

ACCOUNTING FOR RECONSTRUCTION OF COMPANIES

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SECTION A – QUESTIONS

(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced in the Class)

SERIES 100**BASIC LEVEL QUESTIONS****Q.IR.SM.101(A):**

C Ltd. had ₹ 5,00,000 authorized 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.

SOLUTION**Journal Entries**

			₹	₹
20X2	Equity Share Capital A/c	Dr.	4,00,000	
June	To Equity Stock A/c			4,00,000
	(Being conversion of 4,000 fully paid Equity Shares of ₹ 100 into ₹ 4,00,000 Equity Stock as per resolution in general meeting dated...)			
20X3	Equity Stock A/c	Dr.	4,00,000	
June	To Equity Share Capital A/c			4,00,000
	(Being re-conversion of ₹ 4,00,000 Equity Stock into 40,000 shares of ₹ 10 fully paid Equity Shares as per resolution in General Meeting dated...)			

Notes to Balance Sheet

	₹
As on 31-12-20X1	
Share Capital	
Authorized	
5,000 Equity Shares of ₹ 100 each	5,00,000
Issued and Subscribed	
4,000 Equity Shares of ₹ 100 each fully called up	4,00,000
As on 31-12-20X2	₹
Share Capital	
Authorized	
5,000 Equity Shares of ₹ 100 each	5,00,000
Issued and Subscribed	
Equity Stock- 4,000 Equity Shares of ₹ 100 converted into Stock	4,00,000
As on 31-12-20X3	₹
Share Capital	
Authorized	
50,000 Equity Shares of ₹ 10 each	5,00,000
Issued and Subscribed	
40,000 Equity Shares of ₹ 10 each fully called up	4,00,000

Q.IR.SM.102(A):

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;
 - 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 ₹ 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.

Date	Particulars		Dr.	Cr.
			₹	₹
	Share capital A/c (₹ 50) To Share capital A/c (₹10) To 12% Preference share capital A/c	Dr.	5,00,000	1,50,000 2,00,000 50,000
	To Ban A/c To Reconstruction A/c (Being 15,000 equity shares of ₹ 10 and 12% preference shares issued, paid in cash and remaining forgone as a part of Reconstruction Scheme dated...)			1,00,000
	Preference Share capital A/c (₹ 100) To Preference share capital A/c (₹ 50) To Reconstruction A/c (Being the preference share capital reduced and forfeited as per reconstruction scheme)	Dr.	3,00,000	1,50,000 1,50,000
	14% Debenture A/c Interest accrued on Debentures A/c To Bank A/c To Reconstruction A/c (Being the debenture holders paid their interest and amount foregone as per reconstruction scheme)	Dr. Dr.	2,00,000 56,000	64,000 1,92,000
	Reconstruction A/c To Capital Reserve A/c (Being the balance in reconstruction ac transferred to capital reserve as per reconstruction scheme)	Dr.	4,42,000	4,42,000

Q.IR.SM.103(A):

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:

- New fully paid ₹ 10 Equity shares equal to 3/5th of their holding.
- 10% Preference shares fully paid to the extent of 1/5th of the above new equity shares.
- ₹ 40,000, 8% Debentures.

(ii) An issue of ₹ 1 lakh 10% first debentures was 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.

SOLUTION**Journal Entries**

	Dr.	Cr.
Equity Share Capital (old) A/c Dr.	10,00,000	
To Equity Share Capital (₹ 10) A/c		6,00,000
To 10% Preference Share Capital A/c		1,20,000
To 8% Debentures A/c		40,000
To Capital Reduction A/c		2,40,000
(Being new equity shares, 10% Preference Shares, 8% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)		
Bank A/c Dr.	1,00,000	
To 10% First Debentures A/c		1,00,000
(Being allotment of 10% first Debentures)		
Capital Reduction A/c Dr.	2,40,000	
To Goodwill Account		1,40,000
To Plant and Machinery Account		50,000
To Freehold Property Ac count		50,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)		

Q.IR.RMP.104(A): (Exam July21) (MTP May21, May20, May22, Nov22)

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 Rs. 10 each, the following:

- New fully paid Rs. 10 Equity Shares equal to 3/5th of their holding.
- Fully paid Rs. 10, 6% Preference Shares to the extent of 2/5th of the above new equity shares.
- 7% Debentures of Rs. 250,000.

ii. Goodwill which stood at Rs. 2,70,000 is to be completely written off.

iii. Plant & Machinery to be reduced by Rs. 1,00,000, Furniture to be reduced by Rs. 88,000 and Building to be appreciated by Rs. 1,50,000.

iv. Investment of Rs. 6,00,000 to be brought down to its existing market price of Rs. 1,80,000.

v. Write off Profit & Loss Account debit balance of Rs. 2,25,000.

In case of any shortfall, the balance of General Reserve of Rs. 42,000 can be utilized to write off the losses under reconstruction scheme.

You are required to show the necessary Journal Entries in the books of Sapra Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses.

SOLUTION

Journal Entries

		Rs.	Rs.
Equity Share Capital (old) A/c	Dr.	75,00,000	
To Equity Share Capital (Rs. 10) A/c			45,00,000
To 6% Preference Share Capital (Rs. 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)			

Note: In place of Capital Reduction Account, Reconstruction Account or Internal Reconstruction Account may also be used in the above journal entries.

SERIES 200
HIGH LEVEL QUESTIONS

Q.IR.SM.201(A):

The following is the summarized Balance Sheet of X Ltd. as on 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		6,00,000
		Total		36,60,000
		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		30,000
		Total		36,60,000

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

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 and 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

SOLUTION

**In the books of X Ltd.
Journal Entries**

31st March, 20X1		₹
(i)	Equity Share Capital A/c (₹ 100) Dr. To Equity Share Capital A/c (₹ 40) To Capital Reduction A/c (Being 24,000 equity shares of ₹ 100 each reduced to ₹ 40 each fully paid up)	24,00,000 9,60,000 14,40,000
(ii)	10% Preference Share Capital A/c (₹ 100) Dr. To 10% Pref. Share Capital A/c (₹ 75) To Capital Reduction A/c (Being 12,000 Preference shares of ₹ 100 each reduced to ₹ 75 each fully paid up)	12,00,000 9,00,000 3,00,000
(iii)	10% Debentures A/c Dr. To Inventories A/c To Trade receivables A/c To Capital Reduction A/c (Being debenture holders given Inventories and Trade receivables in full settlement of their claims)	6,00,000 2,60,000 2,80,000 60,000
(iv)	Land & Building A/c Dr. To Capital Reduction A/c (Being Land & Building appreciated by 30%)	3,60,000 3,60,000
(v)	Capital reduction A/c Dr. To Cash A/c (Being expenses of reconstruction)	5,000 5,000
(vi)	Capital Reduction A/c Dr. To Goodwill A/c To Profit and Loss A/c To Plant & Machinery A/c (Being various losses written off, assets written down through Capital Reserve A/c)	20,70,000 90,000 14,40,000 5,40,000
(vii)	Capital Reduction Dr. To Capital Reserve A/c (Bal. Fig.) (Being balance in Capital Reduction A/c transferred to Capital Reserve A/c)	85,000 85,000

Balance Sheet (And Reduced) of X Ltd. as at 31st March, 20X1

	Particulars	Notes No	₹
	Equity and Liabilities		
1	Shareholders' funds		
	A Share capital	1	18,60,000
	B Reserves and Surplus	2	85,000

2	Current liabilities		
A	Trade Payables		3,00,000
B	Short term borrowings		6,00,000
	Total		28,45,000
	Assets		
1	Non-current assets		
A	Property, Plant Equipment		
	Tangible assets	3	28,20,000
2	Current assets		
A	Cash and cash equivalents (30,000 -5,000)		25,000
	Total		28,45,000

Notes to accounts

1.	Share Capital		
	Equity share capital		
	24,000 equity shares of ₹ 40 each fully paid up		9,60,000
	Preference share capital		
	12,000, 10% Preference shares of ₹75 each fully paidup		9,00,000
	Total		18,60,000
2.	Reserves and Surplus		
	Capital Reserve		85,000
3.	Tangible assets		
	Land and Building	15,60,000	
	Plant and Machinery	12,60,000	
	Total		28,20,000

Q.IR.RMP.202(A): (RTP – May 19, Nov 22 & MTP March 18, April21)

The Balance Sheet of Lion Limited as on 31-03-2018 is given below:

Particulars	Note No.	Amount (Rs in lakh)
EQUITY & LIABILITIES		
Shareholders' Funds		
Shares' Capital	1	1,400
Reserves & Surplus	2	(522)
Non-Current Liabilities		
Long term Borrowings	3	700
Current Liabilities		
Trade Payables	4	102
Other Liabilities	5	24
Total		1704
ASSETS		
Non-Current Assets		
Property, Plant & Equipment		
Tangible Assets	6	750
Current Assets		
Current Investments	7	200

Inventories	8	300
Trade Receivables	9	450
Cash & Cash Equivalents	10	4
Total		1704

Notes to Accounts:

		Rs in Lakhs
(1)	Share Capital	
	Authorised:	
	200 lakh shares of Rs 10 each	2,000
	8 lakh, 8% Preference Shares of Rs 100 each	800
		2,800
	Issued, Subscribed and paid up:	
	100 lakh Equity Shares of Rs 10 each, full paid up	1,000
	4 lakh 8% Preference Shares of Rs 100 each, fully paid up	400
	Total	1400
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(522)
(3)	Long Term Borrowings	
	6% Debentures (Secured by Freehold Property)	400
	Directors' Loan	300
		700
(4)	Trade Payables	
	Trade payables for Goods	102
(5)	Other Current Liabilities	
	Interest Accrued and Due on 6% Debentures	24
(6)	Tangible Assets	
	Freehold Property	550
	Plant & Machinery	200
		750
(7)	Current Investment	
	Investment in Equity Instruments	200
(8)	Inventories	
	Finished Goods	300
(9)	Trade Receivables	
	Trade receivables for Goods	450
(10)	Cash and Cash Equivalents	
	Balance with Bank	4

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

- (1) Preference Shares are to be written down to Rs 80 each and Equity Shares to Rs 2 each.
- (2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs 2 each to be allotted.
- (3) Debenture holders agreed to take one Freehold Property at its book value of Rs 300 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
- (4) Interest accrued and due on Debentures to be paid in cash.
- (5) Remaining Freehold Property to be valued at Rs 400 lakh.
- (6) All investments sold out for Rs 250 lakh.

