STUDENT NOTES

Question 1 15marks **Category:-**

The following is the summarized Balance Sheet of Rocky Ltd. as at March 31, 2013:

		₹ in lacs
Liabilities		
Fully paid equity shares of ₹ 10 each		500
Capital Reserve	10	6 +9 =15
12% Debentures		400
Debenture Interest Outstanding		48
Trade payables	Cap Res Dr. 6	165
Directors' Remuneration Outstanding	To good 6	10
Other Outstanding Expenses		11
Provisions		33
		1,173
Assets		
Goodwill	15 − 9 = 6	15
Land and Building		184
Plant and Machinery		286
Furniture and Fixtures		41
Inventory		142
Trade receivables		80
Cash at Bank		27
Discount on Issue of Debentures		8
Profits and Loss Account		390
		1,173

Cap. Res = 4
Good = 0

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

(i) All the equity shares be converted into the same number of fully-paid equity shares of ₹ 2.50 each.

(ii) Directors agree to forego their outstanding remuneration.

(iii) The debenture holders also agree to forego outstanding interest in return of their 12% debentures being converted into 13% debentures.

(iv) The existing shareholders agree to subscribe for cash, fully paid equity shares of ₹ 2.50 each for ₹ 125 lacs.

(v) Trade payables are given the option of either to accept fully-paid equity shares of ₹ 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Trade payables for ₹ 65 lacs accept equity shares whereas those for ₹ 100 lacs accept ₹ 80 lacs in cash in full settlement.

CA Tejas Suchak

L22 - 19/3 - R

JOURNAL ENTRY

(₹ lakhs)

No.	Particulars		Dr. (₹ lakhs)	Cr. (₹ lakhs)
1.	✓ Equity Share Capital a/c (FV = 10) × 50L	Dr.	500	
	✓ To Equity Share Capital a/c (FV = 2.5) × 50L			125
	✓ To Capital Reduction			375
2.	✓ Directors Remuneration o/s a/c	Dr.	10	
	✓ To Capital Reduction			10
3. a.	✓ Debenture Interest o/s	Dr.	48	
	✓ To Capital Reduction			48
b.	✓ 12% Debentures a/c	Dr.	400	
	✓ To 13% Debentures a/c			400
4.	✓ Bank	Dr.	125	
	✓ To Equity Share Capital (FV = 2.5)			125
5.	✓ Trade Payables a/c	Dr.	165	
	✓ To Bank			80
	✓ To Equity Share Capital (FV = 2.5)			65
	✓ To Capital Reduction			20

TP 165

100 → Cash = 80% → 80L

65 → ESC = 100% → 65

CR bal = 407 Cr.

No.	Particulars		Dr. (₹ lakhs)	Cr. (₹ lakhs)
6.	✓ Land & Building	Dr.	46	
	✓ Capital Reduction	Dr.	46	
	✓ To Plant & Machine			66
	✓ To Inventory			22
	✓ To Trade Receivables			4
7.	✓ Capital Reduction	Dr.	~~407~~ 398	
	✓ To Profit and Loss			390
	✓ To Discount on issue of debentures			8
	✓ To goodwill → only if mentioned in question			~~9~~
8.	Capital Reduction	Dr.	9	
	To Capital Reserve			9

NOTE :- The balance of Capital Reduction after passing all effects of internal reconstruction will be treated as follows :-

1st - P&L Dr. balance will be written off.
2nd - Other fictitious assets will be written off.
3rd - Intangible Assets will be written off. → if asked in question
4th - If any balance still exits in capital Reduction, it will be treated as final profits from the scheme of internal Reconstruction and will be transferred to Capital Reserve a/c.

Balance sheet of Rocky Ltd. & Reduced

(₹ lakhs)

Particulars	Notes	Amount	Amount
E&L			
1. SHF		315	315
a. SC : ESC (FV = 2.5)		0	0
b. R&S : Capital Reserve (see note below) → 15			
2. NCL :			
a. LTB : 13% Debentures		400	400
3. CL :			
Other o/s expenses		11	
Provisions		33	44
ASSETS			
4. NCA :			
a. PPE : Land & Build		230	
Plant & Mach		220	
Furn & Fixt		41	491
b. IA : Goodwill (see note below) 9		0	0
5. CA : Inventory		120	
Trade Receivables		76	
Cash at Bank		72	268

NOTE :- When balance of Capital Reserve and Goodwill both are visible then we write off goodwill against the Capital Reserve until balance of either one of them becomes zero.

