

# INTERNAL RECONSTRUCTION

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*"Don't downgrade your dream just to fit your reality. Upgrade your conviction to match your destiny."*

## TOPIC1: INTRODUCTION

*When a company has been making losses for several years, the financial position does not present a true & fair view of the state of the affairs of the company. In such a company the assets are generally overvalued, as the balance sheet consists of fictitious assets, unrepresented intangible assets & debit balance in profit & loss account.*

Reconstruction is a process by which affairs of a company are reorganized by revaluation of assets, reassessment of liabilities and by writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares. Such a process is called internal reconstruction which is carried out without liquidating the company and forming a new one.

### Process of Internal Reconstruction

- 1) Scheme Framed
- 2) Approval of scheme by concerned parties
- 3) Sanction of scheme by Court
- 4) Implementation of scheme
  - \* Passing Entries in Books
  - \* Writing off losses
  - \* Revised values to appear in B/S

## TOPIC 1A: JOURNAL ENTRIES

1.	For increase or reduction in value of assets	
	a) Increase	
	b) Decrease	
2.	For increase or reduction in liabilities:	
	a) Increase	
	b) Decrease	
3.	For payment of reconstruction expenses	
	a) At the time of payment	
4.	Settlement of contingent liability <i>Example:</i> Preference dividend in arrears, Capital commitments, etc.	
	a) If waived	
	b) If paid	
5.	If any losses or deferred revenue expenditure are appearing then such amount should be written off even if question is silent. <i>Example of deferred revenue expenditure:</i> Underwriting commission, Discount on issue of debentures, Preliminary expenses, Advertisement suspense, etc.	
	a) At the time of write off	
6.	If any intangible assets appear in the balance sheet it may be written off by giving a note. <i>Example:</i> Patents, Trademarks, Goodwill, Copyrights etc.	

	a) At the time of write off	
7.	Closing of Capital Reduction Account	
	a) Credit Balance	
	b) Debit Balance	

**Notes:**

- 1) In case of fixed assets, the amount written off under the scheme of reconstruction must be shown for 5 years.
- 2) After the name of company, the words "and reduced" should be added only if the court so orders.

## TOPIC 2: METHODS OF INTERNAL RECONSTRUCTION

### Methods of Internal Reconstruction:

Alteration of share capital	Variation of shareholder's rights	Compromise/ arrangement	Reduction of share capital	Surrenders of shares
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## TOPIC 2A: Alteration of Share Capital, Variation of Shareholder Rights, Compromise/Arrangements & Reduction of Share Capital

### ALTERATION OF SHARE CAPITAL

#### 1. For Increase in Share Capital

##### Example:

X Ltd. issued 10,000 equity shares of ₹10 each at par.	
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#### 2. For Consolidation of Shares

##### Example:

X Ltd. having 10,000 equity shares of ₹10 each decides to convert share capital into equity shares of 100 each.	
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#### 3. For Sub-division of Shares

##### Example:

X Ltd. having 1,000 equity shares of ₹100 each decides to convert share capital into equity shares of 10 each.	
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**4. For Conversion of shares into stock**

*Stock is a bundle of fully paid shares put together for convenience so that it may be divided into any amount & transferred into any fractions & subdivisions without regard to the original face value of the shares.*

**Example:**

X Ltd. having 10,000 equity shares of 10 each decides to convert the share capital into equity stock	
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**5. For Conversion of stock into shares****Example:**

X Ltd. having equity stock of ₹1,00,000 decides to convert the equity stock into equity share capital of ₹ 10 each.	
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**6. For Cancelling the unissued shares**

In this case no accounting entry is passed. The authorized share capital gets reduced by the amount of unissued shares now cancelled.

**VARIATION OF SHAREHOLDERS RIGHTS**

Only the specific rights are changed. There is no change in the amount of capital. For example, the company may change rate of (a) dividend on preference shares or (b) convert cumulative preference shares into non-cumulative preference shares without changing the amount of share capital.

**Example:**

X Ltd. has 1,000 10% preference shares of 100 each. At a meeting of preference shareholders, it was decided that the rate of dividend be reduced to 9%.	
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**COMPROMISE/ARRANGEMENT**

A scheme of compromise and arrangement is an agreement between a company and its members and outside liabilities when the company faces financial problems. Such an arrangement therefore also involves sacrifices by shareholders, or creditors and debenture holders or by all.

**Example:**

In the balance sheet, sundry creditors are appearing at ₹ 4,50,000. They agreed to reduce their claims to 20% and half the balance to be satisfied by issue of equity shares of ₹10 each.	
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**REDUCTION OF SHARE CAPITAL**

a) Liability of the shareholders is extinguished or reduced in respect of unpaid amount on the shares held by them.

Number of Shares = 10,000

Face Value = 10

Paid up Value = 8

Reduce 10 per share into 8 per share fully paid up

So Cancel the unpaid amount of 2 per share

b) Paying off excess paid-up share capital

Number of Shares = 10,000

Face & Paid up Value = 10

Pay off 2 per share to make it 8 per share fully paid up

c) Writing off the lost paid up capital

Number of shares = 1,000

Face Value = 100

Paid up Value = 100

	↙	↘
	(a)	(b)
Write off	80	80
Face Value	20	100
Paid up	20	20

**Note:** If question does not specify reduction in Face value or paid up value, then assume change in Face value and paid up value.

**TOPIC 2B: SHARE SURRENDER**

At the time of internal reconstruction, some people may voluntarily surrender their shares to the company. Alternatively, there can be concept of compulsorily surrender in the reconstruction scheme.

**Entries:**

At the time of surrender	
If the surrendered shares are cancelled	
If the surrendered shares are utilized for the payment of an obligation	

## ASSIGNMENT QUESTIONS

### TOPIC 1 & 2A

**Question 1** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

On 31-12-2021, Z Ltd. had 20,000, ₹ 10 Equity Shares as authorised capital and the shares were all issued on which ₹ 8 was paid up. In June, 2022 the company in general meeting decided to sub-divide each share into two shares of ₹ 5 with ₹ 4 paid up. In June, 2023 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 31-12-2021, 31-12-2022 and 31-12-2023.

**Question 2** \_\_\_\_\_ Pg no. \_\_\_\_\_

Pass Journal Entries in the following conditions:

- 1) X Ltd. had 1,24,000 equity shares of ₹ 50 each on which ₹ 45 is paid up. In October, 2023 company decided to sub-divide each share into 5 shares of ₹ 10 with ₹ 9 paid up.
- 2) Y Ltd. had 2,10,000 equity shares of ₹ 10 each fully paid up. In December 2022 company decided to convert the issued shares into stock. But in February 2023 the company re-converted the stock into equity shares of ₹ 100 each fully paid up.
- 3) Z Ltd. had capital of ₹ 30,00,000 divided into 3,00,000 equity shares of ₹ 10 each on which ₹ 6 is paid up. During the year, company decided to reorganize its capital by consolidating 5 shares into one share of ₹ 50 each, ₹ 30 paid up.

**Question 3** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

The following scheme of reconstruction has been approved for Win Limited:

1. The shareholders to receive in lieu of their present holding at 1,00,000 shares of ₹ 10 each, following:
  - a. New fully paid ₹ 10 Equity shares equal to 3/5th of their holding.
  - b. 10% Preference shares fully paid to the extent of 1/5th of the above new equity shares.
  - c. ₹ 40,000, 8% Debentures.
2. An issue of ₹ 1 lakh 12% first debentures was made and allotted, payment for the same being received in cash forthwith.
3. Goodwill which stood at ₹ 1,40,000 was completely written off.
4. Plant and machinery which stood at ₹ 2,00,000 was written down to ₹ 1,50,000.
5. 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.

**Question 4** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

Parth Ltd, had laid down the following terms upon the sanction of the reconstruction plan by the court

1. Furniture & 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 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.

