

Internal Reconstruction

Q1. Balance sheet of Bihar Ltd. As on 31/03/2013 is as follows:

Liabilities	₹	Assets	₹
Equity share capital of ₹19 each fully paid up	9,00,000	Goodwill	1,30,000
12% Preference share capital of ₹100 each fully paid up	6,00,000	Land & building	7,55,000
16% bank loan	2,00,000	Plant & machinery	2,35,000
Outstanding Interest on Bank loan	10,000	Furniture and Fittings	3,10,000
Sundry creditors	62,000	Stock	98,000
Income tax payable	45,000	Sundry Debtors	71,000
		Bank balance	8,000
		Preliminary expenses	45,000
		Profit and loss account	1,65,000
	18,17,00		18,17,000

Internal reconstruction scheme of Bihar Ltd. As approved by court is implemented as follows:

- 1) Fictitious and Intangible assets are written off.
- 2) Equity shareholders reduced their claim by ₹30 per share.
- 3) Preference shareholders reduced their claim to ₹80 per share.
- 4) Bank waived 40% of the outstanding interest on bank loan.
- 5) Land and building is appreciated by 20%
- 6) Sundry creditors reduced their claim to 85%
- 7) Plant and machinery is depreciated by 25%.
- 8) Furniture and fittings are revalued at ₹2,89,000.
- 9) Stock is depreciated by 18%.
- 10) R D.D is provided @3% on sundry debtors.
- 11) Directors advanced ₹35,000 to the company on non-refundable basis.
- 12) Reconstruction expenses amounted to ₹14,000.

Prepare capital reduction account in the books of Bihar Ltd.

Q.2 Following is the balance sheet of Virat Ltd as on 31-03-2011.

Liabilities	₹	Assets	₹
Equity shares of ₹10 each, fully paid up	10,00,000	Goodwill	4,00,000
15% Preference shares ₹10 each fully paid	5,00,000	Land	3,00,000
15% Debentures	4,00,000	Plant and Machinery	1,80,000
Interest accrued on above debentures	60,000	Furniture and Fittings	2,00,000
Unsecured loans	1,00,000	Stock	90,000
Bank overdraft	40,000	Sundry Receivables	53,000
Sundry payables	75,000	Profit and loss account	9,77,000
Payable to Directors	25,000		
Total	22,00,000	Total	22,00,000

A scheme of reconstruction has been agreed amongst all the stakeholders of Virat Ltd. And approved by the court, which is as follows:

- (1) Intangible and fictitious assets are to be fully written off.
- (2) Land is revalued at 500% more than the book value.
- (3) There was an unrecorded asset of ₹10,000 which was sold for ₹60,000.
- (4) Equity shares are to be reduced by ₹4 each fully paid up.
- (5) 15% preference shares are reduced to ₹4 each fully paid up.
- (6) Debenture holder waived 50% of the outstanding interest on debenture.
- (7) 30% of the sundry payables are reduced to the extent of 30% of book value.
- (8) Directors waived 90% of the amount payable to them by the company.
- (9) Stock and sundry receivables are reduced by 20% and 10% of their book values, respectively.
- (10) Plant and machinery is reduced to 70% of its book value.
- (11) Furniture and fittings to be reduced by 70%.
- (12) 40% of the unsecured loans are reduced by 60%

You are required to prepare only capital reduction amount assuming that the above scheme of reconstruction has been implemented by the company.

Q3. Following is the balance sheet of Ajay Ltd. As on 31st march 2011.

Liabilities	₹	Assets	₹
Equity shares of ₹ 10 each fully paid up	8,00,000	Goodwill	4,50,000
9% Preferences shares of ₹ 10 each fully paid up	4,00,000	Land	3,00,000
10% Debentures	5,00,000	Plant and machinery	4,00,000
Interest accrued on above debentures	50,000	Furniture and fittings	2,10,000
Unsecured loans	75,000	Stock	60,000
Bank overdraft	15,000	Debtors	80,000
Sundry Creditors	60,000	Profit & Loss Account	4,00,000
Total	19,00,000	Total	19,00,000

A scheme of reconstruction has been agreed amongst all the stakeholders of Ajay Ltd. And approved by the court, which is as follows:

- (1) Intangible and fictitious assets are to be fully written off.
- (2) Equity shares are to be reduced to ₹4 each fully paid.
- (3) Debenture holders waived 50% of the outstanding interest on debenture.
- (4) 80% of the unsecured loans are reduced by 40%.
- (5) Directors gave ₹30,000 to the company on non-refundable basis.
- (6) Plant & machinery is reduced to ₹1,20,000.
- (7) Stock and debtors are reduced by ₹15,000 and 20% of the book value, respectively.
- (8) Furniture and fittings to be reduced by ₹63,000.
- (9) Land is appreciated by 300%.
- (10) There was an unrecorded asset which was sold for ₹20,000.
- (11) Preference shares are reduced to ₹6 each.
- (12) 50% of the sundry creditors are reduced to the extent of 50% of their book value.

