11

INTERNAL RECONSTRUCTION-I

Unit Structure

11.0 Objectives
11.1 Introduction
11.2 Types of Construction
11.3 Alteration of Shares capital
11.4 Legal Aspects
11.5 Capital Reduction
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11.0 OBJECTIVES :

After studying the unit the students will be able to:

- Understand the types of reconstruction.
- Know the alternation of share capital.
- Explain the procedure of reconstruction.
- Understand the Accounting entries for reconstruction.
- Solve the practical problems on the unit.

11.1 INTRODUCTION :

The term reconstruction means reorganizing the capital structure of a company including the reduction of the claim of both the classes of shareholders & the creditors against the company. Sick companies (loss making companies) may be taken over by the profit making companies however in case of c/f of huge losses, assets are overvalued or undervalued, in such cases company may go for reconstruction. It may be external or internal reconstruction.

11.2 TYPES OF RECONSTRUCTION :

The Company can be reconstructed internally or externally. It means two types of reconstruction is possible:

11.2.1 External Reconstruction:

In case of external reconstruction a new company is formed to take over the business of an existing company which has suffered huge losses & which is in bad financial position. The vendor company goes into liquidation & its business is taken over by the new company.

11.2.2 Internal Reconstruction:

In case of internal reconstruction, the capital structure of the company is reorganized to infuse new life in the company. It includes alteration, reduction and reorganization of share capital of the company.

11.3 ALTERATION OF SHARE CAPITAL :

A limited company if authorized by its Articles of Association can alter the capital clause of its Memorandam of Association. As per Sec. 94 to 97 of the Companies Act 1956 a company can alter its share capital. The alteration of share capital may be in following different ways: -

a] Increase in share capital by the issue of new shares.

b] Consolidation of shares:

Consilidation refers to conversion of shares of the smaller denomination into shares of larger denomination e.g: 5000 equity shares of Rs. 10 each can be consolidated into 500 shares of Rs. 100 each.

c] Subdivision of shares:

Sub division refers to conversion of shares of the larger denomination into shares of small denomination e.g: 5000 equity shares of Rs. 100 each can be subdivided into 50000 shares of Rs. 10 each.

d] Conversion of shares into stock:

A company may convert its shares into stock. Stocks may be in fractions which is not possible in case of shares. Conversion of shares into stock requires sanction of the Central Government.

e] Surrender of shares:

In a reconstruction scheme the shareholders may be required to surrender a part of their shareholdings. Such a surrender may be either before immediate cancellation or for

issue to some of the creditors of the company in satisfaction of their claim.

f] Cancellation of Unissued shares:

In case a company cancels its unissued shares it does not require any accounting entry to be passed. The authorized shares capital of the company will stand reduced by the amount of unissued shares now cancelled.

11.4 LEGAL ASPECTS :

Internal reconstruction scheme should be framed by careful study and proper valuation of assets and liabilities. It involves a compromise or arrangement between the company and its members or/and its creditors. However following aspects should be carefully taken care of while framing the scheme of internal reconstruction –

a] For change in share capital in any form, it should be considered as per provisions of the M/A & A/A, and in case if required the company should alter the provisions in the M/A & A/A.

b] Company is required to give a notice to the Register of Companies within 30 days of its passing resolution.

c] Sanction of SEBI is necessary in certain cases.

d] Board Resolution is necessary to effect the alteration.

11.5 CAPITAL REDUCTION :

Internal reconstruction means the reduction of capital to cancel any paid-up share capital which is lost during the course of business i.e. not represented by the real value of the assets.

A company can reduce its share capital in the followings ways:

a] Writing off lost capital

b] Refunding surplus paid-up capital.

c] Reducing the liability of the members for uncalled capital.

A company can reduce its share capital only when each of the following condition is satisfied

a] The A/A of the company must permit such reduction.

b] The company passes special resolution for reducing its share capital.

c] The company obtains the confirmation of the court.

Reduction of capital will be effective only when it is sanctioned by the court and registered with Registrar of Companies. Court may at its discretion order the words "And Reduced" to be added to the name of the company for the period prescribed.

11.6 ACCOUNTING ENTRIES :

Capital Reduction Account is opened in the ledger to give effect of sacrifice made by shareholders & others as well as to write off accumulated losses, fictitious assets, & change in values of assets/liabilities.

1] When the face value of share is changed:

Share capital A/c (o/d) Dr.
(With paid up value of old shares)
To Share Capital A/c (new)
(With paid up value of new shares)
To Capital Reduction A/c
(With difference)

2] When any sacrifice is made by the creditors:

Creditors A/c (with sacrifice) Dr.
To Capital Reduction A/c

3] When there is reduction in share capital (face value of share is not changed)

Share Capital A/c Dr.
To Capital Reduction A/c
(With the amount of reduction).

4] When the value of any asset is appreciated:

Asset A/c (increase in value) Dr.
To Capital Reduction A/c

5] When any sacrifice is made by the Debenture Holders

Debentures A/c (increase in value) Dr.
To Capital Reduction A/c

6] When shares are consolidated:

Share Capital A/c (say Rs. 10) Dr.
To Share Capital A/c (say Rs. 100)

7] When Shares are subdivided:

Share Capital A/c (say Rs. 100) Dr.
To Share Capital A/c (say Rs. 10)

8] When capital reduction is utilised for writing off fictitious assets, losses and excess value of other assets:

Capital Reduction A/c Dr.
To P/L A/c
To Goodwill A/c
To Preliminary Expenses A/c
To Discount on Shares/Debentures A/c
To Other Assets A/c
To Capital Reserve A/c (if any balance is left)

9] When shares are converted into stock:

Share Capital A/c Dr.
To Share Stock A/c

10] When shares are surrendered:

Share Capital A/c Dr.
To Share Surrendered A/c

11] When surrendered shares are converted into preference shares:

Share Surrendered A/c Dr.
To Preference Share Capital A/c

12] When contingent liability/unrecorded liability is paid for:

Capital Reduction A/c Dr.
To Bank A/c

(**Note:** No entry is required for amount foregone against such liability.)

13] When recorded liability is paid for:

Liability A/c Dr.
To Bank A/c

(**Note:** Any profit or loss should be transferred to Capital Reduction A/c)

14] When recorded assets are disposed off:

Bank A/c Dr.
To Assets A/c

(**Note:** Any profit or loss on sale should be transferred to Capital Reduction A/c)

15] When Reconstruction expenses are paid

Capital Reduction A/c Dr.
To Bank A/c

16] When an unrecorded assets is sold off:

Bank A/c Dr.
To Capital Reduction A/c

17] When finance is raised by issue of shares

Bank A/c Dr.
To Share Capital A/c

18] When arrears of preference dividend are cancelled:

No Entry

19] When new debentures are exchanged for old debentures:

Old Debentures A/c Dr.
To New Debentures A/c

20] When arrears of preference dividend are settled by issue of deposit certificates cash/shares:

Capital Reduction A/c Dr.
To Deposit Certificates/Cash/Share Certificate A/c

21] When the rate of preference dividend is changed:

Preference Share Capital (old) A/c Dr.
To Preference Share Capital A/c (new)

22] When surrendered shares are issued to creditors:

(a) Surrendered A/c Dr.
To Share Capital A/c

(b) Creditors A/c Dr.
To Capital Reduction A/c

Note: Profit or Loss on scheme to be transferred to capital Reduction A/c.

23] When provision for taxation, Capital Reserve,Securities Premium is utilised:

Provision for Taxation A/c Dr.
Capital Reserve A/c Dr.
Securities Premium A/c Dr.
To Capital Reduction A/c

Proforma:

Capital Reduction A/c

Particulars	Rs.	Particulars	Rs.
To P & L A/c (Loss written off)	XX	By Share Capital A/c	XX
To Goodwill A/c (Written off)	XX	(Amount of reduction)	
To Preliminary expenses A/c (Written off)	XX	By Debentures A/c (Amount of Reduction)	XX
To Discount on Shares/Debentures (Written off)	XX	By Creditors A/c (Amount of Sacrifice)	XX
To Assets A/c (Decrease in value)	XX	By Assets A/c (Increase in value)	XX
To Bank A/c (payment of unrecorded liability)	XX	By Bank A/c (sate of unrecorded assets)	XX
To Bank A/c (payment of Reconstruction Expenses)	XX		
To Bank A/c (Refund of Directors Fees)	XX		
To Capital Reserve (Balancing figure)			
	XXX		**XXX**

11.7 SOLVED PROBLEMS :

Problem – 1

Following is the Balance sheet of M/s. Life Care Ltd. as on 31st March, 2010.

Balance Sheet as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.
50,000 – 8% Cumulative Preference Shares of Rs.10/- each.	5,00,000	Goodwill	1,00,000
		Freehold Property	1,50,000
		Leasehold Property	2,40,000
40,000 – Equity Shares of Rs.10/- each.	4,00,000	Plant & Machinery	3,00,000
		Furniture	1,00,000
Security Premium	8,000	Stock	50,000
9% Debentures	1,00,000	Debtors	1,00,000
Accrued Debenture interest	6,000	Preliminary Exp.	9,000
		Profit & Loss A/c	2,07,000
Sundry Creditors	1,00,000		
Bank Overdraft	1,42,000		
	12,56,000		12,56,000

Note –

1) Preference dividend was in arrears for 3 years.

2) There was a contingent liability of Rs.30,000/- for workmen compensation.

   Following scheme of reconstruction was approved & implemented.

   a) The Preference shares were reduced to Rs.8/- per share fully paid & Equity Shares to Rs.3/- per share fully paid.

   b) One new Equity share of Rs.10/- each was issued of every Rs.50/- gross preference dividend in arrears.

   c) After reduction, both classes of shares were consolidated into Rs.10/- shares.

   d) The balance of Securities Premium was utilized.

   e) Plant & Machinery was written of down to Rs.2,50,000/-.

   f) Furniture was sold to Rs.75,000/-

   g) Preliminary expenses debit balance in Profit & Loss A/c, debt of Rs.25,000/- & obsolete stock Rs.18,000/- were to be written off.

   h) Contingent liability for which no provision has been made was settled at Rs.15,000/-. However, the amount of Rs.11,000/- was recovered from insurance company.

   i) Debenture holders agreed to Forgo principal amount by Rs.50,000/- & accrued debenture interest in full.

Pass journal entries. Prepare capital reduction account & Balance sheet after reconstruction.

Solution :

Journal of Life Care Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	8% Preference Share Cap. A/c ……Dr. (50,000X10)	5,00,000	
	To 8% Preference Share Capital A/c (50,000X8)		4,00,000
	To Capital Reduction A/c (50,000X2)		1,00,000
	(Being reduction in 8% Preference Capital.)		

2.	8% Preference Share Capital A/c……..…Dr. (40,000X8) To 8% Preference Share Capital A/c (32,000X10) (Being consolidation of 8% Preference Shares.)	3,20,000	3,20,000
3.	Equity Share Capital A/c …….Dr. (40,000X10) To Equity Share Capital A/c (40,000X3) To Capital Reduction A/c (40,000X7) (Being reduction in Equity Share Capital)	4,00,000	1,20,000 2,80,000
4.	Equity Share Capital A/c …….…….. Dr. (40,000X3) To Equity Share Capital A/c (12,000X10) (Being consolidation of Equity Shares.)	1,20,000	1,20,000
5.	Capital Reduction A/c ……..… Dr. To Equity Share Capital A/c (8%X5,00,000X $\frac{3}{50}$ X10) (Being arrears of Preference dividend paid by issue of Equity shares.)	24,000	24,000
6.	Security Premium A/c …… Dr. To Capital Reduction A/c (Being Security Premium used.)	8,000	8,000
7.	Bank A/c ……Dr. Capital Reduction A/c …… Dr. To Furniture A/c (Being sale of Furniture at a loss of Rs.25,000/-)	75,000 25,000	1,00,000
8.	Capital Reduction A/c ……Dr. To Bank A/c (Being payment of contingent liability.)	15,000	15,000
9.	Bank A/c …….. Dr. To Capital Reduction A/c (Being recovery of claim from insurance company.)	11,000	11,000
10.	9% Debentures A/c …… Dr. Accrued Debenture interest A/c …….. Dr. To Capital Reduction A/c	50,000 6,000	56,000

11.	Capital Reduction A/c …… Dr.	3,91,000	
	To Plant & Machinery A/c		50,000
	(3,00,000 – 2,50,000)		
	To Preliminary Expenses A/c		9,000
	To Profit & Loss A/c		2,07,000
	To Sundry Debtors A/c		25,000
	To Stock A/c		18,000
	To Capital Reserve A/c		82,000
	(Being losses & Assets written off.)		

