

9. INTERNAL RECONSTRUCTION – 1

PROBLEM NO: 1

Journal Entries in the books of Vaibhav Ltd.

S.No.	Particulars	LF	Debit	Credit
i)	Equity share capital (Rs.100) A/c Dr.		2,00,00,000	
	To Equity Share Capital (Rs. 40) A/c			80,00,000
	To Capital Reduction A/c			1,20,00,000
	(Being conversion of equity share capital of Rs.100 each into Rs.40 each as per reconstruction scheme)			
ii)	6% Cumulative Preference Share capital (Rs.100) A/c Dr.		1,00,00,000	
	To 6% Cumulative Preference Share Capital (Rs.60) A/c			60,00,000
	To Capital Reduction A/c			40,00,000
	(Being conversion of 6% cumulative preference shares capital of Rs. 100 each into Rs. 60 each as per reconstruction scheme)			
iii)	5% Debentures (Rs. 100) A/c Dr.		80,00,000	
	To 6% Debentures (Rs. 70) A/c			56,00,000
	To Capital Reduction A/c			24,00,000
	(Being 6% debentures of Rs. 70 each issued to existing 5% debenture holders. The balance transferred to capital reduction account as per reconstruction scheme)			
iv)	Sundry Creditors A/c Dr.		40,00,000	
	To Equity Share Capital (Rs.40) A/c			24,00,000
	To Capital Reduction A/c			16,00,000
	(Being a creditor of Rs. 40,00,000 agreed to surrender his claim by 40% and was allotted 60,000 equity shares of Rs.40 each in full settlement of his dues as per reconstruction scheme)			
v)	Provision for Taxation A/c Dr.		2,00,000	
	Capital Reduction A/c Dr.		1,00,000	
	To Liability for Taxation A/c			3,00,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)			
vi)	Capital Reduction A/c Dr.		199,00,000	
	To P & L A/c			12,00,000
	To Fixed Assets A/c			50,00,000
	To Current Assets A/c			110,00,000
	To Investments A/c			1,00,000
	To Capital Reserve A/c (Bal. fig.)			26,00,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)			
vii)	Liability for Taxation A/c Dr.		3,00,000	
	To Current Assets (Bank A/c) (Being the payment of tax liability)			3,00,000

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	164,00,000
	b Reserves and Surplus	2	26,00,000
2	Non-current liabilities Long-term borrowings	3	56,00,000
3	Current liabilities Trade Payables (1,00,00,000 less 40,00,000)		60,00,000
	Total		3,06,00,000
	Assets		
1	Non-current assets		
	a Fixed assets Tangible assets	4	200,00,000
	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 ` 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	
		19,00,000
5. Investments		
Adjustment under scheme of reconstruction	<u>(1,00,000)</u>	
6. Current assets	2,00,00,000	
Adjustment under scheme of reconstruction	<u>111,00,000</u>	
Taxation liability paid	90,00,000	
	<u>(3,00,000)</u>	
		<u>87,00,000</u>

WORKING NOTE:

Capital Reduction Account

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

PROBLEM NO: 2

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

S.No.	Particulars	LF	Debit (Rs.)	Credit (Rs.)
i)	8% Preference share capital A/c (Rs.100 Dr. each)		200	
	To 8% Preference share capital A/c (Rs.80 each)			160
	To Capital Reduction A/c			40
	(Being the preference shares of Rs.100 each reduced to ` 80 each as per the approved scheme)			
ii)	Equity share capital A/c (Rs. 10 each) Dr.		500	
	To Equity share capital A/c (Rs. 2 each)			100
	To Capital Reduction A/c			400
	(Being the equity shares of Rs.10 each reduced to Rs. 2 each)			
iii)	Capital Reduction A/c Dr.		16	
	To Equity share capital A/c (Rs. 2 each)			16
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakhs equity shares of Rs. 2 each)			
iv)	6% Debentures A/c Dr.		150	
	To Freehold property A/c			150
	(Being claim of Debenture holders settled in part by transfer of freehold property)			
v)	Accrued debenture interest A/c Dr.		12	
	To Bank A/c			12
	(Being accrued debenture interest paid)			
vi)	Freehold property A/c Dr.		75	
	To Capital Reduction A/c			75
	(Being appreciation in the value of freehold property)			
vii)	Bank A/c Dr.		125	
	To Investments A/c			100