You are required to:

Prepare only capital reduction amount assuming that the above scheme of reconstruction has been implemented by the company.

Q4. Following is the summarized Balance sheet of Aayushi Ltd. As on 31/03/2013.

Liabilities	Amount	Amount
10% Preference Shares of ₹100 each	800,000	
Equity shares of ₹10 each	2000,000	
12% Debenture	1500,000	
Bank Overdraft	100,000	
Bills Payable	70,000	
Creditors	280,000	4750,000
Assets		
Patents	30,000	
Goodwill	50,000	
Furniture	70,000	
Land and Building	13,00,000	
Plant and Machinery	12,00,000	
Closing Stock	160,000	
Bills Receivable	30,000	
Debtors	180,000	
Profit and Loss Account	1640,000	
Preliminary expense	90,000	4750,000

Note: Preference dividend is in arrears for 4 years.

The following scheme of capital reduction was sanctioned by the court and agreed by the shareholders.

- a) The Preference shares are to be reduced to ₹50 each and equity shares to ₹2 each both being fully paid.
- b) Of the Preference dividend in arrears, three fourth to be waived and remaining to be paid immediately.
- c) The debenture holder to take over Plant and machinery at ₹ 1300,000 in part satisfaction of their claim. The remaining claim should be converted into 15% debentures.
- d) The Assets are to be revalued as under:
 Furniture: ₹ 50,000
 Stock: ₹ 136,000
 Land and Building: ₹11,60,000
 Debtors: ₹160,000
- e) Bills payable to be settled immediately. Creditors forego their claim of ₹ 40,000.
- f) A secured loan of ₹ 300,000 at 12% interest p.a. to be obtained by mortgaging land and building for repayment of Bank overdraft and payment of bills payable and reconstruction expense of ₹ 30,000.
- g) Write off Goodwill, Patents, P and L. (Dr. Balance) and preliminary expense entirely.
 Pass necessary journal entries in the books of Aayushi Ltd.

Q5. M/S. Unwell ltd. has incurred heavy losses since past few years. The Company adopted a scheme of reconstruction on the basis of following summarized Balance Sheet.

Liabilities	Amount	Amount
Equity Share Capital:		
160,000 Shares of ₹ 10 each fully paid	16,00,000	
Preference Share Capital:		
4000, 10% Shares of ₹ 100 each fully paid	400,000	
10% Debenture	2000,000	
Interest accrued and due on debenture	200,000	
Creditors	800,000	
Bills Payable	100,000	
Outstanding Audit Fees	100,000	5200,000
Assets		
Land and Building	1220,000	
Furniture	400,000	
Computer	600,000	
Debtors	600,000	
Stock	80,000	
Bills Receivable	500,000	
Cash at bank	360,000	
Share issue expense	40,000	
Profit and Loss Account	1400,000	5200,000

The Following scheme of reconstruction was approved by the Court:

- a) 10% Preference shares to be reduced by ₹ 20 per share
- b) Equity shares to be reduced by ₹ 5 each share
- c) Debenture holders agreed to settle their claim fully by issue of new 11% Debentures of ₹ 1400,000. They also agree to forego 50% of their interest. The payment of remaining 50% of interest to be made immediately.
- d) Computer was to be written down by ₹ 40,000.
- e) Land and Building and Furniture to be appreciated by 10%.
- f) Stock to be appreciated by ₹ 60,000.
- g) Fictitious Assets and debit balance of Profit and Loss account to be written off.
- h) Cost of Reconstruction was ₹ 50000
- i) 75% of the Creditors agreed to forego their claims by 10%.
- j) Reduce Debtors by ₹ 70,000.

You are required to pass journal entries to record the above transactions in the books of M/S. Unwell Ltd.