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Equity Share Cap. A/c (Preference Dividend)	24,000	By 8% Pref. Share Cap. A/c	1,00,000
To Furniture	25,000	By Equity Share Capital A/c	2,50,000
To Plant & Machinery A/c	50,000	By Security Premium	8,000
To Preliminary Expenses	9,000	By 9% Debentures	50,000
To Profit & Loss A/c	2,07,000	By Accrued interest on debentures	6,000
To Sundry Debtors A/c	25,000	By Bank (Insurance)	11,000
To Stock	18,000		
To Bank (Contingent liability)	15,000		
To Capital Reserve	82,000		
	4,55,000		4,55,000

Balance Sheet as on _____

Liabilities	Amt.	Assets		Amt.
I) Share Capital		I) Fixed Assets		
Authorized	?	Freehold Prop.	1,50,000	
		Leasehold Prop.	2,40,000	
Issued, Subscribed & Paid up		Plant & Mach.	2,50,000	6,40,000
40,000 8% Pref. Shares of Rs.10/- each. 4,00,000		II) Investment		
14,400 Equity shares of Rs.10/- each. 1,44,000	5,44,000	III) Current Assets, Loans & Advances		
		a) Current Assets		
		Stock	32,000	
		S. Debtors	75,000	1,07,000
	82,000			NIL

II) Reserves & Surplus		b) Loans & Advances	-
III) Secured Loan	50,000	IV) Miscellaneous Expenditure (Not written off)	
9% Debentures	-	Goodwill	1,00,000
IV) Unsecured Loans	-		
V) Current Liabilities & Provisions			
a) Current Liability			
S. Creditors 1,00,000	1,71,000		
Bank O/D 71,000	NIL		
b) Provisions			
	8,47,000		8,47,000

Problem – 2

Following is the Balance Sheet of Satya Ltd. as on 31st March, 2008.

Balance Sheet as on _____

Liabilities	Amt.	Assets	Amt.
Share Capital		Goodwill	3,00,000
1,50,000 Equity Shares of Rs.5/- each fully paid	7,50,000	Land & Building	2,40,000
		Equipment	2,10,000
		Sundry Debtors	2,00,970
5,000 6% Preference Shares of Rs.100/- each fully paid	5,00,000	Stock	3,32,440
		Investment	44,000
		Cash at Bank	21,000
		Profit & Loss A/c	7,51,590
8% Debentures	3,00,000		
Bank Overdraft	1,70,000		
Sundry Creditors (including Rs.22,000 int. on Bank Overdraft)	3,80,000		
	21,00,000		21,00,000

Preference dividend is in arrears for Five years.

Following scheme of reconstruction was approved by the court.

1) Equity Shares be reduced to Rs.150/- each of then to be consolidated into shares of Rs.10/- each.

2) 6% Preference shares be reduced to Rs.50/- each & then to be subdivided into shares of Rs.10/- each.

3) Interest accrued but not due on 8% debentures. For half year ended 31st March 2008 has not been provided in the above Balance Sheet. The debenture holders have agreed to received 30% of this interest in cash immediately & provision for the balance be made in the books of account.

4) Rs.20,000/- be paid to Preference shareholders in lieu of arrears of Preference dividend.

5) The debenture holders have also agreed to accept equal number of 9% debentures of Rs.60/- each in exchange of 8% debentures of Rs.100/- each.

6) Bank has agreed to take over 50% stock in full satisfaction of its claim including interest. The remaining stock be revalued at Rs.80,000/-.

7) Investment be sold for Rs.39,000/-.

8) Tangible Fixed assets be appreciated by 15% & provision be made for doubtful debts of Rs.18,000/-.

Give journal entries for the above scheme of reconstruction. Prepare Capital Reduction Account in the books of Satya Ltd. & Balance sheet of the company after reconstruction.

Solution :

Journal of Satya Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity Shares Capital A/c (5) ……Dr. To Equity Share Capital A/c (1.50) To Capital Reduction A/c (3.5) (Being 1,50,000 Equity Shares of Rs.5/- each reduced to Rs.1.50 each.)	7,50,000	 2,25,000 5,25,000
2.	Equity Share Capital A/c (1.50) ……Dr. To Equity Share Capital (10) (Being 1,50,000 Equity shares of Rs.1.50 consolidated into shares of Rs.10/- each.)	2,25,000	 2,25,000
3.	6% Preference Share Capital A/c (100) .. Dr. To 6% Preference Share Capital A/c (50) To Capital Reduction A/c (Being 6% Preference shares of Rs.100/- each reduced to shares of Rs.50/- each.)	5,00,000	 2,50,000 2,50,000

4.	6% Preference Share Capital A/c …….Dr. To 6% Preference Shares Capital A/c (Being 6% Preference shares of Rs.50/- each subdivided into shares of Rs.10/- each.)	2,50,000	 2,50,000
5.	Capital Reduction A/c ……Dr. To Bank A/c To Interest on Debentures A/c (Being payment of accrued interest on debentures to the extent of 30% & provided for the balance.)	12,000	 3,600 8,400
6.	Capital Reduction A/c …… Dr. To Bank A/c (Being paid to preference share holders in lieu of arrears of dividend.)	20,000	 20,000
7.	8% Preferences A/c (100) ……Dr. To 9% Debentures A/c (60) To Capital Reduction A/c (Being exchanged 8% debentures by 9% debentures.)	3,00,000	 1,80,000 1,20,000
8.	Bank Overdraft A/c …… Dr. Sundry Creditors A/c …….. Dr. (Interest on Bank Overdraft) To Stock A/c To Capital Reduction A/c (Being taken over 50% of the Stock by the bank in satisfaction of bank overdraft.)	1,70,000 22,000	 1,66,220 25,780
9.	Capital Reduction A/c ……Dr. To Stock A/c (Being reduction in Stock.)	86,220	 86,220
10.	Bank A/c ……Dr. Capital Reduction A/c …… Dr. To Investment A/c (Being sale of investment at a loss.)	39,000 5,000	 44,000
11.	Capital Reduction A/c …… Dr. To Profit & Loss A/c To Provision for doubtful debts A/c To Capital Reserve A/c (Being written off profit & loss account debit balance, provided for reduction redemption reserve & transferred the remaining amount to Capital Reserve Account.)	8,65,040	 7,51,590 18,000 95,470

12.	Land & Building A/c .....Dr. Equipment A/c ..... Dr. To Capital Reduction A/c (Being appreciation in Land & Building & Equipment.)	36,000 31,500	 67,500

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Bank A/c	3,600	By Equity Share Capital A/c	5,25,000
To Int. on debentures	8,400	By 6% Preference Share Capital A/c	2,50,000
To Bank A/c	20,000	By 8% Debentures A/c	1,20,000
To Stock A/c	86,220	By Bank Overdraft & Creditors A/c	25,780
To Investment A/c	5,000	By Land & Building A/c	36,000
To Profit & Loss A/c	7,51,590	By Equipments A/c	31,500
To Provision for doubtful debts.	18,000		
To Capital Reserve	95,470		
	9,88,280		9,88,280

Satya Ltd.
Balance Sheet as on 31st March, 2009

Liabilities	Amt.	Assets		Amt.
I) Share Capital		I) Fixed Assets		
22,500 Equity Shares of Rs.10/- each.	2,25,000	Land & Building		2,76,000
25,000 6% Preference shares of Rs.10/- each.	2,50,000	Equipments		2,41,500
		II) Current Assets		
II) Reserves & Surplus		S. Debtors	2,00,970	
Capital Reserve	95,470	Less : Prov. for doubtful debts.	(18,000)	1,82,970
III) Secured Loans				
30,000 9% Debentures of Rs.60/- each.	1,80,000	Stock		80,000
Interest Payable	8,400	Cash at Bank		36,400
		Goodwill		3,00,000
Current Liability				
S. Creditors	3,58,000			
	11,16,870			11,16,870

Problem – 3

Following is the Balance sheet of Damyanti Ltd. as on 31st March, 2010.

Liabilities	Amt.	Assets	Amt.
16,000 12% Preference Shares of Rs.10/- each fully paid up	1,60,000	Goodwill	90,000
		Patents	50,000
		Land & Building	1,50,000
		Plant & Machinery	3,00,000
1,40,000 10% Preference shares of Rs.10/-, Rs.5/- per share paid up	70,000	Furniture	35,000
		Investment	85,000
		Sundry Debtors	3,00,000
		Bills Receivables	1,20,000
18,000 Equity Share of Rs.10/- each fully paid up	1,80,000	Bank	30,000
		Profit & Loss A/c	71,500
12% Debenture of Rs.100/- each	1,70,000		
11% Debentures of Rs.100/- each	2,80,000		
Interest due on debenture	21,500		
Sundry Creditors	3,50,000		
	12,31,500		12,31,500

The following scheme of reconstruction was submitted & approved by the court.

1) 12% Preference Shares of the Rs.10/- each fully paid were reduced to 13% Preference Shares of Rs.10/- each, Rs.6/- per share paid up.
2) 10% Preference share of Rs.10/- each, Rs.5/- per share paid up were reduced to 13% Preference shares of Rs.10/- each, Rs.4/- per share paid up.
3) Equity Shares of Rs.10/- each fully paid were reduced to the denomination of Rs.7/- each fully paid.
4) 11% Debenture holders agreed to accept 44,800 Equity Shares of Rs.5/- each in full settlement of their claims.

5) Debentures holders agreed to Forgo the interest due on debentures.

6) Sundry Creditors agreed to Forgo 20% of their claims.

7) The company recovered as damages as sum of Rs.60,000/- which was not recorded in the books.

8) Cost of reconstruction was paid Rs.3,000/-.

9) Assets are to be revalued as under : Land & Buildings Rs.2,05,000/-, Plant & Machinery Rs.2,50,000/-, Furniture Rs.10,000/-, Investment Rs.1,05,000/-, Sundry Debtors Rs.2,77,000/-.

10) All intangible assets & accumulated losses are to be written off.

You are required to –

i) Pass journal entries in the books of Damyanti Ltd.

ii) Prepare Capital Reduction Account & Balance Sheet after reconstruction.

Solution :

Journal of Damyanti Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	12% Preference Share Capital A/c ……..Dr. To 13% Preference Share Capital A/c To Capital Reduction A/c (Being reduction in 12% Preference Capital.)	1,60,000	 96,000 64,000
2.	10% Preference Share Capital A/c ……..Dr. To 13% Preference Share Capital A/c To Capital Reduction A/c (Being reduction in 13% Preference Capital.)	70,000	 56,000 14,000
3.	Equity Share Capital A/c ……Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being reduction in Equity Share Capital.)	1,80,000	 1,26,000 54,000
4.	11% Debenture A/c ……Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being reduction in debentures.)	2,80,000	 2,24,000 56,000
5.	Interest due on Debenture A/c ……. Dr. To Capital Reduction A/c (Being interest dues on debentures cancelled.)	21,500	 21,500

6.	Creditors A/c …….. Dr. To Capital Reduction A/c (Being Creditors dues reduced.)	70,000	 70,000
7.	Bank A/c …….. Dr. To Capital Reduction A/c (Being damages recovered.)	60,000	 60,000
8.	Capital Reduction A/c …… Dr. To Bank A/c (Being costs of reconstruction paid.)	3,000	 3,000
9.	Land & Building A/c ……Dr. Investment A/c …… Dr. To Capital Reduction A/c (Being increase in valuations.)	55,000 20,000	 75,000
10.	Capital Reduction A/c …… Dr. To Plant & Machinery A/c To Furniture A/c To Sundry Debtors A/c To Goodwill A/c To Patents A/c To Profit & Loss A/c To Capital Reserve A/c	5,01,500	 50,000 25,000 23,000 90,000 50,000 71,500 1,02,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Bank A/c	3,000	By 12% Preference	
To Plant & Machinery	50,000	Share Capital A/c	64,000
To Furniture A/c	25,000	By 10% Preference	
To Sundry Debtors A/c	23,000	Share Capital A/c	14,000
To Goodwill A/c	90,000	By Equity Share Capital	
To Patents A/c	50,000	A/c	54,000
To Profit & Loss A/c	71,500	By 11% Debenture A/c	56,000
To Capital Reserve A/c	10,200	By Interest due on	
		debentures	21,500
		By Sundry Creditors	70,000
		By Bank A/c	60,000
		By Land & Building A/c	55,000
		By Investment A/c	20,000
	4,14,500		4,14,500

Balance Sheet of Damyanti Ltd. as on 31st March, 2010 (And Reduced)

Liabilities	Amt.	Assets	Amt.
I) Share Capital		I) Fixed Assets	
Authorized	?	Land & Build. 2,05,000	
		Plant & Mach. 2,50,000	
Issued, Subscribed & Paid up		Furniture 10,000	4,65,000
16,000 13% Preference Shares of Rs.10/- each. Rs.6/- paid up 96,000		II) Investment	1,05,000
		III) Current Assets, Loans & Advances	
		a) Current Assets	
		S. Debtors 2,77,000	
14,000 13% Preference Shares of Rs.10/- each. Rs.4/- paid up 56,000	1,52,000	B. R. 1,20,000	
		Bank 87,000	4,84,000
		b) Loans & Advances (Unsecured Considered goods)	NIL
18,000 Equity Shares of Rs.7/- each	1,26,000	IV) Miscellaneous Expenditure (Not written off)	NIL
44,800, Equity Shares of Rs.5/- each.	2,24,000		
II) Reserve & Surplus			
Capital Reserves	1,02,000		
III) Secured Loans			
12% Debentures of Rs.100/- each	1,70,000		
IV) Unsecured Loans	NIL		
V) Current Liability & Provisions			
a) Current Liability			
Sundry Creditors	2,80,000		
b) Provisions	NIL		
	10,54,000		10,54,000

Problem – 4

Following is the Balance sheet of Spider Ltd. as on 31st March, 2009.

