

3. INTERNAL RECONSTRUCTION

NO. OF PROBLEMS IN 41e OF CA INTER: CLASSROOM - 6, ASSIGNMENT – 7

NO. OF PROBLEMS IN 41.5e OF CA INTER: CLASSROOM - 4, ASSIGNMENT - 7

NO. OF PROBLEMS IN 42.5e OF CA INTER: CLASSROOM - 7, ASSIGNMENT - 10

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC AND CA INTER

MODEL NO.	N - 11	M - 12	N - 12	M - 13	N - 13	M - 14	N - 14	M - 15	N - 15	M - 16	N - 16	M - 17	N - 17	M - 18 (O)	M - 18 (N)	N - 18 (O)	N - 18 (N)	M - 19 (N)	M - 19 (O)
INTERNAL RECONSTRUCTION	16	16	-	16	04	-	12	-	16	-	16	-	16	-	-	10	16	-	-

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in new SM	Problem No. in old SM	Problem No. in old PM	RTP	MTP	Previous Exams	Remarks
CR 1	ILL-1	-	-	-	-	-	-
CR 2	ILL-2	-	-	-	-	-	-
CR 3	ILL - 3	ILL - 4	-	N18 (N&O)	-	-	-
CR 4	-	-	-	-	-	N15-16M, N18(O)-16M	-
CR 5	ILL - 5	ILL - 6	-	M18(O)	-	-	-
CR 6	ILL - 8	ILL - 11	-	-	-	-	-
CR 7	-	-	-	N19(N&O) M19(N&O)	-	-	-
ASG 1	ILL-1 (similar)						
ASG 2	ILL-2 (similar)						
ASG 3	PQ - 4	-	4	-	-	-	-
ASG 4	ILL - 6	ILL - 7	-	-	-	N14-16M, N18(N)-10M	-
ASG 5	ILL - 7	ILL - 3	-	-	-	-	-
ASG 6	PQ - 3	-	3	-	-	-	-
ASG 7	ILL - 4	ILL - 5	-	-	-	-	-
ASG 8	-	-	7	M18(N)	M18(N)		-
ASG 9	PQ - 1	-	1	-	-	-	-
ASG 10	-	-	-	M19(N)	-	-	-

Meaning: Reconstruction means reorganization of a company's financial structure. In reconstruction, usually the following activities are done:

CA Inter_42.5e (2nd Version) _Advanced Accounting_Internal Reconstruction_____3.1

1. Revaluation of Assets & Liabilities;
2. Writing off of the losses suffered by the company by reduction of the paid-up value of shares;
3. Varying of the rights attached to different classes of shares and;
4. Compounding / arrangement with the creditors.

Reasons: The need for reconstruction arises in the following cases:

1. When a company has accumulated losses;
2. When a company finds itself overcapitalized, i.e., value placed on assets is too much as compared to their earning capacity;
3. When the profits as a whole are insufficient to pay proper dividend;

Types of Reconstruction:

External Reconstruction: Liquidation of a company and formation of a new company with almost the same share holders and the shareholders in the liquidating company will be given shares in the new company in exchange of shares of old company held by them. The main advantage of this type of reconstruction is that the newly formed company will have a sound financial structure and good set of Assets & Liabilities recorded in the books at their fair values.

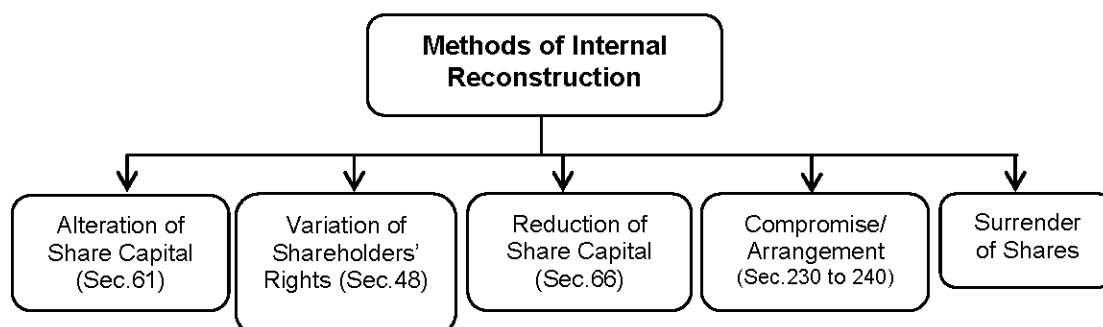
Note: Accounting Treatment for external reconstruction is essentially covered under the category 'amalgamation in the nature of merger in AS-14

Internal Reconstruction: A settlement made with members, creditors and debenture holders may result into reconstruction of a company and such reconstruction will be called as "Internal Reconstruction", if there is no liquidation of an existing company.

Difference between Internal and External Reconstruction:

Basis	Internal Reconstruction	External Reconstruction
Liquidation	The existing company is not liquidated.	The existing company is liquidated.
Formation	No new company is formed but only the rights of shareholders and creditors are changed.	A new company is formed to take over the liquidated company.
Reduction of capital	There is certain reduction of capital and sometimes the outside liabilities like debenture holders may have to reduce their claim.	There is no reduction of capital. In fact there is a fresh share capital of the company.
Legal position	Internal reconstruction is done as per provisions of section 66 of the Companies Act, 2013.	External reconstruction is regulated by section 232 of the Companies Act, 2013.

Methods of Internal Reconstruction:



1. The accounting treatment in each case of Alteration of Share capital will be as under:

- a. For increase in Share Capital:

Ex: X Ltd. issued 10,000 Equity Shares of Rs.10 each at par:

- i) Bank A/c Dr. 1,00,000
 To Equity Share Application and Allotment A/c 1,00,000
 (Being the application money received)
- ii) Equity Share Application and Allotment A/c Dr. 1,00,000
 To Equity Share Capital A/c 1,00,000
 (Being 10,000 Equity Shares of Rs.10 each allotted at par)

b. For Consolidation of Shares:

Ex: X Ltd having 10,000 Equity Shares of Rs.10 each decided to convert the Share Capital into Equity Shares of Rs.100 each.