Q6. Following is the Balance Sheet of M/s High Hops Ltd as on 31st March 2014. (15)

Liabilities	₹
12% Cumulative Preference Share of ₹ 10 each	12,00,000
Equity Share of ₹ 10 each	20,00,000
11% Debentures	10,00,000
Sundry Creditors	30,00,000
Provision for tax	8,00,000
Total	80,00,000

Assets	₹
Land & Building	18,00,000
Plant & Machinery	3,00,000
Stock	15,00,000
Sundry Debtors	20,00,000
Bank Balance	2,00,000
Share issue expenses	4,00,000
Profit & Loss Account (Dr. Balance)	18,00,000
Total	80,00,000

Note: Preference Dividend was in arrears for 3 years.

Following scheme of reconstruction was approved:

- a) Equity Shares to be reduced to ₹ 2 each fully paid
- b) 12% Cumulative Preference Shares to be reduced to ₹ 2 each fully paid.
- c) Directors to give short term loan of ₹10,00,000 to the company.
- d) Depreciate Land and Building and Plant and Machinery by 10%.
- e) Reduce debtors by 15%.
- f) Reduce stock to 60% of its value.
- g) The tax liability was settled for ₹ 8,50,000 and the reconstruction expense amounted to ₹ 20,000
- h) Sundry creditors waived 20% of their claims
- i) 11% debentures to be converted into 13% debentures of ₹6,00,000 in full settlement.
- j) Write off fictitious assets and debit balance in profit and loss account.

You are required to prepare:

- i. Capital Reduction Account
- ii. Notes to account forming part of the Balance Sheet, after reconstruction, as required under revised Schedule VI in respect of
 - a. Share Capital
 - b. Reserve and Surplus
 - c. Cash and Cash equivalent

Q7. Following is the Summarised Balance Sheet of Risky Ltd. As on 31st March, 2015

Liabilities	Amount	Assets	Amount
10% preference shares of ₹10	480,000	Premises	640,000
Equity shares of ₹10 each	800,000	Plant and Machinery	10,40,000
5% Debenture of ₹ 100 each	960,000	Investment	240,000
Sundry Creditors	400,000	Stock	288,000
Bank Overdraft	240,000	Debtors	192,000
Other Liabilities	320,000	Deposits & Advances	80,000
		Preliminary Expense	320,000
		Profit and Loss A/c	400,000
	32,00,000		32,00,000

Note : Preference Dividend is in arrears for 3 years:

A scheme of reconstruction is prepared and approved by all the authorities.

The Salient features of the scheme are:

- 1) Plant and Machinery having book value of ₹160,000 is obsolete. This is sold as scrap for ₹32,000.
- 2) The depreciation on plant and machinery is to be provided ₹ 80,000.
- 3) Stock includes items valued at ₹ 96000, which are sold at loss of 50%.
- 4) The present realizable value of Investment is ₹112,000.
- 5) Arrears of preference dividend is not payable
- 6) Reconstruction expenses were at ₹16,000.
- 7) The paid up value of equity shares is to be reduced to ₹ 2 per share and preference shares to ₹ 5 per share. However, the face value of both equity and preference shares remain unchanged.
- 8) The creditors dues are settled as:
 - a) 20% immediate payment in cash
 - b) 40% amount is cancelled.
 - c) 40% paid by issue of 6% debentures.
- 9) Other liabilities of ₹ 80,000 are to be cancelled.
- 10) A call of ₹ 3 per share on equity shares is made and received.

You are required to pass journal entries in the books of Risky Ltd. To record the above transactions.

Q8. Following is the Summarised Balance Sheet of Mahesh Ltd. As on 31/03/2016

Liabilities	Amount	Assets	Amount
20,000, 8% Cumulative Preference share of ₹100 each	20,00,000	Goodwill	500,000
400,000 Equity shares of ₹10 each fully paid	40,00,000	Land and Building	24,00,000
8% Debenture of ₹100 each(secured against land and Building)	20,00,000	Plant and Machinery	22,00,000
Debenture interest due	80,000	Investment	240,000
Loan from directors	400,000	Current Assets	34,40,000
Current liabilities	20,00,000	Profit and Loss Account	17,00,000
	104,80,000		104,80,000

Note:

- Claims for damages against the company pending in court of law amounted to ₹ 200,000
- Arrears of Preference shares dividend ₹ 140,000.