Liabilities	Amt.	Assets	Amt.
Share Capital		Fixed Assets	
7,000 10% Preference Share of Rs.10/- each.	7,00,000	Goodwill	50,000
40,000 Equity Shares of Rs.10/- each.	4,00,000	Patents & Trade marks	30,000
		Building	3,20,000
Reserve & Surplus		Plant & Machinery	2,80,000
Capital Reserve	40,000	Furniture	1,20,000
		Current Assets, Loans & Advances	
Secured loans		Stock	1,55,000
6% Debentures of Rs.100/- each	2,00,000	Sundry Debtors	85,000
Debentures interest due	70,000	Bank	85,000
		Cash	35,000
Current Liabilities & Provisions		Miscellaneous Expenditure	
Sundry Creditors	1,40,000	Discount on debentures	35,000
		Profit & Loss A/c	3,55,000
	15,50,000		15,50,000

Note : Preference dividend is in arrears for three years. The following scheme of reconstruction was prepared & duly approved by the court.

1) The Preference Shares shall be converted into equal number of 11% Preference shares of Rs.50/- each.

2) The Equity Share shall be reduced to Rs.2/- each. However, the Face Value will remain the same.

3) 6% Debentures shall be converted into equal number of 7% debentures of Rs.85/- each. The debenture holders also agreed to waived 60% of the accrued interest.

4) Arrears of Preference dividend is to be reduced to one years dividend which is paid in cash.

5) The sundry creditors agreed to waived 40% of their claims & to accept Equity Shares for Rs.40,000/- in part settlement renewed claims.

6) The assets are to be revalued as under :

Building Rs.4,00,000/-, Plant & Machinery Rs.2,20,000/-, Furniture Rs.70,000/-, Stock Rs.1,00,000/-, Debtors Rs.70,000/-

7) Intangible assets & fictitious assets are to be written off.

Pass journal entries. Prepare Capital Reduction Account & Balance Sheet after reconstruction in the books of the Spider Ltd.

Solution :

Journal of Spider Ltd

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	10% Preference Share Capital A/c ……..Dr.	7,00,000	
	To 11% Preference Share Capital A/c		3,50,000
	To Capital Reduction A/c		3,50,000
	(Being 10% Preference shares converted into 11% Preference Shares.)		
2.	Equity Share Capital A/c ……Dr.	3,20,000	
	To Capital Reduction A/c		3,20,000
	(Being reduction in Equity Shares.)		
3.	6% Debentures A/c ……Dr.	2,00,000	
	To 7% Debentures A/c		1,70,000
	To Capital Reduction A/c		30,000
	(Being converted debentures into 7% debentures.)		
4.	Debentures Interest Due A/c ……Dr.	45,000	
	To Capital Reduction A/c		45,000
	(Being accrued interest on debentures waived.)		
5.	Preference Dividend A/c ……Dr.	70,000	
	To Cash / Bank A/c		70,000
	(Being paid on year's dividend.)		
6.	Creditors A/c ……Dr.	96,000	
	To Equity Share Capital A/c		40,000
	To Capital Reduction A/c		56,000
	(Being settled sundry creditors.)		

7.	Building A/c ..... Dr. To Capital Reduction A/c (Being appreciation in building.)	80,000	 80,000
8.	Capital Reduction A/c ..... Dr. To Discount on Debentures A/c To Profit & Loss A/c To Goodwill A/c To Patent & Trademark A/c To Preference Dividend A/c To Plant & Machinery A/c To Furniture A/c To Stock A/c To Debtors A/c To Capital Reserve A/c (Being assets written off.)	8,81,000	 35,000 3,55,000 50,000 30,000 70,000 60,000 50,000 55,000 15,000 1,61,000

In the books of Spider Ltd.
Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Discount on debentures A/c	35,000	By 10% Preference Share Capital A/c	3,50,000
To Profit & Loss A/c	3,55,000	By Equity Share Capital A/c	3,20,000
To Goodwill A/c	50,000	By 6% Debentures A/c	30,000
To Patent & Trademark A/c	30,000	By Interest due on debentures A/c	45,000
To Preference Dividend A/c	70,000	By Creditors A/c	56,000
To Plant & Machinery A/c	60,000	By Building A/c	80,000
To Furniture A/c	50,000		
To Stock A/c	55,000		
To Debtors A/c	15,000		
To Capital Reserve A/c	1,61,000		
	8,81,000		8,81,000

Balance sheet as on 31st March, 2009
(And Reduced)

Liabilities	Amt.	Assets		Amt.
I) Share Capital		Fixed Assets		
Authorized	?	Building	3,20,000	
		(+) Appreciation	80,000	4,00,000
11% Preference Share Capital of Rs.50/- each.	3,50,000	Plant & Mach.	2,80,000	
Equity Share Capital	1,00,000	(-) Written off	60,000	2,20,000
(4,00,000 – 3,20,000 + 20,000)		Furniture	1,20,000	
		(-) Written off	50,000	70,000
II) Reserve & Surplus				
Capital Reserve	2,01,000	Investment		NIL
(40,000 + 1,61,000)				
III) Secured loans		Current Assets, Loans & Advances		
7% Debentures	1,70,000	a) Current Assets		
Interest due on Debenture	45,000	Stock	1,55,000	
		(-) written off	55,000	1,00,000
IV) Unsecured Loans		Debtors	85,000	
		(-) R.D.D.	15,000	70,000
V) Current Liabilities & Provisions				
a) Current Liabilities		Cash Bank		50,000
Sundry Creditors	44,000	(35,000 + 85,000 – 70,000)		
(1,40,000 – 56,000 – 40,000)				
b) Provision	NIL	b) Loan & Advances		NIL
		IV Miscellaneous Expenditure		NIL
	9,10,000			9,10,000

Problem – 5

Following is the balance sheet of Natranga Ltd. as on 31st March, 2010.

Liabilities	Amt.	Assets	Amt.
Share Capital		Fixed Assets	
25,000 10% Preference Shares of Rs.10/- each.	2,50,000	Premises	3,25,000
Equity Share of Rs.10/- each.	4,50,000	Plant & Machinery	5,00,000
		Investment	1,50,000
Secured loans			
16% Debentures of Rs.100/- each	5,00,000	Current Assets, Loans & Advances	
		Stock	1,35,000
		Debtors	1,00,000
Current Liabilities & Provisions		Deposits & Advance	50,000
Sundry Creditors	2,10,000		
Bank Overdraft	1,30,000	IV Miscellaneous Expenditure	
Other Liability	1,10,000	Publicity Campaign Expenses	2,00,000
		Profit & Loss Account	1,90,000
	16,50,000		16,50,000

It is observed that the new product launched by the company has not succeeded even after three years of marketing. the management is of the opinion that the assets & liabilities are not valued correctly & also finds it difficult to raise finance.

To overcome the situation a scheme of reconstruction is prepared by the directors & approved by all authorities.

The salient features of the scheme are

1) Plant & Equipment having book value of Rs.10,000/- is obsolete. This is sold as scrap for Rs.36,000/-.
2) The auditors have pointed out that depreciation on plant is not provided to the extent Rs.30,000/-
3) Stock includes items valued Rs.50,000/- which is sold at a loss of 50%.
4) The present realizable value of investments is Rs.55,000/-.

5) Dividend on Preference Shares is in arrears for 3 years. This amount is not payable.

6) All losses & Fictitious assets are to be written off.

7) The expenses paid for forming & implementing scheme is Rs.10,000/-.

8) The paid up value of Equity Share is to be reduced to Rs.2/- per share & preference share to Rs.5/- per share. However, the face value remains unchanged.

9) The Creditors due are settled as.

   a) 30% immediate payment in Cash.

   b) 40% amount is cancelled.

   c) 30% paid by issue of 15% debentures.

10) Other Current liabilities includes Rs.45,000/- payable to directors towards remuneration. This liability is to be cancelled.

11) A call of Rs.3/- per share on Equity Share is made & received.

12) Bank Overdraft is paid off to the extent possible.

You are required to show :
i) Journal entries for above scheme of reconstruction.
ii) Balance sheet after reconstruction.

Solution :

Journal In the books of Natranga Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity Share Capital A/c ……Dr.	3,60,000	
	10% Preference Share Capital A/c ……..Dr.	1,25,000	
	To Capital Reduction A/c		4,85,000
	(Being reduction of Equity & Preference Share Capital.)		
2.	Creditors A/c ……Dr.	2,10,000	
	To Cash / Bank A/c (30%)		63,000
	To Capital Reduction A/c (40%)		84,000
	To 15% Debentures A/c (30%)		63,000
	(Being Creditors dues settled as per Scheme of reconstruction.)		
3.	Other Liabilities A/c ……Dr.	45,000	
	To Capital Reduction A/c		45,000
	(Being dues to directors cancelled.)		

4.	Cash / Bank A/c ……..Dr. Capital Reduction A/c …… Dr. To Plant & Equipment A/c (Being sale of plant having book value of Rs.1,00,000/- for Rs.36,000/-.)	36,000 64,000	 1,00,000
5.	Capital Reduction A/c …….Dr. To Plant & Equipment A/c (Being depreciation provided.)	30,000	 30,000
6.	Cash / Bank A/c ……..Dr. Capital Reduction A/c ……Dr. To Plant & Machinery A/c (Being sale of stock having took value of Rs.50,000/- at a loss of 50%.)	25,000 25,000	 50,000
7.	Capital Reduction A/c …….Dr. To Investment A/c (Being reduction in value by Rs.95,000/-.)	95,000	 95,000
8.	Capital Reduction A/c ……Dr. To Profit & Loss A/c To Publicity Campaign Expenses A/c (Being brought forward losses & fictitious assets written off as per scheme of reconstruction.)	3,90,000	 1,90,000 2,00,000
9.	Capital Reduction A/c …….Dr. To Cash / Bank A/c (Being paid expenses on reconstruction.)	10,000	 10,000
10.	Cash / Bank A/c (45,000X3) …… Dr. To Equity Share Capital A/c (Being receipt of all money on 45,000 shares @ Rs.3/- each.)	1,35,000	 1,35,000
11.	Bank Overdraft A/c …… Dr. To Cash / Bank A/c (Being balance in Cash / Bank used to pay off overdraft.)	1,23,000	 1,23,000

Bank Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Plant & Equipment A/c	36,000	By Capital Reduction A/c	10,000
To Stock A/c	25,000	By Sundry Creditors A/c	63,000
To Equity Share Capital A/c	1,35,000	By Bank Overdraft A/c	1,23,000
	1,96,000		1,96,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Plant (Loss on sale)	64,000	By Equity Share Capital A/c	3,60,000
To Plant (Depreciation)	30,000	By Preference Share Capital A/c	1,25,000
To Stock	25,000	By Creditors	84,000
To Investment	95,000	By Other dues (Directors)	45,000
To Profit & Loss A/c	1,90,000		
To Publicity Expenses	2,00,000		
To Cash (Exp.)	10,000		
	6,14,000		6,14,000



12

INTERNAL RECONSTRUCTION II

Unit Structure

12.1 Solved problems
12.2 Exercise

12.1 SOLVED PROBLEMS :

Problem – 1

The summarized Balance Sheet of M/s. Chetan Ltd. as on 31st December, 2009 is as under.