- Equity Share Capital (Rs.10) A/c Dr. 1,00,000
 To Equity Share capital (Rs.100) A/c 1,00,000
 (Being 10,000 Equity Shares of Rs.10 each converted into 1,000 shares of Rs.100 each)

c. For Sub-division of Shares:

Ex: X Ltd having 1,000 Equity Shares of Rs.100 each decides to convert the Share Capital into Equity Shares of Rs.10 each.

- Equity Share Capital (Rs.100) A/c Dr. 1,00,000
 To Equity Share Capital (Rs.10) A/c 1,00,000
 (Being 1,000 Equity Shares of Rs.100 each converted into 10,000 Shares of Rs.10 each)

Conversion of fully paid shares into Stock and Stock into Shares: Stock is the consolidation of the share capital into one unit divisible into aliquot parts. While it is impossible of the share capital to be one share, any amount of stock may be transferred. In practice, however, companies restrict the transfer of stock to multiples of say, Rs.100. A company can convert its fully paid shares into stock [Section 61 (c)]. Upon the company converting its shares into stock, the book-keeping entries merely record the transfer from share capital account to stock account. But a separate Stock Register is started in which details of members' holdings are entered and the annual return is modified accordingly.

d. For Conversion of Shares into Stock:

Ex: X Ltd having Equity Shares of Rs.10 each decides to convert the Share Capital into Equity Stock.

- Equity Share Capital (Rs.10) A/c Dr. 1,00,000
 To Equity Stock A/c 1,00,000
 (Being 1,000 Equity Shares of Rs.10 each converted into equity stock)

e. For Conversion of Stock into Shares:

Ex: X Ltd having Equity Stock of Rs.1,00,000 decides to convert the Equity Stock into Equity Share Capital of Rs.10 each.

- Equity Stock A/c Dr. 1,00,000
 To Equity Share Capital (Rs.10) A/c 1,00,000
 (Being Equity Stock of Rs.1,00,000 converted into 10,000 Equity Shares of Rs.10 each)

f. For Cancellation of Un-issued Shares:

No accounting entry is required to be passed. The Authorized Share Capital gets reduced by the amount of un-issued shares now cancelled.

2. Variation of Shareholders rights [section 48]: Differential rights mean differential voting rights relating to dividend, or otherwise in accordance with rules. It may be difference related to managing control, power to appoint proxy and so on.

a. Variation of Shareholders rights [section 48]

Ex: X Ltd has 1,000, 10% Cum Pref. Shares of Rs.100 each. At a class meeting of Cum pref. Shareholders, it was decided that the rate of dividend to 9% In such a case following Journal Entry will be passed.

10% Cum pref. Share Capital A/c	Dr. 1,00,000
To 9% Cum pref. share Capital A/c	1,00,000

Ex: Y Ltd. has 1,000, 10% Cumulative Pref. Shares of Rs.100 each. At a meeting of Cum Pref. Shareholders, it was decided that the existing Cum-Pref.–Shares be converted into Non-Cum–Pref. Shares.

10% Cum pref. Shares Capital A/c	Dr. 1,00,000
To 10% Non-cum pref. Share Capital A/c	1,00,000

3. The Accounting treatment in each case of Reduction of Share capital will be as follows:

a. For Reducing the liability in respect of Uncalled Amount:

Ex: X Ltd having 1,000 Equity Shares of Rs.100 each Rs.60 paid up and decides to cancel the liability of member to the extent of Rs.20 per share and make shares as of Rs.80 each. Rs.60 paid up.

Equity Share Capital (Rs.100) A/c	Dr. 60,000
To Equity Share Capital A/c (Rs.80)	60,000

(Being Shares of Rs.100 each converted into shares of Rs.80 each)

Note: The paid up Share Capital of the company will remain unchanged.

b. For paying off the surplus paid up Capital:

Ex: A Ltd. having 1,000 Equity Shares of Rs.100 fully paid decides to repay to its members Rs.20 per share and make shares as of Rs.80 each fully paid up.

i) Equity Share Capital (Rs.100) A/c	Dr. 1,00,000
To Equity Share Capital (Rs.80) A/c	80,000
To Sundry Members A/c	20,000

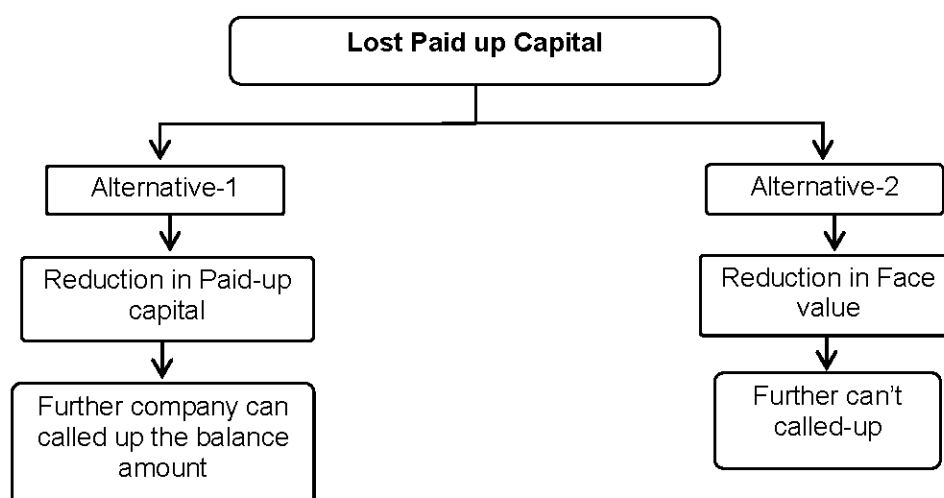
(Being shares of Rs.100 each converted into shares of Rs.80 each and make Rs.20 per share due to members)

ii) Sundry Members A/c	Dr. 20,000
To Bank A/c	20,000

(Being the payment made to members)

c. For writing off the lost paid up Capital:

The reduction can be effected in any of the following two ways:



Alternative - 1: Reducing the paid-up value (not Nominal Value) of existing shares from Rs.100 to Rs. 20/-

Share Capital (Rs.100) A/c	Dr.	Rs.80
To Capital Reduction A/c		Rs.80

(Being the paid-up value of a share reduced from Rs.100 to Rs.20)

Alternative - 2: Reducing both Nominal Values and paid-up values of Shares from Rs.100 to Rs. 20/-

Share Capital (Rs.100) A/c	Dr.	Rs.100
To Share Capital (Rs.20) A/c		Rs.20
To Capital Reduction A/c		Rs.80

(Being the shares reduced to Rs.20 per share)

Note: The Shareholders will not ordinarily be willing for the first alternative since it puts additional burden on them

4. Meaning of 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.

Accounting treatment for some of the cases is as follows:

a. When equity shareholders give up their claim to reserves and accumulated profits:

Reserves Account	Dr.	XXX
(With the amount of reserves)		
To Reconstruction Account		XXX

b. Settlement of outside liabilities at lesser amount- Liabilities such as sundry creditors may agree to accept lesser amount in lieu of final settlement. Treatment will be as follows:

Outside Liabilities Account	Dr.	XXX
(With the amount of sacrifice made by Creditors, debenture holders etc.)		
Provision Account, if any	Dr.	XXX
To Reconstruction Account		XXX

Example Look at the following Balance Sheet

Liabilities	Rs.	Assets	Rs.
10% Debentures	14,70,000		
Sundry Creditors	4,50,000		

The debenture holders agree to reduce their claims up to Rs.5,00,000 in consideration of their getting 50,000 Equity Shares of Rs.10 each. Sundry Creditors agree to reduce their claims to 20% and half the balance to be satisfied by the issues of Equity Shares of Rs.10 each. The following Journal Entries shall be passed. To record the aforesaid arrangement:

Particulars	Debit	Credit
i) 10% debenture holders' A/c	Dr.	9,70,000
To Equity Shares Capital A/c (Rs.10)		5,00,000
To Reconstruction A/c		4,70,000
ii) Sundry Creditors A/c	Dr.	4,05,000
To Equity Shares Capital A/c (Rs.10)		45,000
To Reconstruction A/c		3,60,000

- Entry:**

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graph TD
    A[Surrender of shares] --> B[Utilised surrendered shares to discharge of liabilities by issue of shares/debentures]
    A --> C[Unutilised portion]
    B --> D["Share surrendered A/c Dr.  
To Equity share capital A/c  
To pref. share capital A/c"]
    C --> E[Transferred to Reconstruction a/c]
    E --> F["Share surrendered A/c Dr.  
To Reconstruction A/c"]

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graph TD
    A[ ] --> B[In balance sheet]
    A --> C[Out of balance sheet  
(in notes)]
    B --> D["Paid  
Pro. Dividend A/c Dr  
To Bank A/c /  
Share capital A/c"]
    B --> E["Waived  
Pro. Dividend A/c Dr  
To reconstruction A/c"]
    C --> F["Paid  
Reconstruction A/c Dr.  
To Bank A/c /  
Share capital A/c"]
    C --> G["Waived  
No entry"]

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1. To record an appreciation in the value of asset or reduction in the amount of a liability
Concerned Asset / Liability A/c Dr.
To Capital reduction (or Reconstruction) A/c
2. Writing off the accumulated losses, worthless intangible assets and other overvalued assets to the extent of over valuation.
The following Journal Entry will be passed in such regard:
Capital Reduction A/c (Cr. Bal.) Dr.
To Profit and loss A/c (Debit Bal.)
To Preliminary Expenses A/c
To Underwriting Commission A/c
To Discount on issue of Shares / Debentures A/c
To Goodwill A/c (To the extent of over valuation)
To Patents A/c (To the extent of over valuation)
To Copy Right A/c (To the extent of over valuation)
To Other Overvalued Assets A/c (Individually)

Note: Even if the question is silent as to writing off, the debit balance of Profit & Loss Account and items of Miscellaneous Expenditure (like Preliminary Expenses Underwriting Comm., Discount on issue of Shares / Debentures) should be written off to the extent of credit balance available in Reconstruction / Capital Reduction Account.

3. Credit Balance of Capital Reduction A/c (or Reconstruction A/c):

The credit balance if any, left in the Capital Reduction A/c (or Reconstruction A/c) should be transferred to the Capital Reserve A/c.

Capital Reduction A/c (or Reconstruction A/c) Dr.

To Capital Reserve A/c

Note:

- The author recommends the use of 'Reconstruction Account' particularly when the scheme of compromise / arrangement is carried out under the provisions of Sections 230 to 240. The use of Capital Reduction Account is purely justified when the capital reduction scheme is carried out without invoking the provisions of Sections 230 to 240.
- So far as Fixed Assets are concerned, the amount written off under a scheme of reconstruction must be shown in each Balance Sheet for five years.
- After the name of the Company, the words "and reduced" should be added only if the court so orders

Dr.		Reconstruction A/c		Cr.	
Particulars	Amount	Particulars	Amount		
To Assets A/c (Downwards)	XXX	By E.s.c A/c	XXX		
To Liability (Reassessment upward)	XXX	By P.s.c. A/c	XXX		
To Cash A/c (Unrecorded liability)	XXX	By Asset A/c (Upward)	XXX		
To Profit or loss A/c	XXX	By Liability A/c (Downward revaluation)	XXX		
To Preliminary expense A/c	XXX	By Cash A/c (Unrecorded Asset sale)	XXX		
To Underwriting commission A/c	XXX				
To Discount on issue of shares A/c	XXX				
To Goodwill A/c	XXX				
To Patents A/c	XXX				
To Capital reserve A/c (bal. fig)	XXX				
	XXX				XXX

PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM 1: (PRINTED SOLUTION AVAILABLE) On 31-12-20X1, B Ltd. had 20,000 Rs. 10 Equity Shares as authorised capital and the shares were all issued on which Rs. 8 was paid up. In June, 20X2 the company in general meeting decided to sub – divide each share into two shares of Rs. 5 with Rs. 4 paid up. In June, 20X3 the company in general meeting resolved to consolidate 20 shares of Rs. 5, Rs. 4 per share paid up into one share of Rs. 100 each, Rs. 80 paid up.