- (7) 70% of Directors' loan to be waived and for the balance, Equity Shares of Rs. 2 each to be allowed.
- (8) 40% of Trade receivables and 80% of Inventories to be written off.
- (9) Company's contractual commitments amounting to Rs.600 lakh have been settled by paying 5% penalty of contract value.

You are required to:

- (a) Pass Journal Entries for all the transactions related to internal reconstruction;
- (b) Prepare Reconstruction Account; and

Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

SOLUTION

Journal Entries in the books of Lion Ltd.

	Particulars	Debit (Rs in lakhs)	Credit (Rs in lakhs)
1	8% Pref. share capital A/c (Rs 100 each) Dr. To 8% Pref. share capital A/c (Rs 80 each) To Capital Reduction A/c (Being the preference shares of Rs 100 each reduced to Rs 80 each as per the approved scheme)	400	320 80
2	Equity share capital A/c (Rs.10 each) To Equity share capital A/c (Rs 2 each) To Capital Reduction A/c (Being the equity shares of Rs 10 each reduced to Rs 2 each)	1,000	200 800
3	Capital Reduction A/c Dr. To Equity share capital A/c (Rs 2 each) (Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 16 lakhs equity shares of Rs 2 each)	32	32
4	6% Debentures A/c Dr. To Freehold property A/c (Being claim of Debenture holders settled in part by transfer of freehold property)	300	300
5	Accrued debenture interest A/c Dr. To Bank A/c (Being appreciation in the value of freehold property)	24	24
6	Freehold property A/c Dr. To Capital Reduction A/c (Being investment sold at profit)	150	150
7	Bank A/c Dr. To Investment A/c To Capital Reduction A/c (Being Investment Sold)	250	200 50
8	Director's loan A/c Dr. To Equity share capital A/c (Rs 2 each) To Capital Reduction A/c (Being director's loan waived by 70% and balance being discharged by issue of 45 lakhs equity shares of Rs 2 each)	300	90 210
9	Capital Reduction A/c Dr. To Profit and loss A/c To Trade receivables A/c (450 x 40%)	972	522 180

	To Inventories-in-trade A/c (300x 80%) To Bank A/c (600 x 5%) (Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)		240 30
10	Capital Reduction A/c To Capital reserve A/c (Being balance transferred to capital reserve account as per the scheme)	Dr.	286 286

(b) Capital Reduction Account Dr.

	(Rs in lakhs)		(Rs in lakhs)
To Equity Share Capital	32	By Preference Share Capital	80
To Trade receivables	180	By Equity Share Capital	800
To Finished Goods	240	By Freehold Property	150
To Profit & Loss A/c	522	By Bank	50
To Bank A/c	30	By Director's Loan	210
To Capital Reserve	286		
	1,290		1,290

(c) Notes to Balance Sheet

	(Rs in lakhs)	(Rs in lakhs)
1. Share Capital		
Authorised:		
200 lakhs Equity shares of Rs 2 each		400
8 lakhs 8% Preference shares of Rs 80 each		640
		1,040
Issued:		
161 lakhs equity shares of Rs2 each		322
4 lakhs Preference Shares of Rs 80 each		320
		642
2. Tangible Assets		
Freehold Property	550	
Less: Utilized to pay Debenture holders	(300)	
	250	
Add: Appreciation	150	400
Plant and Machinery		200
		600

Q.IR.RMP.203(A): (EXAM Nov19 and May19) (RTP May23) (Similar in ICAI Module)

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

Particulars	Amount (Rs)
Liabilities	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of Rs 50 each	7,50,000
(b) 18,750 Equity shares of Rs 50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250

Trade Payables	2,58,750
Other Liabilities	43,750
Total	21,42,500
Assets	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000
Total	21,42,500

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

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

- (i) The equity shareholders have agreed that their Rs 50 shares should be reduced to Rs 5 by cancellation of Rs 45.00 per share. They have also agreed to subscribe for three new equity shares of Rs 5.00 each for each equity share held.
- (ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each Rs 50 preference share, 4 new 6% preference shares of Rs 10 each, plus 3 new equity shares of Rs 5.00 each, all credited as fully paid.
- (iii) Lenders to the company for Rs 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of Rs 10 each and 7,500 new equity shares of Rs 5.00 each.
- (iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of Rs 5.00 each in addition to any shares to be subscribed by them under (i) above.
- (v) Of the cash received by the issue of new shares, Rs 2,50,000 is to be used to reduce the loan due by the company.
- (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 Rs 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 Rs 8,12,500 for preference share capital and Rs 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.

SOLUTION

In the books of Fortunate Ltd. Journal Entries

	Particulars	Debit (Rs)	Credit (Rs)
1.	Equity share capital A/c (Rs 50)	Dr. 9,37,500	
	To Equity share capital A/c (Rs 5)		93,750
	To Capital reduction A/c*		8,43,750
	(Being equity capital reduced to nominal value of Rs 5 each)		
2.	Bank A/c	Dr. 2,81,250	
	To Equity share capital		2,81,250
	(Being 3 right shares against each share was issued and subscribed)		
3.	8% Preference share capital A/c (Rs 50)	Dr. 7,50,000	
	Capital reduction A/c	Dr. 75,000	

	To 6% Preference share capital (Rs 10)		6,00,000
	To equity share capital (Rs 50)		2,25,000
	(Being 8% preference shares of Rs 50 each converted to 6% preference shares of Rs 10 each and also given to them 3 equity shares for every share held)		
4.	Loan A/c	Dr.	1,87,500
	6% Preference share capital A/c (15,000 x Rs 10)		1,50,000
	To Equity share capital A/c (7,500 x Rs 5)		37,500
	(Being loan to the extent of Rs 1,50,000 converted into share capital)		
5.	Bank A/c (25,000 x Rs 5)	Dr.	1,25,000
	To Equity share application A/c		1,25,000
	(Being shares subscribed by the directors)		
6.	Equity share application A/c	Dr.	1,25,000
	To Equity share capital A/c		1,25,000
	(Being application money transferred to capital A/c)		
7.	Loan A/c	Dr.	2,50,000
	To Bank A/c		2,50,000
	(Being loan repaid)		
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	Rs
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	15,12,500
2	Non-current liabilities		
a	Long-term borrowings (7,16,250 – 1,87,500 – 2,50,000)		2,78,750
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:

			Rs
1	Share Capital		
	Authorized capital:		
	81,250 Preference shares of Rs 10 each	8,12,500	
	1,87,500 Equity shares of Rs 5 each	<u>9,37,500</u>	<u>17,50,000</u>
	Issued, subscribed and paid up:		
	1,52,500 equity shares of Rs 5 each	7,62,500	
	75,000, 6% Preference shares of Rs 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		
	Trademarks 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.

Q.IR.SM.204(A):

The Balance Sheet of Vaibhav Ltd. as on 31st March 20X1 is as follows:



	₹
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 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) Fixed assets are 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 Rs. 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.
- (viii) The taxation liability is to be settled at Rs. 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.

SOLUTION**Journal Entries in the books of Vaibhav Ltd.**

		₹	₹
i	Equity share capital A/c (₹ 100) A/c Dr. To Equity share capital A/c (₹ 40) A/c To Capital reduction A/c (Being conversion of equity share capital of ₹ 100 each into ₹40 each as per reconstruction scheme)	2,00,00,000	80,00,000 1,20,00,000
ii	6% Cumulative Preference Share capital (₹100) A/c Dr. To 6% Cumulative Preference share Capital (₹ 60) A/c To Capital Reduction A/c (Being conversion of 6% cumulative preference shares capital of ₹ 100 each into ₹60 each as per reconstruction scheme)	1,00,00,000	60,00,000 40,00,000
iii	5% Debentures (₹ 100) A/c Dr. To 6% Debentures (₹ 70) A/c To Capital Reduction A/c (Being 6% debentures of ₹ 70 each issued to existing 5% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)	80,00,000	56,00,000 24,00,000
iv	Sundry Creditors A/c Dr. To Equity Share Capital (₹ 40) A/c To Capital Reduction A/c (Being a creditor of ₹ 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of ₹ 40 each in full settlement of his dues as per reconstruction scheme)	40,00,000	24,00,000 16,00,000
v	Provision for Taxation A/c Dr. Capital Reduction A/c Dr. To Liability for Taxation A/c (Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)	2,00,000 1,00,000	3,00,000
vi	Capital Reduction A/c Dr. 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)	199,00,000	12,00,000 50,00,000 110,00,000 1,00,000 26,00,000
vii	Liability for Taxation A/c Dr. To Current Assets (Bank A/c) (Being the payment of tax liability)	3,00,000	3,00,000

Balance Sheet of Vaibhav Ltd. (After Reconstruction) as on 31st March, 20X1

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	164,00,000
	B	Reserve and Surplus	2	26,00,000
2		Non-current liabilities		
	A	Long-term borrowings		
3		Current liabilities	3	56,00,000

	A	Trade Payables (1,00,00,000 less 40,00,000)		<u>60,00,000</u>
		Total		<u>3,06,00,000</u>
		Assets		
1		Non-current assets		
	A	Property, Plant Equipment		
		Tangible assets	4	200,00,000
		Investments	5	19,00,000
2		Current assets	6	87,00,000
		Total		<u>3,06,00,000</u>

Notes to accounts

1	Share Capital		
	Equity share capital		
	Issued, subscribed and paid up		
	2,60,000 equity shares of ₹ 40 each (of the above 60,000 shares have been issued for consideration other than cash)		1,04,00,000
	Preference share capital		
	Issued, subscribed and paid up		
	1,00,000 6% Cumulative Preference shares of ₹ 60 each		60,00,000
	Total		<u>1,64,00,000</u>
2.	Reserves and Surplus		
	Capital Reserve		<u>26,00,000</u>
3.	Long-term borrowings		
	Secured		
	6% Debentures		<u>56,00,000</u>
4.	Tangible assets		
	Fixed Assets	2,50,00,000	
	Adjustment under scheme of reconstruction	(50,00,000)	<u>2,00,00,000</u>
5.	Investments	20,00,000	
	Adjustment under scheme of reconstruction	<u>(1,00,000)</u>	<u>19,00,000</u>
6.	Current assets		
		2,00,00,000	
	Adjustment under scheme of reconstruction	110,00,000	
		90,00,000	
	Taxation liability paid	(3,00,000)	<u>87,00,000</u>

Working Note:

Capital Reduction Account

To Liability for taxation A/c	1,00,000	By Equity share capital	1,20,00,000
To P & L A/c	12,00,000	By 6% Cumulative preferences Share capital	40,00,000
To Fixed Assets	50,00,000	By 5% Debentures	24,00,000
To Current assets	1,10,00,000	By Sundry creditors	16,00,000
To Investment	1,00,000		

To Capital Reserve (Bal.fig.)	26,00,000		
	2,00,00,000		2,00,00,000

Q.IR.SM.205(A):

Following is the Summary 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		1,50,000
	Total		41,37,000
	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		10,000
	Total		41,37,000

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	6,00,000
	26,00,000
2 Reserves and Surplus	
Debit balance of Profit and loss A/c	(4,05,000)
	(4,05,000)
3 Long-term borrowings	
9% debentures	12,00,000
	12,00,000
4 Property, Plant and Equipment	
Plant and machinery	9,00,000
Furniture and fixtures	2,50,000
	11,50,000
5 Intangible assets	
Patents and copyrights	70,000

		70,000
6	Non-current investments	
	Investments (market value of ₹ 55,000)	68,000

The following scheme of reconstruction was finalised:

- (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 Rs. 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
- (iv) Investment value to be reduced to market price.
- (v) The company would issue 11% Debentures for Rs. 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.