Liabilities	Rs.	Assets	Rs.
10% Preference Shares of Rs.10/- each	6,00,000	Goodwill	2,20,000
Equity Share of Rs.10/- each	10,00,000	Land & Building	9,00,000
10% Convertible Debenture of Rs.100/-	3,00,000	Furniture	2,25,000
Bank Overdraft	2,50,000	Investments	4,50,000
Sundry Creditors	3,20,000	Stock	3,00,000
Bills Payable	70,000	Debtors	2,00,000
Provision for Tax	80,000	Bills Receivable	75,000
		Profit & Loss A/c	2,50,000
	26,20,000		26,20,000

The scheme of reconstruction as approved by the court was as under –

1) Each existing Equity Share will be written down from Rs.10/- to Rs.5/-.
2) Each existing 10% Preference Share is to be written down from Rs.10/- to Rs.7/- of which Rs.3.5/- will be represented by 12% Preference Share & Rs.3.5/- by Equity Share.
3) Each convertible debenture is to be exchanged for Rs.50/- of non-convertible 10% debentures, Rs.25/- of 12% Preference Shares & Rs.25/- of Equity Shares.

4) The HSBC has agreed to apply for Rs.5,00,000/- of Equity Shares paying Cash in full on application.

5) The reduction of capital & Reserve are to be applied in eliminating fictitious assets & balance to be used in writing down the land & building & investments in the ratio of 3:1.

Give journal entries regarding reduction. Prepared Capital Reduction Account & resulting summarized Balance Sheet as on 1st January, 2010.

Solution :

Journal in the books of M/s. Chetan Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity Share Capital A/c ……..Dr.	10,00,000	
	To Equity Share Capital A/c		5,00,000
	To Capital Reduction A/c		5,00,000
	(Being reduction of Equity Shares from Rs.10/- to Rs.5/- each.)		
2.	10% Preference Shares Capital A/c …..Dr.	6,00,000	
	To 12% Preference Share Capital A/c		2,10,000
	To Equity Share Capital A/c (3.5)		2,10,000
	To Capital Reduction A/c		1,80,000
	(Being reduction of 10% Preference Shares by Rs.3/- each & conversion of balance into 12% Preference Shares & Equity Shares.)		
3.	10% Convertible Debentures A/c ……..Dr.	3,00,000	
	To 10% Non-convertible Debentures A/c		1,50,000
	To 12% Preference Share Capital A/c		75,000
	To Equity Share Capital A/c		75,000
	(Being exchange of 10% convertible debenture into non-convertible debentures, 12% Preference Shares & Equity Shares.)		
4.	Bank A/c …… Dr.	5,00,000	
	To Equity Share Capital A/c		5,00,000
	(Being issue of Equity Shares of Rs.5,00,000/- to HSBC)		
5.	Capital Reduction A/c ……..Dr.	6,80,000	
	To Goodwill A/c		2,20,000
	To Profit & Loss A/c		2,50,000
	To Land & Building A/c		1,75,500
	To Investment A/c		52,500
	(Being fictitious assets, land & investment etc. written off.)		

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Goodwill A/c	2,20,000	By Equity Share Capital	
To Profit & Loss A/c	2,50,000	A/c	5,00,000
To Land & Building A/c	1,57,500	By 10% Preference	
To Investment A/c	52,500	Shares Capital A/c	1,80,000
	6,80,000		6,80,000

M/s. Chetan Ltd.
Balance Sheet as on 1st January, 2010
(After reconstruction)

Liabilities	Rs.	Assets	Rs.
I. Share Capital		I. Fixed Assets	
12% Preference		Land & Build. 9,00,000	
Shares of Rs.3.5/-		Less : w/off 1,57,500	7,42,500
each.	2,10,000	Furniture	2,25,000
Add : Issued to			
debenture holders	75,000	II. Investment	
		Book Value 4,50,000	
Equity Shares of Rs.5/-		(-) w/off 52,500	3,97,500
each	5,00,000		
Add : issued to		III. Current Assets,	
Debenture holders	75,000	Loans & Advances	
Preference shares		a) Current Assets	
holders	2,10,000	Stock	3,00,000
HSBC	5,00,000	Debtors	2,00,000
		Bills Receivable	75,000
II. Reserve & Surplus	NIL	Bank Balance	5,00,000
		b) Loan & Advances	NIL
III. Secured Loans			
10% Non-convertible		IV. Miscellaneous	
debentures	1,50,000	Expenditure	NIL
		(not written off)	
IV. Unsecured Loans	NIL		
V. Current Liabilities &			
Provision			
a) Current Liabilities			
Sundry Creditors	3,20,000		
Bills Payable	70,000		
Provision for Tax	80,000		
Bank Overdraft	2,50,000		
b) Provisions	NIL		
	24,40,000		24,40,000

Problem – 2

M/s. Katrina Ltd. whose Balance Sheet as at 31st December, 2009 is as given below.

Liabilities	Rs.	Assets	Rs.
Sources of Funds		Application of Sources	
2,00,000 Equity Shares of Rs.20/- each Rs.10/- paid up	20,00,000	Fixed assets 15,50,000 Goodwill 50,000	16,00,000
		Investment at cost	1,10,000
10% Preference Shares Capital		(Market value 1,00,000)	
10,000 Shares of Rs.100/- each, Rs.50/- paid up	5,00,000	Current Assets & Loans & Advances	
		Current Assets	
Secured Loan		Stock 3,00,000	
9% Deb. 7,00,000		Debtors 5,00,000	
(+) O/s int. 1,00,000	8,00,000	B.R. 8,00,000	
Loan from		16,00,000	
ICICI Ltd. 1,80,000		Less : Liab.	
(+) O/s Int. 30,000	2,10,000	S. Creditors 2,00,000	14,00,000
		Profit & Loss A/c	4,00,000
	35,10,000		35,10,000

Preference dividend is in arrears for 1 year. Following scheme of reconstruction is approved & agreed upon

1) Preference Shareholders to give up their claims, inclusive of dividends to the extent of 50% & balance to be paid off.
2) Debenture holders agree to give up their claims to receive interest in consideration of their rate of interest being enhanced to 12% henceforth.
3) ICICI Ltd. agree to give up 80% of their interest outstanding in consideration of their claim being paid off at once.
4) Sundry Creditors would like to grant a discount 20% if they were to be paid off immediately.
5) Balance of Profit & Loss A/c, Goodwill & 50% of the total sundry debtors to by written off.
6) Fixed Assets to be written down by Rs.50,000/-.
7) Investment to be reflected at their market value.

8) Cost of reconstruction is Rs.50,000/-.

9) To the extent required Equity Shareholders suffers on reduction of their rights.

10) The Equity shareholder bring in necessary as against their partly paid shares to leave working capital at Rs.30,000/-.

Pass necessary journal entries in the books of the company assuming that scheme has been put through fully & prepare the Balance Sheet after reconstruction. Ignore narration.

Solution :

In the books of Ms. Katrina Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
Dec. 31 1.	Preference Share Capital A/c ……..Dr.	5,00,000	
	To Preference Shareholders A/c		2,50,000
	To Capital Reduction A/c		2,50,000
2.	Capital Reduction A/c ……Dr.	50,000	
	To Preference Shareholders A/c		50,000
3.	9% Debenture A/c …….. Dr.	7,00,000	
	Interest o/s on debenture A/c …….. Dr.	1,00,000	
	To 12% Debentures A/c		7,00,000
	To Capital Reduction A/c		1,00,000
4.	ICICI Loan A/c ……Dr.	1,80,000	
	Outstanding interest A/c …….. Dr.	30,000	
	To Bank A/c		1,86,000
	To Capital Reduction A/c		24,000
5.	Capital Reduction A/c ……Dr.	7,65,000	
	To Profit & Loss A/c		4,00,000
	To Goodwill A/c		50,000
	To Investment A/c		10,000
	To Debtors A/c		2,50,000
	To Fixed Assets A/c		50,000
	To Bank (Expenses) A/c		5,000
6.	Creditors A/c ……Dr.	2,00,000	
	To Bank A/c		1,60,000
	To Capital Reduction A/c		40,000
7.	Preference Shareholders A/c …….. Dr.	3,00,000	
	To Bank A/c		3,00,000
8.	Equity Share Capital A/c …….. Dr.	4,01,000	
	To Capital Reduction A/c		4,01,000
9.	Bank A/c …….. Dr.	6,81,000	
	To Equity Share Capital A/c		6,81,000

Working Note :

Bank Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Equity Share Capital A/c (Bal Figure)	6,81,000	By Creditors A/c	1,60,000
		By Expenses A/c	5,000
		By Loan Interest A/c	1,86,000
		By Preference Share Capital A/c	3,00,000
		By Closing Balance	30,000
	6,81,000		6,81,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Preference Dividend A/c	50,000	By Preference Shareholders A/c	2,50,000
To Sundries A/c	7,65,000	By Debenture Interest A/c	1,00,000
		By Interest A/c	24,000
		By Creditors A/c	40,000
		By Equity Share Capital A/c	4,01,000
	8,15,000		8,15,000

Balance Sheet as on 31st December, 2009

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	15,00,000
2,00,000 shares of Rs.20/- each Rs.11.4/- paid up	22,80,000	Investment	1,00,000
		Current Assets	
Secured Loans		Stock	3,00,000
		Sundry Debtors	2,50,000
12% Debenture	7,00,000	Bills Receivable	8,00,000
		Cash Balance	30,000
	29,80,000		29,80,000

Problem – 3

The summarized Balance Sheet of Vipul Ltd. as at 31st March, 2010 was as under :

Liabilities	Rs.	Assets	Rs.
Redeemable Preference shares of Rs.100/- each fully paid	15,00,000	Fixed assets	60,00,000
Equity Shares of Rs.100/- each fully paid	40,00,000	Cash on hand	10,00,000
Reserve	30,00,000	Cash at IDBI Bank	30,00,000
Creditors	50,00,000	Other Current Assets	40,00,000
Laons	10,00,000	Preliminary Expenses	5,00,000
	1,45,00,000		1,45,00,000

The company proposed to make a fresh issue of Capital to the public in June 2010. However, before doing so the directors desire to carry out the following scheme of reconstruction.

1) The fictitious assets shall be written off.
2) The fixed assets to be appreciated by 50%.
3) The goodwill of the company valued at Rs.28,00,000/- shall be brought into the books.
4) A provision of 20% shall be made against the other current assets for likely shortfall in its realization by ear – marking the requisite amount from the existing reserves.
5) The Preference shares shall be redeemed at 20% Premium.
6) The company to issue bonus shares in the ratio of one share for every two existing Equity Shares.
7) The Equity Capital thereafter to be sub-divided into shares of Rs.50/- each.

You are required to prepare Capital Reduction Account.

Solution :

In the books of Vipul Ltd.
Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Preliminary Expenses A/c	5,00,000	By Fixed Assets A/c	3,00,000
To preliminary Redemption of Preference Share A/c	3,00,000	By Goodwill A/c	28,00,000
To Capital Reserve A/c	30,00,000	By Reserve A/c	7,00,000
	38,00,000		38,00,000

Reserve Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Other Current Assets A/c	8,00,000	By Balance b/d	30,00,000
To Capital Redemption Reserve A/c	15,00,000		
To Capital Redemption A/c	7,00,000		
	30,00,000		30,00,000

Problem – 4

The balance sheet of Three Idiots Ltd. as at 31st December, 2009 was as under –

Liabilities	Rs.	Assets	Rs.
10,000 Equity Shares of Rs.50/- each fully paid	5,00,000	Goodwill	1,00,000
		Other Assets	8,00,000
		Profit & Loss A/c	3,00,000
10%, 50,000 Debentures of Rs.10/- each	5,00,000		
Interest on debenture	20,000		
Sundry Creditors	1,80,000		
	12,00,000		12,00,000

For the purpose of reconstruction of the company, necessary resolutions are passed on the following lines.

1) The Equity Shares are to be sub divided into Share of Re.1/- each & each shareholder shall re-surrender 80% of his holding.

2) Out of the surrendered shares, 1,00,000 shares will be converted to 8% Preference Shares of Rs.10/- each.

3) Debentures holders will reduced their claims by Rs.2,20,000/- & in consideration they are to get the entire Preference Shares Capital converted from Shares Surrendered.