Following schemes of Reconstruction was approval and implemented:

- Preference shares were reduced to equal numbers of fully paid 8% Preference shares of ₹80 each.
- Equity shares were reduced to equal numbers of fully paid Equity shares of ₹ 2.5 each.
- Preference shareholders waived half of the arrears of dividend and 28,000 equity shares of ₹ 2.5 each fully paid were issued to them in lieu of the balances.
- 8% Debenture holders took over part of the Land and Building having book value of ₹ 720,000 at ₹10,00,000 in part satisfaction of their debts and 2,40,000 Equity shares of ₹2. Each fully paid were issued to them for the balance amount.
- Debenture holders waived their interest due on Debentures
- The claims for damages pending in the court of law were settled by issue of 24,000 Equity shares of ₹2.5 each fully paid.
- Profit and Loss debit balance and intangible assets were written off.
- The assets were revalued as under: Plant and Machinery- ₹ 14,00,000;
Investments- ₹ 2,00,000

You are required to pass necessary journal entries in the books of Mahesh Ltd.

Q9. Following is the Balance sheet of PARADISE Ltd. As on 31-3-2005.

Liabilities	Amt.	Assets	Amt.
Share Capital:		Fixed Assets:	
10% Preference Shares of ₹ 10 each	240,000	Premises	320,000
Equity shares of ₹ 10 each	400,000	Plants and Equipment	520,000
Secured Loans:		Investment	120,000
15% Debentures of ₹ 100 each	480,000	Current Assets, Loans and	
Current Liabilities and Provision:		Advances:	
Sundry Creditors	200,000	Stock	144,000
Bank Overdraft	120,000	Debtors	96,000
Other liabilities	160,000	Deposits and Advances	40,000
		Misc. Expense:	
		Publicity campaign Exp.	160,000
		Profit and Loss account	200,000
	1600,000		1600,000

The management is of the opinion that the assets a. liabilities are not valued correctly and finds it difficult to raise finance. To overcome the situation a scheme of reconstruction is prepared by the Directors and approved by all authorities. The salient features of the scheme are:

- (1) Plant and Equipment's having book value of ₹ 80,000 is obsolete. This is sold as scrap for ₹ 16,000.
- (2) The auditors have pointed out that depreciation on plant is not provided to the extent of ₹ 40,000.
- (3) Stock includes items valued at ₹ 48,000 which is sold at a loss of 50%.
- (4) The present reliable value of investments is ₹ 56,000.
- (5) Dividend on Preference shares is in arrears for three years. This amount is not payable.
- (6) All losses and fictitious assets are to be written off.
- (7) The expenses paid for forming and implementing scheme is ₹ 8,000.
- (8) The paid up value of Equity share is to be reduced to ₹ 2 per share and Preference shares to ₹ 5 per share. However, the face value remains unchanged.
- (9) The creditors due are settled as: 1) 20% immediate payment in cash. (ii) 40% amount is cancelled. (iii) 40% paid by issue of 16% Debentures.
- (10) Other current liabilities include As 40,000 payable to Directors towards remuneration. This liability is to be cancelled.
- (12) Bank overdraft is paid off to the extent possible. 502 410 required to show: (I) Journal Entries for above scheme of reconstruction.

10. Following is the Balance sheet of PARAMOUNT Ltd. As on 31-3-2005.

Liabilities	Amt.	Assets	Amt.
Share Capital:		Fixed Assets:	
6000-8% Preference Share of ₹ 100 each	600,000	Goodwill	60,000
50000 Equity Shares of ₹ 100 each	50,000	Patent and Trademark	40,000
Reserves and Surplus:	50,000	Building	300,000
Capital Reserve		Plant and Machinery	300,000
Secured Loans:	300,000	Furniture	100,000
5% Debenture of ₹ 100 each	50,000	Current Assets, Loans and Advances:	
Debenture Interest rate		Stock	150,000
Current liabilities and provisions:	180,000	Sundry Debtors	75,000
Sundry Creditors		Bank	100,000
		Cash	25,000
		Misc. Expense:	
		Discount on Debenture	30,000
		Profit and Loss account	500,000
	1680,000		1680,000

Note: Preference dividend is in arrears for three Years

The following Scheme of reconstruction was prepared and duly approved by the court.

- The preference share shall be converted into equal numbers of 9% Preference shares of ₹ 50 each.
- The equity shares shall be reduced to ₹ 3 each. However, the face value will remain the same.
- 5% debenture shall be converted into equal no. of 6% debentures, of ₹ 75 each. The debenture holders also agreed to waive 50% of the accrued interest.
- Arrears of Preference dividend is to be reduced to one-year dividend, which is paid in cash.
- The Sundry Creditors agreed to waive 30% of their claims and to accept Equity shares of ₹ 30,000 in part settlement of their renewed claims.
- The assets are to be revalued as under:
 - Building- 350,000
 - Plant and Machinery- 250,000
 - Furniture- 80,000
 - Stock- 100,000
 - Sundry Debtors- 70,000
- Intangible assets and fictitious assets are to be written off.
Pass journal entries, Prepare Capital reduction account and Balance sheet after reconstruction in their books for Paramount Ltd.