STUDENT NOTES

(vi) The Assets are revalued as under:

Particular	₹ in lacs
Land and building	230
Plant and Machinery	220
Inventory	120
Trade receivables	76

Pass Journal Entries for all the above mentioned transactions and draft the company's Balance Sheet immediately after the reconstruction.

(notebook page no.)

Question 2 **Category:-**

The draft Balance Sheet of Y Limited as on 31st March, 2013 was as follows:

Liabilities	Amount (₹)	Assets	Amount (₹)
5,00,000 Equity shares of ₹ 10 each fully paid	50,00,000	Goodwill	10,00,000
9% 20,000 Preference shares of ₹100 each fully paid	20,00,000	Patent	5,00,000
10% First debentures	6,00,000	Land and Building	30,00,000
10% Second debentures	10,00,000	Plant and Machinery	10,00,000
Debentures interest outstanding	1,60,000	Furniture and Fixtures	2,00,000
Trade payables	5,00,000	Computers	3,00,000
Directors' loan	1,00,000	Trade Investment	5,00,000
Bank Overdraft	1,00,000	Trade receivables	5,00,000
Outstanding liabilities	40,000	Inventory	10,00,000
Provision for tax	1,00,000	Discount on issue of debentures	1,00,000
		Profit and Loss Account (Loss)	15,00,000
	96,00,000		**96,00,000**

10L x 10% = 100000 → Interest

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

Mr.A
- A holds 10% first debentures for ₹ 4,00,000 and 10% second debentures for ₹6,00,000. He is also trade payables for ₹ 1,00,000.

Mr.B
- B holds 10% first debentures for ₹ 2,00,000 and 10% second debentures for ₹ 4,00,000 and is also trade payables for ₹ 50,000

CA Tejas Suchak

STUDENT NOTES

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

(i) All the equity shares be reduced to fully paid equity shares of ₹5 each.

(ii) 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.

A : 1st Deb 4L
2nd Deb 6L
TP 1L
Int 1L
12L
cancel = 6L
Bal = 6L
+ add liab = 1L
Bal. = 7L → 12% Deb.

(iii) Mr. 'A' is to cancel ₹ 6,00,000 of his total debt including interest on debentures and to pay ₹1 lakh to the company and to receive new 12% debentures for the Balance amount.

(iv) Mr. 'B' is to cancel ₹ 3,00,000 of his total debt including interest on debentures and to accept new 12% debentures for the balance amount.

(v) Trade payables (other than A and B) agreed to forego 50% of their claim. 500000 - 150000 = 350000 × 50% = 175000

(vi) Directors to accept settlement of their loans as to 60% thereof by allotment of equity shares and balance being waived.

(vii) There were capital commitments totaling ₹ 3,00,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(viii) The Directors refund ₹ 1,10,000 of the fees previously received by them.

(ix) Reconstruction expenses paid ₹10,000.

(x) The taxation liability of the company is settled at ₹ 80,000 and the same is paid immediately.

(xi) The assets are revalued as under:

	BV	₹	
Land and Building	30L	28,00,000	= 2L ↓
Plant and Machinery	10L	4,00,000	= 6L ↓
Inventory	10L	7,00,000	= 3L ↓
Trade receivables	5L	3,00,000	= 2L ↓
Computers	3L	1,80,000	= 1.2L ↓
Furniture and Fixtures	2L	1,00,000	= 1L ↓
Trade Investment	5L	4,00,000	= 1L ↓
			16.2L ↓

Mr. B
1st Deb 200000
2nd Deb 400000 } 600000
TP 50000
Int 60000
Bal. = 710000
- Cancel = 300000
Bal = 410000 → 12% Deb.

