

## 2. INTERNAL RECONSTRUCTION

## ASSIGNMENT SOLUTIONS

## PROBLEM NO:1

## Journal Entries

Particulars	Rs.	Rs.
Equity Share Capital (old) A/c Dr.	10,00,000	
To Equity Share Capital (Rs. 10) A/c		6,00,000
To 10% Preference Share Capital A/c (6,00,000x1/5)		1,20,000
To 8% Debentures A/c		40,000
To Capital Reduction A/c		2,40,000
(Being new equity shares, 10% Preference Shares, 8% Debentures issued and the balance transferred to Reconstruction account as per the Scheme)		
Bank A/c Dr.	1,00,000	
To 10% First Debentures A/c		1,00,000
(Being allotment of 10% first Debentures)		
Capital Reduction A/c Dr.	2,40,000	
To Goodwill Account		1,40,000
To Plant and Machinery Account		50,000
To Freehold Property Account		50,000
(Being Capital Reduction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)		

## PROBLEM NO:2

## Journal Entries in the books of Vaibhav Ltd.

S.No.	Particulars	L.F	Debit	Credit
i)	Equity share capital (Rs.100) A/c Dr.		2,00,00,000	
	To Equity Share Capital (Rs. 40) A/c			80,00,000
	To Capital Reduction A/c			1,20,00,000
	(Being conversion of equity share capital of Rs.100 each into Rs.40 each as per reconstruction scheme)			
ii)	6% Cumulative Preference Share capital (Rs.100) A/c Dr.		1,00,00,000	
	To 6% Cumulative Preference Share Capital (Rs.60) A/c			60,00,000
	To Capital Reduction A/c			40,00,000
	(Being conversion of 6% cumulative preference shares capital of Rs. 100 each into Rs. 60 each as per reconstruction scheme)			
iii)	5% Debentures (Rs. 100) A/c Dr.		80,00,000	
	To 6% Debentures (Rs. 70) A/c			56,00,000
	To Capital Reduction A/c			24,00,000
	(Being 6% debentures of Rs. 70 each issued to existing 5% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)			
iv)	Sundry Creditors A/c Dr.		40,00,000	
	To Equity Share Capital (Rs.40) A/c			24,00,000
	To Capital Reduction A/c			16,00,000
	(Being a creditor of Rs. 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of Rs.40 each in full settlement of his dues as per reconstruction scheme)			
v)	Provision for Taxation A/c Dr.		2,00,000	
	Capital Reduction A/c Dr.		1,00,000	
	To Liability for Taxation A/c			3,00,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)			
vi)	Capital Reduction A/c Dr.		199,00,000	

	To P & L A/c		12,00,000
	To Fixed Assets A/c		50,00,000
	To Current Assets A/c		110,00,000
	To Investments A/c		1,00,000
	To Capital Reserve A/c (Bal. fig.)		26,00,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		
vii)	Liability for Taxation A/c	Dr.	3,00,000
	To Current Assets (Bank A/c)		3,00,000
	(Being the payment of tax liability)		

**Balance Sheet of Vaibhav Ltd. (After Reconstruction) as on 31st March, 2014**

	Particulars	Notes	Rs.
	<b>Equity and Liabilities</b>		
<b>1</b>	<b>Shareholders' funds</b>		
	a) Share capital	1	1,64,00,000
	b) Reserves and Surplus	2	26,00,000
<b>2</b>	<b>Non-current liabilities</b>		
	a) Long-term borrowings	3	56,00,000
<b>3</b>	<b>Current liabilities</b>		
	a) Trade Payables (1,00,00,000 less 40,00,000)		60,00,000
	<b>Total</b>		<b>3,06,00,000</b>
	<b>Assets</b>		
<b>1</b>	<b>Non-current assets</b>		
	a) Fixed assets		
	Tangible assets	4	2,00,00,000
	b) Investments	5	19,00,000
<b>2</b>	<b>Current assets</b>		
	<b>Total</b>		<b>3,06,00,000</b>