SOLUTION

**In the Books of ABC Ltd.
Journal Entries**

Particulars		₹	₹
8% Preference share capital A/c Dr.		6,00,000	
To Preference shareholders A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital]			
Alternate Entry may exist			
9% Debenture holders A/c Dr.		12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Trade payables A/c Dr.		5,92,000	
To Inventory A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving Inventories]			
Bank A/c Dr.		3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c Dr.		1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c Dr.		5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c			1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			

Capital Reduction Account

	₹		₹
To Investments A/c	13,000	By Preference share capital A/c	1,80,000
To Profit and loss A/c	4,05,000	By 9% Debenture holders A/c	3,00,000

To Capital reserve A/c	<u>1,54,000</u>	By Trade payables A/c	<u>92,000</u>
	5,72,000		5,72,000

Balance Sheet of ABC Ltd. (And Reduced) As on 31st March 20X1

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	1,54,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	<u>7,20,000</u>
Total		28,74,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant Equipment	4	2,50,000
(b) Intangible assets	5	70,000
(c) Non-current investments	6	55,000
(2) Current assets		
(a) Current investments		
(b) Inventories (₹ 14,00,000 – ₹ 5,00,000)		9,00,000
(c) Trade receivables		14,39,000
(d) Cash and cash equivalents		
Cash at Bank (W. N.)		<u>1,60,000</u>
Total		28,74,000

Notes to Accounts

		₹
1	Share capital 2,00,000 Equity shares of ₹10 each fully paid-up	20,00,000
2	Reserve and Surplus Capital Reserve	1,54,000
3	Long Term Borrowing 11 % Debentures (₹4,20,000+ ₹3,00,000)	7,20,000
		3,20,000
4	Property, plant & Equipment	
	Plant & Machinery	9,00,000
	Less: Adjustment on scheme of Reconstruction 9,00,000	-
	Furniture & Fixtures	2,50,000
5	Intangible Assets	
	Patents & Copyrights	70,000
		3,20,000
6	Non-Current Investments Investment (₹68,000 - ₹ 13,000)	55,000

Working Note:

Cash at bank = Opening balance + 11% Debentures issued – Bank overdraft paid
 = ₹ 10,000 + ₹ 3,00,000 – ₹ 1,50,000 = ₹ 1,60,000

Q.IR.RMP.206(A): (RTP May21)

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 2020 is as follows:

		Particulars	Notes	Rs.
		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	55,000
3		Current liabilities		
	A	Trade Payables		80,000
	B	Short term Borrowings – Bank overdraft		<u>90,000</u>
				<u>5,05,000</u>
		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		<u>50,000</u>
				<u>5,05,000</u>

Notes to accounts:

1	Share Capital	Rs.
	Equity share capital:	
	20,000 Equity Shares of Rs. 10 each	2,00,000
	Preference share capital:	
	15,000 8% Cumulative Preference Shares of Rs. 10 each (preference dividend has been in arrears for 4 years)	<u>1,50,000</u>
		<u>3,50,000</u>
2	Reserves and surplus	
	Securities premium	10,000
	Profit and loss account (debit balance)	<u>(80,000)</u>
		<u>(70,000)</u>
3	Long-term borrowings	
	<u>Secured</u>	
	9% Debentures (secured on the freehold property)	50,000
	Accrued interest on 9% debentures	<u>5,000</u>
		<u>55,000</u>
4	Property, Plant and Equipment	
	Freehold property	1,20,000
	Leasehold property	85,000
	Plant and machinery	<u>1,30,000</u>
		<u>3,35,000</u>
5	Intangible assets	

	Goodwill	<u>50,000</u>
		<u>50,000</u>
6	Non-current investments	
	Non-Trade investments at cost	<u>40,000</u>
		<u>40,000</u>

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

- i)** The preference shares were reduced to Rs. 2.5 per share, and the equity shares to Rs. 1 per share.
- ii)** One new equity share of Rs. 1 was issued for the arrears of preferred dividend for past 4 years.
- iii)** The balance on Securities Premium Account was utilized and was transferred to capital reduction account.
- iv)** The debenture holders took over the freehold property at an agreed figure of Rs. 75,000 and paid the balance to the company after deducting the amount due to them.
- v)** Plant and Machinery was written down to Rs. 1,00,000.
- vi)** Non-trade Investments were sold for Rs. 32,000.
- vii)** Goodwill and obsolete stock (included in the value of inventories) of Rs. 10,000 were written off.
- viii)** A contingent liability of which no provision had been made was settled at Rs. 7,000 and of this amount, Rs. 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.

SOLUTION:

**In the books of Recover Ltd
Journal entries**

Particulars	Dr. Rs.	Cr. Rs.
8% Cumulative Preference share capital (Rs. 10) A/c Dr. To 8% Cumulative Preference share capital (Rs. 2.5) A/c To Capital reduction (Rs. 7.5) A/c (Preference shares being reduced to shares of Rs. 2.5 per share and remaining transferred to capital reduction account as per capital reduction scheme)	1,50,000	37,500 1,12,500
Equity share capital A/c (Rs. 10) Dr. To Equity Share capital A/c (Rs. 1) To Capital reduction A/c (Rs. 9) (Equity shares reduced to Rs. 1 per share with the remaining amount transferred to capital reduction as a part of the internal reconstruction scheme.)	2,00,000	20,000 1,80,000
Capital reduction A/c Dr. To Equity share capital A/c (Equity shares of Rs. 1 issued in lieu of the arrears of preference dividend for 4 years as a part of the internal reconstruction scheme)	48,000	48,000
Securities Premium A/c Dr. To Capital reduction A/c (Amount from the securities premium utilized towards the capital reduction a/c as a part of the internal reconstruction scheme)	10,000	10,000
9% Debentures A/c Dr. Accrued interest on debentures A/c Dr. Bank A/c Dr. Capital reduction A/c Dr.	50,000 5,000 20,000 45,000	

To Freehold property A/c (Debenture holders being paid by the sale of property, which is sold at a loss debited to the capital reduction account. Amount received in excess being refunded to company by debenture holders as a part of the internal reconstruction scheme.)			1,20,000
Capital reduction A/c To Plant and Machinery Ac To Goodwill A/c To Inventory A/c (The assets written off as a part of the internal reconstruction scheme)	Dr.	90,000	30,000 50,000 10,000
Bank A/c Capital reduction A/c To Investments A/c (Investments sold at a loss debited to capital reduction account as a part of the internal reconstruction scheme)	Dr. Dr.	32,000 8,000	40,000
Contingent Liability A/c To Bank A/c (Contingent liability paid as a part of the internal reconstruction scheme)	Dr.	7,000	7,000
Bank A/c Capital reduction A/c To Contingent Liability A/c (The insurance company remitting part of the contingency payment amount)	Dr. Dr.	6,300 700	7,000
Capital reduction A/c To Profit and loss A/c (Accumulated losses written off to capital reduction account as a part of the internal reconstruction scheme).	Dr.	80,000	80,000
Capital reduction A/c To Capital reserve A/c (The balance in capital reduction account transferred to capital reserve as a part of the internal reconstruction scheme)	Dr.	30,800	30,800

Balance sheet of Recover Ltd. as at 31st March 2020 (and reduced)

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	1,05,500
	B	Reserves and surplus	2	30,800
2		Non-current liabilities		
	A	Long-term borrowings		-
3		Current liabilities		
	A	Trade Payables		80,000
	B	Short term Borrowings – Bank overdraft		<u>90,000</u>
				<u>3,06,300</u>
		Assets		
1		Non-current assets		
	A	Property, Plant Equipment	3	1,85,000
2		Current assets		
	A	Inventories		20,000
	B	Trade receivables		50,000
	C	Cash and cash equivalents	4	<u>51,300</u>

3,06,300

Notes to Accounts

1	Share Capital	Rs.
	Equity share capital:	
	68,000 Equity Shares of Rs. 1 each	68,000
	Preference share capital:	
	15,000 8% Cumulative Preference Shares of Rs. 2.5 each	<u>3,75,00</u>
		<u>1,05,500</u>
2	Reserves and surplus	
	Capital Reserve	<u>30,800</u>
3	Property, Plant and Equipment	
	Leasehold property	85,000
	Plant and machinery	<u>1,00,000</u>
		<u>1,85,000</u>
4	Cash and cash equivalents	
	Bank A/c (20,000+32,000-7000+6,300)	<u>51,300</u>

Q.IR.RMP.207(A): (MTP – March 19)

The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarized balance sheet as on 31-3-2017 and the information supplied, you are required to prepare



- (i) Journal entries reflecting the scheme of reconstruction,
- (ii) Capital reduction account,
- (iii) Cash account in the books of Lili Ltd.