(11) The Following is the Balance Sheet of Sandeep Limited as on 31st March, 2006.

Liabilities	₹	Assets	₹
Issued and Subscribed Capital		Goodwill	25,000
10% Preferences shares of Rs.100 each	4,00,000	Patents	15,000
Equity Shares of Rs. 10 each	10,00,000	Furniture	35,000
12% Debentures	7,50,000	Plant & machinery	6,00,000
Bank Overdraft	50,000	Land & Building	6,50,000
Sundry Creditors	1,40,000	Stock in Trade	80,000
Bills Payable	35,000	Sundry Debtors	90,000
		Bills Receivables	15,000
		Profit & Loss A/c	8,20,000
		Preliminary Expenses	45,000
Total	23,75,000	Total	23,75,000

The Preferences Dividend is in arrears for four years. The following scheme of capital reduction was sanctioned by the court and agreed by shareholders:

- a) The preference shares to be reduced to ₹ 50 each and equity shares to ₹ 2 each both being fully paid.
 - b) Of the preference dividend in arrears three-fourth to be waived and remaining to be paid in cash.
 - c) The Debenture holders to take over plant & machinery at ₹ 6,50,000 in part of satisfaction of their claim. The remaining claim should be converted in to 14% debentures
 - d) Creditors agreed to reduce their claim by ₹ 20,000. Bill payable to be paid immediately.
 - e) Goodwill, patents, Profit & Loss A/c and Preliminary Expenses are to be written off entirely.
 - f) The following asset are to be revalued as under: Furniture ₹ 25,000, Stock in Trade ₹ 68,000, Land & Building ₹ 5,58,000, Sundry Debtors ₹ 80,000.
 - g) The secured Loan of ₹ 1,50,000 at 12% per annum to be obtained by mortgaging Land & Building for repayment of bank overdraft bill payable and reconstruction expenses ₹ 1,500
- Pass Journal Entries to record above scheme and draft the balance sheet of Sandeep Ltd after reconstruction.

Q12. Following is the Balance Sheet of Delta Ltd as on 31st March 2006.**Balance Sheet as on 31-03-2006**

Liabilities	₹	Assets	₹
15,000 15% Preference Share of ₹10 each fully paid up	1,50,000	Goodwill	80,000
13,000 10 Preference Shares of ₹10 each ₹ 5 per share paid up	65,000	Patents	54,000
20,000 Equity Shares of ₹10 each full paid up.	2,00,000	Land & Building	1,75,000
12% Debentures of ₹ 100 each	1,50,000	Plant & Machinery	3,25,000
11% Debentures of ₹ 100 each	3,00,000	Furniture	15,000
Interest due on debentures	19,500	Investments	75,000
Sundry Creditors	4,50,000	Sundry Debtors	3,15,000
		Bill Receivables	1,00,000
		Bank	20,000
		Profit & Loss A/c	1,75,000
Total	13,34,500	Total	13,34,500

The following scheme of reconstruction was submitted and approved by the court:

- 11.5% preference shares of Rs.10 each fully paid were reduced to 14% preference shares of ₹10 each. ₹ 6 per share paid up.
- 10% preference shares of ₹ 10 each ₹ 5 per share paid up were reduced to 13 % Preference share of ₹10 each. ₹3 per share paid up.
- Equity Share of ₹10 each fully paid were reduced to the domination of ₹5 each fully paid.
- 11% Debenture holders agreed to accept 50,000 equity share of ₹5 each in full settlement of their claims.
- Debenture holder agreed to forgo the interest due to debentures.
- Sundry Creditors agreed to forgo 10% of their claims.
- The Company recovered as damages a sum of a ₹ 50,000 which was not recorded in the books.
- Cost of Reconstruction was paid of ₹2,250
- Assets are to be revalued as under:

	₹
Land and Building	2,50,000
Plant & Machinery	2,75,000
Furniture	10,000
Investment	90,000
Sundry Debtors	3,00,000

- All intangible assets are accumulated losses are to be written off.
You are required to : i) Pass journal entries in the books delta ltd. ii) Prepare Capital Reduction A/c and Balance Sheet after reconstruction.

Q.13 Following is the Balance Sheet of M/s Careless Ltd as on 31st 2007.