600000×10% = 60000

- Pass Journal entries for all the above-mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit & Loss Account and Discount on issue of debentures.
- Prepare Bank Account and working of allocation of Interest on Debentures between A and B.

overdraft include

(notebook page no.)

HW

Question 3 **Category:-**

Following is the Balance Sheet of M Ltd. as at 31st March, 2013:

Liabilities	₹	Assets	₹
15,000, 10% Preference shares of ₹100 each	15,00,000	Goodwill	3,50,000

CA Tejas Suchak

STUDENT NOTES

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	Inventory	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 Tribunal:

(i) Each Equity share to be reduced to ₹ 25.

(ii) 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.

(iii) 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.

(iv) The Debenture holders 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 debenture holders accepted Preference shares for their claims. The rest were paid cash.

(v) 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 the loan given by the Director to the company.

(vi) Goodwill does not have any value in the present. Decrease the value of Plant and Machinery, Inventory 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.

(vii) 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.

(viii) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to ₹ 15,000. **(notebook page no.**

Pass necessary Journal Entries to record the above transactions

Question 4 **Category:-**

The summarized Balance Sheet of X Limited as on 31st March 2013, was as follows:

Liabilities	(₹)	Assets	(₹)
Authorized and subscribed capital:		Fixed Assets:	
10,000 Equity shares of ₹ 100 each fully paid	10,00,000	Machineries	3,50,000

CA Tejas Suchak

52000 x 25% = 13000

STUDENT NOTES

Unsecured loans:		Current Assets:	
15% Debentures	3,00,000	Inventory	2,53,000
Accrued interest	45,000	Trade receivables	2,30,000
Current Liabilities: Trade payables	52,000	Bank	20,000
Provision for income tax	36,000	Profit & loss A/c	5,80,000
	14,33,000		**14,33,000**

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 share of ₹ 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 10,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 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 ₹ 1,00,000 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 ₹ 10 each of out of shares surrendered.

52000 x 75% = 39000

(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 and the resultant Balance Sheet → HW

(notebook page no.)

Question 5 **Category:-**

The following is the summarized Balance Sheet of Weak Ltd. as on 31.3.2015

Liabilities	₹	Assets	₹
Equity shares of ₹ 100 each 100000 ES	1,00,00,000	Fixed assets	1,25,00,000
12% cumulative preference shares of ₹ 100 each 50000 PS	50,00,000	Investments (Market value ₹ 9,50,000)	10,00,000
10% debentures of ₹ 100 each 40000 Deb	40,00,000	Current assets	1,00,00,000
Trade payables	50,00,000	P & L A/c	6,00,000
Provision for taxation	1,00,000		
	2,41,00,000		2,41,00,000

CA Tejas Suchak

Question 4:-

1.	Equity Share Capital (FV= 100)	Dr.	1000000	
	To Equity Share Capital (FV = 10)			1000000
2.	Equity Share Capital (FV = 10)	Dr.	500000	
	To Share Surrender			500000
3.	Shares Surrender	Dr.	100000	
	To 10% Preference Share Capital			100000
4.	15% Debentures	Dr.	150000	
	Accrued Interest	Dr.	22500	
	To Capital Reduction			172500

} Issue

PSC (100000) ⟶ DH
No entry

RIL : Issue ↓ ✓ Transfer ↓ ✗

15% Debentures	Dr.	150000	
Accrued Interest	Dr.	22500	
To 10% PSC → fresh Issue			100000
To Cap. Red.			72500

This entry would have been correct if there was no concept of Share surrender. Then no pref. sh. cap could be issued out of shares surrendered. In that case fresh PSC would have to be issued to DH as a consideration for reduction of claim.

