⁿ 130000

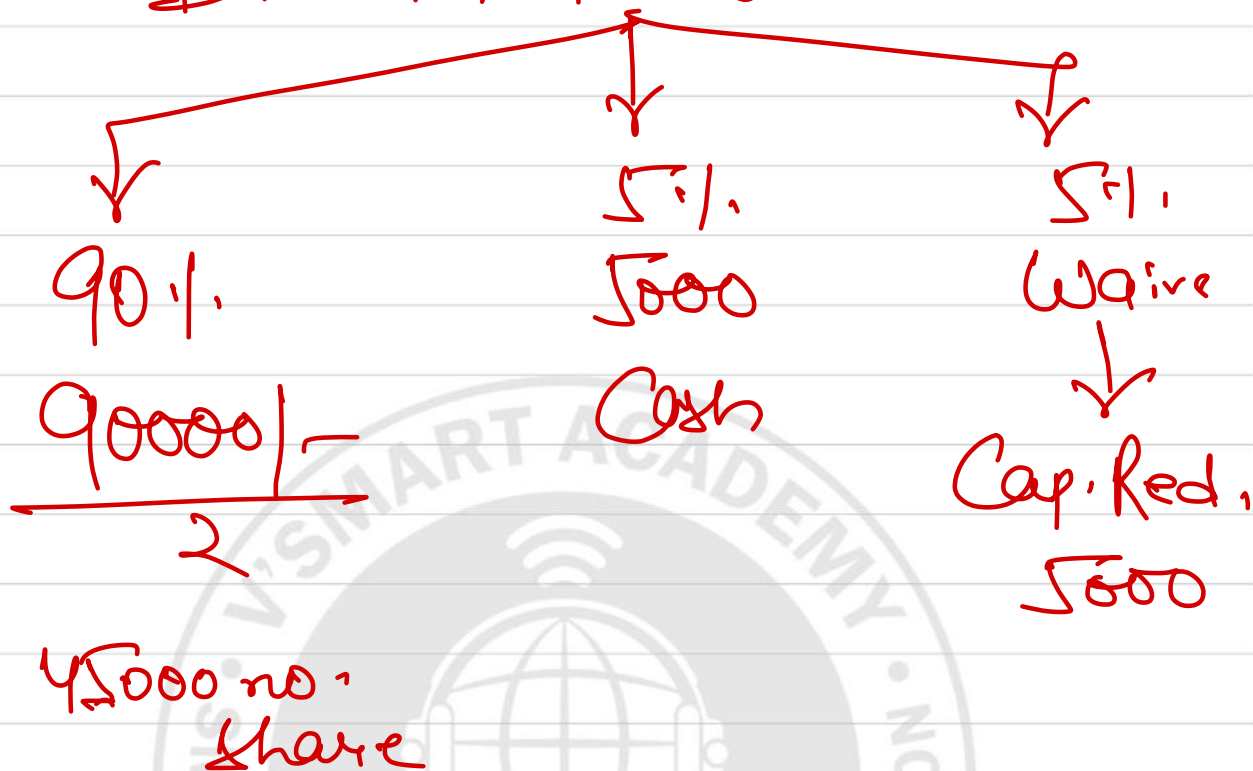
Revalued
at 387500

F.H. prop
To Cap. Red.

62500

②

Dir. Loan 100000



Dir. Loan 100000

TO ESC 90000

TO Bank 5000

TO Cap Red. 5000

Q.IR.SM.102:

As a part of the reconstruction scheme of Getting better Ltd, the following terms were agreed upon-

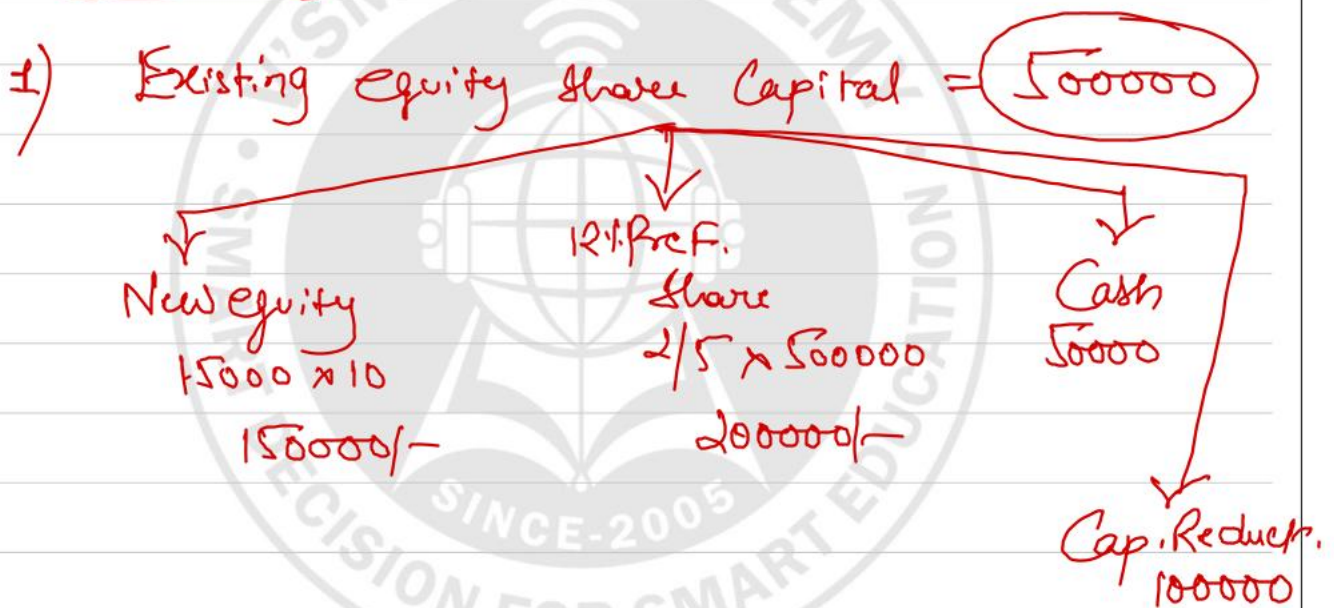
1. The shareholders to receive in lieu of their present holdings (viz. 10,000 shares of ₹ 50 each), the following-
 - a) 15,000 Fully paid equity shares of ₹ 10 each; → 500000
 - b) 12% fully paid preference shares to the extent of 2/5 of total equity shares;
 - c) To pay them ₹ 50,000 and transfer the remaining to the reconstruction account
2. 8% Preference share capital - ₹ 3,00,000
To write down the value of preference shares to ₹ 50 (original face value ₹ 100).
3. 14% debentures of the nominal value of ₹ 2,00,000 along with accrued interest of ₹ 56,000 was waived off for three fourths of the total amount, and the remaining being paid in cash.