**Notes to accounts:**

	Particulars	Rs.	Rs.
<b>1. Share Capital</b>			
	<b>Equity share capital Issued, subscribed and paid up</b>		
	2,60,000 equity shares of (Rs. 40) each (of the above 60,000 shares have been issued for consideration other than cash)		1,04,00,000
	<b>Preference share capital</b>		
	<b>Issued, subscribed and paid up</b>		
	1,00,000 6% Cumulative Preference shares of Rs. 60 each		60,00,000
	<b>Total</b>		<b>1,64,00,000</b>
<b>2. Reserves and Surplus</b>			
	Capital Reserve		26,00,000
<b>3. Long-term borrowings Secured</b>			
	6% Debentures		56,00,000
<b>4. Tangible assets</b>			
	Fixed Assets	2,50,00,000	
	Adjustment under scheme of reconstruction	(50,00,000)	2,00,00,000
		2,00,00,000	
<b>5. Investments</b>		20,00,000	
	Adjustment under scheme of reconstruction	(1,00,000)	19,00,000
<b>6. Current assets</b>		2,00,00,000	
	Adjustment under scheme of reconstruction	1,10,00,000	
		90,00,000	
	Taxation liability paid	(3,00,000)	87,00,000

## WORKING NOTE:

Capital Reduction Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Liability for taxation A/c	1,00,000	By Equity share capital	1,20,00,000
To P & L A/c	12,00,000	By 6% Cumulative preference Share capital	40,00,000
To Fixed Assets	50,00,000	By 5% Debentures	24,00,000
To Current assets	1,10,00,000	By Sundry creditors	16,00,000
To Investment	1,00,000		
To Capital Reserve (Bal. fig.)	26,00,000		
	<b>2,00,00,000</b>		<b>2,00,00,000</b>

**PROBLEM NO:3**Journal Entries in the Books of ABC Ltd.

Particulars	Rs.	Rs.
8% Preference share capital A/c	Dr. 6,00,000	
To Preference shareholders A/c		4,20,000
To Capital reduction A/c		1,80,000
[Being 30% reduction in liability of preference share capital]		
Preference shareholders A/c	Dr. 4,20,000	
To 11% Debentures A/c		4,20,000
[Being the issue of debentures to preference shareholders]		
9% Debentures A/c	Dr. 12,00,000	
To Debenture holders A/c		12,00,000
[Being transfer of 9% debentures to debenture holders A/c]		
Debenture holders A/c	Dr. 12,00,000	
To Plant & machinery A/c		9,00,000
To Capital reduction A/c		3,00,000
[Settlement of debenture holders by allotment of plant & machinery]		
Trade payables A/c	Dr. 5,92,000	
To Inventory A/c		5,00,000
To Capital reduction A/c		92,000
[Being settlement of creditors by giving stocks]		
Bank A/c	Dr. 3,00,000	
To 11% Debentures A/c		3,00,000
[Being fresh issue of debentures]		
Bank overdraft A/c	Dr. 1,50,000	
To Bank A/c		1,50,000
[Being settlement of bank overdraft]		
Capital reduction A/c	Dr. 4,18,000	
To Investment A/c		13,000
To Profit and loss A/c		4,05,000
(Being decrease in investment and profit and loss account (Dr. bal.); transferred to capital reduction )		
Capital reduction A/c	Dr. 1,54,000	
To Capital reserve A/c		1,54,000
(Balance of capital reduction account transferred to capital reserve)		

Capital Reduction Account

	Rs.		Rs.
To Investments A/c	13,000	By Preference share capital A/c	1,80,000
To Profit and loss A/c	4,05,000	By 9% Debenture holders A/c	3,00,000
To Capital reserve A/c	1,54,000	By Trade payables A/c	92,000
	5,72,000		5,72,000

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

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

## Notes to Accounts

		Rs.
1.	Share Capital	
	2,00,000 Equity shares of Rs. 10 each fully paid-up	20,00,000
2.	Reserve and Surplus	
	Capital Reserve	1,54,000
3.	Long Term Borrowings	
	11% Debentures (Rs. 4,20,000 + Rs. 3,00,000)	7,20,000
4.	Fixed Assets	
i)	Tangible assets	
	Plant & machinery 9,00,000	
	Less: Adjustment on scheme of reconstruction dated 9,00,000	-
	Furniture & fixtures	2,50,000
ii)	Intangible assets	
	Patents & copyrights	70,000
		3,20,000
5.	Non-Current Investments	
	Investments (Rs. 68,000 - Rs. 13,000)	55,000