Liabilities	₹	Assets	₹
40,000 8% Cumulative preference share of ₹10 each	4,00,000	Goodwill	1,10,000
30,000 Equity Shares of ₹10 each	3,00,000	Freehold Property	1,20,000
Securities Premium	10,000	Leasehold Property	2,44,000
9% Debentures	1,20,000	Plant & Machinery	3,20,000
Accrued debenture interest	5,400	Furniture	80,000
Sundry Creditors	1,70,000	Stock	60,000
Bank Overdraft	1,92,000	Debtors	1,20,000
		Preliminary Expenses	5,000
		Profit & Loss Account	1,38,400
		Total	
Total	11,97,400		11,97,400

Note: (a) Preference Dividend was in arrears for four years.

(b) There was a contingent liability ₹ 20,000 for workmen compensation.

- A) The Preference shares are reduced to ₹7.50 per share fully paid and Equity share to ₹2 per share fully paid.
- B) After reduction, both classes of shares are consolidated in to ₹ 10 shares.
- C) One new Equity shares of ₹ 10 each was issued for every ₹ 40 of gross preference dividend in arrears.
- D) The balance of securities premium was utilised.
- E) Plant & Machinery was written down to ₹ 2,80,000.
- F) Furniture was sold for ₹64,000.
- G) Goodwill, Preliminary Expenses, debt balance profit and loss account, debts of ₹ 17,200 and obsolete stock of ₹ 20,000 were written off.
- H) Contingent liability for which no provision has been settled at ₹ 14,000 however, the amount of ₹12,600 was recovered from insurance Company.
- I) Debenture holders agreed to forgo principal amount by ₹30,000 and accrued debenture interest in full.

Pass journal entries; prepare capital reduction account and balance sheet after reconstruction.

Q14. Following is the balance sheet of Mash Ltd as on 31st March 2007.

Balance Sheet as on 31-03-2007

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

Note: Preference Dividend was in arrears ₹1,20,000.

The Board of Directors of the Co. decided upon the following scheme of reconstruction, which was approved by all concerned.

- Paid up value of equity share shall be reduced to ₹ 50 per share. Face value being ₹ 100.
- Preference shares to be converted in to 13% debentures of ₹100 each with regard to their 80% of dues (including arrears of preference dividend) and for the balance (including dividends arrears) equity shares of ₹100 each (₹50 paid up) shall be issued.
- All equity shareholders agreed to pay the balance amount, making shares fully paid up.
- The Plant-Machinery was revalued at ₹ 90,000.
- The value of stock was reduced by ₹1,00,000.
- Land and Building shall be written down to ₹5,50,000.
- Creditors agreed to forgo their claims by 10%.
- Loans was fully settled for ₹2,00,000.
- Goodwill, Debit balance of Profit and Loss account shall be written off.
- Cost of reconstructions ₹5,000 was paid.

You are required to:

- Pass journal entries in the book of the company.
- Prepare Capital Reduction account.

Q15. Following is the balance sheet of SatyarajLtd.as on 31st March 2008.

Liabilities	₹	Assets	₹
Share capital 1,60,000 Equity shares of ₹5 each, fully paid	8,00,000	Goodwill	3,40,000
4,000 6% Cumulative Preference shares of ₹100 each, fully paid	4,00,000	Land & building	2,60,000
8% debentures (₹100 each)	4,00,000	Equipment	2,50,000
Bank overdraft	1,50,000	Sundry debtors	2,40,970
Sundry creditors (including ₹20,000 interest due on bank overdraft)	3,40,360	Stock	3,30,340
		Investment	45,450
		Cash at Bank	20,240
		P/L account	6,03,360
Total	20,90,360	Total	20,90,360

Preference dividend is in arrears for five years.

Following scheme of reconstruction was approved by the court.

- Equity shares be reduced to ₹1.25 each and then to be consolidated into shares of ₹10 each.
- 6% preference shares be reduced to ₹40 each and then to be subdivided into shares of ₹10 each.
- Interest accrued but not due on 8% debenture for half year ended 31st March 2008 has not been provided in the above balance sheet. The debenture holders have agreed to 40% of this interest in cash immediately and provision for the balance sheet be made in the books of accounts.
- Pay ₹24,000 to preference shareholders in lieu of arrears of preference dividend.
- The debenture holders have also agreed to accept equal number of 9% debenture of ₹60 each in exchange of 8% debenture of ₹100 each.
- Bank has agreed to take over 50% of stock in full satisfaction of its claim including interest. The remaining stock be revalued at ₹1,20,000.
- Investments be sold for ₹40,000.
- Tangible fixed assets be appreciated by 20%, goodwill be written off in full and provision be made for doubtful debts of ₹20,000.