Show the necessary journal entries in the books of Getting better company based on the above scheme.

Solution

Journal entries in the books of Getting better Co

Solution:-



1)

Esc a/c Dr. (50)	500000
To Esc a/c (10)	150000
To 12% Psc a/c	200000
To Bank	50000
To Cap. Reduct.	100000

(Being exist. SH are provided new eq (Pref & Cash)

2)

8% Psc a/c (100)	300000
To 8% Psc a/c (50)	150000
To Cap. Reduction	150000

3) 14% Debut. a/c Dr. 200000
 Inter. Payable a/c Dr. 50000

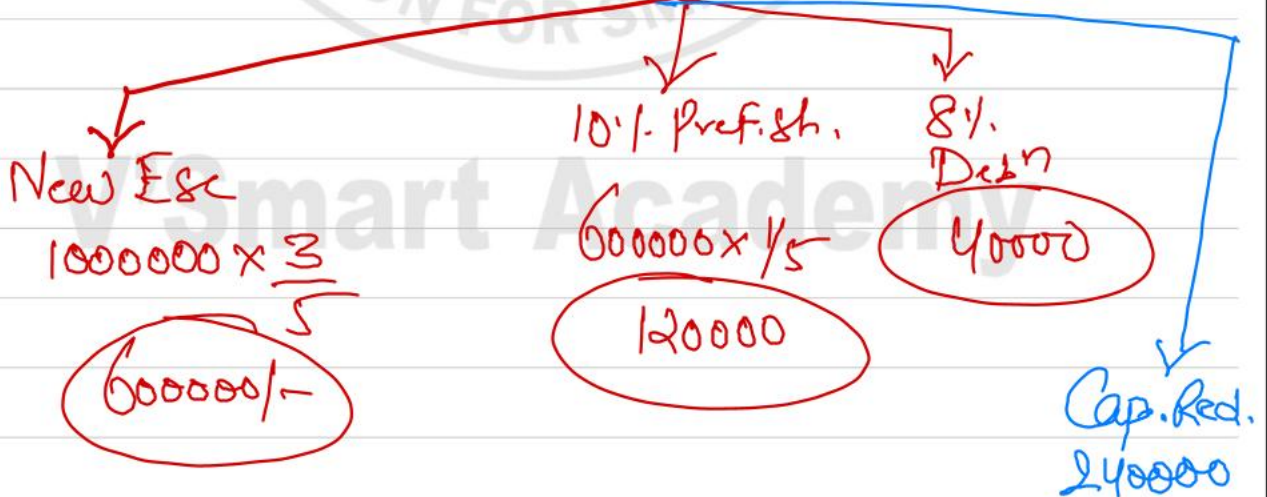
 To Bank 64000
 To Cap. Red 192000

(Being Debt Settled)

Note:- Total Bal. of Cap. Red. a/c is 442000 which can be used to w/off P&L a/c Dr. Bal. if any & the remaining Bal. is transferred to Capital Reserve.

Q103

Existing Esc = 100000×10
 $= 10,00,000$



1) Esc a/c Dr. (10) 1000000
 To Esc (10) 600000
 To Pref. sh. 120000
 To 8% Debt 40000
 To Cap Red 240000

2) Bank a/c Dr. 100000
 TO 10% Int Debn a/c 100000

3) Capital Reduction a/c Dr. 240000
 TO Goodwill a/c 140000
 TO P&M a/c 50000
 TO F.H. Prop a/c 50000

Q204

1) Esc a/c Dr. (100) 2,00,00,000
 TO Esc a/c (40) 80,00,000
 TO Cap. Reduction a/c 1,20,00,000

2) 6% Com. Psc a/c Dr. (100) 1,00,00,000
 TO 6% Com. Psc a/c 60,00,000
 TO Cap. Reduction a/c 40,00,000

3) Int. Debn (100) a/c Dr. 80,00,000
 TO 6% Int. Debn (70) 5600000
 TO Cap. Reduction 2400000

4) Capital Reduction a/c Dr. 1,60,00,000

 To PPE a/c 50,00,000

 To Curr. Ass. a/c 1,10,00,000

5) Capital Reduction a/c Dr. 100000

 To Investment 100000

6) Creditors a/c Dr. 4000000

 To Esc a/c 2400000

 To Cap. Red. 1600000

7) Prov. For Tax a/c Dr. 200000

Cap. Reduction a/c Dr. 100000

 To Bank a/c 300000
(Current Asset)