SS ✓

ESC	10L
	- 5L
	5L
SS	5L
-	1L
	4L
PSC	1L
DH	1.5L+22.5K↓
P	1.725L ↑

SS ✗

ESC	10L
PSC	1L ↑
P	72.5k ↑
DH	1.5L ↓ 22.5k ↓

15% D	150000
AI	22500
	172500

↓

→ PSC 100000

5.	Trade Payables (25%)	Dr.	13000	
	To Capital Reduction			13000
	Share Surrender	Dr.	39000	
	To Equity Share Capital			39000

("Remaining 75% Trade Payables"

L24-P3

"now their liability extinguish"

Trade Payables Dr. 39000
To Capital Reduction 39000

SS ✓		SS ✗	
ESC	10L	ESC	10L
- SS	5L	+ ESC	39k
	5L	P	13↑
	+ 39k		
SS	5L	TP	52k
- PSC	-1L		13k ↓
- ESC	- 39k		39k ↓
	3.61L		

PSC		1L
ESC		39k
TP		52k
	(75%)	- 39k ↓
	(25%)	13k ↓
P		39k ↑
		13k ↑

If share surrender amount given in the question

TP = 52000 ⟶ 25% claim give up → TP Dr. 13000
CR Cr. 13000

52000 ⟶ 75% = 39000 → settlement → ESC

TP Dr. 39000
ESC Cr. 39000

6. Capital Reduction Dr. 580000
To P&L 580000

7. Share Surrender Dr. 361000
To Capital Reduction 361000

8. Capital Reduction Dr. 5500
To Capital Reserve 5500

Q2 Q3 Q4, Q6

16-20 : Recorded → consolidation - appx 10 ques ; Practice Question → addi Q.
→ AS-15

21 → Bonus → "Rawkers Award"

L24-P1

Question 3 :-

1. ESC (100) Dr. 3500000
To, ESC (25) 875000
To C·Red· 2625000

2. 10%. PSC (100) Dr. 1500000
To, 13%. PSC (50) 750000
To, ESC (25) 375000
To, C·Red· 375000

3. C· Red Dr. 150000
To ESC (25) 150000

4. 7%. Deb Dr. 500000
To, 13%. PSC 250000
To, Bank 225000
To, C· Red 25000

500000
50%. PSC 250000
50%. Cash 225000

5. Loan from Director Dr. 150000
To, New liability 150000

6. Land & Build Dr. 300000
C· Red. Dr. 700000
To, goodwill 350000
To, P& M 400000
To, Inventory 100000
To, Tr. rec· 150000

7. a· Bank Dr. 1000000
To, ES Application 1000000

ES Application Dr. 1000000
To, ESC (25) 1000000

b. C· Red Dr. 40000
To, Bank 40000

(40000 x 25 x 4%.)

8. C· Red Dr. 15000
To, Bank 15000

9. C· Red Dr. 2120000
To, P&L a/c· 1950000
To, C· Res· 170000

L23-P5

Question 2 :-

	Particulars		Dr.	Cr.
1.	Equity Share Capital (FV=10)	Dr.	5000000	
	To Equity Share Capital (FV=5)			2500000
	To Capital Reduction			2500000
2. a.	9% Preference Share Capital (FV=100)	Dr.	2000000	
	To 9% Preference Share Capital (FV=50)			1000000
	To Capital Reduction			1000000
b.	9% Preference Share Capital (FV=50)	Dr.	1000000	
	To 10% Preference Share Capital			1000000
3. a.	10% 1st Debentures	Dr.	400000	
	10% 2nd Debentures	Dr.	600000	
	Trade Payables	Dr.	100000	
	Interest on Debentures	Dr.	100000	
	To Mr. A			1200000
b.	Mr. A	Dr.	600000	
	To Capital Reduction			600000
c.	Bank	Dr.	100000	
	To Mr. A			100000
d.	Mr. A	Dr.	700000	
	To 12% Debentures			700000
4. a.	10% 1st Debentures	Dr.	200000	
	10% 2nd Debentures	Dr.	400000	
	Trade Payables	Dr.	50000	
	Interest on Debentures	Dr.	60000	
	To Mr. B			710000
b.	Mr. B	Dr.	300000	
	To Capital Reduction			300000
c.	Mr. B	Dr.	410000	
	To 12% Debentures			410000
5.	Trade Payables	Dr.	175000	
	To Capital Reduction			175000

L23-P7

6.	Directors Loan	Dr.	100000	
	To Equity share Capital			60000
	To Capital Reduction			40000
7.	Capital Reduction	Dr.	15000	
	To Bank			15000
8.	Bank	Dr.	110000	
	To Capital Reduction			110000
9.	Capital Reduction	Dr.	10000	
	To Bank			10000
10.	Provision for tax	Dr.	100000	
	To Capital Reduction			20000
	To Bank			80000
11.	Capital Reduction	Dr.	1620000	
	To various assets (write every asset individually)			1620000
12.	Capital Reduction	Dr.	3100000	
	To P&L a/c			1500000
	To discount on Issue			100000
	To goodwill			1000000
	To patents			500000

Balance Sheet - Self

Total = 4885000/- ✓

Bank - Bank old: final bal after adjustment = 5000 Dr.