	To Capital Reduction A/c			25
	(Being investment sold at profit)		483	
viii)	Director's loan A/c	Dr.	150	
	To Equity share capital A/c (Rs. 2 each)			45
	To Capital Reduction A/c			105
	(Being director's loan waived by 70% and balance being discharged by issue of 22.5 lakhs equity shares of Rs. 2 each)			
ix)	Capital Reduction A/c	Dr.	483	
	To Profit and loss A/c			261
	To Trade receivables A/c (225 x 40%)			90
	To Inventories-in-trade A/c (150 x 80%)			120
	To Bank A/c (300 x 5%)			15
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off through Capital Reduction Account)			
x)	Capital Reduction A/c		143	
	To Capital reserve A/c			143
	(Being balance transferred to capital reserve account as per the scheme)			

b) Capital Reduction Account

Dr.

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	<u>143</u>		<u> </u>
	<u>645</u>		<u>645</u>

Notes to Balance Sheet

S.No		(Rs. in lakhs)	(Rs. in lakhs)
1.	<u>Share Capital</u>		
	<u>Authorised:</u>		
	100 lakhs Equity shares of Rs. 2 each		200
	4 lakhs 8% Preference shares of Rs.80 each		320
			520
	<u>Issued:</u>		
	80.5 lakhs equity shares of Rs. 2 each		161
	2 lakhs Preference Shares of Rs. 80 each		160

2.	<u>Tangible Assets</u>		
	Freehold Property	275	
	Less: Utilized to pay Debenture holders	150	
		125	
	Add: Appreciation		200
	Plant and Machinery		100
			300

PROBLEM NO: 3

Green Limited
Journal Entries

Particulars	Debit (Rs.)	Credit (Rs.)
Bank Account Dr.	10,00,000	
To Equity Share Capital Account		10,00,000
(Balance of Rs.10 per share on 1,00,000 equity shares called up as per reconstruction scheme)		
Equity Share Capital Account (Rs. 50) Dr.	75,00,000	
To Equity Share Capital Account (Rs. 20)		30,00,000
To Capital Reduction Account		45,00,000
(Reduction of equity shares of Rs. 50 each to shares of Rs. 20 each as per reconstruction scheme)		
12% First Debentures Account Dr.	3,00,000	
12% Second Debentures Account Dr.	7,00,000	
Trade payables Account Dr.	2,00,000	
To X		12,00,000
(The total amount due to X, transferred to his account)		
Bank Account Dr.	2,00,000	
To X		2,00,000
(The amount paid by X under the reconstruction scheme)		
12% First Debentures Account Dr.	2,00,000	
12% Second Debentures Account Dr.	3,00,000	
Trade payables Account Dr.	1,00,000	
To Y		6,00,000
(The total amount due to Y, transferred to his account)		
Y Dr.	6,00,000	
To 14% First Debentures Account		3,00,000
To Capital Reduction Account		3,00,000
(The amount due to Y discharged by issue of 14% first debentures)		
X Dr.	14,00,000	
To 14% First Debentures Account		7,00,000
To Capital Reduction Account		7,00,000

(The cancellation of ₹ 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.	<u>55,00,000</u>
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	3	30,00,000
	Tangible assets		
2	Current assets		
	Cash and cash equivalents		12,00,000
	Total		42,00,000

Notes to accounts

	Rs.
1. Share Capital	
Equity share capital	
Issued, subscribed and paid up	
1,50,000 equity shares of ₹ 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:**Capital Reduction Account**

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: 4**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 (Balance of capital reduction account transferred to capital reserve)			1,54,000

THE END