8) Cap. Red. a/c Dr. 3800000

 To P&L a/c 1200000

 To Cap. Reserve 2600000

Balance Sheet

ESC (80+24)	1,04,00,000
6% Ann. Pref. Sh.	60,00,000
<u>Res CR</u>	26,00,000
LTB:- 6% Debt	56,00,000
Creditors (1cr. - 4rd.)	60,00,000
<u>← Total</u>	<u>3,06,00,000</u>
PPE	2,00,00,000
Investments	19,00,000
Current Assets	87,00,000
<u>← Total</u>	<u>3,06,00,000</u>

HW

~~Q215~~, ~~Q218~~, ~~Q106~~
Q104 desire

Q218

$$1) \text{ Pref. Div. (4 yrs)} = 150000 \times 8\% \times 4$$

$$= 48000$$



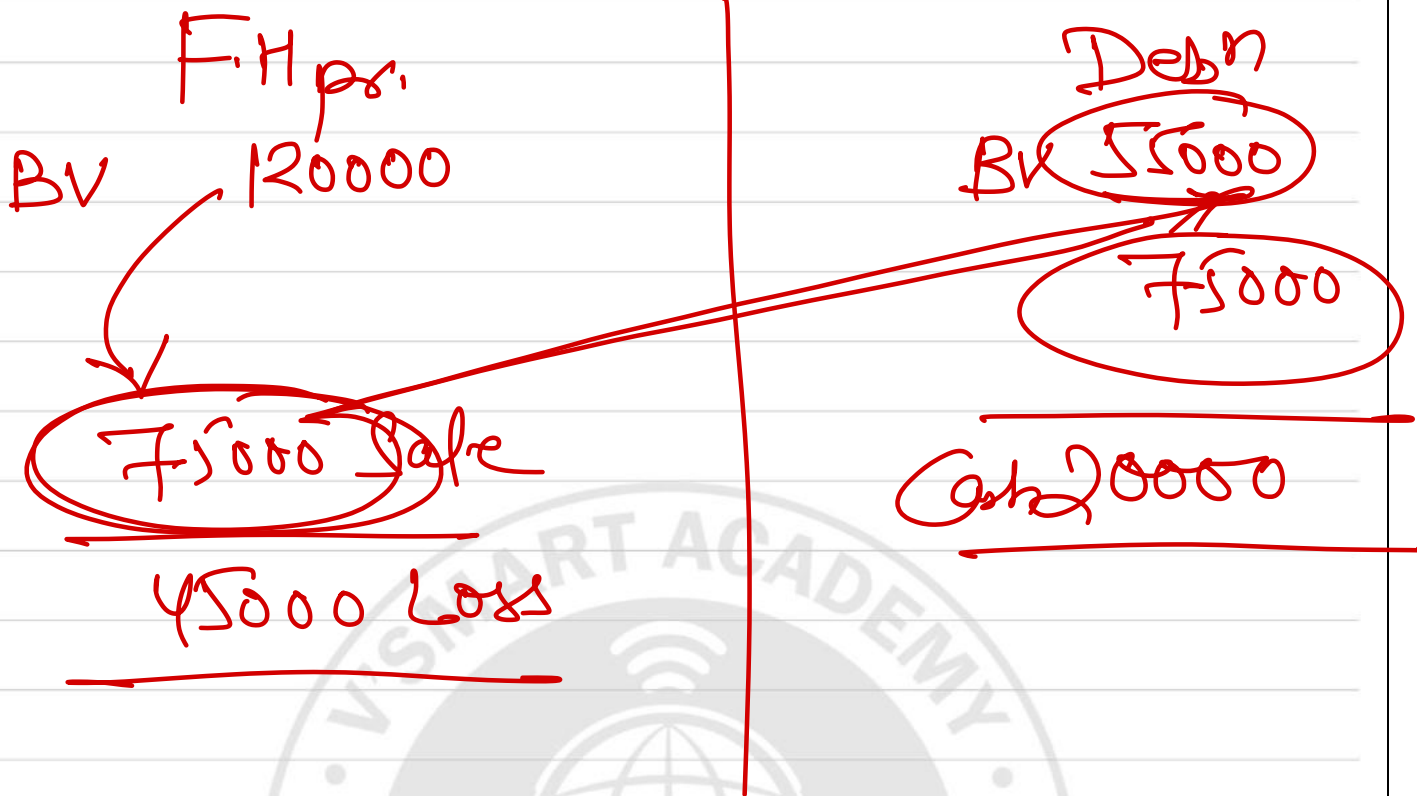
$$\frac{48000}{1} = 48000 \text{ no.}$$

Capital Red. Dr. 48000

 To ESC a/c 48000

2) 10% Debt a/c Dr. 50000
Inter. pay. a/c Dr. 5000
Bank a/c Dr. 20000
Cap. Reduct. a/c Dr. 45000

 TO Freehold prop. 120000
(Being entire claim of Debt settled with F.H. proper)



Note:- All Cash/Bank Transactions are assumed with Bank old a/c since separate Cash & Cash Equivalent are not given in the question.