Pass entries and show how share capital will appear in notes to Balance Sheet as on 31-12-20X1, 31-12-20X2, 31-12-20X3.

(SM)(SOLVE PROBLEM NO 1 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 2: (PRINTED SOLUTION AVAILABLE) C Ltd. had Rs. 5,00,000 authorised capital on 31-12-20X1 dividend into shares of Rs. 100 each out of which 4,000 shares were issued and fully paid up. In June 20X2 the company decided to convert the issued shares into stock. But in June, 20X3 the Company re – converted the stock into shares of Rs. 10 each, fully paid up.

Pass entries and show how share capital will appear in Notes to Balance Sheet as on 31-12-20X1, 31-12-20X2, 31-12-20X3.

(SM)(SOLVE PROBLEM NO 2 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 3: (PRINTED SOLUTION AVAILABLE) The Balance Sheet of A & Co. Ltd. as on 31-12-20X1 is as follows:

Assets	Rs.	Rs.
Fixed Assets:		
Freehold property	4,25,000	
Plant	50,000	
Patent	37,500	
Goodwill	1,30,000	6,42,500
Traded Investments (at cost)		55,000
Current Assets:		
Trade receivables	4,85,000	
Inventory	4,25,000	9,10,000
Profit and Loss Account		5,35,000
Total		21,42,500
Liabilities		
Share Capital:		
4,000 6% Cumulative Preference Shares of Rs. 100 each	4,00,000	
75,000 Equity Shares of Rs. 10 each	7,50,000	11,50,000
6% Debentures (Secured on Freehold Property)	3,75,000	
Accrued Interest	22,500	3,97,500
Current Liabilities:		
Bank Overdraft	1,95,000	
Trade payables	3,00,000	
Directors' Loans	1,00,000	5,95,000
		21,42,500

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

- The Preference shares to be written down to Rs. 75 each and Equity Shares to Rs. 2 each.
- Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of Rs.2 each to be allotted for the remaining quarter.
- Accrued interest on debentures to be paid in cash.
- Debenture-holders agreed to take over freehold property, book value Rs.1,00,000 at a valuation of Rs.1,20,000 in part repayment of their holdings and to provide additional cash of Rs. 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.

- vi) Inventory to be written off by Rs. 65,000.
- vii) Amount of Rs. 68,500 to be provided for bad debts.
- viii) Remaining freehold property to be re-valued at Rs. 3,87,500
- ix) Trade Investments be sold for Rs. 1,40,000.
- x) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of Rs. 2 each and as to 5% in cash, and balance 5% being waived.
- xi) There were capital commitments totalling Rs. 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
- xii) Ignore taxation and cost of the scheme.

You are requested to show Journal entries reflecting the above transactions (including cash transactions) and prepare the Balance Sheet of the company after completion of the Scheme.

(A)(NEW SM, SIMILAR: RTP N18 (N&O)) (ANS.: BALANCE SHEET TOTAL – 13,17,500)
(SOLVE PROBLEM NO 6 AND 7 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 4: Debentures, Directors loan and Penalty for Contractual Commitments: The Balance sheet of M/s Clean Ltd. as on 31st March, 2015 was summarized as follows:

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs. 50 each fully paid	60,00,000	Land & Buildings	75,00,000
9% preference shares of Rs. 10 each fully paid up	40,00,000	Plant and machinery	22,00,000
7% debentures(Secured by plant & machinery)	23,00,000	Non-current Investments	16,50,000
8% debentures	17,00,000	Inventories	9,50,000
Trade payables	6,00,000	Trade receivable	18,00,000
Provision for tax	75,000	Cash and bank balances	3,60,000
		Profit & Loss A/c	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:

- The equity shareholders agreed to receive in lieu of their present holding of 1,20,000 shares of Rs.50 each as under:
 - New fully paid equity shares of Rs.10 each equal to $\frac{2}{3}^{\text{rd}}$ of their holding
 - 9% preference shares of Rs. 8 each to the extent of 25% of the above new equity share equal.
 - Rs.2,80,000, 10% debentures of Rs.80 each.
- The preference shareholders agreed that their Rs.10 shares should be reduced to Rs.8 by cancellation of Rs.2 per share. They also agreed to subscribe for two new equity shares of Rs.10 each for every five preference shares held.
- The taxation liability of the company is settled at Rs.66,000 and the same is paid immediately.
- One of the trade creditors of the company to whom the company owes Rs.1,00,000 decides to forgo 30% of his claim. He is allotted equity shares of Rs.10 each in full satisfaction of his balance claim.
- Other trade creditors of Rs.5,00,000 are given option of their to accept fully paid 9% preference shares of Rs.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 Rs.3,50,000 accepted preference shares option and rest of them opted for cash towards full settlement of their claim.

6. Company's contractual commitments amounting to Rs.6,50,000 have been settled by paying 4% penalty of contract value.
7. Debenture holders having charge on plant and machinery accepted plant and machinery in full settlement of their dues.
8. The rate of interest on 8% debentures is increased to 10%. The debenture holders surrender their existing debenture of Rs.50 each and agreed to accept 10% debenture of Rs.80 each for every two debentures held by them.
9. The land and building to be depreciated by 5%.
10. The debit balance of profit and loss account is to be eliminated.
11. $\frac{1}{4}$ th of trade receivables and $\frac{1}{5}$ th 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.