**Question 5 (ICAI Study Material)**

Pg no. \_\_\_\_\_

The Balance Sheet of A & Co. Ltd. as on 31-03-2023 is as follows:

	Note	Amount
<b>A. Equity and Liabilities</b>		
1. Shareholders' Fund		
(a) Share Capital	1	11,50,000
(b) Reserves & Surplus	2	(5,35,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	3,75,000
3. Current Liabilities		
(a) Short Term Borrowings- Bank Overdraft		1,95,000
(b) Trade Payables		3,00,000
(c) Other Current Liabilities	4	1,22,500
Total		16,07,500
<b>B. Assets</b>		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	5	4,75,000
ii. Intangible Assets	6	1,67,500
(b) 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**

	Amount
1. Share Capital	
Equity Share Capital	
75,000 equity shares of ₹ 10 each	7,50,000
Preference Share Capital	
4,000 6% 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)
3. Long Term borrowings	
6% Debentures (secured on Freehold property)	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 & Equipment	
Freehold property	4,25,000
Plant	50,000
	4,75,000

6.	Intangible Assets Goodwill Patents	1,30,000 <u>37,500</u> 1,67,500
7	Non Current Investments Investments at cost	55,000

The Court approved a Scheme of re-organisation to take effect on 1-4-2023, whereby:

- The Preference shares to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.
- 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.
- Interest payable on debentures to be paid in cash.
- 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.
- Patents and Goodwill to be written off.
- Stock to be written off by ₹ 65,000 and amount of ₹ 68,500 to be provided for bad debts.
- Remaining freehold property to be re-valued at ₹ 3,87,500
- Investments be sold for ₹ 1,40,000
- 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.
- 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.
- 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.

### Question 6

Pg no. \_\_\_\_\_

The summarized Balance Sheet of AB Ltd. as on 31st March, 2023 was as follows:

	Note	Amount	Amount
<b>A. Equity and Liabilities</b>			
1. Shareholders' Fund			
(a) Share Capital	1	7,50,000	
(b) Reserves & Surplus	2	(10,00,000)	(2,50,000)
2. Non-current Liabilities			
(a) Long Term Borrowings	3		5,00,000
3. Current Liabilities			
(a) Short Term Borrowings	4	5,00,000	
(b) Trade Payables		<u>2,50,000</u>	7,50,000
Total			10,00,000
<b>B. Assets</b>			
1. Non-current assets			
(a) PPE & Intangible Assets			
i. Property, Plant & Equipment	5	5,50,000	
ii. Intangible Assets	6	<u>1,50,000</u>	7,00,000
2. Current Assets			
(a) Inventories		1,50,000	
(b) Trade Receivables		1,25,000	
(c) Deferred revenue expenditure		<u>25,000</u>	3,00,000
Total			10,00,000

## Notes to Accounts

		Amount	Amount
1.	Share Capital Authorised, issued & fully paid 5,000 equity shares of ₹ 100 each 2,500 8% preference shares of ₹ 100 each	5,00,000 2,50,000	7,50,000
2.	Reserves and Surplus Profit and Loss Account		10,00,000
3.	Long Term borrowings 8% Debentures		5,00,000
4.	Short Term Borrowings Loan from Directors Bank overdraft	3,00,000 2,00,000	5,00,000
5.	Property, Plant & Equipment Freehold property Plant	4,00,000 1,50,000	5,50,000
6.	Intangible Assets Goodwill Trademark	1,00,000 50,000	1,50,000

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

- The preference shares to be written down to ₹ 25 each and the equity shares to ₹ 20 each. Each class of shares then to be converted into shares of ₹ 100 each.
- The debenture holders to take over freehold property (book value ₹ 2,00,000) at a valuation of ₹ 2,50,000 in part repayment of their holdings. Remaining freehold property to be revalued at ₹ 6,00,000.
- Loan from directors to be waived off in full.
- Stock of ₹ 50,000 to be written off, ₹ 12,500 to be provided for bad debts.
- Profit & Loss account balance, Trademark, goodwill & deferred revenue expenditure to be written off.

Pass Journal Entries for the above-mentioned transactions.

**Question 7 (ICAI Study Material)**

Pg no. \_\_\_\_\_

Vaibhav Ltd. gives you the following ledger balances as on 31.3.2023:

	₹
Property, Plant & 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
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
Trade Payables	1,00,00,000
Provision for taxation	2,00,000

The following scheme of reorganization is sanctioned:

- All the existing equity shares are reduced to ₹ 40 each.
- All preference shares are reduced to ₹ 60 each.
- The rate of interest on debentures is increased to 6%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

- d) Property, Plant & Equipment are to be written down by 20%.  
 e) Current assets are to be revalued at ₹ 90,00,000.  
 f) Investments to be brought to their market value.  
 g) One of the creditors of the company (included under trade payables in the above balance sheet) to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. He is allotted 60,000 equity shares of ₹ 40 each in full & final settlement of his claim.  
 h) The taxation liability of the company is settled at ₹ 3,00,000.  
 i) It is decided to write off the debit balance of Profit and Loss account.  
 Pass Journal entries and prepare Balance sheet of the company after giving effect to above.

**Question 8**

Pg no. \_\_\_\_\_

Following is the Balance Sheet of M Ltd. as at 31st March, 2023:

Liabilities	₹	Assets	₹
15,000, 10% Pref. shares of 100 each	15,00,000	Goodwill	3,50,000
35,000 Equity shares of ₹ 100 each	35,00,000	Land & Buildings	15,00,000
Securities Premium account	1,00,000	Plant & Machinery	10,00,000
7% Debentures of ₹ 100 each	5,00,000	Stock	6,00,000
Trade Payables	12,50,000	Trade Receivables	15,00,000
Loan from Director	1,50,000	Cash at bank	1,00,000
		Profit & Loss A/c	19,50,000
	70,00,000		70,00,000

No dividend on Preference shares has been paid for the last 5 years. The following scheme of reorganization was duly approved by the court:

- a) Each Equity share to be reduced to ₹ 25.  
 b) Each existing Preference share to be reduced to ₹ 75 and then exchanged for 1 new 13% Preference share of ₹ 50 each and 1 Equity share of ₹ 25 each.  
 c) Preference shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity Shares of ₹ 25.  
 d) The Debentureholders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of ₹ 50 each issued at par. One half (in value) of the debentureholders accepted Preference shares for their claims. The rest were paid cash.  
 e) Contingent liability of ₹ 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of loan given by Director to company.  
 f) Goodwill does not have any value in the present. Decrease the value of Plant and Machinery, Stock and Trade Receivables by ₹ 4,00,000, ₹ 1,00,000 and ₹ 1,50,000 respectively. Increase the value of Land and Buildings to ₹ 18,00,000.  
 g) 40,000 new Equity shares of ₹ 25 each are to be issued at par, payable in full on application. The issue was underwritten for a commission of 4%. Shares were fully taken up.  
 h) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to ₹ 15,000.

Pass necessary Journal Entries to record the above transactions.

**Question 9 (ICAI Study Material)**

Pg no. \_\_\_\_\_

Following is the Balance Sheet of ABC Ltd. as at 31st March, 2023:

	Note	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
(a) Share Capital	1	26,00,000
(b) Reserves & Surplus	2	(4,05,000)

2. Non-current Liabilities (a) Long Term Borrowings	3	12,00,000
3. Current Liabilities (a) Trade Payables (b) Short term Borrowings- Bank Overdraft		5,92,000 1,50,000
Total		41,37,000
<b>B. Assets</b>		
1. Non-current assets (a) Property, Plant & Equipment & Intangible Assets i. Property, Plant & Equipment ii. Intangible Assets (b) Non Current Investments	4 5 6	11,50,000 70,000 68,000
2. Current Assets (a) Inventories (b) Trade Receivables (c) Cash & Cash Equivalents		14,00,000 14,39,000 10,000
Total		41,37,000

## Notes to Accounts

	Amount
1. Share Capital Equity Share Capital 2,00,000 equity shares of ₹ 10 each Preference Share Capital 6,000 8% preference shares of ₹ 100 each	20,00,000 <u>6,00,000</u> 26,00,000
2. Reserves and Surplus Debit Balance of Profit and Loss Account	(4,05,000)
3. Long Term borrowings 9% Debentures	12,00,000
4. Property, Plant & Equipment Plant & Machinery Furniture & Fixtures	9,00,000 <u>2,50,000</u> 11,50,000
5. Intangible Assets Patents & Copyrights	70,000
6. Non Current Investments Investments (Market Value of 55,000)	68,000

The following scheme of reconstruction was finalized:

- Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
- Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
- Stock equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
- Investment value to be reduced to market price.
- The company would issue 11% Debentures for ₹ 3,00,000 to 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 company after internal reconstruction.