Alternative, these can be recorded separately in Cash or Cash Equivalent:

Alternative - 1	Alternative 2
OP. Bank = 90000 Cr. OD 20000 Dr. 32000 Dr. 700 Cr.	Liab \Rightarrow B. Old 90000 Asset \downarrow 20000 Dr. 32000 Dr. 700 Cr.
Net Bfl = <u>38700 Cr.</u>	Asset \Rightarrow <u>51300</u> C&CE

Q205

- 1) ~~8% Pref. Share Cap. a/c Dr. 600000
 To 11% Debentures ~~420000~~
 To Cap. Reduct. 180000~~
- 2) ~~9% Debenture a/c Dr. 1200000
 To ~~P&M a/c 900000~~
 To Cap. Red. a/c 300000~~
- 3) ~~Trade Payable a/c Dr. 592000
 To Inventory 500000
 To Capital Red. 92000~~
- 4) Capital Reduction a/c Dr. 13000
 To ~~Investment 13000~~
- 5) Bank a/c Dr. 300000
 To 11% Debt a/c ~~300000~~

6) Bank Old a/c Dr. 150000
 To Bank 150000

559000

7) Capital Reduction Dr. 559000
 To P&L a/c 405000
 To Capital Resurv. 154000

Capital Red. a/c

To Investm. 13000	By 8% P&L 180000
To P&L 405000	By G.I. Debt 300000
To Capital Reserve 154000	By T. Payments 92000
<u>572000</u>	<u>572000</u>

ABC Ltd

Balance Sheet (& reduced)

<u>Particulars</u>	<u>Amnt.</u>
a) <u>Share Capital :-</u> Esc	2000000
b) <u>Reserves & Surpluses</u> CR	154000
c) <u>LT Borrowing</u> llm. Debt	720000
	<hr/>
	← Total
	<u>2874000</u>
d) <u>PPE</u> fur. & fixture	25000
e) <u>Int. Assets</u> patent & Copy Rights	7000
f) <u>Investments</u>	55000
g) <u>Inventory</u>	900000

h) Trade Receivables	1439000
(i) Cash & Cash eq.	160000
	<u>Total</u> <u>2874000</u>

Q208

$$600000 \times 6\% = \text{Current Return } 36000$$

8%

$$\frac{36000}{8\%} = 450000 \text{ 8\% psc}$$

1) 6% PSC a/c Dr. 600000

To 8% PSC a/c 450000

To Capital Redu. 150000

(Being 6% Pref. Sh. Converted into 8% Pref. Share with same return)

2) ESC a/c Dr. (10) 900000

To ESC a/c (8) 720000

To Cap. Red. a/c 180000

3) Capital Reduction Dr. 84600
 To Goodwill a/c 84600

4) Capital Reduction Dr. 177000
 To L&B 81000
 To P&M 96000

5) Capital Reduction 14400
 To Trade Rec. 14400

90
90
90
270 → w/off
करवरा

300

301 — w/off
out of Cap. Red.

6) Capital Reduct. Dr. 30000
 To P21 a/c 30000

7) Capital Red. a/c Dr. 24000
 To patent 24000

8) Bank a/c Dr. 480000
 To 12% Sec. Loan 480000

9) Bank old a/c Dr. 200000
 To Bank 200000

Capital Red. a/c

To Goodwill	84600	By G.I. psc	150000
To LAB	81000	By Esc	180000
To P&M	96000		
To T.R.	14400		
To P&L	30000		
To Patent	24000		
	<u>330000</u>		<u>330000</u>

100000 no. 10/-

BB
10000 no.

Reduction by
paying
of
1/- per
share
pay of

ESC Dr. 100000
To Bank 100000

Esc (10) 100000
To Esc (5) 90000
To Bank 10000

B/s

B/s

ESC
(90000 sh. of 10/-) 90000

Esc
(100000 no. of 5/-) 90000

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HW 210, 104, 106, 215, 218

Q210

	<u>Mr. Y</u>	<u>Mr. Z</u>
10% Debt	960000	640000
Interest Payable	96000	64000
T. Payable	100000	60000

← Total Claim (Debt) 1156000 764000

(-) 50% Waived (578000) (382000)

Rem. Due 578000 382000

(+) Cash Received 100000 60000

Final due 678000 442000

a) 9% PSC (100) Dr. 2000000

To 10% PSC (15) a/c 1000000

To Cap. Reduction a/c 1000000

b) 10% Debentures a/c 960000

Inter. Payable a/c 96000

T. Payable a/c 100000

To Mr. Y a/c 1156000

c) Mr. Y a/c Dr. 1156000

Bank a/c Dr. 100000

To Cap. Reduct 578000

To 12% Debt 678000

d) 10% Debt a/c Dr. 640000
 Interest Payable Dr. 64000
 T. Payable Dr. 60000
 Bank Dr. 60000

To Cap. Reduction 382000
 To 12% Debt 442000

D. Loans a/c Dr. 100000

To Cap. Redu. 60000
 To Esc a/c 40000 (8000 no.)

Reconstruction a/c

To Bank	15,000	By Esc (s) a/c	250,000
To Bank	15,000	By 10% Psc a/c	10,00,000
To P&M	65,000	By Mr. Y a/c	57,800
To Inventory	25,000	By Mr. Z a/c	3,82,000
To T. Receiv.	100,000	By T. payables a/c	170,000
To F&F	100,000	By D. Loans a/c	60,000
To Investm.	50,000	By Bank a/c	1,00,000
To P&L	14,60,000	By prov. for Tax a/c	25,000
To Goodwill	11,00,000	By L&B a/c	2,00,000
To Patent	5,00,000		
To Cap. Reserv.	77,500		
	<u>50,15,000</u>		<u>50,15,000</u>

Bank old a/c

To Mr. Y 100000	By Balance 100000
To Mr. Z 60000	By Provision 75000
To Cap. Red. 100000	By Cap Red. 15000
	By Cap Red 75000
	By Bal. old 55000

Share Surrender

Class

Ex:-

- 1) 600,000 no. of Eq. shares of 10/- each.
- 2) 10% shares are surrendered.
- 3) out of above, 1,50,000 no. were re-issued as 9% Pref. Sh. Capital of 5/- each.
- 4) Total creditors are 900,000
They have been given above 9% Pref share an part repayment
for next Bal. 50% is waived & 50% paid in Cash.
- 5) 40,000 no. of surrendered shares are re-issued as equity shares of 10/- each.

6) 10% Debts are of of 50000
They are fully settled with
allotment of above equity shares.