(A) (OLD PM, N15-16M, SIMILAR: N18 (O) - 16M) (ANS.: CAPITAL RESERVE - 47,73,000 BALANCE SHEET TOTAL - 1,26,33,000) (SOLVE PROBLEM NO 8 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 5: (PRINTED SOLUTION AVAILABLE) Party wise settlement of Debentures and creditors: 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, 2015:

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

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

The following scheme of reconstruction is proposed:

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

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

(A) (NEW SM) (SIMILAR: RTP M18(O))

Note: _____

PROBLEM 6: (PRINTED SOLUTION AVAILABLE) (Surrender of shares): The Summarised Balance Sheet of Revise Limited as at 31st March, 20X1 was as follows:

Liabilities	Rs.	Assets	Rs.
Authorised and subscribed capital:		Fixed Assets :	
10,000 Equity shares of Rs.100 each fully paid	10,00,000	Machineries	1,00,000
Unsecured Loans :		Current assets :	
12% Debentures	2,00,000	Inventory	3,20,000
Accrued interest	24,000	Trade receivables	2,70,000
Current liabilities		Bank	30,000
Trade payables -	72,000	Profit and loss account	6,00,000
Provision for income tax	24,000		
	13,20,000		13,20,000

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:

- Each share is sub-divided into ten fully paid up equity shares of Rs 10 each.
- 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.
- Out of shares surrendered, 10,000 shares of Rs 10 each shall be converted into 12% preference shares of Rs 10 each, fully paid up.
- 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 Rs 1,00,000 which are converted out of shares surrendered.
- Trade payables claim shall be reduced to 50 per cent, it is to be settled by the issue of equity shares of Rs 10 each out of shares surrendered.
- Balance of profit and loss account to be written off.
- The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet.

(A) (NEW SM)(ANS.: BALANCE SHEET TOTAL RS.7,20,000)

Note: _____

PROBLEM 7: Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31st March, 2019 before reconstruction:

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

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

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

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

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

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction. (RTP-N19)

(OLD PM, SIMILAR: MTP M18(O), RTP M18(N) ANS.: BALANCE SHEET TOTAL RS.88,50,000) (SOLVE PROBLEM NO 9 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PRINTED SOLUTIONS FOR SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 1, 2,3, 5,6

PROBLEM NO: 1

Journal Entries

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

Notes to Balance sheet

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

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

PROBLEM NO: 2**Journal Entries**

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

Notes to Balance sheet

Liabilities	Rs.
As on 31-12-20X1	
1. Share Capital	
Authorised:	
5,000 Equity shares of Rs. 100 each	5,00,000
Issued and Subscribed:	
4,000 Equity shares of Rs. 100 each full called up	4,00,000
As on 31-12-20X2	
1. Share Capital	
Authorised:	

5,000 Equity shares of Rs. 100 each	5,00,000
Issued and Subscribed:	
Equity Stock – 4,000 Equity Shares of Rs. 100 converted into Stock	4,00,000
As on 31-12-20X3	
1. Share Capital	
Authorised:	
50,000 Equity shares of Rs. 10 each	5,00,000
Issued and Subscribed:	
40,000 Equity shares of Rs. 10 each fully called up	4,00,000

PROBLEM NO: 3**Journal of A & Co. Ltd.**

1.1.20X2	Equity Share Capital A/c (Rs.10) Dr. To Capital Reduction A/c To Equity Share Capital A/c (Rs. 2) (Reduction of equity shares of Rs. 10 each to shares of Rs. 2 each as per Reconstruction Scheme dated...)	7,50,000	6,00,000 1,50,000
	6% Cum. Preference Share Capital A/c (Rs. 100) Dr. To Capital Reduction A/c To Pref. Share Capital A/c (Rs. 75) (Reduction of preference shares of Rs. 100 each to shares of Rs. 75 each as per reconstruction scheme)	4,00,000	1,00,000 3,00,000
1.1.20X2	Freehold Property A/c Dr. To Capital Reduction A/c (Appreciation in the value of property: Book value 100,000+325,000 = 425,000 Revalued Figure 1,20,000+3,87,500 = 5,07,500 Profit on revaluation: Rs. 82,500)	82,500	82,500
	6% Debentures A/c Dr. To Freehold Property A/c (Claims of debenture-holders, in part, in respect of principal discharged by transfer of freehold property vide Scheme of Reconstruction)	1,20,000	1,20,000
	Accrued Interest A/c Dr. To Bank A/c (Debenture interest paid)	22,500	22,500
	Bank A/c Dr. To 8% Debentures A/c (8% Debentures issued for cash)	1,30,000	1,30,000
	Bank A/c Dr. To Trade Investment A/c To Capital Reduction A/c (Sale of Trade Investment for Rs. 1,40,000 cost being Rs. 55,000; profit credited to Capital Reduction Account)	1,40,000	55,000 85,000
	Directors' Loan A/c Dr. To Equity Share Capital A/c To Bank A/c To Capital Reduction A/c (Directors' loan discharged by issue of equity shares of Rs. 90,000, cash payments of Rs. 5,000 and surrender of Rs.5,000, vide Scheme of Reconstruction)	1,00,000	90,000 5,000 5,000
1.1.20X2	Capital Reduction Account Dr. To Equity Share Capital Account	24,000	24,000

	(Arrears of preference dividends satisfied by the issue of equity shares, 25% of the amount due, Rs. 96,000)		
	Capital Reduction A/c Dr.	8,48,500	
	To Patents		37,500
	To Goodwill		1,30,000
	To Inventory		65,000
	To Provision for Doubtful Debts		68,500
	To Bank		12,500
	To Profit & Loss Account		5,35,000
	(Writing off patents, goodwill, profit and loss account and reducing the value of stock, making the required provision for doubtful debts and payment for cancellation of capital commitments)		

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

Equity and Liabilities		
1. Shareholders' funds		
a. Share capital	1	5,64,000
2. Non-current liabilities		
a. Long-term borrowings	2	3,85,000
3. Current liabilities		
a. Trade Payables		3,00,00
b. Short term provision	3	68,500
Total		13,17,500
Assets		
1. Non-current assets		
a. Fixed assets		
Tangible assets	4	4,37,500
Intangible assets	5	-
2. Current assets		
a. Inventories		3,60,000
b. Trade receivables	6	4,85,000
c. Cash and cash equivalents		35,000
Total		13,17,500