Summarized Balance Sheet of Lili Ltd. as on 31.3.2017

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
30,000 Equity shares of RS.10 each.	3,00,000	Trademarks and Patents.	1,10,000
40,000 8% Cum. Pref. shares Rs.10 each	4,00,000	Goodwill at cost	36,100
		Freehold Land	1,20,000
		Freehold Premises	2,44,000
		Plant and Equipment	3,20,000
Reserves and Surplus	10,000	Investment	
Securities Premium Account	(1,38,400)	(Marked to market)	64,000
Profit and Loss Account		Current Assets	
Secured Borrowings		Inventories:	76,000
9% Debentures (100/-) 1,20,000	1,25,400	Raw materials and packing materials 60,000	
Accrued Interest <u>5,400</u>		Finished goods <u>16,000</u>	
Current liabilities	1,20,000	Trade receivables	1,20,000
Trade payables	50,000		
Tax payable	2,23,100		
Temporary bank overdraft			
	10,90,100		10,90,100

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

- (1) The authorized capital of the Company to be re-fixed at Rs.10 lakhs (preference capital of Rs.3 lakhs and equity capital of Rs.7 lakhs). Both classes of shares are of Rs.10 each.

- (2) The preference shares are to be reduced to Rs. 5 each and equity shares reduced by Rs. 3 per share. Post reduction, both classes of shares to be re-consolidated into Rs.10 shares.
- (3) Trade Investments are to be liquidated in open market.
- (4) One fresh equity shares of Rs.10 to be issued for every Rs.40 of preference dividends in arrears (ignore taxation).
- (5) Expenses for the scheme were Rs. 10,000.
- (6) The debenture holders took over freehold land at Rs. 2,10,000 and settled the balance after adjusting their dues.
- (7) Un-provided contingent liabilities were settled at Rs. 54,000 and a pending insurance claim receivable settled at Rs. 12,500.
- (8) The intangible assets were all to be written off along with Rs. 10,000 worth obsolete packing material and 10% of the receivables.
- (9) Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.
- (10) The Equity shareholders agree that they will bring in necessary cash to liquidate the balance outstanding on the overdraft account by subscribing the fresh shares. The equity shares will be issued at par for this purpose

SOLUTION

In the books of Lili Ltd. Journal Entries

Sr. No.	Particulars	Dr.	Cr.
1	Equity Share Capital A/c (Rs.10) Dr. To Capital Reduction A/c To Equity Share Capital A/c (Rs.7) (Being reduction of equity shares of Rs.10 each to shares of Rs. 7 each as per Reconstruction Scheme dated...)	3,00,000	90,000 2,10,000
2	8% Cum. Preference Share Capital A/c (Rs. 10) Dr. To Capital Reduction A/c To Preference Share Capital A/c (Rs. 5) (Being reduction of preference shares of Rs.10 each to shares of Rs.5 each as per reconstruction scheme)	4,00,000	2,00,000 2,00,000
3	Equity Share Capital A/c (30,000 x Rs.7) Dr. Preference Share Capital A/c (40,000 x Rs.5) Dr. To Equity Share Capital A/c (21,000 x Rs. 10) To Pref. Share Capital A/c (20,000 x Rs.10) (Being post reduction, both classes of shares reconsolidated into Rs.10 each)	2,10,000 2,00,000	2,10,000 2,00,000
4	Cash Account Dr. To Trade Investments (Being trade investments liquidated in the open market)	64,000	64,000
5	Capital Reduction Account Dr. To Equity Share Capital Account (Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of Rs.10 each)	32,000	32,000
6	Capital Reduction Account Dr. To Cash Account (Being expenses of reconstruction scheme paid in cash)	10,000	10,000
7	9% Debentures Account Dr. Accrued Interest Account Dr. To Debenture holders Account (Being amount due to debenture holders)	1,20,000 5,400	1,25,400
8	Debenture holders Account Dr.	1,25,400	

9	Cash Account (2,10,000 – 1,25,400) Dr.	84,600	1,20,000
	To Freehold Land To Capital Reduction Account (2,10,000 – 1,20,000) (Being Debenture holders took over freehold land at Rs.2,10,000 and settled the balance)		90,000
10	Capital Reduction Account Dr.	54,000	
	To Cash Account (Being contingent liability of Rs.54,000 paid)		54,000
11	Cash Account Dr.	12,500	
	To Capital Reduction Account (Being pending insurance claim received)		12,500
12	Capital Reduction Account Dr.	1,68,100	
	To Trademarks and Patents		1,10,000
	To Goodwill		36,100
	To Raw materials & Packing materials		10,000
13	To Trade receivables (Being intangible assets written off along with raw materials and packing materials worth Rs.10,000 and 10% of trade receivables)		12,000
	Cash Account Dr.	1,26,000	
14	To Equity Share Capital Account (Being 12,600 shares issued to existing shareholders)		1,26,000
	Bank Overdraft Account Dr.	2,23,100	
14	To Cash Account (Being cash balance utilized to pay off bank overdraft)		2,23,100
	Capital Reduction Account Dr.	1,28,400	
	To Capital reserve Account (Being balance of capital reduction account transferred to capital reserve account)		1,28,400

Capital Reduction Account

Particulars	Rs.	Particulars	Rs.
To Equity share capital	32,000	By Preference share capital	2,10,000
To Cash (Contingent liability settled)	54,000	By Equity share capital	90,000
To Trademarks and Patents	1,10,000	By Freehold land	90,000
To Goodwill	36,100	By Cash (insurance claim)	12,500
To Raw material and Packing materials	10,000		
To Trade receivables	12,000		
To Cash account	10,000		
To Capital reserve account	<u>1,28,400</u>		
	<u>3,92,500</u>		<u>3,92,500</u>

Cash Account

Particulars	Rs.	Particulars	Rs.
To Investment	64,000	By Capital reduction (Contingent liability)	54,000
To 9% Debenture holders (2,10,000 – 1,25,400)	84,600	By Expenses	10,000
To Capital reduction (Insurance claim)	12,500	By Temporary bank overdraft - From available cash	

		(64,000 + 84,000 + 12,500 - 54,000-10,000) 97,100 - From proceeds of equity shares capital (2,23,100-97,100) <u>1,26,000</u>	<u>2,23,100</u>
To Equity share capital 12,600 shares @ Rs. 10 each	<u>1,26,000</u>		
	2,87,100		2,87,100

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft =Rs.2,23,100 – Rs. 97,100 = Rs.1,26,000

Q.IR.RMP.208(A): (Exam Nov22)

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	Rs
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	15,00,000
b	Reserves & 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>
	Assets		
1	Non-current assets		
a	Property, Plant and Equipment	3	10,20,000
b	Intangible assets	4	1,20,600
2	Current assets		
a	Inventories		1,70,000
b	Trade receivables		3,01,800
c	Cash and cash equivalents		<u>7,600</u>
	Total		<u>16,20,000</u>

Notes to accounts:

		Rs
1	Share Capital	
	90,000 Equity Shares of Rs. 10 each fully paid	9,00,000
	6% Preference Share Capital	6,00,000
		<u>15,00,000</u>
2	Reserves & Surplus	
	Profit & Loss account	(3,00,000)
3	Property, Plant and Equipment	
	Land and Building	5,40,000
	Plant & Machinery	<u>4,80,000</u>
		10,20,000
4	Intangible assets	
	Goodwill	84,600
	Patents	36,000
		1,20,600

Dividends on Preference shares are in arrears for 3 years.

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

- (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 Rs. 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 & Building and Plant & Machinery are revalued at 85% and 80% of their respective book values.
- (vi) Book debts amounting to Rs. 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 Rs. 90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The Remaining balance of 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 Rs. 4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

You are required to give journal entries incorporating the above scheme of reconstruction, capital reduction account and prepare the reconstructed Balance Sheet.

SOLUTION:

Journal Entries In the books of Purple Ltd.

	Particulars		Debit	Credit
			(₹)	(₹)
1.	6% Preference share capital A/c	Dr.	6,00,000	
	To 8% Preference share capital A/c			4,50,000
	To Capital reduction A/c			1,50,000
	(Being 6% preference shares converted to 8% preference shares so that return to pref. shareholders remains unaffected)			
2.	Equity share capital A/c (₹ 10)	Dr.	9,00,000	
	To Equity share capital A/c (₹ 8)			7,20,000
	To Capital reduction A/c			1,80,000
	(Being equity capital reduced to nominal value of ₹ 8 each)			
3.	Capital Reduction A/c	Dr.	3,30,000	
	To Goodwill A/c			84,600
	To Land and Building A/c			81,000
	To Plant and Machinery A/c			96,000
	To Trade Receivables A/c (Book debts)			14,400
	To Patents A/c (Bal. fig.)			24,000
	To Profit and loss A/c			30,000
	(Being losses and assets written off to the extent required)			
4.	Bank A/c	Dr.	4,80,000	
	To Bank Loan A/c			4,80,000
	(Being Loan taken)			
5.	Bank overdraft A/c	Dr.	2,00,000	

To Bank A/c			2,00,000
(Being Bank overdraft repaid)			

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	Plant and Machinery A/c	96,000			
To	Trade receivables (Book Debts) A/c	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	$(6/100) \times ₹6,00,000 = ₹36,000$
Rate of return	8% on Preference Shares
Dividend	$(8/100) \times X = ₹36,000$ $X = (36,000/8) \times 100 = 4,50,000$
New Preference Share Capital	₹ 4,50,000
Old Preference Share Capital	₹ 6,00,000
Amount taken to capital Reduction A/C. (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	= $(80/100) \times 4,80,000$	= ₹ 3,84,000
Reduced by:		
Land & Building	= $(5,40,000 - 4,59,000)$	= ₹ 81,000
Plant & Machinery	= $(4,80,000 - 3,84,000)$	= ₹ 96,000

Q.IR.SM.209(A): (Removed from ICAI New Syllabus Material)

Repair Ltd. is in the hands of a receiver for debenture holders who holds a charge on all assets except uncalled capital. The following statement shows the position as regards creditors as on 30th June, 20X1:



	₹
Property, plant and equipment (Cost ₹ 3,90,000) - estimated at	1,50,000
Cash in hand of the receiver	2,70,000
Charged under debentures	4,20,000

Uncalled capital	1,80,000
Deficiency	7,50,000
6,000 shares of ₹ 60 each, ₹ 30 paid up	1,80,000
First debentures	3,00,000
Second debentures	6,00,000
Unsecured trade payables	4,50,000

A holds the first debentures for Rs. 3,00,000 and second debentures for Rs. 3,00,000. He is also an unsecured creditor for Rs. 90,000. B holds second debentures for Rs.3,00,000 and is an unsecured trade payables for Rs. 60,000. The following scheme of reconstruction is proposed:

1. A is to cancel Rs. 2,10,000 of the total debt owing to him, to bring Rs. 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for Rs. 5,10,000 in satisfaction of all his claims.
2. B is to accept Rs. 90,000 in cash in satisfaction of all claims by him.
3. In full settlement of 75% of the claim, unsecured creditors (other than A and B) agreed to accept four shares of Rs. 7.50 each, fully paid against their claim for each share of Rs. 60. The balance of 25% is to be postponed and to be payable at the end of three years from the date of Court's approval of the scheme. The nominal share capital is to be increased accordingly.
4. Uncalled capital is to be called up in full and Rs. 52.50 per share cancelled, thus making the shares of Rs. 7.50 each.