7) Remaining surrendered shares were
Cancelled.

Sol):-

1) Esc a/c Dr. 24,00,000
 To Shares Surrendered a/c 24,00,000
(Being 240000 no. shares surrendered)

2) Shares Surrendered a/c Dr. 75000
 To 9% PSC a/c 75000
(Being 150000 no. of Pref Share re-issued)

3) Creditors a/c Dr. 900000
 To Bank a/c 75000
 To Capital Red. a/c 825000 (B/F)
(Being Creditors fully settled)

4) Shares Surrend. a/c Dr. 400000
 To Esc a/c 400000
(Being 400000 no. equity re-issued @ 10/-)

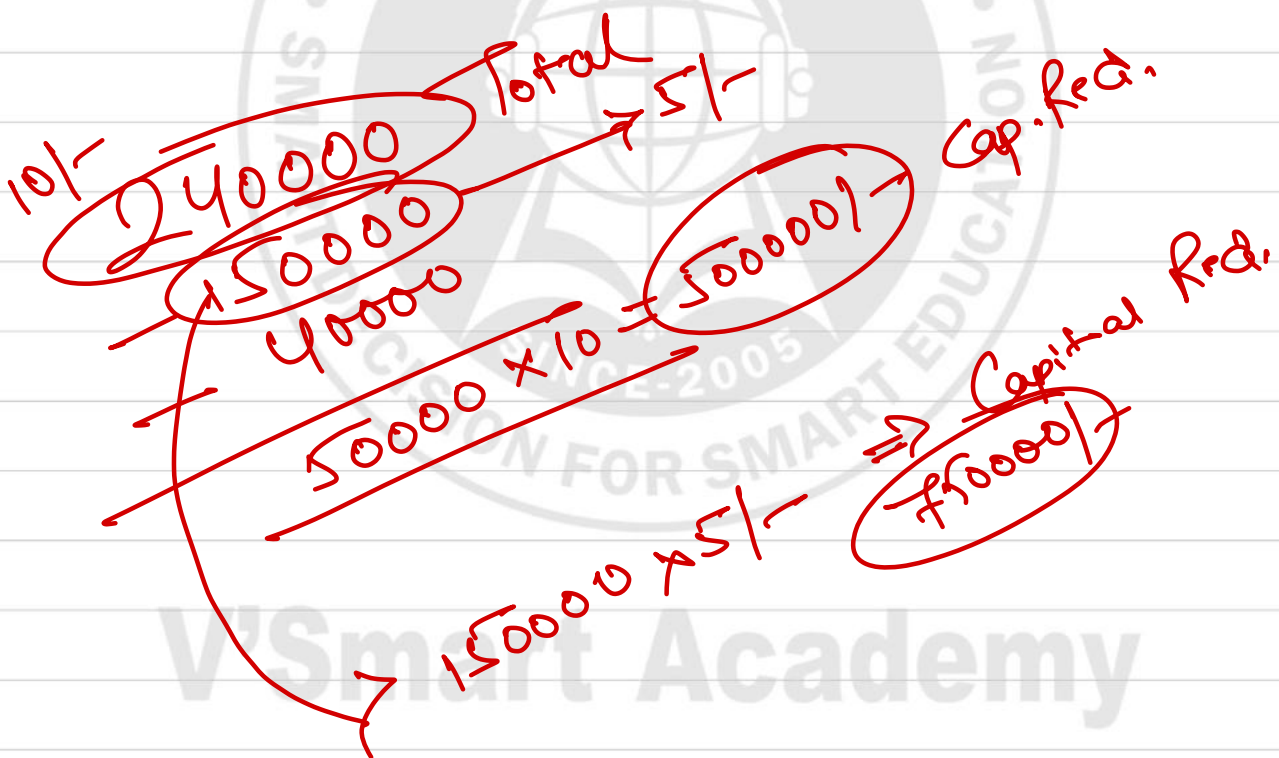
5) 10% Debt a/c 50000

To Capital Red. a/c 50000
(Being Debt fully Settled)

6) Shares Sworn a/c Dr. 125000

To Cap. Red. a/c 125000

(Balance of Share Sworn a/c transfer to Cap. Red.)



825000
500000
1250000

Cap.
Red.

2575000



2400000

- 750000

- 400000

1250000

75000

+ 750000

Dir'n

100000

+ 400000

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Q211

1) Esc a/c Dr. (100) 2000000

 To Esc a/c (10) 20,00,000

(Being 20000 no. sub-divided into 200000 no.)

2) Esc a/c (10) 10,00,000

 To Shares Surrendered a/c 1000000

(Being 100000 no. surrendered)

3) Share Surrendered a/c Dr. 200000

 To 10% PSC a/c 200000

(Being 20000 share re-issued)

4) 15% Debentures a/c Dr. 300000

 Interest Payable a/c Dr. 45000

 To Capital Redu. 345000

5) Share Surrendered a/c Dr. 78000

 To ESC a/c 78000

(Being 7800 no. re-issued as equity)