**Question 10** (ICAI Study Material) / (RTP May 2021)

Pg no. \_\_\_\_\_

Recover Ltd decided to reorganize its capital structure owing to accumulated losses & adverse market condition. The Balance Sheet of company as on 31st March 2023 is as follows:

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

**Notes to Accounts:**

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

	Goodwill	50,000
6	Non-current investments	
	Non-Trade investments at cost	40,000

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

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

**Question 11** *(ICAI Study Material)*

Pg no. \_\_\_\_\_

Given below is the summarized balance sheet of Rebuilt Ltd. as on 31.3.2023:

	Note	Amount
<b>A. Equity and Liabilities</b>		
1. Shareholders' Fund		
(a) Share Capital	1	13,50,000
(b) Reserves & Surplus	2	(4,51,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	5,73,000
3. Current Liabilities		
(a) Trade Payables		2,07,000
(b) Other Current Liabilities		35,000
<b>Total</b>		<b>17,14,000</b>
<b>B. Assets</b>		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	4	6,68,000
ii. Intangible Assets	5	3,18,000
2. Current Assets		
(a) Inventories		4,00,000
(b) Trade Receivables		3,28,000
<b>Total</b>		<b>17,14,000</b>

**Notes to Accounts**

	Amount
1. Share Capital	
Equity Share Capital	
15,000 equity shares of ₹ 50 each	7,50,000
Preference Share Capital	
12,000 7% Cumulative preference shares of ₹ 50 each	6,00,000
(Preference dividend is in arrears for 5 years)	13,50,000
2. Reserves and Surplus	

	Debit Balance of Profit and Loss Account	(4,51,000)
3.	Long Term borrowings Loan	5,73,000
4.	Property, Plant & Equipment Building at cost less depreciation Plant at cost less depreciation	4,00,000 2,68,000 6,68,000
5.	Intangible Assets Trademarks & Goodwill	3,18,000

The Company is short of working capital and a scheme of reconstruction has been approved by both the classes of shareholders. A summary of the scheme is as follows:

- The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 2.50 by cancellation of ₹ 47.50 per share. They have also agreed to subscribe for three new equity shares of ₹ 2.50 each for each equity share held.
- The preference shareholders have agreed to cancel the arrears of dividends and to accept for each ₹ 50 share, 4 new 5% preference shares of ₹ 10 each, plus 6 new equity shares of ₹ 2.50 each, all credited as fully paid.
- Lenders to the company for ₹ 1,50,000 have agreed to convert their loan into share and for this purpose they will be allotted 12,000 new preference shares of ₹ 10 each and 12,000 new equity shares of ₹ 2.50 each.
- The directors have agreed to subscribe in cash for 40,000, new equity shares of ₹ 2.50 each in addition to any shares to be subscribed by them under (a) above.
- Of the cash received by the issue of new shares, ₹ 2,00,000 is to be used to reduce the loan due by the company.
- The equity share capital cancelled is to be applied:
  - to write off the debit balance in the profit and loss A/c; and
  - to write off ₹ 35,000 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill.

Show by journal entries how the financial books are affected by the scheme and prepare the balance sheet of the company after reconstruction. Nominal capital as reduced is to be increased to ₹ 6,50,000 for preference share capital and ₹ 7,50,000 for equity share capital.

## Question 12

Pg no. \_\_\_\_\_

The Balance Sheet of R Ltd., at 31<sup>st</sup> March, 2023 was as follows:

Liabilities	₹	Assets	₹
Share capital Authorised:	14,00,000	Intangibles	68,000
Issued:		Freehold premises at cost	1,40,000
64,000, 8% Cum. Preference shares of ₹ 10 each, fully paid	6,40,000		
64,000 Equity shares of ₹ 10 each, ₹ 7.5 paid	4,80,000	Plant & Equipment at cost less depreciation	2,40,000
Loans from directors	60,000	Investments in shares in Q Ltd. at cost	3,24,000
Sundry creditors	4,40,000	Stocks	2,48,000
Bank overdraft	2,08,000	Debtors	3,20,000
		Deferred revenue expenditure	48,000
		Profit and loss account	4,40,000
	18,28,000		18,28,000

Note: The arrears of preference dividends amount to ₹ 51,200. A scheme of reconstruction was duly approved with effect from 1st April, 2023 under the conditions stated below:

- a) The unpaid amount on the equity shares would be called up.  
 b) The preference shareholders would forego their arrear dividends. In addition, they would accept a reduction of ₹ 2.5 per share. The dividend rate would be enhanced to 10%.  
 c) The equity shareholders would accept a reduction of ₹ 7.5 per share.  
 d) R Ltd. holds 21,600 shares in Q Ltd. This represents 15% of the share capital of that company. Q Ltd. is not a quoted company. The average net profit (after tax) of the company is ₹ 2,50,000. The shares would be valued based on 12% capitalization rate.  
 e) A bad debt provision at 2% would be created.  
 f) The other assets would be valued as under:

Intangibles	48,000
Plant	1,40,000
Freehold premises	3,80,000
Stocks	2,50,000

- g) The profit and loss account debit balance and the balance standing to the debit of the deferred revenue expenditure account would be eliminated.  
 h) The directors would have to take equity shares at the new face value of ₹ 2.5 per share in settlement of their loan.  
 i) The equity shareholders, including the directors, who would receive equity shares in settlement of their loans, would take up two new equity shares for every one held.  
 j) The preference shareholders would take up one new preference share for every four held.  
 k) The authorised share capital would be restated to ₹ 14,00,000.  
 l) New face values of shares—preference & equity will be maintained at their reduced levels. Prepare necessary ledger accounts to effect the above.

**Question 13** *(ICAI Study Material)*

Pg no. \_\_\_\_\_

Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. Following is summarized Balance Sheet of Company on 31.3.23 before reconstruction.

	Note	Amount
<b>A. Equity and Liabilities</b>		
1. Shareholders' Fund		
(a) Share Capital	1	65,00,000
(b) Reserves & Surplus	2	(20,00,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	15,00,000
3. Current Liabilities		
(a) Trade Payables		5,00,000
<b>Total</b>		<b>65,00,000</b>
<b>B. Assets</b>		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	4	45,00,000
ii. Intangible Assets	5	20,00,000
2. Current Assets		Nil
<b>Total</b>		<b>65,00,000</b>

**Notes to Accounts**

	Amount
1. Share Capital Authorized Share Capital 1,50,000 equity shares of ₹ 50 each Issued, Subscribed and Paid up Share Capital	75,00,000

	50,000 equity shares of ₹ 50 each 1,00,000 equity shares of ₹ 50 each, 40 paid up	25,00,000 <u>40,00,000</u> <u>65,00,000</u>
2.	Reserves and Surplus Debit Balance of Profit and Loss Account	(20,00,000)
3.	Long Term borrowings 12% First Debentures 12% Second Debentures	5,00,000 <u>10,00,000</u> <u>15,00,000</u>
4.	Property, Plant & Equipment Building Plant Computers	10,00,000 10,00,000 <u>25,00,000</u> <u>45,00,000</u>
5.	Intangible Assets Goodwill	20,00,000

The following is the interest of Mr. X and Mr. Y in Green Limited:

	Mr. X	Mr. Y
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Sundry Creditors	2,00,000	1,00,000
	12,00,000	6,00,000
Fully paid up ₹ 50 shares	3,00,000	2,00,000
Partly paid up shares (₹ 40 paid up)	5,00,000	5,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

- Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of ₹ 20 each.
- Mr. X is to cancel ₹ 7,00,000 of his total debt (other than share amount) and to pay ₹ 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.
- Mr. Y is to cancel ₹ 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.
- The amount thus rendered available by the scheme shall be utilized in writing off of Goodwill, Profit and Loss A/c and the balance to write off the value of computers.