4) Creditors claims are to be reduced to the extent of Rs.80,000/- & in consideration they are to received Equity Shares of Re.1/- each, amounting to Rs.50,000/- from the Shares surrendered.

5) Goodwill & profit & loss A/c (Dr.) are to be written off fully.

6) The remaining surrendered shares shall be cancelled.

You are required to give the journal entries for the above & prepare Balance sheet of the company after reconstruction.

Journal entries in the books of Three Idiots Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Equity Share Capital A/c (50) ……Dr. To Equity Share Capital A/c (1) (Being 10,000 Equity Shares of Rs.50/- each sub-dividend into shares of Re.1/- each.)	5,00,000	5,00,000
2.	Equity Share Capital A/c ……Dr. To Share Surrendered A/c (Being surrender of 80% of shares.)	4,00,000	4,00,000
3.	Shares Surrendered A/c …… Dr. To 8% Preference Share Capital A/c (Being converted Rs.1,00,000/- shares surrendered into 80% Preference Shares Capital.)	1,00,000	1,00,000
4.	10% Debentures A/c ……Dr. Interest Debenture A/c …… Dr. To Capital Reduction A/c (Being reduction in the claim of debenture holders.)	2,00,000 20,000	2,20,000
5.	Share Surrendered A/c ……...Dr. To Equity Share Capital A/c (Being issued to Creditors out of surrendered Shares.)	50,000	50,000
6.	Creditors A/c ……Dr. To Capital Reduction A/c (Being reduced the claim of creditors.)	80,000	80,000

7.	Capital Reduction A/c ……..Dr. To Goodwill A/c To Profit & Loss A/c (Being written off Goodwill & Profit & Loss Account debit balance.)	4,00,000	 1,00,000 3,00,000
8.	Shares Surrendered A/c ……. Dr. To Capital Reduction A/c (Being cancelled remaining Surrendered Shares.)	2,50,000	 2,50,000
9.	Capital Reduction A/c ……..Dr. To Capital Reserve A/c (Being the balance on Capital Reduction transferred to Capital Reserve.)	1,50,000	 1,50,000

Three Idiots Ltd.
Balance sheet as on 31st March, 2009
(After reduced)

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
1,50,000 Equity Shares of Re.1/- each fully paid up	1,50,000	Other Assets	8,00,000
10,000 Preference Shares of Rs.10/- each	1,00,000		
Reserves & Surplus			
Capital Reserve	1,50,000		
Secured Loan			
10% Debentures	3,00,000		
Current Liabilities			
Creditors	1,00,000		
	8,00,000		8,00,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Goodwill A/c	1,00,000	By 10% Debentures A/c	2,00,000
To Profit & Loss A/c	3,00,000	By Interest A/c	20,000
To Capital Reserve A/c	1,50,000	By Share Surrendered A/c	2,50,000
		By Creditors A/c	80,000
	5,50,000		5,50,000

Problem – 5

Following is the balance sheet of Veer Ltd. as on 30th June 2009.

Liabilities	Rs.	Assets		Rs.
10,000 8% Cumulative Preference Shares of Rs.100/- each	10,00,000	Goodwill		90,000
		Patents		30,000
		Land & Building		10,00,000
8,000 Equity Shares of Rs.100/- each	8,00,000	Pant & Machinery		4,80,000
		Investment (at cost)		50,000
9% Debentures of Rs.100/- each	7,00,000	Stock		4,80,000
(Secured on Land / Building)		Debtors :		
		Considered Goods	3,00,000	
Interest payable to debenture holders	20,000	Considered Doubtful	70,000	3,70,000
Loan from Directors	2,00,000	Cash		5,000
Creditors	3,00,000	Preliminary Expenses		95,000
UTI Bank Overdraft	2,80,000	Profit & Loss A/c		7,00,000
	33,00,000			33,00,000

Contingent Liabilities :
1) Claims for damages pending in the court totaling Rs.1,00,000/-
2) Arrears of Preference dividend Rs.30,000/-.

The board of directors agreed to present the realistic picture of the state of affairs of the company's position & the following scheme of reconstruction was duly approved.

1) The Preference shares were to be reduced to an equal number of fully paid Preference Shares of Rs.50/- each. Equity Share to an equal number of fully paid Equity Shares of Rs.30/- each.
2) All intangible assets, including patents to be written off.
3) Stock to be revalued at Rs.4,00,000/- & debtors considered doubtful to be written off.
4) Preference Shareholders agreed to waive half of the arrears of dividends & to receive Equity Shares in lieu of the balance.
5) Debenture holder agreed to take over part of the security of the book value of Rs.2,00,000/- for Rs.2,00,000/- in satisfaction of part of their claim & to provide further cash of Rs.1,00,000/- after deducting arrears of interest due to them on floating charge of the rest of the assets.
6) The contingent liability for claims for damage pending in the court of law materialized to the full extent. However, the

company could recover Rs.80,000/- from those who were responsible for such damages & settled the rest by issuing Equity Shares.

7) The Directors agreed to convert the loan into Equity Shares.

You are required to prepare –

i) Capital Reduction Account
ii) The Balance sheet after reconstruction

Solution :

In the books of Veer Ltd.
Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Goodwill A/c	90,000	By Preference Share	
To Patents	30,000	Capital A/c	5,00,000
To Preliminary		By Equity Share	
Expenses A/c	95,000	Capital A/c	5,60,000
To Profit & Loss A/c	7,00,000	By Cash A/c (claim	
To Stock	80,000	recovery)	80,000
(4,80,000 - 4,00,000)		By Land & Building A/c	1,00,000
To Debtors	70,000	(3,00,000 - 2,00,000)	
To Preference Dividend			
A/c	1,50,000		
To Cash A/c (damages)	80,000		
To Damages A/c	20,000		
To Capital Reserve A/c	60,000		
	12,40,000		12,40,000

Working Note :

1) Equity Shares @ Rs.30/- each

	Nos.	Amount
Original (at Reduced Value)	8,000	2,40,000
Issued against arrears of Preference Dividend	500	15,000
Issued against claim for Damages	666.67	20,000
Loan from Directors converted	6,666.67	2,00,000
Closing Balance	15,833	4,75,000

2) **Cash Account**

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Balance b/d	5,000	By Debenture interest	
To Damages Claim A/c	80,000	A/c	20,000
To Debenture holders	1,00,000	By Recovery A/c	80,000
A/c		By Balance c/d	85,000
	1,85,000		1,85,000

3) It is assumed that the debenture holder brought in gross Rs.1,00,000/- without deducting Rs.20,000/- for arrears of interest.

4) 9% debenture holders

	Amount
Balance	7,00,000
Less : Land / Building taken over	3,00,000
	4,00,000
Add : Further Cash brought in	1,00,000
Closing Balance	5,00,000

Veer Ltd. (Add reduced)
Balance Sheet as on 1st July 2009

Liabilities	Rs.	Assets		Rs.
Share Capital		Fixed Assets		
Authorized :	?	Goodwill	90,000	
		Less :w/off	90,000	NIL
Issued, Subscribed & Paid up :				
		Land & Budg.	10,00,000	
8% 10,000 Preference shares at Rs.50/- each	5,00,000	Less : given to Debenture		
15,833 Equity Share at Rs.30/- each	4,75,000	Holders	2,00,000	8,00,000
		Plant & Mach.	4,80,000	
Reserve & Surplus		Patents	30,000	
Capital Reserve	60,000	(-) w/off	30,000	4,80,000
		as per scheme of reconstruction dt-		
Secured Loan				
9% Debenture	5,00,000			
(Secured by floating charge on all Assets)		Investment		50,000
		Current Assets, Loans & Advances		
Unsecured Loans				
Current Liabilities &				

Provisions		a) Current Assets	
a) Current Liabilities		Stock	4,00,000
sundry Creditors	3,00,000	Sundry Debtors	3,00,000
UTI Bank Overdraft	2,80,000	(Unsecured, Considered Good)	
b) Provision	NIL	Cash Balance (Note)	85,000
		b) Loans & Advances	
		Miscellaneous Expenditure	NIL
		(Not written off)	
	21,15,000		21,15,000

Problem – 6

Vicky Ltd. has prepared the Balance sheet as on 31st March, 2010 reading as follows –

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
(In shares of Rs.100/- each)		Premises	5,00,000
Equity Share Capital	8,00,000	Plant & Equipment	8,00,000
10% Preference Share Capital	2,00,000	Investment	2,00,000
Secured Loan		Current Assets	
15% Debentures	5,00,000	Stocks	5,50,000
		Debtors	2,50,000
		Deposits & Advances	2,00,000
Current Liabilities		Profit & Loss A/c	3,00,000
Creditors	7,00,000	Publicity Campaign Expenses	2,00,000
Overdraft	5,00,000		
Other Liabilities	3,00,000		
	30,00,000		30,00,000

It is observed that the new product launched by the company is not succeeded even after three years of marketing. The management is of the opinion that assets & liabilities are not valued correctly & also finds difficult to raise Finances.

To overcome this situation a scheme of reconstruction is prepared by directors & approved by all authorities.
The salient features of scheme are :

1) Plant & Equipment having book value of Rs.2,00,000/- is obsolete. This is sold as scrap for Rs.50,000/-.
2) The auditors have pointed out that depreciation on plant is not provided to the extent of Rs.1,00,000/-.
3) Stock includes items valued Rs.50,000/- which is sold at a loss of 50%.
4) The present realization value of investments is Rs.1,00,000/-.
5) Dividend on Preference shares is in arrears for 3 years. This amount is not payable.
6) All losses & fictitious assets are to be written off.
7) The expenses paid for framing & implementing scheme is Rs.15,000/-.
8) The paid up value of Equity Shares is reduced to Rs.50/- per share & Preference Share to Rs.5/- per share. However, face value remains unchanged.
9) The Creditors dues are settled as :
   10% immediate payment, 45% amount is cancelled.
   45% new 16% debentures to be issued.
10) The other current liabilities include Rs.80,000/- payable to Directors towards remuneration. This liabilities is to be cancelled.
11) A call of Rs.20/- per share on Equity Share is made. It is paid by all shareholders.
12) 15% debentures holders agree for issue of 20,000 Equity Shares of Rs.5/- paid up for cash.
13) Bank overdraft is paid off to the extent possible.

You are required to show journal entries & Balance sheet.

Solution :

Journal of Vicky Pvt. Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
31/03/10	Cash / Bank A/c …….. Dr.	50,000	
	Capital Reduction A/c …… Dr.	1,50,000	
	To Plant & Machinery A/c		2,00,000
	(Being sale of plant & machinery of the book value of Rs.2,00,000/- at Rs.50,000/-)		
2.	Capital Reduction A/c …… Dr.	1,00,000	
	To Plant & Equipment A/c		1,00,000

	(Being the entry to provide for depreciation on Plant.)		
3.	Cash / Bank A/c …….. Dr. Capital Reduction A/c …… Dr. To Stock A/c (Being the entry for sale of stock of Rs.50,000/- at a loss of 50%.)	25,000 25,000	 50,000
4.	Capital Reduction A/c …… Dr. To Investment A/c (Being the entry to reduce the value of investment from Rs.2,00,000/- to Rs.1,00,000/-.)	1,00,000	 1,00,000
5.	Capital Reduction A/c …… Dr. To Profit & Loss A/c To Publicity & Campaign expenses A/c (Being the entry to written off all losses & fictitious assets.)	5,00,000	 3,00,000 2,00,000
6.	Capital Reduction A/c …… Dr. To Cash / Bank A/c (Being the expenses incurred on implementing scheme of reconstruction.)	15,000	 15,000
7.	Equity Share Capital A/c ……..Dr. 10% Preference Share Capital A/c..Dr. To Capital Reduction A/c (Being the entry to reduce the paid up value of Equity Share from Rs.100/- to Rs.50/- & that of Preference share from Rs.100/- to Rs.30/-.)	4,00,000 1,40,000	 5,40,000
8.	Creditors A/c ……Dr. To Cash/Bank A/c To Capital Reduction A/c To New 16% Debenture A/c (Being settlement of the dues of Creditors.)	7,00,000	 1,00,000 3,15,000 3,15,000
9.	Other Liabilities A/c …… Dr. To Capital Reduction A/c (Being the entry to cancel Rs.80,000/ payable to directors.)	80,000	 80,000
10.	Cash / Bank A/c ……..Dr. To Equity Share Capital A/c	1,60,000	 1,60,000

	(Being Rs.20/- per Equity Share received.)		
11.	Cash / Bank A/c ……..Dr. To Equity Share Capital A/c (Being issue of 20,000 Equity Share @ Rs.5/- paid up.)	1,00,000	 1,00,000
12.	Bank Overdraft A/c ……..Dr. To Cash/Bank A/c (Being bank overdraft paid off.)	2,50,000	 2,50,000

Schedules forming part of Balance Sheet.

