

3. INTERNAL RECONSTRUCTION

ASSIGNMENT SOLUTIONS

PROBLEM NO: 1

Date	Particulars	Debit (Rs.)	Credit (Rs.)
June 2018	Equity Share Capital (Rs. 10) A/c Dr.	2,40,000	
	To Equity Share Capital (Rs. 5) A/c		2,40,000
	(Being the sub-division of 30,000 shares of Rs. 10 each with Rs. 8 paid up into 60,000 shares Rs. 5 each with Rs. 4 paid up by resolution in general meeting dated....)		
June 2019	Equity Share Capital (Rs. 5) A/c Dr.	2,40,000	
	To Equity Share Capital (Rs. 100) A/c		2,40,000
	(Being the sub-division of 60,000 shares of Rs. 5 each with Rs. 4 paid up into 3,000 shares Rs. 100 each with Rs. 80 paid up by resolution in general meeting dated....)		

Notes to Balance Sheet:

Liabilities:	Amount (Rs.)
As on 31-12-2017:	
1. Share Capital:	
Authorised:	
30,000 Equity Shares of Rs. 10 each	3,00,000
Issued and Subscribed:	
30,000 Equity Shares of Rs. 10 each Rs. 8 per share called up	2,40,000
As on 31-12-2018:	
1. Share Capital:	
Authorised:	
60,000 Equity Shares of Rs. 5 each	3,00,000
Issued and Subscribed:	
60,000 Equity Shares of Rs. 5 each Rs. 4 per share called up	2,40,000
As on 31-12-2019:	
1. Share Capital:	
Authorised:	
3,000 Equity Shares of Rs. 100 each	3,00,000
Issued and Subscribed:	
3,000 Equity Shares of Rs. 100 each Rs. 80 per share called up	2,40,000

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

PROBLEM NO: 2

Date	Particulars	Debit (Rs.)	Credit (Rs.)
June 2002	Equity Share Capital A/c Dr.	8,00,000	
	To Equity Stock A/c		8,00,000
	(Being conversion of 8,000 fully paid Equity Shares of Rs. 100 into Rs. 8,00,000 Equity Stock as per resolution in general meeting dated...)		

June 2003	Equity Stock A/c	Dr.	8,00,000	
	To Equity Share Capital A/c			8,00,000
	(Being re-conversion of Rs. 8,00,000 Equity Stock into 80,000 shares of Rs. 10 fully paid Equity Shares as per resolution in General Meeting dated...)			

Notes to Balance Sheet:

Liabilities: **Amount (Rs.)**

As on 31-12-2001:**1. Share Capital:**

Authorised

10,000 Equity Shares of Rs. 100 each 10,00,000

Issued and Subscribed

8,000 Equity Shares of Rs. 100 each fully called up 8,00,000

As on 31-12-2002:**1. Share Capital:**

Authorised

1,000 Equity Shares of Rs. 100 each 10,00,000

Issued and Subscribed

Equity Stock-(8,000 Equity Shares of Rs. 100 converted into Stock) 8,00,000

As on 31-12-2003:**1. Share Capital**

Authorised

1,00,000 Equity Shares of Rs. 10 each 10,00,000

Issued and Subscribed

80,000 Equity Shares of Rs. 10 each fully called up 8,00,000

PROBLEM NO: 3**Journal Entries**

Particulars		Debit (Rs.)	Credit (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: 4

Journal Entries in the books of Vaibhav Ltd.

S.No.	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
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.
	Equity and Liabilities		
1	Shareholders' funds		
	a) Share capital	1	1,64,00,000
	b) Reserves and Surplus	2	26,00,000
2	Non - Current liabilities		
	a) Long-term borrowings	3	56,00,000
3	Current Liabilities		
	a) Trade Payables (1,00,00,000 - 40,00,000)		60,00,000
	Total		3,06,00,000

Assets			
1	Non - Current assets		
	a) Fixed assets		
	Tangible assets	4	2,00,00,000
	b) Investments	5	19,00,000
2	Current assets	6	87,00,000
	Total		3,06,00,000

Notes to accounts:

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

WORKING NOTE:

Dr.		Capital Reduction Account		Cr.	
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				
	2,00,00,000				2,00,00,000

PROBLEM NO: 5

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)			

Dr.		Capital Reduction Account		Cr.	
Particulars	Rs.	Particulars	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.
I. Equity and Liabilities		
1. Shareholder's Funds		
a) Share Capital	1	20,00,000
b) Reserves and Surplus	2	1,54,000
2. Non-Current Liabilities		
a) Long-term borrowings	3	7,20,000
Total		28,74,000
II. Assets		
1. Non-current assets		
a) Fixed assets	4	
i) Tangible assets		2,50,000
ii) Intangible assets		70,000
b) Non-current investments	5	55,000

2. Current assets		
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
Total		28,74,000

Notes to Accounts:

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

Notes to accounts

	Rs.
1. Share Capital	
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
Total	18,60,000
2. Reserves and surplus	
Capital reserve	85,000
3. Tangible assets	
Land and Building	15,60,000
Plant and Machinery	12,60,000
Total	28,20,000

PROBLEM NO: 7

Journal Entries in the books of Rebuilt Ltd.