Notes to accounts

1. Share Capital		
Equity share capital		
1,32,000 Equity shares of Rs. 2 each (of the above 45,000 shares have been issued for consideration other than cash)		2,64,000
Preference share capital		
4,000 6% Preference shares of Rs.75 each		3,00,000
Total		5,64,000
2. Long-term borrowings		
Secured		
6% Debentures		2,55,000
8% Debentures		1,30,000
Total		3,85,000
3. Short term provision		
Provision for doubtful debt		68,500
4. Tangible assets		
Fixed assets		
Tangible assets		

Freehold property	4,25,000	
Add: Appreciation under scheme of Reconstruction	82,500	
Less: Disposed of	(1,20,000)	3,85,000
Plant		50,000
Patents	37,500	
Less: Written off under scheme of Reconstruction	(37,500)	-
Net carrying value		4,37,500
5. Intangible assets	130,000	
Goodwill	(130,000)	
Less: Written off under scheme of Reconstruction	-	-
Net carrying value		
6. Trade receivables		4,85,000
Trade receivables		

PROBLEM NO: 5**Journal Entries**

Particulars	Debit (Rs.)	Credit (Rs.)
First debentures A/c Dr.	3,00,000	
Second debentures A/c Dr.	3,00,000	
Unsecured creditors A/c Dr.	90,000	
To A's A/c		6,90,000
(Being A's total liability ascertained)		
A's A/c Dr.	2,10,000	
To Capital reduction A/c		2,10,000
(Being cancellation of debt upto Rs. 2,10,000)		
Bank A/c Dr.	30,000	
To A's A/c		30,000
(Being cash received in course of settlement)		
A's A/c Dr.	5,10,000	
To First debentures A/c		5,10,000
(Being liability of A, discharged against first debentures)		
Second debentures A/c Dr.	3,00,000	
Unsecured creditors A/c Dr.	60,000	
To B's A/c		3,60,000
(Being B's liability ascertained)		
B's A/c Dr.	3,60,000	
To Bank A/c		90,000
To Capital reduction A/c		2,70,000
(Being B's liability discharged)		
Unsecured trade payables A/c Dr.	3,00,000	
To Equity share capital A/c		1,12,500
To Loan (Unsecured) A/c		75,000
To Capital reduction A/c		1,12,500
(Being settlement of unsecured creditors)		
Share final call A/c Dr.	1,80,000	
To Share capital A/c		1,80,000
(Being final call money due)		
Bank A/c Dr.	1,80,000	

To Share final call A/c		1,80,000
(Being final call money received)		
Share capital A/c (Face value Rs. 60) Dr.	3,60,000	
To Share capital (Face value Rs. 7.50)		45,000
To Capital reduction A/c		3,15,000
(Being share capital reduced to Rs. 7.50 each)		
Capital reduction A/c Dr.	9,07,500	
To Profit and loss A/c (W.N 2)		8,70,000
To Capital reserve/c (Bal. fig)		37,500

Working Notes:

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

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

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

PROBLEM NO: 6**Journal Entries****Amount in (Rs.)**

S. No	Particulars	Dr.	Cr.
1.	Equity share capital (Rs.100) A/c	10,00,000	
	To Share surrender A/c		5,00,000
	To Equity share capital (Rs.10) A/c		5,00,000
	(Subdivision of 10,000 equity shares of Rs.100 each into 1,00,00 equity shares of Rs.10 each and surrender of 50,000 of such Subdivided shares as per capital reduction scheme)		
2.	12% Debentures A/c	1,50,000	
	Accrued Interest A/c	18,000	
	To Reconstruction		1,68,000
	(Transferred 75% of the claims of the debenture holders to reconstruction account in consideration of which 12% preference shares are being issued out of share surrender account as per capital reduction scheme)		
3.	Trade payables A/c	72,000	

	To Reconstruction A/c		72,000
	(Transferred claims of the trade payables to reconstruction account, 50% of which is being clear reduction and equity shares are being issued in consideration of the balance)		
4.	Share surrender A/c	5,00,000	
	To 12% preference share capital A/c		1,00,000
	To Equity share capital A/c		36,000
	To Reconstruction A/c		3,64,000
	(Issued preference and equity shares to discharge the claims of the debtholders and the trade payables respectively as a per scheme and the balance share surrender account is being transferred to reconstruction account)		
5.	Reconstruction A/c	6,04,000	
	To P&L A/c		6,00,000
	To capital reserve A/c (Bal.fig)		4,000
	(Adjusted debit balance of profit and loss account against the reconstruction Account and the balance in the latter is being transferred to capital reserve)		

Balance Sheet of Revise Limited (and reduced) as on 31.03.20X1.

Particulars	Notes No	Amount
I. Equity & Liabilities		
1. Shareholder's funds		
a) Share capital	1	6,36,000
b) Reserves & Surplus	2	4,000
2. Non-current Liabilities		
a) Long term borrowings	3	50,000
3. Current liabilities		
a) Other Current Liabilities	4	6,000
b) Short Term Provisions	5	24,000
Total		7,20,000
II. ASSETS :		
1. Non-current assets		
a) Fixed assets		
i) Tangible assets	6	1,00,000
2. Current assets		
a) Current Investments		
b) Inventories		3,20,000
c) Trade receivables		2,70,000
d) Cash & Cash Equivalents		30,000
Total		7,20,000

Notes to Accounts:

S. No	Particulars	Amount
1	Share capital	
	Equity share capital	5,36,000
	Preference share capital (of the above shares all are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares without payment being received in cash)	1,00,000
	Total	6,36,000
2	Reserves & Surplus	

	Capital reserve	4,000
3	Long term Borrowings	
	Unsecured Loans.:	
	12% Debentures	50,000
4	Other current Liabilities	
	Accrued interest	6,000
5	Short term provisions	
	Provision for Income tax	24,000
6	Tangible Assets	
	Machineries	1,00,000

ASSIGNMENT PROBLEMS

PROBLEM 1: On 31-12-2017, Krishna Ltd. had 30,000 Rs. 10 Equity Shares as authorised capital and the shares were all issued on which Rs. 8 was paid up. In June, 2018 the company in general meeting decided to sub – divide each share into two shares of Rs. 5 with Rs. 4 paid up. In June, 2019 the company in general meeting resolved to consolidate 20 shares of Rs. 5, Rs. 4 per share paid up into one share of Rs. 100 each, Rs. 80 paid up.