L23-P6

Working Note :-

Mr A :- 1st Deb = 400000 ✓
2nd Deb = 600000 ✓
Trade Pay = 100000
Int on Deb = 100000 (1000000 × 10%)
Bal of Liab = 1200000
− Liab cancelled = 600000

Mr. B ; 1st Deben = 200000
2nd Deb = 400000
Trade Pay = 50000
Int on deb = 60000 (600000 × 10%)
710000
− Cancel = 300000
410000

STUDENT NOTES

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
				24,90,000

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

7% PSC Dr. 180000 / To Cap Red 180000 | 7% PSC Dr. 720000 / To 9% PSC 720000

(i) ~~Paid-up value of~~ 7% Preference Share to be reduced to ₹ 80, but the rate of dividend being raised to 9%.

ESC Dr. 900000 / To Cap Red 900000

(ii) ~~Paid up value of~~ Equity Shares to be reduced to ₹ 10.

(iii) The directors to refund ₹ 50,000 of the fees previously received by them.

(iv) Debenture holders forego their interest of ₹ 26,000 which is included among the trade payables.

(v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years. NO ENTRY

(vi) "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.

(vii) The Chennai Workmen'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.

(viii) Inventory 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.

(ix) Chennai works completely written off. → already done.

(x) 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.

(notebook page no.)

Assumption: both FV & PUV are reduced.
ESC Dr. 1000000 (100)
ESC Cr. 100000 (10)
CR Cr. 900000

Bank Dr. 50000
Cap Red Cr. 50000

Tra. Pay Dr. 26000
To Cap Red 26000

Cap Red Dr. 20k
To P D D 20k

CWCF Dr. 4000
To Cap Red 4000

Bank Dr. 16500
To Invst 15000
To Cap Red 1500

CWCF Dr. 1000
To Bank 1000

Trade Pay Dr. 15500
To Bank 15500

7% PSC (100) Dr. 900000
To 9% PSC (80) 720000
To CR 180000

ESC (100) Dr. 1000000
To ESC (10) 100000
To Capital Reduc. 900000

Bank Dr 50000
To Cap. Reduc. 50000

Trade Pay. Dr. 26000
To Cap Red. 26000

No entry

Chennai WCF Dr. 4000
To capital Red. 4000

Bank Dr. 16500
To Investments (WCF) 15000
To Capital Reduction 1500

Chennai WCF Dr. 1000
To Bank 1000

Creditors Dr. 15500
To Bank 15500

10:30am

Capital Reduction Dr. 200000
To P&L a/c 200000

Capital Reduction Dr. 401500
To Bombay Works 267667
To Capital Reserve 133833

Capital Reduction balance = 601500

↓

P&L Dr. → w off

-200000

401500

2/3 → 267667 → Bombay works w/off

1/2 → 133833 → Capital Reserve

(B) DH

BV = 350000

Star ltd. Company

'Chennai works'

BV = 775000

RV = 425000

350000 ← w/off

Equity Sh.

1500 × 10

425000

15000

440000

Zia ltd.

9000 × 10 → 90000

Capital Reduction	Dr.	350000
To Chennai Works		350000
B 6% Debentures	Dr.	350000
Shares of Zia ltd.	Dr.	90000
To Chennai Works		425000
To Equity Share Capital (FV = 10)		15000

Shares of Zia ltd.	Dr.	90000
B Debentureholders	Dr.	350000
Capital Reduction	Dr.	350000
→ Chennai works	Cr.	350000 + 425000
Equity Sh. Capital	Cr.	15000

after P&L write off

→ Capital Reduction : 401500

2/3 → 267667

1/3

Capital Redn	Dr.	267667
To Bombay works		267667

Capital Redn	Dr.	133833
To Capital Reserve		133833

500 ki

NOTE :- In this question, ICAI has mentioned that only the paid up value is to be reduced in pt 1 & 2. However in pt. 6 when Star ltd. issues fresh Equity shares the new shares are of FV = 10. Hence it is reasonable to assume in pt 1 and pt 2 that both the face value and paidup value are to be reduced.