## Working Note:

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

**PROBLEM NO:4**Journal Entries in the Books of X Ltd.

Particulars	Rs.	Rs.
Equity share capital A/c (Rs. 100)	Dr.	24,00,000
To Equity share capital A/c (Rs. 40)		9,60,000
To Capital reduction A/c		14,40,000
(Being 24,000 equity shares of Rs. 100 each reduced to Rs. 40 each fully paid up)		
10% Preference Share Capital A/c (Rs. 100)	Dr.	12,00,000

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

**Balance Sheet (and reduced) of X Ltd. as on 31st March, 20X1**

	Particulars	Notes	Rs.
<b>Equity and Liabilities</b>			
<b>1. Shareholders' funds</b>			
a) Share capital	1		18,60,000
b) Reserves and surplus	2		85,000
<b>2. Current liabilities</b>			
a) Trade Payables			3,00,000
b) Short term borrowings			6,00,000
<b>Total</b>			<b>28,45,000</b>
<b>Assets</b>			
<b>1. Non-current assets</b>			
a) Fixed assets			
Tangible assets	3		28,20,000
<b>2. Current assets</b>			
Cash and cash equivalents (30,000 - 5,000)			25,000
<b>Total</b>			<b>28,45,000</b>

**Notes to accounts**

	Rs.
<b>1. Share Capital</b>	
Equity share capital	
24,000 equity shares of Rs. 40 each fully paid up	9,60,000
Preference share capital	
12,000, 10% Preference shares of Rs. 75 each fully paid up	9,00,000
<b>Total</b>	<b>18,60,000</b>
<b>2. Reserves and surplus</b>	
Capital reserve	85,000
<b>3. Tangible assets</b>	
Land and Building	15,60,000
Plant and Machinery	12,60,000
<b>Total</b>	<b>28,20,000</b>

**PROBLEM NO:5**

Journal Entries in the books of Rebuilt Ltd.

	Particulars	Debit (Rs.)	Credit (Rs.)
1	Equity share capital A/c (Rs.50) To Equity share capital A/c (Rs. 2.50) To Capital reduction A/c (Being equity capital reduced to nominal value of Rs. 2.50 each)	Dr. 7,50,000	37,500 7,12,500
2	Bank A/c To equity share capital (Being 3 right shares against each share was issued and subscribed)	Dr. 1,12,500	1,12,500
3	7% Preference share capital A/c (Rs. 50) Capital reduction A/c To 5% Preference share capital (Rs. 10) To equity share capital (Rs. 2.5) (Being 7% preference shares of Rs. 50 each converted to 5% preference shares of Rs. 10 each and also given to them 6 equity shares for every share held)	Dr. 6,00,000 Dr. 60,000	4,80,000 1,80,000
4	Loan A/c To 5% Preference share capital A/c To Equity share capital A/c (Being loan to the extent of Rs. 1,50,000 converted into share capital)	Dr. 1,50,000	1,20,000 30,000
5	Bank A/c To Equity Share application money A/c (Being shares subscribed by the directors)	Dr. 1,00,000	1,00,000
6	Equity share application money A/c To Equity share capital A/c (Being application money transferred to capital A/c)	Dr. 1,00,000	1,00,000
7	Loan A/c To Bank A/c (Being loan repaid)	Dr. 2,00,000	2,00,000
8	Capital reduction A/c To Profit and loss A/c To Plant A/c To Trademarks and Goodwill A/c (Bal. fig) (Being losses and assets written off to the extent required)	Dr. 6,52,500	4,51,000 35,000 1,66,500

Name of the Company : Rebuilt Ltd

Balance Sheet as at : 31<sup>st</sup> March, 20X1 (reduced)