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

SOLUTION:

Journal Entries

Particulars		Debit	Credit
First debentures A/c	Dr.	3,00,000	
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	90,000	
To A's A/c			6,90,000
(Being A's total liability ascertained)			
A's A/c	Dr.	2,10,000	
To Capital reduction A/c			2,10,000
(Being cancellation of debt upto ₹ 2,10,000)			
Bank A/c	Dr.	30,000	
To A's A/c			30,000
(Being cash received in course of settlement)			
A's A/c	Dr.	5,10,000	
To First debentures A/c			5,10,000
(Being liability of A, discharged against first debentures)			
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	60,000	
To B's A/c			3,60,000
(Being B's liability ascertained)			
B's A/c	Dr.	3,60,000	
To Bank A/c			90,000
To Capital reduction A/c			2,70,000
(Being B's liability discharged)			
Unsecured trade payables A/c	Dr.	3,00,000	
To Equity share capital A/c			1,12,500
To Loan (Unsecured) A/c			75,000

To Capital reduction A/c (Being settlement of unsecured creditors)		1,12,500
Share call A/c To Share capital A/c (Being final call money due)	Dr.	1,80,000 1,80,000
Bank A/c To Share call A/c (Being final call money received)	Dr.	1,80,000 1,80,000
Share capital A/c (Face value ₹ 60) To Share capital (Face value ₹ 7.50) To Capital reduction A/c (Being share capital reduced to ₹ 7.50 each)	Dr.	3,60,000 45,000 3,15,000
Capital reduction A/c To Profit and loss A/c To Capital Reserve (Being reconstruction surplus used to write off losses and balance transfer to capital reserve)	Dr.	9,07,500 8,70,000 37,500

Working Notes:

1.	Settlement of claim of remaining unsecured creditors	₹
	75% of ₹ 3,00,000	2,25,000
	Considering their claim for share of ₹ 60 each	
	2,25,000/60 =3,750 shares	
	Less: Number of shares to be issued	
	3,750 x 4= 15,000 shares of ₹ 7.5 each	
	Total value= 15,000 x 7.50	<u>(1,12,500)</u>
	Transferred to Capital reduction A/c	<u>1,12,500</u>

2. Ascertainment of profit and loss account's debit balance at the time of reconstruction.

	₹	₹
Asset		
Fixed assets	3,90,000	
Cash	<u>2,70,000</u>	6,60,000
<i>Less: Capital & Liabilities:</i>		
Share capital	1,80,000	
1 st Debenture	3,00,000	
2 nd Debenture	6,00,000	
Unsecured trade payables	<u>4,50,000</u>	<u>(15,30,000)</u>
Profit and loss A/c (Debit balance)		<u>(8,70,000)</u>

Q.IR.RMP.210(A): (RTP Nov18, Nov20 & May22)

The summarized balance sheet of Z Limited as on 31st March, 2017 is as under:

Particulars	Amount in Rs.
Share Capital:	
5,00,000 Equity shares of Rs. 10 each fully paid up	50,00,000
9%, 20,000 Preference shares of Rs. 100 each fully paid up	20,00,000
Reserves and Surplus:	

Profit and Loss Account (Dr. balance)	14,60,000
Non-Current Liabilities:	
10% Secured Debentures	16,00,000
Current Liabilities:	
Interest due on Debentures	1,60,000
Trade Payables	5,00,000
Loan from Directors	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Non-Current Assets:	
Property, plant and Equipment:	
Land & Buildings	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
Intangible Assets:	
Goodwill	11,00,000
Patents	5,00,000
Current Assets:	
Trade Investments	5,00,000
Trade Receivables	5,00,000
Inventory	10,00,000

Note: Preference dividend is in arrears for last 2 years.

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover Rs. 1,00,000 and Rs. 60,000 were also payable to Mr. Y and Mr. Z respectively as trade payable.

The following scheme of reconstruction has been agreed upon and duly approved.

- (i) All the equity shares to be converted into fully paid equity shares of Rs. 5.00 each.
- (ii) The Preference shares be reduced to Rs. 50 each and the preference shareholders agreed to forego their arrears of preference dividends, in consideration of which 9% preference shares are to be converted into 10% preference shares.
- (iii) Mr. Y and Mr. Z agreed to cancel 50% each of their respective total debt including interest on debentures. Mr. Y and Mr. Z also agreed to pay Rs. 1,00,000 and Rs. 60,000 respectively in cash and to receive new 12% debentures for the balance amount.
- (iv) Persons relating to trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.
- (v) Directors also waived 60% of their loans and accepted equity shares for the balance.
- (vi) Capital commitments of Rs. 3.00 lacs were cancelled on payment of Rs. 15,000 as penalty.
- (vii) Directors refunded Rs. 1,00,000 of the fees previously received by them.
- (viii) Reconstruction expenses paid Rs. 15,000.
- (ix) The taxation liability of the company was settled for Rs. 75,000 and was paid immediately.
- (x) The Assets were revalued as under:

Land and Building	32,00,000
Plant and Machinery	6,00,000
Inventory	7,50,000
Trade Receivables	4,00,000
Furniture and Fixtures	1,50,000
Trade Investments	4,50,000

You are required to prepare necessary journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit and Loss account and Discount on issue of debentures. And also, prepare Bank Account and Reconstruction Account.

SOLUTION**Journal Entries in the Books of Z Ltd.**

			Rs.	Rs.
(i)	Equity Share Capital (Rs. 10 each) A/c	Dr.	50,00,000	
	To Equity Share Capital (Rs. 5 each) A/c			25,00,000
	To Reconstruction A/c			25,00,000
	(Being conversion of 5,00,000 equity shares of Rs. 10 each fully paid into same number of fully paid equity shares of Rs. 5 each as per scheme of reconstruction.)			
(ii)	9% Preference Share Capital (Rs. 100 each) A/c	Dr.	20,00,000	
	To 10% Preference Share Capital (Rs. 50 each) A/c			10,00,000
	To Reconstruction A/c			10,00,000
	(Being conversion of 9% preference share of Rs. 100 each into same number of 10% preference share of Rs. 50 each and claims of preference dividends settled as per scheme of reconstruction.)			
(iii)	10% Secured Debentures A/c	Dr.	9,60,000	
	Trade payables A/c	Dr.	1,00,000	
	Interest on Debentures payable A/c	Dr.	96,000	
	Bank A/c	Dr.	1,00,000	
	To 12% Debentures A/c			6,78,000
	To Reconstruction A/c			5,78,000
	(Being Rs. 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(iv)	10% Secured Debentures A/c	Dr.	6,40,000	
	Trade Payables	Dr.	60,000	
	Interest on debentures payable A/c	Dr.	64,000	
	Bank A/c	Dr.	60,000	
	To 12% debentures A/c			4,42,000
	To Reconstruction A/c			3,82,000
	(Being Rs. 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)			
(v)	Trade payables A/c	Dr.	1,70,000	
	To Reconstruction A/c			1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)			
(vi)	Directors' Loan A/c	Dr.	1,00,000	
	To Equity Share Capital (Rs. 5) A/c			40,000
	To Reconstruction A/c			60,000
	(Being Directors' loan claim settled by issuing 8,000 equity shares of Rs. 5 each as per scheme of reconstruction.)			
(vii)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000

	(Being payment made towards penalty of 5% for cancellation of capital commitments of Rs. 3 Lakhs.)			
(viii)	Bank A/c	Dr.	1,00,000	
	To Reconstruction A/c			1,00,000
	(Being refund of fees by directors credited to reconstruction A/c.)			
(ix)	Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of reconstruction expenses.)			
(x)	Provision for Tax A/c	Dr.	1,00,000	
	To Bank A/c			75,000
	To Reconstruction A/c			25,000
	(Being payment of tax liability in full settlement against provision for tax)			
(xi)	Land and Building A/c	Dr.	2,00,000	
	To Reconstruction A/c			2,00,000
	(Being appreciation in value of Land & Building recorded)			
(xii)	Reconstruction A/c	Dr.	49,85,000	
	To Goodwill A/c			11,00,000
	To Patent A/c			5,00,000
	To Profit and Loss A/c			14,60,000
	To Plant and Machinery A/c			6,50,000
	To Furniture & Fixture A/c			1,00,000
	To Trade Investment A/c			50,000
	To Inventory A/c			2,50,000
	To Trade Receivables A/c			1,00,000
	To Capital Reserve (bal. fig.)			7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)			

Bank Account

		Rs.			Rs.
To	Reconstruction (Y)	1,00,000	By	Balance b/d (overdraft)	1,00,000
To	Reconstruction(Z)	60,000	By	Reconstruction A/c	15,000
To	Reconstruction A/c (Refund of earlier fees by directors)	1,00,000		(Capital commitment penalty paid)	
			By	Reconstruction A/c (reconstruction expenses paid)	15,000
			By	Provision for tax A/c (tax paid)	75,000
			By	Balance c/d	55,000
		2,60,000			2,60,000

Reconstruction Account

		Rs.			Rs.
To	Bank (penalty)	15,000	By	Equity Share Capital A/c	25,00,000

To	Bank (Reconstruction expenses)	15,000	By	9% Pref. Share Capital A/c	10,00,000
To	Goodwill	11,00,000	By	Mr. Y (Settlement)	5,78,000
To	Patent	5,00,000	By	Mr. Z (Settlement)	3,82,000
To	P & L A/c	14,60,000	By	Trade Payables A/c	1,70,000
To	P & M	6,50,000	By	Director's loan	60,000
To	Furniture and Fixtures	1,00,000	By	Bank	1,00,000
To	Trade investment	50,000	By	Provision for tax	25,000
To	Inventory	2,50,000	By	Land and Building	2,00,000
To	Trade Receivables	1,00,000			
To	Capital Reserve (bal. fig.)	7,75,000			
		50,15,000			50,15,000

Q.IR.RMP.211(A): (MTP Oct20, May22)

The summarised Balance Sheet of Preeti Limited as on 31st March 2019, was as follows:



	(Rs.)
Authorized and subscribed capital:	
20,000 Equity shares of Rs. 100 each fully paid	20,00,000
Unsecured loans:	
15% Debentures	6,00,000
Interest payable thereon	90,000
Current Liabilities:	
Trade payables	1,04,000
Provision for income tax	72,000
Property, plant and equipment:	
Machineries	7,00,000
Current Assets:	
Inventory	5,06,000
Trade receivables	4,60,000
Bank	40,000
Profit & loss A/c (Dr.)	11,60,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

- i) Each share be sub-divided into 10 fully paid up equity shares of Rs. 10 each.
- ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.
- iii) Out of shares surrendered 20,000 shares of Rs. 10 each shall be converted into 10% Preference shares of Rs. 10 each fully paid up.
- iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of Rs. 2,00,000 which are converted out of shares surrendered.