L23-P3

Question 6 :-

1. a. 8% Preference Share Capital (FV=100) Dr. 4,00,000
   To 8% Preference Share Capital (FV = 80) 3,20,000
   ✓ To Capital Reduction 80,000

   b. Equity Share Capital (FV=10) Dr. 10,00,000
   To Equity Share Capital (FV= 2) 2,00,000
   ✓ To Capital Reduction 8,00,000

2. ✓ Capital Reduction Dr. 32,000
   To Equity Share Capital (FV = 2) 32,000

   Pref Div = 32,000 × 3 = 96,000

   2/3 → 64,000 → waive off → No entry. → No liability for Pref Div. is recorded. Hence, nothing can be waived off.

   1/3 → 32,000 → Equity S.C. → Loss = Capital Red Dr. → By issuing ESC, there is no parallel increase in an asset or decrease in a liability. Hence it leads to a loss.

3. 6% Debentures Dr. 3,00,000
   To Freehold property 3,00,000

4. Arrears of Interest Dr. 24,000
   To Bank 24,000

5. Freehold Property Dr. 1,50,000
   ✓ To Capital Reduction 1,50,000
   (5,50,000 − 3,00,000 = 2,50,000 + 1,50,000 = 4,00,000)

6. Bank Dr. 2,50,000
   To Investments 2,00,000
   ✓ To Capital Reduction 50,000

7. Directors Loan Dr. 3,00,000
   ✓ To Capital Reduction 2,25,000
   To Equity Share Capital (FV=2) 75,000

L23-P4

8. ✓ Capital Reduction Dr. 9,45,000
To Trade Receivables 1,80,000
To Inventories 2,40,000
To P&L 5,25,000

9. ✓ Capital Reduction Dr. 30,000
To Bank 30,000

10. ✓ Capital Reduction Dr. 2,98,000
To Capital Reserve 2,98,000

QUESTION 1

(₹ lakhs)

No.	Particulars		Dr. (₹)	Cr. (₹)
1)	Equity Share Capital (₹10)	Dr.	500	
	To Equity Share Capital (₹2.5)			125
	To Capital Reconstruction			375
2)	Directors Remuneration Outstanding	Dr.	10	
	To Capital Reconstruction			10
3)	Debenture Interest Outstanding	Dr.	48	
	To Capital Reconstruction			48
	12% Debentures	Dr.	400	
	To 13% Debentures			400
4)	Bank	Dr.	125	
	To Equity Share Capital (2.5)			125
5)	Trade Payables	Dr.	165	
	To Cash			80
	To Capital Reconstruction			20
	To Equity Share Capital (2.5)			65
6)	Land & Building	Dr.	46	
	Capital Reconstruction	Dr.	46	
	To Plant & Machinery			66
	To Inventory			22
	To Trade Receivables			4
7)	Capital Reconstruction	Dr.	407	
	To P&L			390
	To Discount on issue of Deb.			8
	To Goodwill			9

This has to be done even if not specified in the question.

NOTE :- If incase, after writing off P&L Dr. bal., fic. Assets, Intangible assets balance in capital reconstruction still remains, then transfer the remaing balance to capital reserve.

B/s of Rocky Ltd. (₹ Reduced)

E&L

1. **SHF**

SC : ESC (2.5)	[NOTES]		315
R&S : CR			6

2. **NCL**

LTB : 13% Debent.		400

3. **CL** : **OCL** : O/s exp — 11

Prov : — 33

Assets

4. **NCA** : **PPE** :

L&B	NOTES	230
P&M		220
F&F		41

IA : GW — 6

5. **CA** :

Invent.	120
TR	76
Bank	72