Give journal entries for the above scheme of reconstruction. Prepare capital reduction account in the books Satyaraj limited and balance sheet of the company after reconstruction.

Q16. Following is the Balance Sheet of fortunate Ltd. As on 31st March, 2008.

Liabilities	Amount	Assets	Amount
Share Capital:		Goodwill	165,000
7000, 8% Cumulative Preference Shares of ₹100 each	700,000	Land and Building	600,000
80,000 Equity shares of ₹10 each	800,000	Stock	220,000
9% Debentures of ₹100 each (Secured on land and Building)	350,000	Debtors:	
Accrued Interest on Debentures	15750	Good	370,000
Directors Loan	70,000	Doubtful	60,000
Sundry Creditors	310,000	Bank	280,000
		Preliminary Expense	10,000
		Profit & Loss Account	540,750
	2245,750		2245,750

Contingent Liabilities:

- 1 . Arrears of Cumulative preference dividend for 2 years.
2. Claims for damages pending in the court law of ₹100,000

The Board of directors wish to show the realistic pictures of the state of affairs of the company's position and the following scheme of reconstruction was duly approved.

- a) 8% Preference Share of ₹100 each were to be reduced to an equal numbers of fully paid preference shares of ₹ 60 each and equity share of ₹10 each were to be reduced to an equal number of fully paid equity shares of ₹2.50 each.
- b) Intangible and fictitious assets, accumulated losses to be written off.
- c) 8% Preferences shareholders agreed to waives one year's dividend and to accept equity shares of ₹2.50 each fully paid for the balance of appears of dividend.
- d) Stock to be revalued at ₹200000 and doubtful debtors to be written off .
- e) 9% Debenture holders agreed to take over part of the security of the book valued of ₹ 2,00,000 for ₹2,50,000 in part satisfaction of their claim and agreed to waives interest payable to them.
- f) Sundry Creditors agreed to forego ₹10,000 subject to the condition that the company must pay them half of the remaining amount immediately.
- g) The contingent liability for the claim for damages materialised to the extent of 50%. Which the company paid immediately.
- h) The directors agreed to convert their loan into equity shares of ₹2.50 each fully paid.

You are required to:

Pass Journal Entries and prepares capital Reduction A/c in the books of Fortunate Ltd.

Q17. The balance sheet of Dirty Ltd. As on 31st March, 2010 appeared as follows:

Liabilities	₹	Assets	₹
60,000 Equity shares of ₹10 each, fully paid	6,00,000	Goodwill	1,67,000
2,000 9% Preference shares of ₹100 each, fully paid	2,00,000	Land & building	3,00,000
11% Debentures	4,00,000	Plant & Machinery	2,15,000
Interest accrued on above debentures	44,000	Investments	75,000
Unsecured loans	2,60,000	Stock	2,10,000
Interest accrued on above unsecured loans	30,000	Sundry debtors	3,10,000
Current liabilities	1,66,000	Bank	45,000
		Preliminary Expenses	25,000
		P/L account	3,53,000
Total	17,00,000	Total	17,00,000

A scheme of reconstruction has been agreed amongst the shareholders and the creditors, and approved by the court with the following salient features.

- Equity shares are to be reduced to ₹3 each fully paid.
- 9% preference shareholders have agreed to accept 12% debenture of face value of ₹1,20,000, issued at par, in full satisfaction of their claims.
- Interest due on unsecured loans is paid at 40% discount.
- Interest accrued on 11% Debenture is paid at 50% discount.
- 40% of current liabilities are to be reduced to 75% and balance 60% to be reduced to 80%.
- 20% of stock is obsolete which is sold at 40% of book value.
- Goodwill, preliminary expenses, debit balance in the profit and loss account is to be written off, ₹33,000 should be provided for doubtful debts and the value of fixed assets should be appreciated by 10%.
- Cost of construction paid ₹16,820.

Prepare the capital reduction account and redraft the balance sheet of the company assuming that above scheme of reconstruction has been implemented by the company.