- v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of Rs. 10 each out of shares surrendered.
 - vi) Balance of Profit and Loss account to be written off.
 - vii) The shares surrendered and not re-issued shall be cancelled.
- Pass Journal Entries giving effect to the above.

SOLUTION:

Sr. No.	Particulars	Dr.	Cr.
1	Equity Share Capital A/c (Rs.10) Dr. To Share Surrender A/c To Equity Share Capital (Rs. 10) A/c (Sub-division of 20,000 equity shares of Rs. 100 each into 2,00,000 equity shares of Rs. 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)	20,00,000	10,00,000 10,00,000
2	15% Debentures Account Dr. Interest payable A/c (proportionate 50%) Dr. To Reconstruction A/c (Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)	3,00,000 45,000	3,45,000
3	Trade payables A/c Dr. To Reconstruction A/c (Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)	1,04,000	1,04,000
4	Share Surrender A/c Dr. To 10% Preference Share Capital A/c To Equity Share Capital A/c To Reconstruction A/c (Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)	10,00,000	2,00,000 78,000 7,22,000
5	Reconstruction A/c Dr. To Profit & Loss A/c To Capital Reserve A/c 11,000 (Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)	11,71,000	11,60,000 11,000

Note: Alternative set of correct journal entries may be given for transfer of surrendered shares to trade payables and debenture holders.

Q.IR.SM.212(A): (Jan'25 Exam)

Sustain Limited is incurring losses due to adverse market conditions. It decided to reorganize its capital structure. The summarized Balance Sheet of the company as on 31st March, 2024 is as follows:

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	10,00,000

	B	Reserves and Surplus	2	(20,50,000)
2		Non-current liabilities		
		Long-term borrowings	3	4,50,000
3		Current liabilities		
	A	Trade Payables		1,30,000
	B	Short term borrowing – Bank Overdraft		65,000
	C	Other Current Liabilities (Interest payable on Debentures)		45,000
	D	Short term provision (Provision for Income Tax)		1,00,000
		Total		15,40,000
		Assets		
1		Non-current assets		
	A	Property, plant and equipment	4	8,50,000
	B	Intangible assets	5	60,000
	C	Non- Current investments	6	2,80,000
2		Current assets		
	A	Inventories		1,20,000
	B	Trade Receivables		2,30,000
		Total		15,40,000

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	50,000 Equity Shares of ₹ 10 each fully paid up	5,00,000
	25,000 Equity Shares of ₹ 10 each, ₹ 8 paid up	2,00,000
	Preference share capital:	
	30,000 8% Cumulative shares of ₹ 10 each (Preference dividend has been in arrears for 3 years)	3,00,000
		10,00,000
2	Reserves and Surplus	
	Profit and Loss account (debit balance)	(2,50,000)
		(2,50,000)
3	Long-term borrowings	
	Secured:	
	10% Debentures of ₹ 100 each	4,50,000
		4,50,000
4	Property, Plant and Equipment	
	Freehold property	1,00,000
	Plant and machinery	7,50,000
		8,50,000
5	Intangible assets	
	Goodwill	60,000
		60,000
6	Non-current Investments	
	Non-trade investments at cost	2,80,000
		2,80,000

Subsequent to approval by court and all interested parties, the following scheme of reconstruction were agreed:-

- 1) Uncalled capital is to be called up in full and such shares and other fully paid-up equity shares to be reduced to ₹ 5 per share.
- 2) The preference shareholders will accept a reduction of ₹ 2.5 per share, in exchange the rate of dividend is to be increased to 9%
- 3) Preference shareholders will forgo their claim of dividend for one year and one equity share of ₹ 5 each is to be issued for the remaining arrears of dividend.
- 4) Mr. X holds 10% debentures for ₹ 2,50,000. He is also a creditor for ₹ 50,000. He agreed to cancel 50% of his total debt, including interest on debentures, pay ₹ 20,000 to the company and to receive new 12% debentures for the balance amount.
- 5) The remaining claim of the debenture holders, including outstanding interest to be reduced to 60%. In consideration of the reduction, the debenture holders are to receive new 9% preference shares at new face value.
- 6) The taxation liability is to be settled at ₹ 1,20,000.
- 7) Market value of Non-current Investments is ₹ 2,50,000. Investments to be brought to their market value.
- 8) Inventory equal to ₹ 1,00,000 at book value will be taken over by remaining creditors in full settlement of their claim.
- 9) A bad debt provision of 2% is to be created on trade receivables.
- 10) Plant and machinery is to be written down by 20%
- 11) The company will further issue 12% debentures for such amount which is sufficient to pay off bank overdraft and other outstanding liabilities and maintain its cash / bank balance at ₹ 85,000.
- 12) The amount available by the scheme shall be utilized in writing of Goodwill, debit balance of profit and loss a/c and balance of inventory.

You are required to:

- (a) Show the journal entries, necessary to record the above transaction in the company's books and
- (b) Prepare a note to show revised Share capital Structure of the company after completion of the scheme.

Q.IR.RMP.213(A): (RTP May20)

The following is the Balance Sheet of Star Ltd. as on 31st March, 2019:

		Rs
A. EQUITY & LIABILITIES		
1. Shareholders' Fund:		
(a) Share Capital:		
	9,000 7% Preference Shares of Rs 100 each fully paid	9,00,000
	10,000 Equity Shares of Rs 100 each fully paid	10,00,000
(b) Reserve & Surplus:		
	Profit & Loss Account	(2,00,000)
2. Non-current liabilities:		
	"A" 6% Debentures (Secured on Bombay Works)	3,00,000
	"B" 6% Debentures (Secured on Chennai Works)	3,50,000
3. Current Liabilities and Provisions:		
(a)	Workmen's Compensation Fund:	



		Bombay Works	10,000
		Chennai Works	5,000
	(b)	Trade Payables	1,25,000
		TOTAL	24,90,000
B. ASSETS:			
		Non- current Assets:	
		1. PPE:	
		Bombay Works	9,50,000
		Chennai Works	7,75,000
		2. Investment:	
		Investments for Workman's Compensation Fund	15,000
		3. Current Assets:	
	(a)	Inventories	4,50,000
	(b)	Trade Receivables	2,50,000
	(c)	Cash at Bank	50,000
		TOTAL	24,90,000

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

1. Paid up value of 7% Preference Share to be reduced to Rs 80, but the rate of dividend being raised to 9%.
2. Paid up value of Equity Shares to be reduced to Rs 10.
3. The directors to refund Rs 50,000 of the fees previously received by them.
4. Debenture holders forego their interest of Rs 26,000 which is included among the trade payables.
5. The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.
6. "B" 6% Debenture holders agreed to take over the Chennai Works of Rs 4,25,000 and to accept an allotment of 1,500 equity shares of Rs 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works) they allotted 9,000 equity shares of Rs 10 each fully paid at par to Star Ltd.
7. The Chennai Workmen's compensation fund disclosed that there were actual liabilities of Rs 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.
8. Inventory was to be written off by Rs 1,90,000 and a provision for doubtful debts is to be made to the extent of Rs 20,000.
9. Chennai works completely written off.
10. Any balance of the Capital Reduction Account is to be applied as two-third to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.

SOLUTION

**In the books of Star Ltd.
Journal Entries**

	Particulars		Amount Rs.	Amount Rs.
(i)	7% Preference share capital (Rs. 100)	Dr.	9,00,000	
	To 9% Preference share capital (Rs. 80)			7,20,000
	To Capital reduction A/c			1,80,000

	(Being preference shares reduced to Rs. 80 and also rate of dividend raised from 7% to 9%)			
(ii)	Equity share capital A/c (Rs. 100 each) Dr. To Equity share capital A/c (Rs. 10 each) To Capital reduction A/c (Being reduction of nominal value of one share of Rs. 100 each to Rs. 10 each)		10,00,000	1,00,000 9,00,000
(iii)	Bank A/c Dr. To Capital reduction A/c (Being directors refunded the fee amount)		50,000	50,000
(iv)	Trade payables A/c (Interest on debentures) Dr. To Capital reduction A/c (Being interest forgone by the debenture holders)		26,000	26,000
(v)	No entry required			
(vi) a	'B' 6% Debentures A/c Dr. To Debentures holders A/c (Being amount due to Debentures holders)		3,50,000	3,50,000
b	Debentures holders A/c Dr. To Chennai Works A/c To Equity share capital A/c (Being Chennai works taken over and equity shares issued to 'B' 6% Debenture holders)		4,40,000	4,25,000 15,000
c	Equity share of Zia ltd. A/c Dr. To Debentures holders A/c (Being 9,000 equity shares of Zia Ltd. Issued by Debentures holders)		90,000	90,000
(vii) a	Chennai Works – Workmen Compensation Fund Dr. To Capital reduction A/c (Being difference due to reduced amount of actual liability transferred to capital reduction account)		4,000	4,000
b	Bank A/c Dr. To Investment for Workmen Compensation Fund To Capital reduction A/c (Being investment for Workmen Compensation Fund sold @ 10% profit)		15,400	14,000 1,400
c	Trade Payables A/c Dr. To Bank A/c (Being part payment made to trade payables)		15,400	15,400
(viii)	Capital reduction A/c Dr. To Provision for Doubtful Debts A/c To Inventory A/c (Being assets revalued)		2,10,000	20,000 1,90,000
(ix)	Capital reduction A/c Dr. To Profit & Loss A/c To PPE– Chennai Works (Being assets revalued and losses written off)		5,50,000	2,00,000 3,50,000*
(x)	Capital reduction A/c Dr. To PPE– Bombay Works To Capital reserve A/c (Being assets revalued and remaining amount transferred to capital reserve account)		4,01,400	2,67,600 1,33,800

SECTION B- HOMEWORK QUESTIONS**(Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced at Home)****SERIES 100****BASIC LEVEL QUESTIONS****Q.IR.SM.101(B):**

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.