You are required to draw the Journal Entries to record the same and also show the Balance Sheet of the reconstructed company.

### Question 14

Pg no. \_\_\_\_\_

The draft Balance Sheet of Moon Limited as on 31st March, 2023 was as follows:

Liabilities	₹	Assets	₹
2,50,000 Equity shares of ₹ 10 each fully paid	25,00,000	Goodwill	5,00,000
9% 10,000 Preference shares of ₹100 each fully paid	10,00,000	Patent	2,50,000
10% First debentures	3,00,000	Land and Building	15,00,000
10% Second debentures	5,00,000	Plant and Machinery	5,00,000
Debentures interest outstanding	80,000	Furniture and Fixtures	1,00,000
Trade payables	2,50,000	Computers	1,50,000
Directors' loan	50,000	Trade Investment	2,50,000
Bank Overdraft	50,000	Trade receivables	2,50,000

Outstanding liabilities	20,000	Stock	5,00,000
Provision for tax	50,000	Profit and Loss Account (Loss)	8,00,000
	48,00,000		48,00,000

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

A holds 10% first debentures for ₹ 2,00,000 and 10% second debentures for ₹3,00,000. He is also creditors for ₹ 50,000. B holds 10% first debentures for ₹ 1,00,000 and 10% second debentures for ₹ 2,00,000 and is also creditors for ₹ 25,000.

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

- All the equity shares be converted into fully paid equity shares of ₹5 each.
- The preference shares be reduced to ₹ 50 each and the preference shareholders agree to forego their arrears of preference dividends in consideration of which 9% preference shares are to be converted into 10% preference shares.
- Mr. 'A' is to cancel ₹ 3,00,000 of his total debt including interest on debentures and to pay ₹ 50,000 to the company and to receive new 12% debentures for the Balance amount.
- Mr. 'B' is to cancel ₹ 1,50,000 of his total debt including interest on debentures and to accept new 12% debentures for the balance amount.
- Trade creditors (other than A and B) agreed to forego 50% of their claim.
- Directors to accept settlement of their loans as to 60% thereof by allotment of equity shares and balance being waived.
- There were capital commitments totalling ₹ 1,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
- The Directors refund ₹ 55,000 of the fees previously received by them.
- Reconstruction expenses paid ₹5,000.
- The taxation liability of the company is settled at ₹ 40,000 and the same is paid immediately.
- The assets are revalued as under:

	₹
Land and building	14,00,000
Plant and Machinery	2,00,000
Stock	3,50,000
Trade receivables	1,50,000
Computers	90,000
Furniture & Fixtures	50,000
Trade Investment	2,00,000

Pass Journal entries for all transactions incl. amounts to be w/off of Goodwill, Patents, Loss in P&L A/c. Prepare Bank A/c & working of Interest on Debentures allocation between A & B

### Question 15

Pg no. \_\_\_\_\_

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, 2023:

Liabilities	₹	Assets	₹
6,000 shares of ₹ 60 each, ₹ 30 paid up		Property, machinery and plant etc. (Cost ₹ 3,90,000) Estimated at	1,50,000
First debentures	3,00,000	Cash in hand of the receiver	2,70,000
Second debentures	6,00,000	Charged under debentures	4,20,000
Unsecured creditors	4,50,000	Uncalled capital	1,80,000
		Deficiency	7,50,000
	13,50,000		13,50,000

A holds the first debentures for ₹ 3,00,000 and second debentures for ₹ 3,00,000. He is also an unsecured creditor for ₹ 90,000. B holds second debentures for ₹ 3,00,000 and is an unsecured creditor for ₹ 60,000.

The following scheme of reconstruction is proposed:

- A is to cancel ₹ 2,10,000 of the total debt owing to him, to bring ₹ 30,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 5,10,000 in satisfaction of all his claims.
- B is to accept ₹ 90,000 in cash in satisfaction of all claims by him.
- In full settlement of 75% of the claim, unsecured creditors (other than A and B) agreed to accept four shares of ₹ 7.50 each, fully paid against their claim for each share of ₹ 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.
- Uncalled capital is to be called up in full and ₹ 52.50 per share cancelled, thus making the shares of ₹ 7.50 each.

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

**Question 16 (RTP May 2020)**

Pg no. \_\_\_\_\_

The following is the Balance Sheet of Star Ltd. as on 31st March, 2023:

	Amount	Amount
<b>A. Equity and Liabilities</b>		
1. Shareholders' Fund		
(a) Share Capital		
10,000 equity shares of ₹ 100 each fully paid		10,00,000
9,000, 7% pref. shares of ₹ 100 each fully paid		9,00,000
(b) Reserves & Surplus		
Profit & Loss Account		(2,00,000)
2. Non-current Liabilities		
(a) Long Term Borrowings		
"A" 6% Debentures (Secured on Bombay Works)		3,00,000
"B" Debentures (Secured on Chennai Works)		3,50,000
3. Current Liabilities		
(a) Workmen's Compensation Fund:		
Bombay Works		10,000
Chennai Works		5,000
(b) Trade Payables		1,25,000
<b>Total</b>		<b>24,90,000</b>
<b>B. Assets</b>		
1. Non-current assets		
Property, Plant & Equipment		
Bombay Works	9,50,000	
Chennai Works	7,75,000	17,25,000
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	18,50,000
<b>Total</b>		<b>24,90,000</b>

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

- a) Paid up value of 7% Preference Share to be reduced to ₹ 80, but the rate of dividend being raised to 9%.
- b) Paid up value of Equity Shares to be reduced to ₹ 10.
- c) The directors to refund ₹ 50,000 of the fees previously received by them.
- d) Debenture holders forego their interest of ₹ 26,000 which is included among the Sundry Creditors.
- e) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.
- f) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹ 4,25,000 and to accept an allotment of 1,500 equity shares of ₹ 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 ₹ 10 each fully paid at par to Star Ltd.
- g) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of ₹ 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.
- h) Stock was to be written off by ₹ 1,90,000 and a provision for doubtful debts is to be made to the extent of ₹ 20,000.
- i) Chennai works completely written off.
- j) 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.

## TOPIC 2B: SHARE SURRENDER

### Question 17 (RTP Nov 2023)

Pg no. \_\_\_\_\_

Following information from Balance Sheet of Ruby Limited as on March 31, 2023:

Particulars	Amount
Authorised & Issued Equity share capital	
60,000 shares of ₹ 100 each fully paid	60,00,000
40,000 7% cumulative preference shares of ₹ 100 each fully paid	40,00,000
General Reserve	12,00,000
Loan from director	8,80,000
Trade Payables	49,20,000
Outstanding Expenses	6,40,000
Bank Loan	6,00,000
Patents	8,00,000
Plant and Machinery	60,00,000
Building	11,00,000
Trade Receivables	47,00,000
Inventory	32,60,000
Cash	2,40,000
Bank Balance	4,60,000
Profit & Loss A/c	16,80,000

Note: The arrears of preference dividend amount to ₹ 5,60,000.

The company had suffered losses since last 3 years due to bad market conditions and hope for a better position in the future.

The following scheme of reconstruction has been agreed upon and duly approved by all concerned:

- 1) Equity shares to be converted into 6,00,000 shares of ₹10 each.
- 2) Equity shareholders to surrender to the company 80 percent of their holdings.
- 3) Preference shareholders agree to forgo their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 8% preference shares.
- 4) Trade payables agree to reduce their claim by one fourth in consideration of their getting shares of ₹ 10,00,000 out of the surrendered equity shares.
- 5) Directors agree to forego the amounts due on account of loan.
- 6) Surrendered shares not otherwise utilized to be cancelled.
- 7) Assets to be reduced as under

Patent to	Nil
Plant & Machinery by	8,00,000
Inventory by	6,80,000

- 8) Trade receivables to the extent of ₹ 34,00,000 are considered good.
- 9) Revalued figures for building is accepted at ₹ 14,00,000.
- 10) Bank Loan is paid.
- 11) Any surplus after meeting the losses should be utilized in writing down the value of the plant further.
- 12) Expenses of reconstruction amounted to ₹ 1,20,000.
- 13) Further 80,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

You are required to pass the Journal Entries for giving effect to the above arrangement & draw up the resultant Balance Sheet of the Company.