Pass entries and show how share capital will appear in notes to Balance Sheet as on 31-12-2017, 31-12-2018, 31-12-2019. (Similar SM)

PROBLEM 2: Ram Ltd. had Rs. 10,00,000 authorised capital on 31-12-2001 dividend into shares of Rs. 100 each out of which 8,000 shares were issued and fully paid up. In June 2002 the company decided to convert the issued shares into stock. But in June, 2003 the Company re – converted the stock into shares of Rs. 10 each, fully paid up.

Pass entries and show how share capital will appear in Notes to Balance Sheet as on 31-12-2001, 31-12-2002, 31-12-2003. (Similar SM)

PROBLEM 3: Basic Level: The following scheme of reconstruction has been approved for Win Limited:

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

You are required to draw up the necessary Journal entries in the Books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer. (B) (NEW SM)

PROBLEM 4: Moderate level: The Balance Sheet of Vaibhav Ltd. as on 31st March 2014 is as follows:

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs. 100 each	2,00,00,000	Fixed Assets	2,50,00,000
6%, Cumulative Preference Shares of Rs. 100 each	1,00,00,000	Investments (Market Value Rs. 19,00,000)	20,00,000

5% Debentures of Rs. 100 each	80,00,000	Current Assets	2,00,00,000
Sundry Creditors	1,00,00,000	P & L A/c	12,00,000
Provision for taxation	2,00,000		
	4,82,00,000		4,82,00,000

The following scheme of Internal Reconstruction is sanctioned:

1. All the existing equity shares are reduced to Rs. 40 each.
2. All preference shares are reduced to Rs. 60 each.
3. The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 70 each for every debenture held by them.
4. Fixed assets are to be written down by 20%.
5. Current assets are to be revalued at Rs. 90,00,000.
6. Investments are to be brought to their market value.
7. One of the creditors of the company to whom the company owes Rs. 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of Rs. 40 each in full and final settlement of his claim.
8. The taxation liability is to be settled at Rs. 3,00,000.
9. It is decided to write off the debit balance of Profit & Loss A/c.

Pass journal entries and show the Balance Sheet of the company after giving effect to the above.

(A)(NEW SM, N14, SIMILAR: N18 (N) - 10M) (ANS.: BALANCE SHEET TOTAL RS.3,06,00,000)

PROBLEM 5: Following is the Draft Balance Sheet of ABC Ltd. Co. as at 31st March, 2015:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share capital:		Plant and Machinery	9,00,000
2,00,000 Equity shares of Rs.10 each fully paid up	20,00,000	Furniture and fixtures	2,50,000
6,000 8% Preference Shares of Rs.100 each	6,00,000	Patents and copy rights	70,000
9 % Debentures	12,00,000	Investments (at cost) (Market value Rs. 55,000)	68,000
Bank overdraft	1,50,000	Inventory	14,00,000
Trade Payable	5,92,000	Trade receivables	14,39,000
		Cash and bank balance	10,000
		Profit & Loss A/c	4,05,000
	45,42,000		45,42,000

The following scheme of reconstruction was finalized:

- i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
- ii) Debenture holders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
- iii) Inventory equal to Rs. 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
- iv) Investment value to be reduced to market price.
- v) The company would issue 11% Debentures for Rs.3,00,000 to augment its working capital requirement after settlement of bank overdraft.

Give necessary journal entries reflecting the above scheme of reconstruction in the books of the ABC Ltd. Co. Prepare capital reduction account and balance sheet of the company after internal reconstruction

(A) (NEW SM) (ANS.: BALANCE SHEET TOTAL RS.28,74,000)

PROBLEM 6: The following is the summarized Balance Sheet of X Ltd. as on 31st March, 20X1:

Liabilities	Rs.	Assets	Rs.
24,000 Equity shares of Rs. 100 each	24,00,000	Goodwill	90,000
12,000, 10% preference shares of Rs. 100 each	12,00,000	Land & building	12,00,000
10% debentures	6,00,000	Plant & machinery	18,00,000
Bank overdraft	6,00,000	Inventories	2,60,000
Trade payables	3,00,000	Trade receivables	2,80,000
		Cash	30,000
		Profit & Loss Account	14,40,000
	51,00,000		51,00,000

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

- The equity shares are to be reduced to shares of Rs.40 each fully paid and the preference shares to be reduced to fully paid shares of Rs.75 each.
- The debenture holders took over Inventories and Trade receivables in full satisfaction of their claims.
- The Land and Building to be appreciated by 30% and Plant and 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 Rs.5,000.

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

(8) (NEW SM) (ANS.: BALANCE SHEET TOTAL RS.28,45,000)

PROBLEM 7: Given below is the summarized balance sheet of Rebuilt Ltd. as on 31.3.20X1:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Authorised and issued capital: 12,000, 7% Preference shares of Rs.50 each (Note: Preference dividend is in arrear for five years)	6,00,000	Building at cost less depreciation	4,00,000
15,000 Equity shares of Rs. 50 each	7,50,000	Plant at cost less depreciation	2,68,000
	13,50,000	Trademarks and goodwill at cost	3,18,000
Loan	5,73,000	Inventory	4,00,000
Trade payables	2,07,000	Trade receivables	3,28,000
Other liabilities	35,000	Profit and loss A/c	4,51,000
	21,65,000		21,65,000

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

- The equity shareholders have agreed that their Rs.50 shares should be reduced to Rs. 2.50 by cancellation of Rs. 47.50 per share. They have also agreed to subscribe for three new equity shares of Rs. 2.50 each for each equity share held.
- The preference shareholders have agreed to cancel the arrears of dividends and to accept for each Rs. 50 share, 4 new 5% preference shares of Rs. 10 each, plus 6 new equity shares of Rs. 2.50 each, all credited as fully paid.
- Lenders to the company for Rs.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 Rs. 10 each and 12,000 new equity shares of Rs. 2.50 each.