Schedule 1 : Share Capital

	Rs.
Issued & Subscribed : 13,200 Equity Shares of Rs.100/- each Rs.50/- paid 10% Preference Shares of Rs.100/- Rs.50/- paid up	 6,60,000 60,000
	7,20,000

Schedule 2 : Secured Loan

	Rs.
10% Debentures New 16% Debentures	5,00,000 3,15,000
	8,15,000

Schedule 3 : Fixed Assets

	Rs.
Premises Plant & Equipments	5,00,000 5,00,000
	10,00,000

Schedule 4 : Investment

	Rs.
Investment	70,000
	70,000

Schedule 5 : Current Liabilities

	Rs.
Other liabilities	1,50,000
	1,50,000

Vicky Pvt. Ltd.
Balance sheet as at 31st March, 2010

	Schedule No.	Rs.	Rs.
I) Sources of Fund			
1) Shareholders Fund			
a) Capital	1	7,20,000	
b) Reserves & Surplus	-	45,000	7,65,000
2) Loan Funds			
a) Secured Loans	2	8,15,000	
b) Unsecured Loans	-	NIL	8,15,000
Total			**15,80,000**
II) Application of Funds			
1) Fixed Assets			
a) Gross Block	3	-	
b) Less : Depreciation	-	-	
c) Net Block	-	-	10,00,000
d) Capital Work in Progress	-	-	NIL
2) Investment	4	-	1,00,000
3) Current Assets, Loans & Advances			
a) Inventories	-	5,00,000	-
b) Sundry Debtors	-	2,50,000	-
c) Cash & Bank Balance	-	-	-
d) Other Current Assets	-	-	-
e) Loans & Advances	-	2,00,000	-
		9,50,000	
Less : Current Liabilities & Provisions			
a) Liabilities	5	4,70,000	
b) Provisions	-	NIL	
		4,70,000	
Net Current Assets			4,80,000
Total			**15,80,000**

Problem – 7

Monaco Ltd. had adverse trading for past few years resulting in accumulated losses & over valued assets. It's Balance sheet as on 31st March 2010 is as follows.

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	60,000
(in shares of Rs.10/- each)		Freehold Property	70,000
50,000 Equity Share Capital	5,00,000	Leasehold Property	1,50,000
40,000 Preference Share Capital	4,00,000	Plant	1,40,000
Securities Premium	30,000	Investment	80,000
12% Debenture	1,20,000	Stock	1,00,000
Accrued Interest	10,000	Debtors	5,00,000
Creditors	1,10,000	Profit & Loss A/c	2,00,000
Overdraft	1,30,000		
	13,00,000		13,00,000

Note : Preference dividend is unpaid for past three years.

The shareholders & the court approved the following scheme of reconstruction.

1) The paid – up value of preference shares and Equity shares was to be reduced by 50% & 85% respectively. The face value will remain unchanged.
2) The Preference dividend for one years is to be paid by allotment of Equity shares credited Rs.2/- per share. The remaining amount to be cancelled.
3) The debenture holders took over Freehold property which was mortgaged in their favour. This property realized Rs.1,40,000/-. The balance amount after adjusting principal & interest was handed over to the company.
4) The investments are sold for Rs.1,00,000/-.
5) Obsolete Stock worth Rs.25,000/- & irrecoverable debt worth Rs.15,000/- are to be written off along with goodwill & profit & loss A/c.
6) There was a claim against company not provided to the extent of Rs.1,00,000/-. This was settled for Rs.83,000/-.
7) A call @ Rs.3/- per share on revised Equity & Preference shares was made. This was paid by all shareholders.

8) The authorized capital was suitably revised from Rs.8,00,000/- to Rs.12,00,000/- which was equally divided between Equity & 8% Preference shares.

9) Remaining bank balance to be utilized to pay bank overdraft.

You are required to show journal entries & balance sheet after implementation of the scheme.

Solution :

Journal in the books of Monaco Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
2009 March 31	8% Preference Share Capital A/c ……Dr. To Capital Reduction A/c (Being reduced Preference share by 50%.)	2,00,000	 2,00,000
	Equity Share Capital A/c …….. Dr. To Capital Reduction A/c (Being 50,000 Equity shares of Rs.10/- each reduced by 75%.)	4,25,000	 4,25,000
	Capital Reduction A/c …….. Dr. To Equity Share Capital A/c (Being 10,667 Equity shares of Rs.3/- each allotted to satisfy the arrears of preference dividend for 1 year.)	32,000	 32,000
	12% Debenture A/c …….. Dr. Accrued Interest on Debenture A/c … Dr. Bank A/c ……. Dr. To Freehold Property A/c To Capital Reduction A/c (Being Freehold property of Rs.70,000/- taken by debenture holders, remaining amount paid by the debenture holders.)	1,20,000 10,000 10,000	 70,000 70,000
	Bank A/c ……. Dr. To Investment A/c To Capital Reduction A/c (Being sold out investments at a profit of Rs.20,000/-.)	1,00,000	 1,80,000 20,000

	Capital Reduction A/c ……Dr. To Stock A/c To Debtors A/c To Goodwill A/c To Profit & Loss A/c (Being written off Stock, Debtors, Goodwill & Profit and Loss debit balance as agreed upon.)	3,00,000	 25,000 15,000 60,000 2,00,000
	Capital Reduction A/c ……Dr. To Bank A/c (Being settled the claim.)	83,000	 83,000
	Preference Share Call A/c ……Dr. To 8% Preference Share Capital A/c (Being made a call on 40,000 Preference Share @ Rs.3/- each.)	1,20,000	 1,20,000
	Equity Share Call A/c ……Dr. To Equity Share Capital A/c (Being made a call on 66,000 Equity shares @ Rs.3/- each.)	1,98,000	 1,98,000
	Bank A/c …… Dr. To Preference Share Call A/c To Equity Share Call A/c (Being collected call money.)	3,18,000	 1,20,000 1,98,000
	Bank A/c …… Dr. To Bank A/c (Being cleared Bank overdraft.)	1,30,000	 1,30,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Equity Share Capital A/c	32,000	By Preference Capital A/c	2,00,000
To Stock A/c	25,000	By Equity Share Capital A/c	4,25,000
To Debtors A/c	15,000	By 12% Debenture A/c	70,000
To Goodwill A/c	60,000	By Bank A/c	20,000
To Profit & Loss A/c	2,00,000		
To Bank A/c	83,000		
To Capital Reserve A/c	3,00,000		
	7,15,000		7,15,000

Bank Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Freehold Property A/c	10,000	By Capital Reduction A/c	83,000
To Investment A/c	80,000	By Bank overdraft A/c	1,30,000
To Capital Reduction A/c	20,000	By Balance c/d	2,15,000
To Preference Share Capital A/c	1,20,000		
To Equity Share Capital A/c	1,98,000		
	4,28,000		4,28,000

Monaco Ltd.
Balance sheet as on 31st March, 2010
(And reduced)

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
Authorized :		Leasehold Property	
60,000 Equity Share of Rs.10/- each	6,00,000	1,50,000	
60,000 8% Preference share of Rs.10/- each	6,00,000	Plant 1,40,000	2,90,000
	12,00,000	Current Assets, Loans & Advances	
Issued & Subscribed :		Stocks	75,000
32,000 8% Preference share of Rs.10/- each	3,20,000	(1,00,000 – 25,000)	
61,000 Equity shares of Rs.10/- each Rs.5/- paid up	3,05,000	Debtors	4,85,000
		Bank	2,15,000
Reserve & Surplus			
Security Premium	30,000		
Current liabilities & provisions			
Creditors	1,10,000		
	10,65,000		10,65,000

Problem – 8

Following is the Balance Sheet of M/s. Aniruddha Ltd. as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.
Equity Share of Rs.10/- each	8,00,000	Fixed Assets	25,00,000
12% Cumulative Preference Share of Rs.100/- each.	9,00,000	Stock	15,00,000
10% Debentures	4,00,000	Sundry Debtors	16,00,000
Sundry Creditors	40,00,000	Bank	2,10,000
Provision for Tax	3,00,000	Preliminary Expenses	50,000
		Profit & Loss A/c	5,40,000
	64,00,000		64,00,000

Note : Preference Dividend for 3 years was in arrears.

Following scheme of reconstruction was approved :

1) Write off Fixed Assets by 25% Sundry Debtors by 15% & reduce the value of Stock to 65% of its book value.
2) Preference Shareholders to forgo arrears of Preference dividend.
3) Directors to give temporary loan of Rs.8,00,000/- to the company.
4) The company settled tax liability to the extent of Rs.6,80,000/- & to meet the expenses of reconstruction amounting to Rs.12,000/-.
5) Sundry Creditors to give a remission of 25% of their claims & a company to allot 11% Preference Shares of Rs.100/- each fully paid up in settlement of the balance amount.
6) 10% debentures to be converted into 13% debenture of Rs.1,50,000/- in full settlement of their claim.
7) Equity shares to be reduce to Rs.2/- each fully paid up & 12% Cumulative Preference Share to be reduced to 1,10,000 Cumulative Preference Share of Rs.2/- each fully paid up.
8) Written off debit balance in Profit & Loss Account & Preliminary Expenses.

Draft journal entries & prepare Capital Reduction Account & Balance Sheet after reconstruction.

Solution :

Journal in the books of M/s. Aniruddha Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Capital Reduction A/c …… Dr.	13,90,000	
	To Fixed Assets A/c		6,25,000
	To Sundry Debtors A/c		2,40,000
	To Stock A/c		5,25,000
	(Being reduction in the value of assets.)		
2.	Bank A/c ……...Dr.	8,00,000	
	To Directors' Loan A/c		8,00,000
	(Being temporary loan raised from Directors.)		
3.	Provision for Tax A/c ……..Dr.	3,00,000	
	Capital Reduction A/c ……Dr.	3,80,000	
	To Bank A/c		6,80,000
	(Being settlement of tax liability.)		
4.	Capital Reduction A/c ……Dr.	12,000	
	To Bank A/c		12,000
	(Being payment of reconstruction expenses.)		
5.	Sundry Creditors A/c ……Dr.	40,00,000	
	To Capital Reduction A/c		9,60,000
	To 11% Preference share Capital A/c		30,40,000
	(Being remission of liability of Sundry Creditors & allotment of 11% Preference Shares in settlement of balance amount.)		
6.	10% Debenture A/c ……Dr.	4,00,000	
	To 13% Debenture A/c		1,50,000
	To Capital Reduction A/c		2,50,000
	(Being exchange of 13% Debentures in full settlement of 10% Debenture.)		
7.	Equity Share Capital A/c ……..Dr.	8,00,000	
	12% Cumulative Preference Share Capital A/c ……Dr.	9,00,000	
	To Equity Share Capital A/c		1,60,000
	To 12% Cumulative Preference Share Capital A/c		2,20,000
	To Capital Reduction A/c		13,20,000

8.	Capital Reduction A/c …… Dr. To Preliminary Expenses A/c To Profit & Loss A/c (Being Profit & Loss A/c & Preliminary Expenses written off.)	5,90,000	 50,000 5,40,000
9.	Capital Reduction A/c ……Dr. To Capital Reserve A/c (Being balance of Capital Reduction Account transferred to Capital Reserves Account.)	1,58,000	 1,58,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Fixed Assets A/c	6,25,000	By Sundry Creditors A/c	9,60,000
To Stock A/c	5,25,000	By 10% Debentures A/c	2,50,000
To Debtors A/c	2,40,000	By Equity Share Capital	
To Bank A/c	3,80,000	A/c	6,40,000
To Bank A/c	12,000	By 12% Cumulative	
To Preliminary A/c	50,000	Preference Share	
To Profit & Loss A/c	5,40,000	Capital A/c	6,80,000
To Capital Reserve A/c	1,58,000		
	25,30,000		25,30,000