**Question 18** *(ICAI Study Material)*

Pg no. \_\_\_\_\_

The Balance Sheet of Revise Ltd. as on 31-03-2023 is as follows:

	Note	Amount
<b>A. Equity and Liabilities</b>		
1. Shareholders' Fund		
(a) Share Capital	1	10,00,000
(b) Reserves & Surplus	2	(6,00,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	2,00,000
3. Current Liabilities		
(a) Trade Payables		72,000
(b) Other Current Liabilities	4	24,000
(c) Short Term Provisions	5	24,000
Total		7,20,000
<b>B. Assets</b>		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	6	1,00,000
2. Current Assets		
(a) Inventories		3,20,000
(b) Trade Receivables		2,70,000
(c) Cash and Cash Equivalent		30,000
Total		7,20,000

## Notes to Accounts

		Amount
1.	Share Capital Equity Share Capital 10,000 equity shares of ₹ 100 each	10,00,000
2.	Reserves and Surplus Debit Balance of Profit and Loss Account	(6,00,000)
3.	Long Term borrowings 12% Debentures	2,00,000
4.	Other Current Liabilities Interest payable on debentures	24,000
5.	Short Term Provisions Provision for taxation	24,000
6.	Property, Plant & Equipment Machinery	1,00,000

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

- (a) Each share is sub-divided into ten fully paid up equity shares of ₹ 10 each.
- (b) After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.
- (c) Out of shares surrendered, 10,000 shares of ₹ 10 each shall be converted into 12% preference shares of ₹ 10 each, fully paid up.
- (d) The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of shares surrendered.
- (e) Trade payables claim shall be reduced to 50 per cent, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- (f) Balance of profit and loss account to be written off.
- (g) The shares surrendered and not re-issued shall be cancelled.

Pass journal entries giving effect to the above and the resultant Balance Sheet.

## PRACTICE QUESTIONS

### TOPIC 1 & 2A

**Question 1** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

C Ltd. had ₹ 5,00,000 authorized capital on 31-12-2021 divided into shares of ₹ 100 each out of which 4,000 shares were issued and fully paid up. In June 2022 the Company decided to convert the issued shares into stock. But in June, 2023 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 31-12-2021, 31-12-2022 and 31-12-2023.

**Question 2** *(Inter July 2021) (5 Marks)* \_\_\_\_\_ Pg no. \_\_\_\_\_

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

- (i) The shareholders to receive in lieu of their present holding at 7,50,000 shares of ₹10 each, the following:
  - a. New fully paid ₹ 10 Equity Shares equal to 3/5th of their holding.
  - b. Fully paid ₹ 10, 6% Preference Shares to the extent of 2/5th of the above new equity shares.
  - c. 7% Debentures of ₹ 250,000.
- (ii) Goodwill which stood at ₹ 2,70,000 is to be completely written off.
- (iii) Plant & Machinery to be reduced by ₹ 1,00,000, Furniture to be reduced by ₹ 88,000 and Building to be appreciated by ₹ 1,50,000.
- (iv) Investment of ₹ 6,00,000 to be brought down to its existing market price of ₹ 1,80,000.
- (v) Write off Profit & Loss Account debit balance of ₹ 2,25,000.

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

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

**Question 3** \_\_\_\_\_ Pg no. \_\_\_\_\_

Pass journal entries for the following transactions:

- a) Conversion of 2 lakh fully paid equity shares of ₹ 10 each into stock of ₹ 1,00,000 and balance has 12% fully convertible Debenture.
- b) Consolidation of 40 lakh fully paid equity shares of ₹ 2.50 each into 10 lakh fully paid equity share of ₹ 10 each.
- c) Sub-division of 10 lakh fully paid 11% preference shares of ₹ 50 each into 50 lakh fully paid 11% preference shares of ₹ 10 each.
- d) Conversion of 12% preference shares of ₹ 5,00,000 into 14% preference shares ₹ 3,00,000 and remaining balance as 12% Non-cumulative preference shares.

**Question 4** *(RTP Nov 2022)* \_\_\_\_\_ Pg no. \_\_\_\_\_

M/s Planet Limited has decided to reconstruct Balance Sheet since it has accumulated huge losses. Following is balance sheet of company as on 31st March, 2023 before reconstruction:

	Note	₹ (In Lacs)
A. Equity and Liabilities		
1. Shareholders' Fund		
Share Capital	1	2,100
Reserves & Surplus	2	(783)

2. Non-Current Liabilities Long Term Borrowings	3	1,050
3. Current Liabilities Trade Payables	4	153
Other Liabilities	5	36
Total		2,556
<b>B. Assets</b>		
1. Non-Current assets Property, Plant & Equipment & Intangible Assets Property, Plant & Equipment	6	1,125
2. Current Assets Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		2,556

## Notes to Accounts

	Amount
1. Share Capital Authorised, 300 lakh shares of ₹ 10 each 12 lakh, 8% Preference Shares of ₹ 100 each	3,000 <u>1,200</u> 4,200
Issued, Subscribed & paid up 150 lakh Equity Shares of ₹ 10 each, full paid up 6 lakh 8% Preference Shares of ₹ 100 each, fully paid up	1,500 <u>600</u> 2,100
2. Reserves and Surplus Debit Balance of Profit and Loss Account	(783)
3. Long Term borrowings 6% Debentures (Secured by Freehold Property) Directors' Loan	600 <u>450</u> 1,050
4. Trade Payables Sundry Creditors for Goods	153
5. Other Current Liabilities Interest Accrued and Due on 6% Debentures	36
6. Property, Plant & Equipment Freehold property Plant & Machinery	825 <u>300</u> 1,125
7. Current Investment Investment in Equity Instruments	300
8. Inventories Finished Goods	450
9. Trade Receivables Sundry Debtors for Goods	675
10. Cash and Cash Equivalents Balance with Bank	6

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

- a) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.
- b) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3 rd, Equity Shares of ₹ 2 each to be allotted.
- c) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
- d) Interest accrued and due on Debentures to be paid in cash.
- e) Remaining Freehold Property to be valued at ₹ 550 lakh.
- f) All investments sold out for ₹ 425 lakh.
- g) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allowed.
- h) 40% of Trade Receivables and 80% of Inventories to be written off.
- i) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying penalty of ₹ 72 Lakhs.

You are required to:

- (a) Pass Journal Entries for all the transactions related to internal reconstruction;
- (b) Prepare Capital Reduction Account, Bank Account; and
- (c) Prepare Notes to Accounts on Share Capital and Property, Plant & Equipment to Balance Sheet, immediately after the implementation of scheme of internal reconstruction.