		Particulars	Notes No.	Rs.
1	a	<b>EQUITY AND LIABILITIES:</b> Shareholder's funds Share capital	1	10,60,000
2	a	<b>Non-current liabilities</b> Long term borrowings (loan)		2,23,000
3	a b	<b>Current liabilities</b> Trade Payable Other current liabilities		2,07,000 35,000 <b>TOTAL</b>
1	a b	<b>ASSETS:</b> <b>Fixed Assets</b> Tangible assets Intangible assets	2 3	6,33,000 1,51,500
2	c d E	<b>Current assets</b> Trade receivables Inventory Cash and cash equivalents	4	3,28,000 4,00,000 12,500 <b>TOTAL</b>

## Notes to Accounts:

Particulars	Amount
<b>1. Share capital</b>	
<b>Authorized Capital:</b>	
65,000 Preference Shares of Rs. 10 each	6,50,000
3,00,000 Equity shares of Rs. 2.50 each	<u>7,50,000</u>
<b>Issued, Subscribed and paid up:</b>	
1,80,000 equity shares of Rs. 2.5 each	4,60,000
60,000, 5% Preference shares of Rs. 10 each	6,00,000
<b>2. Tangible assets</b>	
Building at cost - depreciation	4,00,000
Plant at cost less depreciation	2,33,000
<b>3. Intangible assets</b>	
Trademarks and Goodwill	1,51,500
<b>4. Cash and cash equivalents</b>	
Bank (1,12,500 + 1,00,000 - 2,00,000)	12,500

**PROBLEM NO. 6**

a) Journal Entries in the books of M/s. Cube Ltd. (Amount in Lakhs)

S.No.	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
i)	8% Preference share capital A/c (Rs.100. each) Dr		200	
	To 8% Preference share capital A/c (Rs.80 each)			160
	To Capital Reduction A/c			40
	(Being the preference shares of Rs.100 each reduced to Rs. 80 each as per the approved scheme)			
ii)	Equity share capital A/c (Rs. 10 each) Dr.		500	
	To Equity share capital A/c (Rs. 2 each)			100
	To Capital Reduction A/c			400
	(Being the equity shares of Rs.10 each reduced to Rs. 2 each)			
iii)	Capital Reduction A/c Dr.		16	
	To Equity share capital A/c (Rs. 2 each)			16
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of Rs. 2 each)			
iv)	6% Debentures A/c Dr.		150	
	To Freehold property A/c			150
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
v)	Accrued debenture interest A/c Dr.		12	
	To Bank A/c			12
	(Being accrued debenture interest paid)			
vi)	Freehold property A/c Dr.		75	
	To Capital Reduction A/c			75
	(Being appreciation in the value of freehold property)			
vii)	Bank A/c Dr.		125	
	To Investments A/c			100
	To Capital Reduction A/c			25
	(Being investment sold at profit)			
viii)	Director's loan A/c Dr.		150	
	To Equity share capital A/c (Rs. 2 each)			45
	To Capital Reduction A/c			105
	(Being director's loan waived by 70% and balance being discharged by issue of 22.5 lakhs equity shares of Rs. 2 each)			

ix)	Capital Reduction A/c	Dr.	483	
	To Profit and loss A/c			261
	To Trade receivables A/c (225 x 40%)			90
	To Inventories-in-trade A/c (150 x 80%)			120
	To Bank A/c (300 x 5%)			15
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)			
x)	Capital Reduction A/c		143	
	To Capital reserve A/c			143
	(Being balance transferred to capital reserve account as per the scheme)			

b)

Dr.	Capital Reduction Account	Cr.
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Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Equity Share Capital	16	By Preference Share Capital	40
To Trade receivables	90	By Equity Share Capital	400
To Finished Goods	120	By Freehold Property	75
To Profit & Loss A/c	261	By Bank	25
To Bank A/c	15	By Director's Loan	105
To Capital Reserve	143		
	<b>645</b>		<b>645</b>