	Particulars	Debit (Rs.)	Credit (Rs.)
1	Equity share capital A/c (Rs.50) Dr. 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)	7,50,000	37,500 7,12,500
2	Bank A/c Dr. To equity share capital (Being 3 right shares against each share was issued and subscribed)	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. Dr.	6,00,000 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 : 31st March, 20X1 (reduced)

		Particulars	Notes No.	Amount (Rs.)
1	a	EQUITY AND LIABILITIES: Shareholder's funds Share capital	1	10,60,000
2	a	Non-current liabilities Long term borrowings (loan)		2,23,000
3	a b	Current liabilities Trade Payable Other current liabilities		2,07,000 35,000
		TOTAL		15,25,000
1	a b	ASSETS: Fixed Assets Tangible assets Intangible assets	2 3	6,33,000 1,51,500
2	c d e	Current assets Trade receivables Inventory Cash and cash equivalents		3,28,000 4,00,000 12,500
		TOTAL	4	15,25,000

Notes to Accounts:

Particulars	Amount
1. Share capital:	
Authorized Capital:	
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>
Issued, Subscribed and paid up:	
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

2. Tangible assets:	
Building at cost - depreciation	4,00,000
Plant at cost less depreciation	2,33,000
3. Intangible assets	
Trademarks and Goodwill	1,51,500
4. Cash and cash equivalents	
Bank (1,12,500 + 1,00,000 - 2,00,000)	12,500

PROBLEM NO: 8a) **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. To 8% Preference share capital A/c (Rs.80 each) To Capital Reduction A/c (Being the preference shares of Rs.100 each reduced to Rs. 80 each as per the approved scheme)		200	160 40
ii)	Equity share capital A/c (Rs. 10 each) Dr. To Equity share capital A/c (Rs. 2 each) To Capital Reduction A/c (Being the equity shares of Rs.10 each reduced to Rs. 2 each)		500	100 400
iii)	Capital Reduction A/c Dr. To Equity share capital A/c (Rs. 2 each) (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)		16	16
iv)	6% Debentures A/c Dr. To Freehold property A/c (Being claim of Debenture holders settled in part by transfer of freehold property)		150	150
v)	Accrued debenture interest A/c Dr. To Bank A/c (Being accrued debenture interest paid)		12	12
vi)	Freehold property A/c Dr. To Capital Reduction A/c (Being appreciation in the value of freehold property)		75	75
vii)	Bank A/c Dr. To Investments A/c To Capital Reduction A/c (Being investment sold at profit)		125	100 25
viii)	Director's loan A/c Dr. To Equity share capital A/c (Rs. 2 each) To Capital Reduction A/c (Being director's loan waived by 70% and balance being discharged by issue of 22.5 lakhs equity shares of Rs. 2 each)		150	45 105
ix)	Capital Reduction A/c Dr. To Profit and loss A/c To Trade receivables A/c (225 x 40%) To Inventories-in-trade A/c (150 x 80%) To Bank A/c (300 x 5%) (Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)		483	261 90 120 15
x)	Capital Reduction A/c To Capital reserve A/c (Being balance transferred to capital reserve account as per the scheme)		143	143

b) Dr.

Capital Reduction Account

Cr.

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		
	<u>645</u>		<u>645</u>

Notes to Balance Sheet

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

PROBLEM NO: 9

Journal Entries in the Books of Green Limited

Particulars	Debit (Rs.)	Credit (Rs.)
Bank Account Dr. To Equity Share Capital Account (Balance of Rs.10 per share on 1,00,000 equity shares called up as per reconstruction scheme)	10,00,000	10,00,000
Equity Share Capital Account (Rs. 50) Dr. To Equity Share Capital Account (Rs. 20) To Capital Reduction Account (Reduction of equity shares of Rs. 50 each to shares of Rs. 20 each as per reconstruction scheme)	75,00,000	30,00,000 45,00,000
12% First Debentures Account Dr. 12% Second Debentures Account Dr. Trade payables Account Dr. To X (The total amount due to X, transferred to his account)	3,00,000 7,00,000 2,00,000	12,00,000
Bank Account Dr. To X (The amount paid by X under the reconstruction scheme)	2,00,000	2,00,000
12% First Debentures Account Dr. 12% Second Debentures Account Dr. Trade payables Account Dr. To Y (The total amount due to Y, transferred to his account)	2,00,000 3,00,000 1,00,000	6,00,000

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

Notes to accounts:

	Particulars	Amount (Rs.)
1.	Share Capital	
	Equity share capital	
	Issued, subscribed and paid up	
	1,50,000 equity shares of Rs. 20 each	30,00,000
	Total	30,00,000
2.	Long-term borrowings	
	Secured	
	14% First Debentures	10,00,000
	Total	10,00,000
3.	Tangible assets	
	Building	10,00,000
	Plant	10,00,000
	Computers	10,00,000
	Total	30,00,000

WORKING NOTE:

Dr.	Capital Reduction A/c		Cr.
Particulars	Amount	Particulars	Amount
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
	55,00,000		55,00,000

PROBLEM NO: 10

In the books of Lili Ltd.