**Question 5** *(ICAI Study Material)*

Pg no. \_\_\_\_\_

The following is the Balance Sheet of Weak Ltd. as on 31st March, 2023:

	Note	Amount
<b>A. Equity and Liabilities</b>		
1. Shareholders' Fund		
(a) Share Capital	1	1,50,00,000
(b) Reserves & Surplus	2	(6,00,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	40,00,000
3. Current Liabilities		
(a) Trade Payables		50,00,000
(b) Short Term Provisions	4	1,00,000
Total		2,35,00,000
<b>B. Assets</b>		
1. Non-current assets		
(a) PPE & Intangible Assets		
i. Property, Plant & Equipment		1,25,00,000
(b) Non Current Investment	5	10,00,000
2. Current Assets		
Total		2,35,00,000

**Notes to Accounts**

	Amount	Amount
1. Share Capital 1,00,000 equity shares of ₹ 100 each 50,000 12% cumulative preference shares of ₹ 100 each	1,00,00,000 <u>50,00,000</u>	1,50,00,000
2. Reserves and Surplus Profit and Loss Account		(6,00,000)
3. Long Term borrowings 40,000,10% Debentures of ₹ 100 each		40,00,000

4.	Short Term Provisions Provision for taxation		1,00,000
5.	Non Current Investments Investments (Market Value of ₹ 9,50,000)		10,00,000

The following scheme of reorganization is sanctioned:

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

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

### Question 6

Pg no. \_\_\_\_\_

Vinod Limited decided to reconstruct its business as it has accumulated huge losses. The following is the Balance Sheet of the company as on 31-03-2023 before reconstruction:

Liabilities	₹	Assets	₹
6,00,000 Equity Shares of ₹ 10 each fully paid up	60,00,000	Goodwill	10,40,000
3,20,000, 6% Preference Shares of ₹ 10 each fully paid up	32,00,000	Patents	3,00,000
6% Debentures (Secured against Land & Building)	30,00,000	Land & Building	34,00,000
Bank Overdraft	11,60,000	Plant & Machinery	4,00,000
Trade Payables	24,00,000	Investments (at Cost)	4,40,000
Provision for Income Tax	4,00,000	Trade Receivables	34,80,000
		Inventory	34,00,000
		Profit & Loss A/c	37,00,000
	1,61,60,000		1,61,60,000

Following scheme of Reconstruction approved by all interested parties and Court:

- All Equity Shares are reduced to ₹ 3 each and Preference Shares to ₹ 7 each.
- Debentureholders agree to take over part of Land & Building, Book value of which is 14 Lacs towards their 50% claim. Rate of interest of balance 50% debentures increased to 9%.
- Goodwill and Patent will be written off.
- 10% of trade receivables to be provided for bad debts.
- Inventory to be written off by ₹ 5,20,000.
- 50% of balance Land & Building sold for ₹ 12,00,000 and remaining Land & Building valued at ₹ 12,00,000.
- Investments to be sold for ₹ 4,00,000
- There are pending contracts amounting to ₹ 20,00,000. These contracts are to be cancelled on payment of penalty @ 5% of pending contract amount.
- The Income Tax Liability of the company is settled at ₹ 6,12,000. Provision for Income Tax will be raised accordingly.

- j) 1/3 of trade payables decided to forgo their claim.  
 k) After making all the above adjustments, balance amount available through scheme, will be utilised to write off the value of Plant & Machinery to that extent.  
 You are required to pass the Journal Entries and Draw up Balance Sheet of the company after reconstruction.

**Question 7** *(Inter Nov 2018) (10 Marks) / (RTP Nov 2021)* Pg no. \_\_\_\_\_

The summarized Balance Sheet of SK Ltd. as on 31st March, 2023 is given below.

	Amount ('000)
<b>Liabilities</b>	
Equity Shares of ₹ 10 each	35,000
8%, Cumulative Preference Shares of ₹ 100 each	17,500
6% Debentures of ₹ 100 each	14,000
Sundry Creditors	17,500
Provision for taxation	350
<b>Total</b>	<b>84,350</b>
<b>B. Assets</b>	
<b>Assets</b>	
Property, Plant & Equipment	43,750
Investments (Market value ₹ 3325 thousand)	3,500
Current Assets (Including Bank Balance)	35,000
Profit and Loss Account	2,100
<b>Total</b>	<b>84,350</b>

Following Scheme of Internal Reconstruction is approved & put into effect on 31st March, 2023

- (i) Investments are to be brought to their market value.
  - (ii) The Taxation Liability is settled at ₹ 5,25,000 out of current Assets.
  - (iii) The balance of Profit and Loss Account to be written off.
  - (iv) All the existing equity shares are reduced to ₹ 4 each.
  - (v) All preference shares are reduced to ₹ 60 each.
  - (vi) The rate of interest on debentures is increased to 9%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange them for fresh debentures of ₹ 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 ₹ 1,57,50,000.
  - (viii) Property, Plant & Equipment are written down to 80%.
  - (ix) One of the creditors of the Company for ₹ 70,00,000 gives up 50% of his claim. He is allotted 8,75,000 equity shares of ₹ 4 each in full and final settlement of his claim.
- Pass journal entries for the above transactions.

**Question 8** *(ICAI Study Material)* Pg no. \_\_\_\_\_

The following is the summarized Balance Sheet of X Ltd. as on 31st March, 2023:

	Note	Amount
<b>A. Equity and Liabilities</b>		
1. Shareholders' Fund		
(a) Share Capital	1	36,00,000
(b) Reserves & Surplus	2	(14,40,000)
2. Non-current Liabilities		
(a) Long Term Borrowings	3	6,00,000
3. Current Liabilities		
(a) Short Term Borrowings- Bank Overdraft		6,00,000

(b) Trade Payables		3,00,000
Total		36,60,000
<b>B. Assets</b>		
1. Non-current assets		
(a) Property, Plant & Equipment & Intangible Assets		
i. Property, Plant & Equipment	4	30,00,000
ii. Intangible Assets	5	90,000
2. Current Assets		
(a) Inventories		2,60,000
(b) Trade Receivables		2,80,000
(c) Cash & Cash Equivalents		30,000
Total		36,60,000

## Notes to Accounts

	Amount
1. Share Capital	
Equity Share Capital	
24,000 equity shares of ₹ 100 each	24,00,000
Preference Share Capital	
12,000 10% preference shares of ₹ 100 each	<u>12,00,000</u>
	<u>36,00,000</u>
2. Reserves and Surplus	
Debit Balance of Profit and Loss Account	(14,40,000)
3. Long Term borrowings	
10% Debentures	6,00,000
4. Property, Plant & Equipment	
Land & Building	12,00,000
Plant & Machinery	<u>18,00,000</u>
	<u>30,00,000</u>
5. Intangible Assets	
Goodwill	90,000

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

- 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.
- The debenture holders took over inventories and trade receivables in full satisfaction of their claims.
- Land & Building to be appreciated by 30% and Plant & machinery to be depreciated by 30%.
- The debit balance of profit and loss account and intangible assets are to be eliminated.
- Expenses of reconstruction amounted to ₹ 5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet.

**Question 9**

Pg no. \_\_\_\_\_

The Balance Sheet of M/s Clean Ltd. as on 31st March, 2023 was summarized as follows:

Liabilities	₹	Assets	₹
Share capital		Land & Building	75,00,000
Equity Shares of ₹ 50 each, fully paid up	60,00,000	Plant & Machinery	22,00,000
9% Preference Shares of ₹ 10 each, fully paid up	40,00,000	Trade Investment	16,50,000

7% Debentures (secured by plant & machinery)	23,00,000	Inventories	9,50,000
8% Debentures	17,00,000	Trade Receivable	18,00,000
Trade Payables	6,00,000	Cash and Bank Balances	3,60,000
Provision for Tax	75,000	Profit & Loss Account	2,15,000
	1,46,75,000		1,46,75,000

The Board of Directors of the company decided upon the following scheme of reconstruction duly approved by all concerned parties:

- a) The equity shareholders agreed to receive in lieu of their present holding of 1,20,000 shares of ₹ 50 each as under:
  1. New fully paid equity shares of ₹ 10 each equal to 2/3rd of their holding.
  2. 9% preference shares of ₹ 8 each to the extent of 25% of the above new equity share capital.
  3. ₹ 2,80,000, 10% debentures of ₹ 80 each.
- b) The preference shareholders agreed that their ₹ 10 shares should be reduced to ₹ 8 by cancellation of ₹ 2 per share. They also agreed to subscribe for two new equity shares of ₹ 10 each for every five preference shares held.
- c) The taxation liability of the company is settled at ₹ 66,000 and the same is paid immediately.
- d) One of the trade creditors of the company to whom the company owes ₹ 1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of ₹ 10 each in full satisfaction of his balance claim.
- e) Other trade creditors of ₹ 5,00,000 are given option of either to accept fully paid 9% preference shares of ₹ 8 each for the amount due to them or to accept 80% of the amount due to them in cash in full settlement of their claim. Trade creditors for ₹ 3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.
- f) Company's contractual commitments amounting to ₹ 6,50,000 have been settled by paying 4% penalty of contract value.
- g) Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.
- h) The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debenture of ₹ 50 each and agreed to accept 10% debentures of ₹ 80 each for every two debentures held by them.
- i) The land and building to be depreciated by 5%.
- j) The debit balance of profit and loss account is to be eliminated.
- k) 1/4th of trade receivables and 1/5th of inventory to be written off.