Balance sheet of M/s. Aniruddha Ltd. as on 31st March, 2010

Liabilities	Rs.	Assets		Rs.
Share Capital		Fixed Assets	25,00,000	
80,000 Equity Share of		(-) Written off	6,25,000	18,75,000
Rs.2/- each	1,60,000			
30,400, 11%		Investment		NIL
Preference Share of				
Rs.100/- each	30,40,000	Current Assets & Loans		
1,10,000, 12%		& Advances		
Cumulative Preference		Stock	15,00,000	
Share of Rs.2/- each	2,20,000	(-) Written off	2,25,000	9,75,000
Reserve & Surplus		S. Debtors	16,00,000	
Capital Reserve	1,58,000	(-) Written off	2,40,000	13,60,000
Secured Loans		Bank		3,18,000
13% Debentures	1,50,000	(2,10,000 + 8,00,000 – 6,80,000 – 12,000)		
Unsecured Loans				
Director's Loan	8,00,000	Miscellaneous Expenses		NIL
Current Liabilities & provisions	NIL			
	45,28,000			45,28,000

Problem – 9

The paid – up Capital of Fast traler Ltd. amounted to Rs.12,00,000/- consisting of 6,000 – 5% Cumulative Shares of Rs.100/- each and 60,000 Equity Shares of Rs.10/- each. The Preference dividend was in arrears for Rs.80,000/- (Contingent Liability)

The company incurred heavy losses continuously. Therefore, the Directors recommended to the shareholders the following scheme of reconstruction to provide a sum sufficient for the following purpose :

1) To write down the book value of Patents by Rs.2,00,000/-, Plant & Machinery by Rs.24,000/- and Tools & Equipments by Rs.8,000/-.
2) To write off the debit balance of Profit & Loss Account of Rs.2,96,000/-.
3) Any balance made available by the reduction of capital is to be utilized to write off "Experiment & research expenses"
4) The scheme duly approved & authorized provided the following.
   i) For every 15, 5% Preference Shares, 8 – 4% Cumulative Preference Shares of Rs.100/- each & 40 Equity shares of Rs.2/- each are to be issued.
   ii) For every Rs.20/- of Cumulative Preference Divided; 2 Equity shares of Rs.3/- each are to be issued.
   iii) For every 10 old Equity shares, 2 new Equity shares of Rs.2/- each are to be issued.

You are required to :
Pass journal entries in the books of the company to record the above transactions. Prepare Capital Reduction Account.

Solution :

Journal of Fast Traler Ltd.

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1.	5% Preference Share Capital A/c ……Dr. To 4% Cumulative Preference Share Capital A/c To Equity Share Capital A/c To Capital Reduction A/c (Being issued 3200, 4% Preference shares of Rs.100/- each & 24,000 Equity Shares of 5% Preference shares Capital.	6,00,000	 3,20,000 48,000 2,32,000
2.	Capital Reduction A/c ……Dr.	18,000	

	To Equity Share Capital A/c (Being issued 6,000 Equity shares of Rs.3/- each in settlement of arrears of Preference dividend.)		18,000
3.	Equity Share Capital A/c ……Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being issued 12,000 Equity share of Rs.2/- each to the existing Equity shareholders.)	6,00,000	 24,000 5,76,000
4.	Capital Reduction A/c ……Dr. To Patents A/c To Plant & Machinery A/c To Tools & Equipment A/c To Profit & Loss A/c To Experiment & Research Expenses A/c (Being written off Patents, Plant & Machinery, Tools & Equipments, Profit & Loss A/c, Debit balance & Experiment & Research Expenses as agreed upon.)	7,96,000	 2,00,000 24,000 8,000 2,96,000 2,68,000

Capital Reduction Account

Dr. **Cr.**

Particulars	Amt.	Particulars	Amt.
To Equity Share Capital A/c	18,000	By 5% Preference Share Capital A/c	2,32,000
To Patents A/c	2,00,000	By Equity Share Capital A/c	5,76,000
To Plant & Machinery A/c	24,000		
To Tools & Equipment A/c	8,000		
To Profit & Loss A/c	2,96,000		
To Experiment & Research Expenses A/c	2,62,000		
	8,08,000		8,08,000

12.2 EXERCISE :

12.2.1 OBJECTIVES QUESTIONS

- **Filling the blanks.**

1) Capital Reduction is implemented per section _____ of Companies Act.
2) The scheme of Capital reduction is to be approved by _____ .
3) Fictitious assets are to be transferred to _____ .
4) Balance in Capital Reduction should be transferred to _____ .
5) The payment for contingent liability should be debited to _____ .
6) And reduced words are to be shown as in Balance sheet as per _____ required.
7) XYZ Ltd. has on 31st December, 2010 1,00,000 Equity shares at Rs.10/- each. It was decided to reduced share to Rs.8/- each. The reduction is _____ .
8) The Preference shareholders agree to Forgo arrears of Preference dividend Rs.80,000/-. The amount transferred to Capital Reduction Account is _____ .
9) Investment costing of Rs.36,000/- given to Bank for bank overdraft Rs.19,800/-. The Capital reduction is debited by Rs. _____ .
10) Provision for taxation is Rs.1,62,000/-. The tax liability of the company is settled at Rs.1,40,000/- & it is paid immediately. Amount credited to Capital Reduction is _____ .

(Ans – 1) 100, 2) High court, 3) Internal Reconstruction, 4) Capital Reserve, 5) Capital Reduction, 6) Company law, 7) 2,00,000, 8) Nil, 9) 16,200, 10) 22,000.)

1) The capital reduction means reduction in _____ value of shares.
2) The sub division of shares does not result in _____ of capital.
3) The shareholders can surrender shares for _____ or _____ .
4) The internal reconstruction results in proper valuation of _____ & _____ of company.

5) _____ resolution is to be passed by shareholders for approval of scheme or reconstruction.

6) The Fictitious debit balances are to be transferred to _____ Account.

7) The full balance of Capital is to be debited, if _____ value is reduced.

8) Shareholders not approving scheme is called _____ shareholders.

9) The expenses for forming & implementing scheme should be debited to _____ .

10) The scheme of internal reconstruction can be utilized to provide _____ for the company.

(Ans – 1) Paid-up Value, 2) Reduction, 3) Re-issue, cancellation, 4) Assets & Liability, 5) Special, 6) Capital Reduction, 7) Face, 8) dissenting, 9) Capital Reduction, 10) Funds.)

- **Match the following.**

1)

Group "A"	Group "B"
1) Capital Reduction	a) Transfer to Capital Reduction
2) Fictitious Balance	b) Section 100
3) Capital Reduction Scheme	c) No reduction of Capital
4) Consolidation of Share	d) Internal Reconstruction
5) Subdivision of Share	e) No Change in Capital

(Ans : 1 – b, 2 – a, 3 – d, 4 – e, 5 – c.)

2)

Group "A"	Group "B"
1) Surrender of share	a) Credit – Capital reduction
2) Cancellation of surrendered shares	b) Unchanged Capital
3) Surplus on revaluation of assets	c) Transfer to Capital Reserve
4) Loss on revaluation of assets	d) Transfer to Capital Reduction
5) Credit balance in Capital Reduction	e) Debit Capital Reduction

(Ans : 1 – b, 2 – a, 3 – c, 4 – e, 5 – d.)

3)

Group "A"	Group "B"
1) Balance sheet after reduction 2) Statutory Reserve 3) Expenses of Scheme 4) Reduction in paid up value of shares 5) Reduction in face value of debenture	a) Not transferable to Capital Reduction b) Transfer difference to Capital Reserve c) Cancel present capital, raise new capital & difference to reduction d) Indicate, & reduced e) Debit capital reduction account

(Ans – 1 – d, 2 – a, 3 – e, 4 – b, 5 – c.)

- **True or False.**

1) Capital Reduction & Internal reconstruction is synonym. – True

2) Consolidation of shares result in profit for a company. – False

3) Sub – division of shares result in gain for a company. – False

4) Provision for unrecorded liability indicates loss to a company. – True

5) Accounting for Internal & External reconstruction is in identical manner. – False

6) Authorised Share Capital is to be reduced to the extent of Capital Reduction. – False

7) Cancellation of contingent liability is treated as profit to the company. – False

8) Re – classification of surrendered shares should not be accounted. – True

9) The requirements of schedule VI is to be complied while preparing account after internal reconstruction. – True

10) Internal reconstruction scheme cannot be prepared to cover capital reconstruction. – False

12.2.2 PROBLEMS FOR PRACTICE

1) Following is the balance sheet of Harshal Ltd. as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.
6,000 10% Cumulative Preference Share of Rs.100/- each fully paid up	6,00,000	Goodwill	2,00,000
		Land & Building	19,50,000
		Plant & Machinery	70,000
		Stock	4,00,000
15,000 Equity share of Rs.100/- each, fully paid up	15,00,000	Trade Debtors	2,88,000
		Bank Balance	1,26,000
		Profit & Loss A/c	38,000
Loans	2,22,000		
Creditors	7,50,000		
	30,72,000		30,72,000

Note : Preference dividend was in arrears Rs.1,20,000/-. The Board of Directors of the company decided upon the following scheme of reconstruction, which was approved by all concerned.

1) Paid up value of Equity shares shall be reduced to Rs.50/- per share, face value being Rs.100/-.
2) Preference shares are to be converted into 13% debentures of Rs.100/- each with regard to their 80% of dues (including arrears of Preference dividend) & for the balance (including dividend arrears) Equity, shares of Rs.100/- each (Rs.50/- paid up shall be issued.)
3) All Equity shareholders agreed to pay the balance amount, making shares full paid up.
4) The Plant & Machinery was revalue at Rs.90,000/-.
5) The value of Stock was reduced by Rs.1,00,000/-.
6) Land & Building shall be written down to Rs.15,50,000/-.
7) Creditors agreed to Forgo their claims by 10%.
8) Loans was fully settled for Rs.2,00,000/-.
9) Goodwill, debit balance of profit & loss Account shall be written off.
10) Cost of reconstruction of Rs.5,000/- was paid.

Above resolution was carried out.

You are required to :

i) Pass journal entries in the books of the company.
ii) Prepare Capital Reduction Account
iii) Prepare Balance sheet after reconstruction

(Ans : Capital Reserve – Rs.4,000/-, Tally – 30,43,000/-)

2) The ledger balance of ZEE TV Ltd. include Building Rs.6,10,000/-, Furniture Rs.2,00,000/-, Computer Rs.3,00,000/-, Debtors Rs.3,00,000/-, Preliminary Expenses Rs.20,000/-, Cash at Bank Rs.80,000/-, Bills Receivable Rs.2,50,000/-, Stock Rs.40,000/-, 8% Preference Share Capital – 2,000 shares Rs.100/- each, Equity Share Capital – 80,000 shares of Rs.10/- each, 'A' 10% Debentures Rs.4,00,000/-, 'B' 12% Debenture Rs.5,00,000/-, Outstanding Interest for one year on Debentures Rs.1,00,000/-.

Creditors Rs.4,00,000/-, Bills Payable Rs.50,000/-, Outstanding Audit Fees Rs.50,000/-, Profit & Loss Account

The company has incurred heavy losses. The following scheme of reconstruction is agreed upon.

1) 8% Preference shares are to be reduced by Rs.20/- per share, Equity shares be reduced by Rs.5/- per share.
2) To settle the claim of holders of 'A' 10% Debenture by issue of new 11% Debenture of Rs.2,00,000/-, 'A' Debenture holders agree to forgo their interest.
3) To settle the claim of holders of 'B' 12% Debenture by issue of new 13% Debenture of Rs.5,00,000/- outstanding Debenture interest on 'B' 12% Debenture holders be paid.
4) To write off Fictitious assets & debit balance of Profit & Loss Account.
5) Director refund Rs.60,000/- fees previously received by them.
6) Computer was to be written down by Rs.20,000/-.

You are required to show :

a) Journal entries to record the above transactions in books of ZEE Ltd.
b) Balance sheet before reconstruction
c) Balance sheet after reconstruction.

Assume that all the formalities are duly complied.

(Ans : Balance sheet before reconstruction Tally – Rs.25,00,000/-, Balance sheet after reconstruction Tally – Rs.17,60,000/-, Capital Reduction – Rs.7,40,000/-.)

3) The following is the Balance sheet of Sunrise Ltd. as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.
Issued & Subscribed Capital		Goodwill	25,000
		Patents	15,000
10% Preference share of Rs.100/- each	4,00,000	Furniture	35,000
		Plant & Machinery	6,00,000
Equity share of Rs.10/- each	10,00,000	Land & Building	6,50,000
		Stock in trade	80,000
12% Debenture	7,50,000	Sundry Debtors	90,000
Bank overdraft	50,000	Bills Receivable	15,000
Sundry Creditors	1,40,000	Profit & Loss Account	8,20,000
Bills Payable	35,000	Preliminary Expenses	45,000
	23,75,000		23,75,000

The Preference dividend is in arrears for four years. The following scheme of capital reduction was sanctioned by the court & agreed by shareholders.