#### Notes to Balance Sheet

S.No		(Rs. in lakhs)	(Rs. in lakhs)
1.	<u>Share Capital</u>		
	<b>Authorised:</b>		
	100 lakhs Equity shares of Rs. 2 each		200
	4 lakhs 8% Preference shares of Rs.80 each		320
			520
	<b>Issued:</b>		
	80.5 lakhs equity shares of Rs. 2 each		161
	2 lakhs Preference Shares of Rs. 80 each		160
			321
2.	<u>Tangible Assets</u>		
	Freehold Property	275	
	<b>Less:</b> Utilized to pay Debenture holders	150	
		125	
	<b>Add:</b> Appreciation	75	200
	Plant and Machinery		100
			300

#### PROBLEM NO:7

##### Journal Entries in the Books of Green Limited

Particulars	Debit (Rs.)	Credit (Rs.)
Bank Account	Dr. 10,00,000	
To Equity Share Capital Account		10,00,000
(Balance of Rs.10 per share on 1,00,000 equity shares called up as per reconstruction scheme)		
Equity Share Capital Account (Rs. 50)	Dr. 75,00,000	
To Equity Share Capital Account (Rs. 20)		30,00,000
To Capital Reduction Account		45,00,000
(Reduction of equity shares of Rs. 50 each to shares of Rs. 20 each as per reconstruction scheme)		
12% First Debentures Account	Dr. 3,00,000	
12% Second Debentures Account	Dr. 7,00,000	

Trade payables Account	Dr.	2,00,000	
To X			12,00,000
(The total amount due to X, transferred to his account)			
Bank Account	Dr.	2,00,000	
To X			2,00,000
(The amount paid by X under the reconstruction scheme)			
12% First Debentures Account	Dr.	2,00,000	
12% Second Debentures Account	Dr.	3,00,000	
Trade payables Account	Dr.	1,00,000	
To Y			6,00,000
(The total amount due to Y, transferred to his account)			
Y	Dr.	6,00,000	
To 14% First Debentures Account			3,00,000
To Capital Reduction Account			3,00,000
(The amount due to Y discharged by issue of 14% first debentures)			
X	Dr.	14,00,000	
To 14% First Debentures Account			7,00,000
To Capital Reduction Account			7,00,000
(The cancellation of Rs. 7,00,000 out of total debt of Mr. X and issue of 14% first debentures for the balance amount as per reconstruction scheme)			
Capital Reduction Account	Dr.	55,00,000	
To Goodwill Account			20,00,000
To Profit and Loss Account			20,00,000
To Computers Account			15,00,000
(The balance amount of capital reduction account utilised in writing off goodwill, profit and loss account, and computers- Working Note)			

### Balance Sheet of Green Limited (and reduced) as on 31st March, 2015

	Particulars	Notes	Rs.
<b>Equity and Liabilities</b>			
<b>1. Shareholders' funds</b>			
a) Share capital		1	30,00,000
<b>2. Non-current liabilities</b>			
a) Long-term borrowings		2	10,00,000
<b>3. Current liabilities</b>			
a) Trade Payables			2,00,000
	<b>Total</b>		<b>42,00,000</b>
<b>Assets</b>			
<b>1. Non-current assets</b>			
a) Fixed assets			
i) Tangible assets		3	30,00,000
<b>2. Current assets</b>			
a) Cash and cash equivalents			12,00,000
	<b>Total</b>		<b>42,00,000</b>

### Notes to accounts

	Rs.
<b>1. Share Capital</b>	
Equity share capital	
Issued, subscribed and paid up	
1,50,000 equity shares of Rs. 20 each	30,00,000
	<b>Total</b>
<b>2. Long-term borrowings</b>	
Secured	
14% First Debentures	10,00,000
	<b>Total</b>
<b>3. Tangible assets</b>	

Building	10,00,000
Plant	10,00,000
Computers	10,00,000
<b>Total</b>	<b>30,00,000</b>

**WORKING NOTE:****Capital Reduction Account**

<b>Particulars</b>	<b>Amount</b>	<b>Particulars</b>	<b>Amount</b>
To Goodwill A/c	20,00,000	By Equity Share Capital A/c	45,00,000
To P & L A/c	20,00,000	By X	7,00,000
To Computers (Bal. Fig.)	15,00,000	By Y	3,00,000
	<b>55,00,000</b>		<b>55,00,000</b>

**THE END**