Pass Journal Entries and prepare Balance Sheet after completion of the reconstruction scheme in the books of M/s Clean Ltd. as per Schedule III to the Companies Act, 2013.

**Question 10** *(Inter May 2023) (5 Marks)*

Pg no. \_\_\_\_\_

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

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

- a. If X Ltd. resolves to subdivide the equity shares into 10,000 equity shares of ₹ 10 each of which ₹ 8 per share is called up and paid up.
- b. If X Ltd. resolves to convert its 1,000 equity shares of ₹ 100 each (assume fully paid) into ₹ 1,00,000 worth of stock.

- c. The preference shares are to be converted into 11% unsecured debentures of ₹ 100 each (including arrears of dividends).
- d. Patents and Goodwill to be written-off.

**Question 11** *(Inter Nov 2019) (15 Marks) / (RTP May 2023)*

Pg no. \_\_\_\_\_

Following is the summarized Balance Sheet of Fortunate Ltd. as on 31st March, 2023.

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

(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 ₹ 50 shares should be reduced to ₹ 5 by cancellation of ₹ 45.00 per share. They have also agreed to subscribe for three new equity shares of ₹ 5.00 each for each equity share held.
- (ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹ 50 preference share, 4 new 6% preference shares of ₹ 10 each, plus 3 new equity shares of ₹ 5.00 each, all credited as fully paid.
- (iii) Lenders to the company for ₹ 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹ 10 each and 7,500 new equity shares of ₹ 5.00 each.
- (iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹ 5.00 each in addition to any shares to be subscribed by them under (i) above.
- (v) Of the cash received by the issue of new shares, ₹ 2,50,000 is to be used to reduce the loan due by the company.
- (vi) The equity share capital cancelled is to be applied:
  - a. To write off the debit balance in the Profit and Loss A/c, and
  - b. To write off ₹ 43,750 from the value of plant.

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

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction.

**Question 12** (RTP May 2018 / RTP Nov 2019)

Pg no. \_\_\_\_\_

M/s Platinum Limited has decided to reconstruct Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the company as on 31st March, 2023 before reconstruction:

Liabilities	₹	Assets	₹
Share Capital		Goodwill	22,00,000
50,000 shares of ₹ 50 each fully paid up	25,00,000	Land & Building	42,70,000
1,00,000 shares of ₹ 50 each ₹ 40 paid up	40,00,000	Machinery	8,50,000
Capital Reserve	5,00,000	Computers	5,20,000
8% Debentures of ₹ 100 each	4,00,000	Stock	3,20,000
12% Debentures of ₹ 100 each	6,00,000	Trade Debtors	10,90,000
Trade Creditors	12,40,000	Cash at Bank	2,68,000
Outstanding Expenses	10,60,000	Profit & Loss Account	7,82,000
	1,03,00,000		1,03,00,000

Following is the interest of Mr. Shiv and Mr. Ganesh in M/s 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:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of ₹ 40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for ₹ 12,50,000.
- (3) Trade Creditors are given option of either to accept fully paid equity shares of ₹ 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 Creditors for ₹ 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 ₹ 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agree to subscribe further 15% Debentures in cash amounting to ₹ 1,00,000.
- (5) Mr. Ganesh agrees to cancel debentures amounting to ₹ 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 ₹ 51,84,000, Machinery at ₹ 7,20,000, Computers at ₹ 4,00,000, Stock at ₹ 3,50,000 and Trade Debtors 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.

**Question 13** (RTP Nov 2018 / RTP Nov 2020/ RTP May 2022)

Pg no. \_\_\_\_\_

The summarized balance sheet of Z Limited as on 31st March, 2023 is as under

	Amount
A. Equity and Liabilities	
1. Shareholders' Fund	

(a) Share Capital 5,00,000 equity shares of ₹ 10 each fully paid 20000, 9% preference shares of ₹ 100 each fully paid	50,00,000 20,00,000
(b) Reserves & Surplus Profit & Loss Account	(14,60,000)
<b>2. Non-current Liabilities</b>	
(a) Long Term Borrowings 10% Secured Debentures	16,00,000
<b>3. Current Liabilities</b>	
Trade Payables	5,00,000
Loan From Director	1,00,000
Bank Overdraft	1,00,000
Provision for Tax	1,00,000
Interest due on Debentures	1,60,000
<b>Total</b>	<b>81,00,000</b>
<b>B. Assets</b>	
<b>1. Non-current assets</b>	
Property, Plant & Equipment & Intangible Assets	
(a) Property, Plant & Equipment	
Land & Building	30,00,000
Plant & Machinery	12,50,000
Furniture & Fixtures	2,50,000
(b) Intangible Assets	
Goodwill	10,00,000
Patents	5,00,000
<b>2. Current Assets</b>	
(a) Trade Investments	5,00,000
(b) Trade Receivables	5,00,000
(c) Inventories	10,00,000
(d) Discount on Issue of debentures	1,00,000
<b>Total</b>	<b>81,00,000</b>

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

Mr. Y holds 60% of debentures and Mr. Z holds 40% of debentures. Moreover ₹ 1,00,000 and ₹ 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.

- All the equity shares to be converted into fully paid equity shares of ₹ 5.00 each.
- The Preference shares be reduced to ₹ 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.
- 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 ₹ 1,00,000 and ₹ 60,000 respectively in cash and to receive new 12% debentures for the balance amount.
- Trade payables, other than Mr. Y and Mr. Z also agreed to forgo their 50% claims.
- Directors also waived 60% of their loans and accepted equity shares for the balance.
- Capital commitments of ₹ 3.00 lacs were cancelled on payment of ₹ 15,000 as penalty.
- Directors refunded ₹ 1,00,000 of the fees previously received by them.
- Reconstruction expenses paid ₹ 15,000.
- The taxation liability of the company was settled for ₹ 75,000 and was paid immediately.
- 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 pass 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 A/c.

**Question 14** *(RTP May 2018 (Similar))*

Pg no. \_\_\_\_\_

Proficient Infosoft Ltd. is in the hand of Receiver for Debenture Holders who holds a charge on all asset except uncalled capital. The following statement shows position as regards creditors as on 30 June, 2023

Liabilities	₹	Assets	₹
8,000 shares of ₹ 100 each, ₹ 60 paid up		Property (Cost ₹ 3,80,800) Estimated at	1,08,000
First debentures	3,60,000	Plant & Machinery (Cost ₹ 2,87,200) estimated at	72,000
Second debentures	7,80,000	Cash in hand of the receiver	3,24,000
Unsecured creditors	5,40,000		5,04,000
		Uncalled capital	3,20,000
			8,24,000
		Deficiency	8,56,000
	16,80,000		16,80,000

A holds the first debentures for ₹ 3,60,000 and second debentures for ₹ 3,60,000. He is also an unsecured trade payable for ₹ 1,08,000. B holds second debentures for ₹ 3,60,000 and is an unsecured trade payable for ₹ 72,000. The following scheme of reconstruction is proposed.

- A is to cancel ₹ 2,52,000 of the total debt owing to him; to bring ₹ 36,000 in cash and to take first debentures (in cancellation of those already issued to him) for ₹ 6,12,000 in satisfaction of all his claims.
- B to accept ₹ 1,08,000 in cash in satisfaction of all claims by him.
- In full settlement of 60% of the claim, unsecured trade payable (other than A and B) agreed to accept three shares of ₹ 25 each, fully paid against their claim for each ₹ 100. The balance of 40% 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.
- Uncalled capital is to be called up in full & ₹ 75 per share cancelled, thus making the shares of ₹ 25 each.