- d) The directors have agreed to subscribe in cash for 40,000, new equity shares of Rs. 2.50 each in addition to any shares to be subscribed by them under (a) above.
- e) Of the cash received by the issue of new shares, Rs. 2,00,000 is to be used to reduce the loan due by the company.
- f) The equity share capital cancelled is to be applied:
- to write off the debit balance in the profit and loss A/c; and
 - to write off Rs. 35,000 from the value of plant.

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

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

(A)(NEW SM) (ANS.: BALANCE SHEET TOTAL RS.15,25,000)

PROBLEM 8: Arrears of Preference Dividend, Directors loan and Penalty for Contractual Commitments: The Balance Sheet of M/s. Cube Limited as on 31-03-2015 is given below:

Particulars	Note No.	Amount
EQUITY & LIABILITIES:		
Shareholders' Funds		
Shares' Capital	1	700
Reserves & Surplus	2	(261)
Non-Current Liabilities:		
Long term Borrowings	3	350
Current Liabilities:		
Trade Payables	4	51
Other Liabilities	5	12
Total		852
ASSETS:		
Non-Current Assets		
Fixed Assets:		
Tangible Assets	6	375
Current Assets:		
Current Investments	7	100
Inventories	8	150
Trade Receivables	9	225
Cash & Cash Equivalents	10	2
Total		852

Notes to Accounts:

Particulars	Note No.
1. Share Capital:	
Authorised:	
100 lakh shares of Rs. 10 each	1,000
4 lakh, 8% Preference Shares of Rs. 100 each	400
	1,400
Issued, Subscribed and paid up:	
50 lakh Equity Shares of Rs. 10 each, full paid up	500

2 lakh 8% Preference Shares of Rs.100 each, fully paid up	200
	700
2. Reserves and Surplus:	
Debit balance of Profit & Loss A/c	(261)
3. Long Term Borrowings:	
6% Debentures (Secured by Freehold Property)	200
Directors' Loan	150
	350
4. Trade Payables:	
Trade payables for Goods	51
5. Other Current Liabilities:	
Interest Accrued and Due on 6% Debentures	12
6. Tangible Assets:	
Freehold Property	275
Plant & Machinery	100
	375
7. Current Investment:	
Investment in Equity Instruments	100
8. Inventories:	
Finished Goods	150
9. Trade Receivables:	
Trade receivables for Goods	225
10. Cash and Cash Equivalents:	
Balance with Bank	2

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

1. Preference Shares are to be written down to Rs. 80 each and Equity Shares to Rs. 2 each.
2. Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of Rs. 2 each to be allotted.
3. Debenture holders agreed to take one Freehold Property at its book value of Rs.150 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
4. Interest accrued and due on Debentures to be paid in cash.
5. Remaining Freehold Property to be valued at Rs. 200 lakh.
6. All investments sold out for Rs. 125 lakh.
7. 70% of Directors' loan to be waived and for the balance, Equity Shares of Rs. 2 each to be allowed.
8. 40% of Trade receivables and 80% of Inventories to be written off.
9. Company's contractual commitments amounting to Rs.300 lakh have been settled by paying 5% penalty of contract value.

You are required to:

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

(A)(OLD PM, M13, MTP - M17, SIMILAR- MTP M18(O)(N)RTP - M(18)(N)(O), MTP - M18(O))
(ANS.: RECONSTRUCTION A/C BALANCE RS.143 LAKHS)

PROBLEM 9: Settlement of Debentures: Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the Company on 31.3.2015 before reconstruction:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets:	
Authorised:			
1,50,000 Equity Shares of Rs.50 each	75,00,000	Goodwill	20,00,000
Subscribed and Paid up Capital:		Building	10,00,000
50,000 Equity Shares of Rs. 50 each	25,00,000	Plant	10,00,000
1,00,000 Equity Shares of Rs. 50 each, Rs. 40 per share paid up	40,00,000	Computers	25,00,000
Secured Loans:		Investments	Nil
12% First Debentures	5,00,000	Current Assets	Nil
12% Second Debentures	10,00,000	Profit and Loss A/c-Loss	20,00,000
Current Liabilities:			
Trade payables	5,00,000		
	85,00,000		85,00,000

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

Particulars	Mr. X (Rs.)	Mr. Y (Rs.)
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Trade payables	2,00,000	1,00,000
	12,00,000	6,00,000
Fully paid up Rs. 50 shares	3,00,000	2,00,000
Partly paid up shares (Rs. 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 Rs. 20 each.
- Mr. X is to cancel Rs. 7,00,000 of his total debt (other than share amount) and to pay Rs.2 lakhs to the company and to receive new 14% First Debentures for the balance amount.
- Mr. Y is to cancel Rs. 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.
- The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.

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

(A) (NEW SM) (ANS.: BALANCE SHEET TOTAL RS.42,00,000)

PROBLEM 10: The shareholders of Lili Ltd. decided on a corporate restructuring exercise necessitated because of economic recession. From the given summarised balance sheet as on 31-3-2017 and the information supplied, you are required to prepare (i) Journal entries reflecting the scheme of reconstruction, (ii) Capital reduction account, (iii) Cash account in the books of Lili Ltd.

Summarised Balance Sheet of Lili Ltd. as on 31.3.2017

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
30,000 Equity shares of Rs.10 each	3,00,000	Trademarks and Patents	1,10,000

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

Note: Preference dividends are in arrears for 4 years.

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

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

(MTP M 19)

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To **MASTER MINDS**, Guntur

THE END