SOLUTION**Journal Entries**

		₹	₹
20X2 June	Equity Share Capital (10) A/c Dr. To Equity Share Capital (5) A/c (Being the sub-division of 20,000 shares of 10 each with 8 paid up into 40,000 shares 5 each with 4 paid up by resolution in general meeting dated)	1,60,000	1,60,000
20X3 June	Equity Share Capital (5) A/c Dr. To Equity Share Capital (100) A/c (Being consolidation of 40,000 shares of 5 with 4 paid up into 2,000, 100 shares with 80 paid up)	1,60,000	1,60,000

Notes to Balance Sheet

Liabilities:	₹
As on 31-12-20X1	
1. Share Capital	
Authorised:	
20,000 Equity Shares of 10 each	<u>2,00,000</u>
Issued and Subscribed:	
20,000 Equity Shares of 10 each 8 per share called up	1,60,000
As on 31-12-20X2	
1. Share Capital	
Authorised:	
40,000 Equity Shares of 5 each	<u>2,00,000</u>
Issued and Subscribed:	
40,000 Equity Shares of 5 each 4 per share called up	1,60,000
As on 31-12-20X3	₹
1. Share Capital	
Authorised:	
2,000 Equity Shares of 100 each	<u>2,00,000</u>
Issued and Subscribed:	
2,000 Equity Shares of 100 each 80 per share called up	1,60,000

Note: Some accountants prefer not to make any entry as the amount remains same. Even when an entry is passed it applies only to the called-up portion, and not to uncalled or unissued portion of share capital.

Q.IR.SM.102(B):



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.

SOLUTION

Journal entries in the books of Parth Ltd.

	Dr.	Cr.
	₹	₹
Reconstruction A/c Dr.	2,39,000	
To Furniture and Fixtures A/c		55,000
To Plant and machinery A/c		89,000
To Investment A/c		95,000
(Writing off overvalued assets as per Reconstruction Scheme dated.)		
Freehold premises A/c Dr.	55,000	
To Reconstruction A/c		55,000
(Being the increase in the premises credited to reconstruction account as per reconstruction scheme)		
9% Debentures A/c Dr.	2,50,000	
To Bank A/c		50,000
To Land and building A/c		72,000
To Reconstruction A/c		1,28,000
(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)		
Reconstruction A/c Dr.	70,000	
To Profit and loss A/c		70,000
(Being the loss written off as per reconstruction scheme)		
General reserve A/c Dr.	1,26,000	
To Reconstruction A/c		1,26,000
(Being the balance in general reserve utilized to write off the losses as per reconstruction scheme)		

SERIES 200
HIGH LEVEL QUESTIONS

Q.IR.SM.201(B):

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		4,85,000
	Total		16,07,500

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	4,00,000
	11,50,000
2 Reserves and Surplus	
Debit balance of Profit and loss Account	(5,35,000)
	(5,35,000)
3 Long-term borrowings	
Secured	
6% Debentures (secured on the freehold property)	3,75,000
	3,75,000
4 Other current liabilities	
Loan from directors	1,00,000
Interest payable on 6% debentures	22,500
	1,22,500

5	Property plant and Equipment	
	Freehold property	4,25,000
	Plant	50,000
		4,75,000
6	Intangible assets	
	Goodwill	1,30,000
	Patents	37,500
		1,67,500
7	Non-current investments	
	Investments at cost	55,000
		55,000

The Court approved a Scheme of re-organization 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 totalling ₹ 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.

SOLUTION

Journal of A & Co. Ltd.

		Dr.	Cr.
		₹	₹
20X2	Equity Share Capital A/c (₹ 10)	Dr. 7,50,000	
April 1	To Capital Reduction A/c		6,00,000
	To Equity Share Capital A/c (₹ 2)		1,50,000
	(Reduction of equity shares of ₹ 10 each to shares of ₹ 2 each as per Reconstruction Scheme dated...)		
"	6% Cum. Preference Share Capital A/c (₹ 100)	Dr. 4,00,000	
	To Capital Reduction A/c		1,00,000
	To Pref. Share Capital A/c (₹ 75)		3,00,000
	(Reduction of preference shares of ₹ 100 each to shares of ₹ 75 each as per reconstruction scheme)		
"	Capital Reduction Account	Dr. 24,000	
	To Equity Share Capital Account		24,000
	(Arrears of preference dividends satisfied by the issue of equity shares, 25% of the amount due, ₹ 96,000)		

Freehold Property A/c	Dr.	82,500	
To Capital Reduction A/c			82,500
(Appreciation in the value of property:			
	Book value	Revalued Figure	
	₹ 1,00,000	₹ 1,20,000	
	₹ 3,25,000	₹ 3,87,500	
Total	₹ 4,25,000	₹ 5,07,500	
Profit on revaluation: ₹ 82,500)			
6% Debentures A/c	Dr.	1,20,000	
To Freehold Property A/c			1,20,000
(Claims of debenture-holders, in part, in respect of principal discharged by transfer of freehold property vide Scheme of Reconstruction)			
Interest payable A/c	Dr.	22,500	
To Bank A/c			22,500
(Debenture interest paid)			
Bank A/c	Dr.	1,30,000	
To 8% Debentures A/c			1,30,000
(8% Debentures issued for cash)			
Bank A/c	Dr.	1,40,000	
To Investment A/c			55,000
To Capital Reduction A/c			85,000
(Sale of Investment for ₹ 1,40,000 cost being ₹ 55,000; profit credited to Capital Reduction Account)			
Directors' Loan A/c	Dr.	1,00,000	
To Equity Share Capital A/c			90,000
To Bank A/c			5,000
To Capital Reduction A/c			5,000
(Directors' loan discharged by issue of equity shares of ₹ 90,000, cash payments of ₹ 5,000 and surrender of ₹ 5,000, vide Scheme of Reconstruction)			
Capital Reduction A/c	Dr.	8,48,500	
To Patents			37,500
To Goodwill			1,30,000
To Inventory			65,000
To Provision for Doubtful Debts			68,500
To Bank			12,500
To Profit & Loss Account			5,35,000
(Writing off patents, goodwill, profit and loss account and reducing the value of stock, making the required provision for doubtful debts and payment for cancellation of capital commitments)			

Note: Penalty charges for cancellation of the contract amounts to ₹ 12,500 (2,50,000X5%) being paid in cash.

Balance Sheet of A & Co. Ltd. (And Reduced) as at 1st April, 20X2

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		

	A	Share capital	1	5,64,000
2		Non-current liabilities		
	A	Long-term borrowings	2	3,85,000
3		Current liabilities		
	A	Trade Payables		3,00,000
				12,49,000
		Assets		
1		Non-current assets		
	A	Property, plant and equipment	3	4,37,500
	B	Intangible assets	4	-
2		Current assets		
	A	Inventories		3,60,000
	B	Trade receivables	5	4,16,500
	C	Cash and cash equivalents		35,000
		Total		12,49,000

Notes to accounts

1	Share Capital		
	Equity share capital		
	1,32,000 Equity shares of ₹ 2 each (of the above 57,000 shares have been issued for consideration other than cash)		2,64,000
	Preference share capital		
	4,000 6% Preference shares of ₹ 75 each		3,00,000
	Total		5,64,000
2	Long-term borrowings		
	Secured		
	6% Debentures		2,55,000
	8% Debentures		1,30,000
	Total		3,85,000
3	Property, plant and equipment		
	Freehold property	4,25,000	
	Add: Appreciation under scheme of Reconstruction	82,500	
	Less: Disposed of	(1,20,000)	3,87,500
	Plant		50,000
	Net carrying value		4,37,500
	Intangible assets		
	Goodwill	1,30,000	
	Less: Written off under scheme of Reconstruction	(1,30,000)	
	Net carrying value		NIL
4	Patents	37,500	
	Less: Written off under scheme of Reconstruction	(37,500)	-
	Net carrying value	-	NIL
5	Trade Receivables	4,85,000	
	Less: Provision for doubtful debts	68,500	
			4,16,500

Q.IR.RMP.202(B): (Exam Nov18, RTP Nov21)

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

(Rs in '000)

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

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

- (i) Investments are to be brought to their market value.
- (ii) The Taxation Liability is settled at Rs 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 Rs 4 each.
- (v) All preference shares are reduced to Rs 60 each.
- (vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of Rs 100 each and exchange them for fresh debentures of Rs 80 each. Each old debenture is exchanged for one new debenture.
- (vii) Balance of Current Assets left after settlement of taxation liability are revalued at Rs 15,750.
- (viii) Fixed Assets are written down to 80%.
- (ix) One of the creditors of the Company for Rs 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of Rs 4 each in full and final settlement of his claim.

Pass journal entries for the above transactions.

SOLUTION

Journal Entries in the books of SK Ltd.