Trade Payable = 104000

25% Waived
26000

75% Settlement

78000

∴

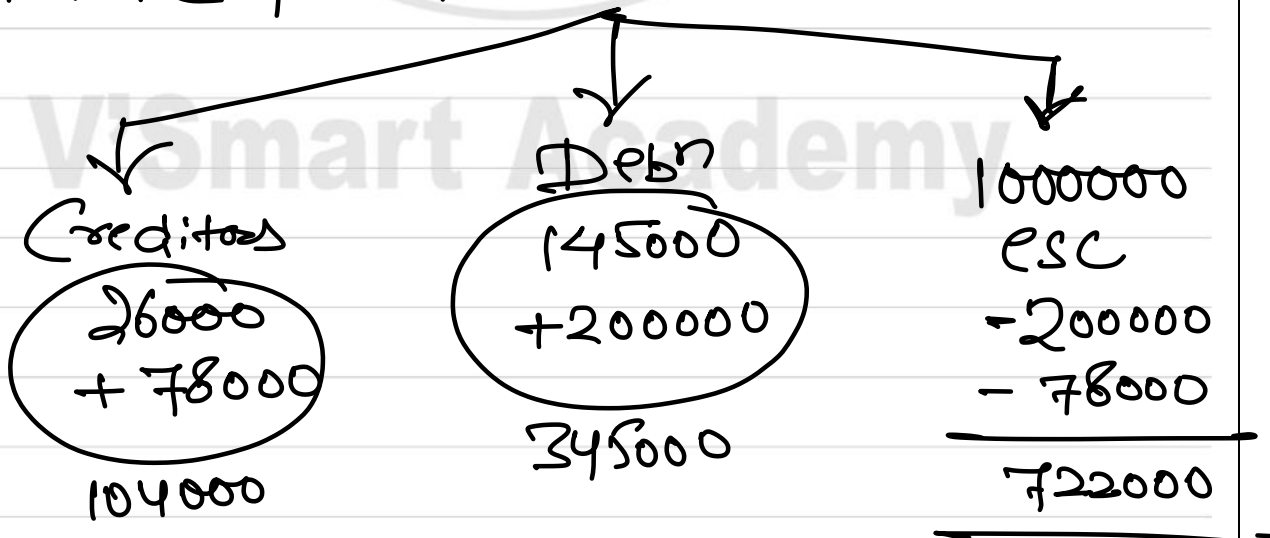
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780000

6) Trade Payable Dr. 104000
 To Cap. Red. a/c 104000
(Being Trade Creditors fully settled)

7) Share Surrendered a/c Dr. 72000
 To Cap. Reduction a/c 72000

Total Capital Reduction = 1171000



8) Capital Red. a/c Dr. 1171000
 To P&L a/c 1160000
 To Cap. Res. a/c 11000

Q212

1) Bank a/c Dr. 10,00,000
 To Esc a/c 10,00,000

2) Esc a/c Dr. (50) 750000
 (150000 x 20) To Esc a/c (20) 30,00,000
 To Cap. Reduction 45,00,000

X

Total Debt 1200000
 (-) Cancelled 70000
 o/s 50000
 (+) Cash Collected 200000
700000

700000
 ↓
 14.1. Ist Debt

12.1. Ist Debt Dr. 300000
 12.1. IInd Debt Dr. 700000
 Tr. Payable Dr. 200000
 To Mr. X 1200000
 Mr. X a/c Dr. 1200000
 Bank a/c Dr. 200000
 To Cap. Red. 700000
 To 14.1. 700000
 Ist Debt

12.1. Ist Debn a/c Dr. 200000
 12.1. IInd Debn a/c Dr. 300000
 — Trade payable a/c Dr. 100000
 — To Mr. Y a/c 600000

Mr. Y a/c Dr. 600000
 — To Cap. Reduction 300000
 — To 14.1. Ist Debn 300000

Capital Reduction a/c Dr. 550000
 — To P&L a/c 200000
 — To Goodwill 200000
 — To Computer 150000

B/s (2 reduced)

15000 no. of 20/- each	30,00,000
14.1. Ist Debn	10,00,000
— Trade payable	200000
	<hr/>
— Total	42,00,000
	<hr/>

Building

10,00,000

Plant	10,00,000
Computer	10,00,000
Cash & Cash Equ.	12,00,000
	Total 42,00,000

Q213

1) B 6% Deb'n a/c Dr. 35000
 To Deb'n Holders 35000

2) Deb'n Holders a/c Dr. 440000
 To PPE (CW) 425000
 To Eq. Sh. Cap. 15000

3) Investment in Zia Ltd 90000
 To Debentureholders 90000

4) W.C. fund a/c Dr. 4000
 To Cap. Red. 4000

Total Invest = 15000

(-) fund 1000
 14000 sold at 10% profit = 15400

5) Bank a/c Dr. 15400
 TO Investment 14000
 TO Cap. Reduction 1400

6) Creditors a/c Dr. 15400
 TO Bank 15400

7) Capital Redu. a/c Dr. 210000
 TO Inventory 190000
 TO prov. for B.D 20000

PPE of Chennai = 775000 (Br)

(-) taken over
 by Debn = 425000

350000

8) Capital Reduction Dr. 350000
 TO PPE a/c 350000

9) Capital Reduction a/c Dr. 601400
 TO P&L a/c 200000
 TO PPE (B.W) a/c 267600
 TO Cap. Reserv. a/c 133800

601400
 - 200000
401400 $\times \frac{2}{3}$

401400 $\times \frac{1}{3}$

Q207

1) Reduction :-

a) Pref. Sh. $40000 \times 10 = 400000$

(-) $40000 \times 5 = 200000$

£.l. Cum Psc (10) 400000

To £.l. Cum Psc (5) 200000 New = 200000

To Cap. Red. a/c 200000 Capital

2) Re-consolidate :-

$$\frac{200000}{10} = 20000 \text{ no.}$$

£.l. Cum Psc (5) Dr. 200000

To £.l. Cum Psc a/c (10) 200000

Cap Red. 128400

P&L (128400)