Journal Entries

i)

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
2017 March 31	Equity Share Capital A/c (Rs.10) Dr. To Capital Reduction A/c To Equity Share Capital A/c (Rs.7) (Being reduction of equity shares of Rs.10 each to shares of Rs. 7 each as per Reconstruction Scheme dated...)	3,00,000	90,000 2,10,000
	8% Cum. Preference Share Capital A/c (Rs. 10) Dr. To Capital Reduction A/c To Preference Share Capital A/c (Rs. 5) (Being reduction of preference shares of Rs.10 each to shares of Rs.5 each as per reconstruction scheme)	4,00,000	2,00,000 2,00,000
	Equity Share Capital A/c (30,000 x Rs.7) Dr. Preference Share Capital A/c (40,000 x Rs.5) Dr. To Equity Share Capital A/c (21,000 x Rs.10) To Preference Share Capital A/c (20,000 x Rs.10) (Being post reduction, both classes of shares reconsolidated into Rs.10 each)	2,10,000 2,00,000	2,10,000 2,00,000
	Cash A/c Dr. To Trade Investments A/c (Being trade investments liquidated in the open market)	64,000	64,000
	Capital Reduction A/c Dr. To Equity Share Capital A/c (Being arrears of preference dividends of 4 years satisfied by the issue of 3,200 equity shares of Rs.10 each)	32,000	32,000
	Capital Reduction A/c Dr. To Cash A/c (Being expenses of reconstruction scheme paid in cash)	10,000	10,000
	9% Debentures A/c Dr. Accrued Interest A/c Dr. To Debenture holders A/c (Being amount due to debenture holders)	1,20,000 5,400	1,25,400
	Debenture holders A/c Dr. Cash A/c (2,10,000 - 1,25,400) Dr. To Freehold Land A/c To Capital Reduction A/c (2,10,000 - 1,20,000) (Being Debenture holders took over freehold land at Rs.2,10,000 and settled the balance)	1,25,400 84,600	1,20,000 90,000
	Capital Reduction A/c Dr. To Cash A/c (Being contingent liability of Rs.54,000 paid)	54,000	54,000
	Cash A/c Dr. To Capital Reduction A/c (Being pending insurance claim received)	12,500	12,500
	Capital Reduction A/c Dr. To Trademarks and Patents A/c To Goodwill A/c To Raw materials & Packing materials A/c To Trade receivables A/c (Being intangible assets written off along with raw materials and packing materials worth Rs.10,000 and 10% of trade receivables)	1,68,100	1,10,000 36,100 10,000 12,000
	Cash A/c Dr. To Equity Share Capital A/c (Being 12,600 shares issued to existing shareholders)	1,26,000	1,26,000

Bank Overdraft A/c To Cash A/c (Being cash balance utilized to pay off bank overdraft)	Dr.	2,23,100	2,23,100
Capital Reduction A/c To Capital reserve A/c (Being balance of capital reduction account transferred to capital reserve account)	Dr.	1,28,400	1,28,400

ii) **Dr. Capital Reduction A/c Cr.**

Particulars	Rs.	Particulars	Rs.
To Equity share capital	32,000	By Preference share capital	2,00,000
To Cash (contingent liability settled)	54,000	By Equity share capital	90,000
To Trademarks and Patents	1,10,000	By Freehold land	90,000
To Goodwill	36,100	By Cash (insurance claim)	12,500
To Raw material and Packing materials	10,000		
To Trade receivables	12,000		
To Cash account	10,000		
To Capital reserve account	<u>1,28,400</u>		
	<u>3,92,500</u>		<u>3,92,500</u>

iii) **Dr. Cash A/c Cr.**

Particulars	Rs.	Particulars	Rs.
To Investment	64,000	By Capital reduction (Contingent liability)	54,000
To 9% Debenture holders (2,10,000 - 1,25,400)	84,600	By Expenses	10,000
To Capital reduction A/c (Insurance claim)	12,500	By Temporary bank overdraft From available cash: (64,000 + 84,600 + 12,500 - 54,000 - 10,000) From proceeds of equity share capital: (2,23,100 - 97,100)	97,100 <u>1,26,000</u>
To Equity share capital A/c (12,600 shares @ Rs.10 each)	<u>1,26,000</u>		
	<u>2,87,100</u>		<u>2,87,100</u>

Note: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft = Rs.2, 23,100 - Rs. 97,100 = Rs.1,26,000

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To **MASTER MINDS**, Guntur

THE END