		Rs '000	Rs '000
(i)	Equity share capital (Rs 10) A/c Dr. To Equity Share Capital (Rs 4) A/c To Capital Reduction A/c (Being conversion of equity share capital of Rs 10 each into Rs 4 each as per reconstruction scheme)	35000	14000 21000
(ii)	8% Cumulative Preference Share capital (Rs 100) A/c Dr. To 8% Cumulative Preference Share Capital (Rs 60) A/c To Capital Reduction A/c (Being conversion of 6% cumulative preference shares capital of Rs 100 each into Rs 60 each as per reconstruction scheme)	17500	10500 7000
(iii)	6% Debentures (Rs 100) A/c Dr. To 9% Debentures (Rs 80) A/c To Capital Reduction A/c (Being 9% debentures of Rs 80 each issued to existing 6% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)	14000	11200 2800

(iv)	Sundry Creditors A/c To Equity Share Capital (Rs 4) A/c To Capital Reduction A/c (Being a creditor of Rs 70,00,000 agreed to surrender his claim by 50% and was allotted 8,75,000 equity shares of Rs 4 each in full settlement of his dues as per reconstruction scheme)	Dr.	7000	3500 3500
(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. 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.	34125	2100 8750 18725 175 4375

Working Note:

Capital Reduction Account

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

Q.IR.RMP.203(B): (RTP – May18 & Nov19)

Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31st March, 2019 before reconstruction:



Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
HARE CAPITAL		Goodwill	22,00,000
0,00,000 shares of Rs. 50 each fully paid up	25,00,000	Land & Building	42,70,000
,00,000 shares of Rs. 50 each Rs. 40 paid up	40,00,000	Machinery	8,50,000
Capital Reserve	5,00,000	Computers	5,20,000
6% Debentures of Rs. 100 each	4,00,000	Inventories	3,20,000
12% Debentures of Rs. 100 each	6,00,000	Trade receivables	10,90,000
Trade payables	12,40,000	Cash at Bank	2,68,000
Outstanding Expenses	10,60,000	Profit & Loss Account	7,82,000

total	1,03,00,000	Total	1,03,00,000
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Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	4,00,000	2,00,000
Total	7,00,000	3,00,000

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid-up equity shares of 40 each for Rs. 12,50,000.
- (3) Trade payables are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for Rs. 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. Shiv agrees to cancel debentures amounting to Rs. 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to Rs. 1,00,000.
- (5) Mr. Ganesh agrees to cancel debentures amounting to Rs. 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & building to be revalued at Rs. 51,84,000, Machinery at Rs. 7,20,000, Computers at Rs. 4,00,000, Inventories at Rs. 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.
- (8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

SOLUTION

Journal Entries in the books of Platinum Ltd.

Sr. No	PARTICULARS	DR. Rs.	CR. Rs.
1	Bank A/c (1,00,000 x Rs. 10) Dr. To Equity share capital A/c (Being money on final call received)	10,00,000	10,00,000
2	Equity share capital (Rs. 50) A/c Dr. To Equity share capital (Rs. 40) A/c To Capital Reduction A/c (Being conversion of equity share capital of Rs. 50 each into Rs. 40 each as per reconstruction scheme)	75,00,000	60,00,000 15,00,000
3	Bank A/c Dr. To Equity Share Capital A/c (Being new shares allotted at Rs.40 each)	12,50,000	12,50,000
4	Trade payables A/c Dr. To Equity share capital A/c To Bank A/c (4,90,000 x 70%) To Capital Reduction A/c (Being payment made to trade payables in shares or cash to the extent of 70% as per reconstruction scheme)	12,40,000	750000 343000 147000

5	8% Debentures A/c 12% Debentures A/c To Shiv A/c (Being cancellation of 8% and 12% debentures of Shiv)	Dr. Dr.	3,00,000 4,00,000	700000
6	Bank A/c To Shiv A/c (Being new debentures subscribed by Shiv)	Dr.	1,00,000	100000
7	Shiv A/c To 15% Debentures A/c To Capital Reduction A/c (Being issuance of new 15% debentures and balance transferred to capital reduction account as per reconstruction scheme)	Dr.	8,00,000	600000 200000
8	8% Debentures A/c 12% Debentures A/c To Ganesh A/c (Being cancellation of 8% and 12% debentures of Ganesh)	Dr. Dr.	1,00,000 200000	300000
9	Ganesh A/c To 15% Debentures A/c To Capital Reduction A/c (Being issuance of new 15% debentures and balance to capital reduction account as per reconstruction transferred scheme)	Dr.	3,00,000	250000 50000
10	Land and Building (51,84,000 – 42,70,000) Inventories To Capital Reduction A/c (Being value of assets appreciated)	Dr. Dr.	9,14,000 30,000	9,44,000
11	Outstanding expenses A/c To Bank A/c (Being outstanding expenses paid in cash)	Dr.	10,60,000	1060000
12	Capital Reduction A/c To Machinery A/c To Computers A/c To Trade receivables A/c To Goodwill A/c To Profit and Loss A/c (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) balance, goodwill and downfall in value of other assets)	Dr.	33,41,000	130000 120000 109000 2200000 782000
13	Capital Reserve A/c To Capital Reduction A/c (Being debit balance of capital reduction account adjusted against capital reserve)	Dr.	5,00,000	500000

Balance Sheet (as reduced) as on 31.3.2019

	Particulars	Notes	Rs. Amount
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	80,00,000
2	Non-current liabilities		
a	Long-term borrowings	2	8,50,000

	Total		88,50,000
	Assets		
1	Non-current assets		
a	Property, Plant and Equipment		
	Tangible assets	3	63,04,000
2	Current assets		
a	Inventories		3,50,000
b	Trade receivables		9,81,000
c	Cash and cash equivalents		12,15,000
	Total		88,50,000

Notes to accounts

	PARTICULARS		Amt. (Rs.)
1.	Share Capital		
	2,00,000 Equity shares of Rs. 40		80,00,000
2.	Long-term borrowings		
	Secured		
	15% Debentures (assumed to be secured)		8,50,000
3.	Tangible assets		
	Land & Building	51,84,000	
	Machinery	7,20,000	
	Computers	4,00,000	63,04,000

Working Notes:

Cash at Bank Account

Particulars	Rs. AMT	Particulars	Rs. AMT
TO Balance b/d	2,68,000	BY Trade Creditors A/c	3,43,000
TO Equity Share capital A/c	10,00,000	BY Outstanding expenses A/c	10,60,000
TO Equity Share Capital A/c	12,50,000	Balance c/d (bal. fig.)	12,15,000
To Shiv A/c	1,00,000		
	26,18,000		26,18,000

Capital Reduction Account

Particulars	Rs. AMT	Particulars	Rs. AMT
To Machinery A/c	1,30,000	By Equity Share Capital A/c	15,00,000
To Computers A/c	1,20,000	By Trade Creditors A/c	1,47,000
To Trade receivables A/c	1,09,000	By Shiv A/c	2,00,000
To Goodwill A/c	22,00,000	By Ganesh A/c	50,000
To Profit and Loss A/c	7,82,000	By Land & Building	9,14,000
		By Inventories	30,000
		By Capital Reserve A/c	5,00,000
	33,41,000		33,41,000

Q.IR.SM.204(B): (Similar to Q206)

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	Current liabilities	3	50,000
3		Trade Payables		
	A	Short term Borrowings –		80,000
	B	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	50,000

	property)	
		50,000
4	Property, Plant and Equipment	
	Freehold property	1,20,000
	Leasehold property	85,000
	Plant and machinery	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:

- i. The preference shares were reduced to ₹ 2.5 per share, and the equity shares to ₹ 1 per share.
- ii. One new equity share of ₹ 1 was issued for the arrears of preferred dividend for past 4 years.
- iii. 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.
- iv. Plant and Machinery was written down to ₹ 1,00,000.
- v. Non-trade Investments were sold for ₹ 32,000.
- vi. Goodwill and obsolete stock (included in the value of inventories) of ₹ 10,000 were written off.
- vii. 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.

Solution

Journal entries in the books of Recover Ltd

Particulars		Dr.	Cr.
		₹	₹
8% Cumulative Preference share capital (₹ 10) A/c	Dr.	1,50,000	
To 8% Cumulative Preference share capital (₹2.5) A/c			37,500
To Reconstruction (₹ 7.5) A/c			1,12,500
(Preference shares being reduced to shares of ₹ 2.5 per share and remaining transferred to reconstruction account as per internal reconstruction scheme)			
Equity share capital A/c (₹10)	Dr.	2,00,000	
To Equity Share capital A/c (₹ 1)			20,000
To Reconstruction A/c (₹ 9)			1,80,000

(Equity shares reduced to ₹ 1 per share with the remaining amount transferred to reconstruction account as a part of the internal reconstruction scheme)			
Reconstruction A/c	Dr.	48,000	
To Equity share capital A/c			48,000
(Equity shares of ₹ 1 issued in lieu of the arrears of preference dividend for 4 years as a part of the internal reconstruction scheme)			
10% Debentures A/c	Dr.	50,000	
Interest payable on debentures A/c	Dr.	5,000	
Bank A/c	Dr.	20,000	
Reconstruction A/c	Dr.	45,000	
To Freehold property A/c			1,20,000
(Debenture holders being paid by the sale of property, which is sold at a loss debited to the reconstruction account. Amount received in excess being refunded to company by debenture holders as a part of the internal reconstruction scheme)			
Reconstruction A/c	Dr.	90,000	
To Plant and Machinery Ac			30,000
To Goodwill A/c			50,000
To Inventory A/c			10,000
(The assets written off as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	32,000	
Reconstruction A/c	Dr.	8,000	
To Investments A/c			40,000
(Investments sold at a loss debited to reconstruction account as a part of the internal reconstruction scheme)			
Contingent Liability A/c	Dr.	7,000	
To Bank A/c			7,000
(Contingent liability paid as a part of the internal reconstruction scheme)			
Bank A/c	Dr.	6,300	
Reconstruction A/c	Dr.	700	
To Contingent Liability A/c			7,000
(The insurance company remitting part of the contingency payment amount)			
Reconstruction A/c	Dr.	70,000	
To Profit and loss A/c			70,000
(Accumulated losses written off to reconstruction account as a part of the internal reconstruction scheme)			
Reconstruction A/c	Dr.	30,800	
To Capital reserve A/c			30,800

(The balance reconstruction account transferred to capital reserve as a part of the internal reconstruction scheme)			
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Balance sheet of Recover Ltd. as at 31st March 20X1 (and reduced)

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	1,05,500
	B	Reserves and surplus	2	30,800
2		Non-current liabilities		
	A	Long-term borrowings		-
3		Current liabilities		
	A	Trade Payables		80,000
	B	Short term borrowings - Bank Overdraft		90,000
		Total		3,06,300
		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	3	1,85,000
2		Current assets		
	A	Inventories		20,000
	B	Trade receivables		50,000
	C	Cash and cash equivalents	4	51,300
		Total		3,06,300

Notes to accounts:

1	Share Capital	₹
	Equity share capital	
	68,000 Equity Shares of ₹ 1 each	68,000
	Preference share capital	
	15,000 8% Cumulative Preference Shares of ₹ 2.5 each	37,500
		1,05,500
2	Reserves and surplus	
	Capital reserve	30,800
3	Property, Plant and Equipment	
	Leasehold property	85,000
	Plant and machinery	1,00,000
		1,85,000
4	Cash and cash equivalents	
	Bank A/c (20,000+32,000-7000+6,300)	51,300