P&L (10000)

$$2) \text{ Pref. Divd} = \frac{128000}{40} \times 1 = 3200 \text{ no.}$$

$\times 10/-$

Cap Red. 32000
To Cr 32000

32000

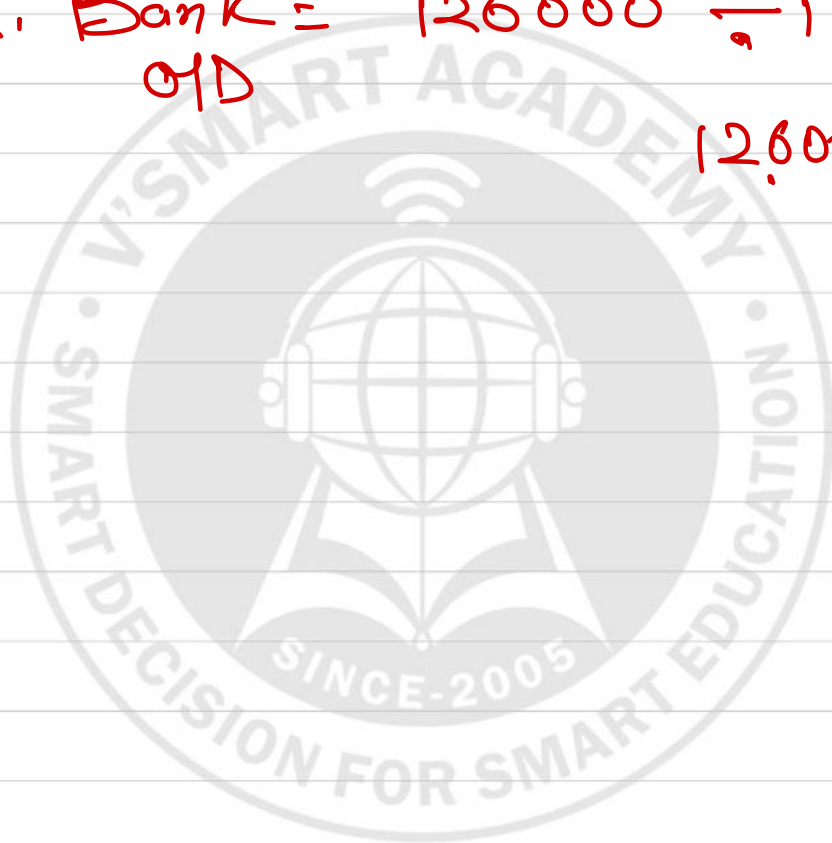
Cash 97100

Bank 223100

OID

Mem. Bank = 126000 ÷ 10
OID

126000 no.
eg.



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Q209

Balance sheet
OF Repair Ltd.

Share Capital (Paid up) 6000 OF 60/- each (30/- Paid up)	180000
Reserves & surplus (B/F)	(870000)
Ist Deb ⁿ	300000
II nd Deb ⁿ	600000
T. payables	450000
	<hr/>
	660000
	<hr/>
PPE	390000
Cash in Hand	270000
	<hr/>
	660000
	<hr/>

A's Total Claim = 690000

Cancelled = -210000

480000

(+) Cash

Collection = 30000

Revised due = 510000

a) First Debt a/c Dr. 300000
Second Debt a/c Dr. 300000
T. payable a/c Dr. 90000
 — To Mr. A 690000
(Being amt. payable to A)

b) Mr. A a/c Dr. 690000
Bank a/c Dr. 30000
 — To Capital Red. 210000
 — To New Ist Debt 510000
(Being amt. payable to Mr. A settled
with New Debt)

B's Total Debts = 360000

c) Second Debt a/c Dr. 300000
T. payable a/c Dr. 60000
 — To Bank 90000
 — To Cap. Redu. 270000
(Being amt. settled with Mr. B)

$$\text{Other Creditors} = 300000$$

$$\text{F.S.I. of Claim} = 225000$$

$$\text{Settlement} = \frac{225000/-}{60/-} \times 4 \text{ no.} = 15000 \text{ no.}$$

7.50/-

$$\text{Value of Shares} \Rightarrow 15000 \times 7.50/-$$
$$\Rightarrow 112500$$

$$\text{Capital Reduct. a/c} = 225000 - 112500$$
$$= 112500$$

d) Creditors a/c Dr. 225000
 To ESC a/c 112500
 To Cap. Red. a/c 112500
(Being 15000 no. issued against F.S.I. Claim)

e) Share Final Call a/c Dr. 180000
 To ESC a/c 180000

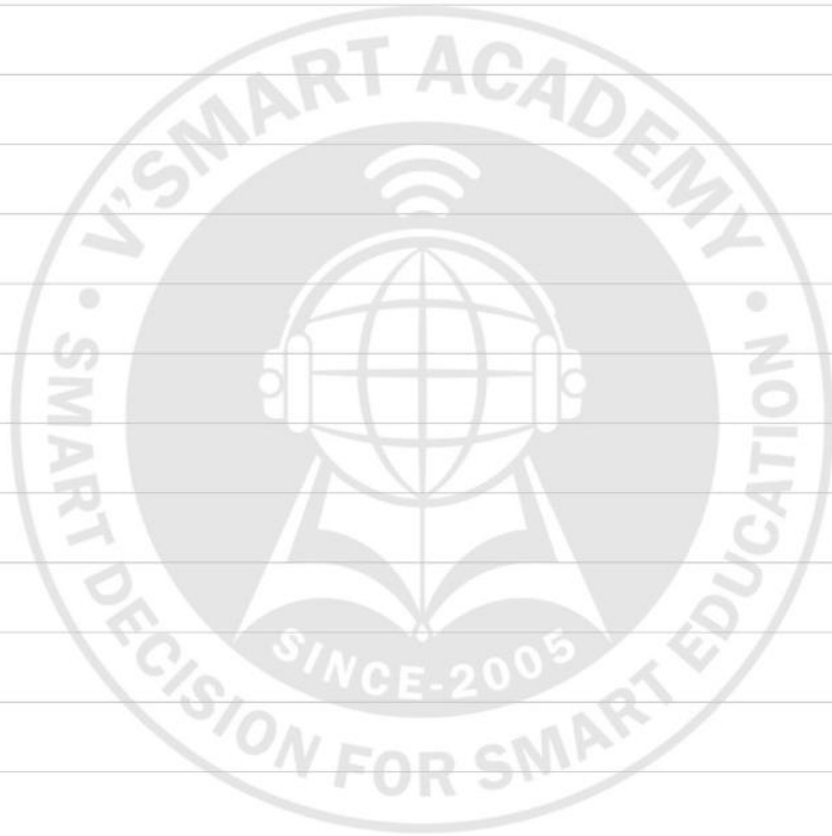
F) Bank a/c Dr.	180000
<u> </u> To Share Final Call	180000