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

**Question 15** *(Inter Nov 2022) (20 Marks)*

Pg no. \_\_\_\_\_

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

Particulars	Notes	Amount in ₹
I. 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		2,00,000
Total		16,20,000

II. 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		7,600
Total		16,20,000

## Notes to Accounts

	₹	₹
(1) Share Capital		
90,000 Equity Shares of ₹ 10 each fully paid	9,00,000	
6% Preference Share Capital	6,00,000	15,00,000
(2) Reserves & Surplus		
Profit & Loss account		(3,00,000)
(3) Property, Plant and Equipment		
Land and Building	5,40,000	
Plant and Machinery	4,80,000	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:

- The preference shares are converted from 6% to 8% but revalued in a manner in which the total return on them remains unaffected.
- The value of equity shares is brought down to ₹ 8 per share.
- The arrears of dividend on preference shares are cancelled.
- The debit balance of Goodwill account is written off entirely.
- Land and Building and Plant and Machinery are revalued at 85% and 80% of their respective book values.
- Book debts amounting to ₹ 14,400 are to be treated as bad and hence to be written off.
- The company expects to earn a profit at the rate of ₹ 90,000 per annum from the current year which would be utilized entirely for reducing the debit balance of Profit and loss accounts for 3 years. The remaining balance of the said account would be written off at the time of capital reduction process.
- The balance of total capital reduction is to be utilized in writing down Patents.
- A secured loan of ₹ 4,80,000 bearing interest at 12% per annum is to be obtained by mortgaging tangible fixed assets for repayment of bank overdraft and for providing additional funds for working capital.

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

## TOPIC 2B: SHARE SURRENDER

### Question 16

Pg no. \_\_\_\_\_

The business of P Ltd. was being carried on continuously at losses. The following are the extracts from the Balance Sheet of the Company as on 31st March, 2023.

Liabilities	₹	Assets	₹
Auth., Issued & Subscribed Capital:		Goodwill	50,000
30,000 Equity Shares of ₹ 10 each fully paid	3,00,000	Plant	3,00,000
2,000 8% Cumulative Pref. Shares of ₹ 100 each fully paid	2,00,000	Loose Tools	10,000
Securities Premium	90,000	Debtors	2,50,000
Unsecured Loan (From Director)	50,000	Stock	1,50,000
Sundry creditors	3,00,000	Cash	10,000
Outstanding Expenses (including Directors' remuneration ₹ 20,000)	70,000	Bank	35,000
		Preliminary Expenses	5,000
		P&L Account	2,00,000
	10,10,000		10,10,000

Note:

- 1) Dividends on Cumulative Preference Shares are in arrears for 3 years.
- 2) Unsecured loans (from director) is assumed to be of less than 12 months hence, treated as short term borrowings.(ignoring interest)

Following scheme of reconstruction has been agreed upon and duly approved by the Court.

- a) Equity shares to be converted into 1,50,000 shares of ₹ 2 each.
- b) Equity shareholders to surrender to the Company 90 per cent of their holding.
- c) Preference shareholders agree to forego their right to arrears to dividends in consideration of which 8% Preference Shares are to be converted into 9% Pref. Shares.
- d) Sundry creditors agree to reduce their claim by one fifth in consideration of their getting shares of ₹ 35,000 out of the surrendered equity shares.
- e) Directors agree to forego the amounts due on account of unsecured loan and Director's remuneration.
- f) Surrendered shares not otherwise utilised to be cancelled.
- g) Assets to be reduced as under:

Goodwill by	₹ 50,000
Plant by	₹ 40,000
Tools by	₹ 8,000
Sundry Debtors by	₹ 15,000
Stock by	₹ 20,000

- h) Any surplus after meeting the losses should be utilised in writing down the value of the plant further.
- i) Expenses of reconstruction amounted to ₹ 10,000.
- j) Further 50,000 Equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid-up.

A member holding 100 equity shares opposed the scheme and his shares were taken over by the Director on payment of ₹ 1,000 as fixed by the Court.

Pass journal entries and draw up the resultant Balance Sheet of the Company.

### Question 17

Pg no. \_\_\_\_\_

The summarised Balance Sheet of Preet Limited as on 31st March 2023, was as follows:

Liabilities	₹	Assets	₹
Authorised and subscribed capital:		Property, Plant & Equipment:	
20,000 Equity shares of ₹ 100 each	20,00,000	Machineries	7,00,000
Unsecured loans:		Current Assets:	
15% Debentures	6,00,000	Inventory	5,06,000

Accrued interest	90,000	Trade Receivables	4,60,000
Current Liabilities:		Bank	40,000
Trade Payables	1,04,000	Profit & loss A/c	11,60,000
Provision for income tax	72,000		
	28,66,000		28,66,000

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:

- Each share be sub-divided into 10 fully paid up equity share of ₹ 10 each.
- After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debentureholders and trade payables as necessary.
- Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.
- The claims of debentureholders shall be reduced by 50%. In consideration of the reduction, the debenture-holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.
- Trade Payables claim shall be reduced by 25%. Remaining Trade Payables are to be settled by the issue of equity shares of ₹ 10 each of out of shares surrendered.
- Balance of Profit and Loss account to be written off.
- The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

**Question 18** *(Inter Nov 2023) (20 Marks)*

Pg no. \_\_\_\_\_

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

Particulars	Notes	₹ in Lakhs
<b>Equity and Liabilities:</b>		
1. Shareholders funds		
A. Share Capital	1	24.00
B. Reserves and Surplus	2	(9.10)
2. Non-current liabilities		
A. Long-term borrowings	3	3.20
3. Current liabilities		
A. Trade Payables		1.15
B. Short Term Borrowings – Bank Overdraft		1.40
C. Other current liabilities	4	0.32
D. Short term provisions	5	0.42
<b>Total</b>		<b>21.39</b>
<b>Assets:</b>		
1. Non-current assets		
A. Property, Plant and Equipment	6	7.80
B. Intangible Assets	7	1.70
C. Non-Current Investments	8	1.80
2. Current Assets		
A. Inventory		5.12
B. Trade Receivables		4.32
C. Cash & Cash Equivalents		0.65
<b>Total</b>		<b>21.39</b>

Notes to Accounts:

		₹ in Lakhs
1	Share Capital	

	16,000 Equity Shares of ₹ 100 each	16.00
	8,000 6% Preference Shares of ₹ 100 each	8.00
		24.00
2	Reserves and Surplus	
	Debit balance of profit & loss account	(9.10)
		(9.10)
3	Long-term borrowings	
	3,200 10% Debentures	3.20
		3.20
4	Other current liabilities	
	Interest payable on debentures	0.32
		0.32
5	Short term provisions	
	Provision for taxation	0.42
		0.42
6	Property, Plant and Equipment	
	Plant & Machinery	5.00
	Furniture & Fixture	2.80
		7.80
7	Intangible Assets	
	Patents & Copyrights	1.70
		1.70
8	Non-Current Investments	
	Investments (Market Value ₹ 1,10,000)	1.80
		1.80

As on 1<sup>st</sup> April, 2023, the following scheme of reconstruction was finalized for which necessary resolution was passed and approvals were obtained from appropriate authorities. Accordingly, it was decided that:

- Each equity share is to be sub-divided into ten fully paid-up equity shares of ₹ 10 each. After sub-division, each shareholder shall surrender to the company 40% of his holding, for the purpose of reissue to trade payables as necessary.
- Preference shareholders would give up 30% of their capital and 12% Debentures (face value ₹ 100 each) shall be issued to them for balance holdings.
- The company would issue additional 12% Debentures (face value ₹ 100 each) for ₹ 4,00,000 for meeting its working capital requirement and final settlement of Bank Overdraft at 90% of the amount.
- Existing debenture holders would accept Furniture & Fixture in full settlement of their dues.
- Trade payables claim shall be reduced to 70%, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- The shares surrendered and not re-issued shall be cancelled.
- The taxation liability is to be settled at 50,000.
- Investments value to be reduced to market price.
- Balance of profit and loss account is to be written off.
- The value of inventories is to be increased by ₹ 32,000 and Provision for Doubtful Debts is to be created at 5% of Trade Receivables.

You are required to:

- Pass necessary journal entries in the books of account of Tourma Limited.
- Prepare Reconstruction Account, and
- Prepare Balance Sheet of the company after internal reconstruction.