1) The Preference shares are to be reduced to Rs.50/- each & Equity shares are to be Rs.2/- each, both being fully paid.
2) Of the Preference dividend in arrears three – forth to be waived & remaining to be paid in cash.
3) The Debenture holders to take over Plant & Machinery at Rs.6,00,000/- in part satisfaction of their claim. The remaining claim should be converted into 14% Debentures.
4) Creditors agreed to reduce their claim by Rs.20,000/-, Bills Payable to be paid immediately.
5) Goodwill, Patents, Profit & Loss Account & Preliminary Expenses are to be written off.
6) The following assets are to be revalued as under – Furniture Rs.25,000/-, Stock in trade Rs.68,000/-, Land & Building Rs.5,80,000/-, Sundry Debtors Rs.80,000/-.
7) A secured loan of Rs.1,50,000/- at 12% per annum is to be obtained by mortgaging Land & Building for payment of bank overdraft, Bills Payable & reconstruction expenses Rs.15,000/-.

Pass journal entries to record above scheme & draft the Balance sheet of Sunrise Ltd. after reconstruction.

(Ans : Capital Reserve – Rs.8,000/-, Balance sheet Tally – 7,78,000/-.)

4) The Balance sheet of Colour's Ltd. as at 31st October, 2009 appeared as follows.

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
30,000 Equity shares of Rs.10/- each fully paid up	3,00,000	Fixed Assets 4,00,000 (at cost)	
		(-) Depn Prov.3,00,000	1,00,000
1,000, 11% Preference shares of Rs.100/- each fully paid	1,00,000	Current Assets	
		Stock & Stores	1,20,000
		Receivables	2,90,000
		Other Current Assets	40,000
Secured loans			
11% Deb. 1,00,000		Miscellaneous Expenditure	
Int. accured & due on deb. 22,000		Profit & Loss Account	3,28,000
Bank O/D 1,26,000	2,48,000		
Unsecured loans			
1,00,000			
Int. accrued & due 30,000	1,30,000		
Current Liabilities & Provisions			
Current Liabilities	1,00,000		
	8,78,000		8,78,000

The scheme of reconstruction has been agreed amongst the shareholders & the Creditors with the following Salient features.

1) Interest due on unsecured loans is waived.
2) 50% of the interest due on Debentures is waved.
3) The 11% Preference shareholders rights are reduced to 50% & the remaining were converted into 15% Debentures of Rs.100/- each.
4) Current liabilities would be reduced by Rs.10,000/- on account of the provision no longer required.
5) The Equity shareholders agree to convert the existing shares into new ten rupee shares of total value Rs.1,00,000/-.

6) The debit balance in the profit & loss account is to be written off totally, Rs.52,000/- should be provided for doubtful debts & the value of fixed assets should be increased by Rs.80,000/-.

Prepare the Capital Reduction Account & redraft the Balance sheet of the company based on the above scheme of reconstruction.

(Ans : Capital Reserve – Rs.1,000/-, Balance sheet Tally – Rs.5,78,000/-.)

5) Star One Ltd. was in serious Financial Crisis & the Directors considered in advisable to go in for a compromise scheme with its creditors.

Balance sheet as on 30th April, 2010

Liabilities	Rs.	Assets	Rs.
Preference share capital (Rs.100/- paid up)	5,00,000	Land	80,000
Equity share capital (Rs.10/- paid up)	7,00,000	Building	2,60,000
12% Debentures	2,00,000	Plant & Machinery	3,75,000
Creditors	2,80,000	Trade Marks	75,000
Bank Loan	2,15,000	Goodwill	1,50,000
		Stock	1,60,000
		Debtors	2,73,000
		Profit & Loss Account	5,12,000
		Discount on issue of Debenture	10,000
	18,95,000		18,95,000

Scheme as proposed by the directors is as follows :

1) Bank agreed to write interest amount outstanding of Rs.15,000/- included in the balance subject to immediate payment of 15% of their dues.
2) Land was revalued upward by 55% other tangible fixed assets are to be written down by 20% uniformly; all tangible & fictitious assets to be written off.
3) Debenture holder agreed to reduce their claim by 20% provided they are paid 20% immediately & balance being redeemed in 4 equal annual instalments.
4) Preference shareholders to reduce their shares to Rs.60/- paid up.
5) Equity share holders to reduce their shares to Rs.2/- per share fully paid up & subscribed to such number of shares to

meet the cash requirement of the scheme & also leave a cash balance of Rs.25,000/-.

Show Capital Reduction Account and the Balance sheet after carrying out the suggested scheme of reconstruction.

(Ans : Capital Reserve – Rs.3,81,000/-, Balance sheet tally amount – Rs.14,86,000/-)

6) The Balance sheet of Citizen Ltd. as at 31st October, 2010 was as under:

Liabilities	Rs.	Assets	Rs.
Share capital		Fixed Assets	
1,50,000 Equity shares of Rs.10/- each fully paid	15,00,000	Gross Block 20,00,000	
		(-) Depn 15,00,000	5,00,000
5,000 11% Preference shares of Rs.100/- each fully paid	5,00,000	Current Assets	
		Stock & Stores	6,00,000
		Receivables	14,50,000
Secured loans		Other Current Assets	2,00,000
11% Deb. 5,00,000		Profit & Loss Account	16,40,000
Int. due on			
Debentures 1,10,000	6,10,000		
Bank overdraft	6,30,000		
Unsecured loan			
5,00,000			
(+) Int. due 1,50,000	6,50,000		
Current Liabilities	5,00,000		
	43,90,000		43,90,000

The scheme of reconstruction has been agreed amongst the shareholders & the Creditors as follows –

1) Interest due on unsecured loans is waived.
2) 50% interest due on Debentures is waived.
3) 11% Preference shareholders rights are to be reduced to 50% & then converted into 15% Debentures of Rs.100/- each.
4) Current liability would be reduced Rs.50,000/-.

5) The Bank agreed to the arrangement & to increase cash credit or overdraft limits by Rs.1,00,000/- upon the shareholders agreeing to bring in a like amount by way of new Equity.

6) Besides additional subscription as above the Equity shareholders agree to convert the existing Equity shares into new ten rupees share of total value of Rs.5,00,000/-.

7) The debit balance in Profit & Loss Account is to be written off totally Rs.2,60,000/-should be provided for doubtful debts & the value of Fixed Assets be increased by Rs.4,00,000/-.

You are required to prepare Capital Reduction Account & Balance sheet after reconstruction.

(Ans : Capital Reduction – Rs.5,000/-, Balance sheet Tally – Rs.28,90,000/-.)

7) The following is the Balance sheet of Videocon Ltd. as on 31st December, 2009.

Liabilities	Rs.	Assets	Rs.
Issued Subscribed Capital :		Goodwill	75,000
30,000 Equity share of Rs.10/- each fully paid	3,00,000	Land & Building	2,50,000
2,000 12% Preference share of Rs.100/- each fully paid	2,00,000	Plant & Machinery	1,37,500
11% Debentures	1,25,000	Furniture	16,250
Sundry Creditors	22,750	Stock	1,31,500
Bank overdraft	68,375	Debtors	23,000
		Cash in hand	375
		Profit & Loss Account	82,500
	7,16,125		7,16,125

The Preference dividend was in arrears for 5 years.

The Capital Reduction scheme was submitted as under :

1) Equity shares to be reduced to Rs.5/- each.

2) All arrears of Preference dividend to be cancelled.

3) Each Preference share to be reduced to Rs.75/- & then exchanged for one new 12% Preference shares of Rs.50/- each & five Equity shares of Rs.5/- each.

4) The debit balance of Profit & Loss Account to be written off Plant & Machinery to be written down by Rs.47,500/- & goodwill is to be reduced as much as possible.

5) The Debentures are to be redeemed at a 5% premium, holders being given the option to subscribe at par for new 12% Debenture.

Approval of the court is obtained, 1,00,000 new Equity shares are issued at par (sufficient new Equity shares are increased by increasing authorized share capital) payable in full on application. The whole issue is underwritten for 2% commission & the issue was fully taken up. Holders of old Debentures of Rs.50,000/- exercised their option & subscribed for the new Debentures. Expenses in connection with the with the scheme amounted to Rs.3,375/- & were written off.

Journalise the transactions to record Reduction Scheme & set out new Balance sheet of the company.

(Ans : Balance sheet Tally – Rs.8,75,250/-.)

8) The following is the Balance sheet of Ragini Shdhana Ltd. as on 31st December, 2009.

Liabilities	Rs.	Assets	Rs.
20,000 Equity share of Rs.100/- each fully paid	20,00,000	Virar Works	16,00,000
		Churchgate Works	12,00,000
		Stock on hand	9,00,000
18,000 7% Preference share of Rs.100/- each fully paid	18,00,000	Sales Ledger Adjustment Account	5,00,000
		Cash at Bank	1,00,000
"A" 8% Debentures (Secured on Virar work)	3,00,000	Invention Expenses	2,00,000
		Profit & Loss Account	4,00,000
"B" 8% Debentures (Secured on Churchgate work)	3,50,000		
Creditors	2,50,000		
Bills Payable	2,00,000		
	49,00,000		49,00,000

A scheme of Reconstruction was duly prepared & sanctioned whereby :

1) Equity shares were to be reduced to Rs.10/- each fully paid.

2) Preference shares were to be reduced to share of Rs.80/- each fully paid, dividend being raised to 10%.

3) Debenture holders forgo their interest Rs.52,000/- which is included in Creditors.

4) 'B' Debenture holders agreed to take over Chuchgate works at Rs.5,00,000/- & to accept an allotment of 3,000 Equity shares in Ragini Sadhana Ltd. of Rs.10/- each at par. They settled their account by paying necessary amount by a crossed cheque to the company.

5) Stock on hand was to be written down by Rs.2,00,000/- & a provision for doubtful debts be created to the extent of Rs.25,000/-.

Any balance arising out of the above points to be applied as to 2/3 to write off the value of Virar works & 1/3 to Capital Reserve.

You are required to prepare –
1) Capital Reduction Account
2) Balance sheet after the above scheme is implemented.

(Ans : Capital Reserve – Rs.2,29,000/-, Balance sheet Tally amount – Rs.25,97,000/-)

9) Following is the Balance sheet of Star Pravah Ltd. as on 31st March, 2010.

Liabilities	Rs.	Assets	Rs.
Share Capital		Chennai Works	25,00,000
Authorized Issued		Delhi Works	15,00,000
Subscribed & Paid up		Workmen	
5,00,000 Equity		Compensation Fund /	
shares of Rs.5/- each		Investment	55,000
fully paid	25,00,000	Stock	12,00,000
4,00,000 6%		Sundry Debtors	45,000
Preference shares of		Discount on	
Rs.5/- each fully paid	20,00,000	Debenture	
6% 'A' Debentures		'A' 3,500	
secured on Chennai		'B' 12,000	15,500
works	1,00,000	Profit & Loss Account	16,19,500
6% 'B' Debentures			
secured on Delhi			
works	5,00,000		
Workmen			
Compensation Fund			
Chennai 35,000			
Delhi 20,000	55,000		
Bank overdraft	5,00,000		
Sundry Creditors	2,00,000		
	58,55,000		58,55,000

On 1st April, 2010; a scheme of reduce capital implemented as under :

1) The Equity shares were reduced to Rs.0.25/- each.
2) The Preference shares were reduced to Rs.3.75/- each & the rate of dividend to be 5%.
3) The 'A' & 'B' Debenture holders waived interest payment of Rs.47,000/- which was included in Sundry Creditors.
4) The Directors were to refund Rs.75,000/- fees, they had received earlier.
5) The 'B' Debenture holders formed a new company to take over the Delhi works for Rs.7,50,000/- & this price was satisfied on the same date by surrender of 'B' Debentures & allotment of Rs.50,000/- fully paid shares of Rs.5/- each in the new company.

The investments were valued at Rs.35,000/-, Stock Rs.60,000/- & Debentures at Rs.40,000/-. There was no actual liability to workmen at Delhi. The Assets were to be written down accordingly any fictitious assets were to be eliminated, only necessary reserves were to be retained & the balance available was to be written of the book value of the Chennai works.

Journalise the above transactions in the books of the company & prepare the balance sheet after the above scheme is carried out.

(Ans : Balance sheet Tally amount – Rs.23,38,000/-)