Now, 600000, fully paid @ 60/-

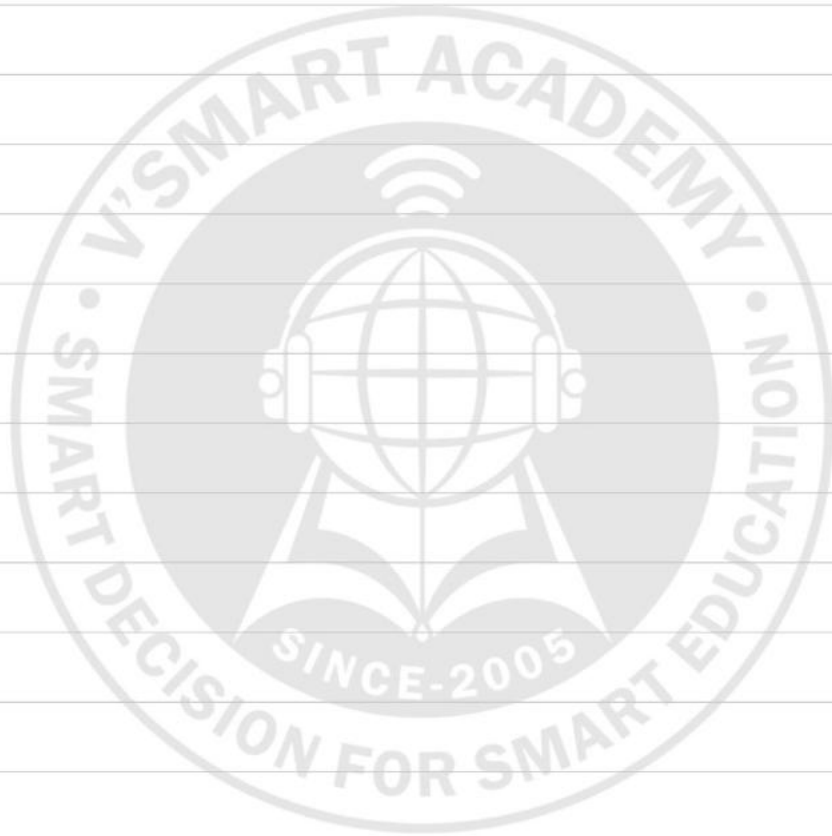
g) Esc a/c Dr. (60)	360000
7.5 x 600000. <u> </u> To Esc a/c (7.5)	45000
<u> </u> To Cap. Reduction	315000

h) Capital Red. a/c Dr.	907500
<u> </u> To P&L a/c	870000
<u> </u> To Cap. Reserve a/c	37500

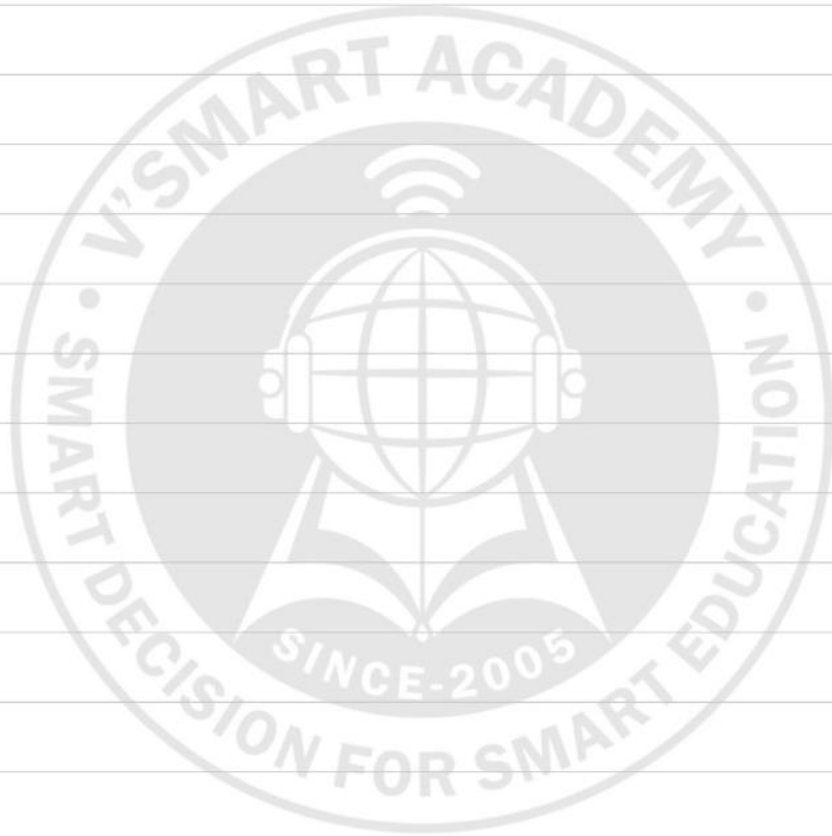
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