Q18. Following is the balance sheet of M/s. Sonam Ltd. As on 31st March, 2012:

Balance sheet as on 31/03/2012

Liabilities	₹	Assets	₹
10% Preference shares of ₹10 each	5,00,000	Goodwill	2,00,000
Equity share of ₹10 each	10,00,000	Land & Building	10,00,000
10% Debentures	2,00,000	Investments	5,00,000
Sundry creditors	2,00,000	Stock	4,00,000
Other Liabilities	7,00,000	Publicity campaign expenses	4,00,000
		Preliminary expenses	1,00,000
	26,00,0000		26,00,0000

The scheme of reconstruction approved by the authority was as under:

- (a) Each equity share will be written down from ₹10 to ₹6 fully paid up.
- (b) Each 10% preference share is to be written down from ₹10 to 8 fully paid up. These preference shares are to be converted into 12% preference shares of ₹2 each and remaining into equity shares of ₹6 each fully paid up.
- (c) 10% debenture holders agreed to waive 20% of their rights.
- (d) Assets were revalued as: land and building ₹12,00,000
Stock to be reduced by 20%.
- (e) Creditors dues are settled as follows:
 - 1) 30% immediate payment
 - 2) 50% paid by issue of 10% debentures
 - 3) 20% amount cancelled.
- (f) All Intangible and fictitious assets are to be written off.
- (g) 10,000 equity shares of ₹6 each were issued to public for cash.
You are required to prepare
 - (1) Capital reduction account.
 - (2) Balance sheet of Sonam limited after reconstruction.

Q19. Following is the Balance Sheet of Hardship Ltd. As on 31st March, 2017

(15)

Liabilities	₹	Assets	₹
14,000 8% Preference shares of ₹ 100 each	14,00,000	Goodwill	3,30,000
1,60,000 Equity Shares of ₹ 10 each	16,00,000	Land & Building	12,00,000
9% Debenture of ₹ 100 each (Secured on Land & Building)	7,00,000	Inventories	4,40,000
Accrued Interest on Debentures	31,500	Sundry Debtors:	
Director's Loan	1,40,000	Good	7,40,000
Sundry Creditors	6,20,000	Doubtful	<u>1,20,000</u>
		Bank	5,60,000
		Preliminary Expenses	20,000
		Profit & Loss A/c	10,81,500
	44,91,500		44,91,500

Contingent Liabilities:

1. Arrears of cumulative preference dividend for 2 years.
2. Claims for damages pending in the court of law ₹ 2,00,000

The Following scheme of reconstruction was duly approved :

- i. 8% Preference Shares of ₹ 100 each were to be reduced to an equal number of fully paid preference share of ₹ 60 each.
- ii. Equity Shares of ₹ 10 each were to be reduced to an equal number of fully paid equity share of ₹ 2.50 each.
- iii. Goodwill, preliminary expenses and accumulated losses are to be written off.
- iv. 8% preference shareholders agreed to waive on year's dividend and to accept equity shares of ₹ 2.50 each fully paid for the balance of arrears of dividend.
- v. Inventories are to be revalued at ₹ 4,00,000 and doubtful debtors to be written off.
- vi. 9% debenture holders agreed to take over part of the security of the book value of ₹ 4,00,000 for ₹ 5,00,000 in part satisfaction of their claims and agreed to waive interest payable to them.
- vii. Sundry Creditors agreed to forgo ₹ 20,000 subject to the condition that the company must pay them half of the remaining amount immediately.
- viii. The contingent liability for their claims for damages materialized to the extent of 50% which the company paid immediately.
- ix. The directors agreed to convert their loan in to equity share of ₹ 2.50 each fully paid.

You are required to pass journal entries in the books of Hardship Ltd.

Q20. The Following is the Balance Sheet of Aarman Ltd as on 31st March 2018. (15)

Liabilities	₹	Assets	₹
10% Preferences Shares of ₹10 each	5,00,000	Goodwill	2,00,000
Equity Shares of ₹10 each	10,00,000	Land & Building	10,00,000
10% Debentures	2,00,000	Investments	5,00,000
Creditors	2,00,000	Stock	4,00,000
Other Liabilities	7,00,000	Profit & Loss A/c	4,00,000
		Preliminary Expenses	1,00,000
	26,00,000		26,00,000

The scheme of Reconstruction as approved by the court was as under:

1. Each existing equity share will be written down from ₹10 to ₹ 6 fully paid up
2. Each 10% Preference Share is to be written down ₹ 10 to ₹ 8 fully paid up.
3. 10% Debenture holders agree to waive 20% of their claims
4. Assets are revalued as follows:
Land & Building ₹12,00,000
Stock reduced by 20%.
5. Creditors are settled as follows:
 - a) 30% immediate payment.
 - b) 20% cancelled
 - c) 50% paid by issue of 11% debentures
6. All fictitious and intangible assets are to be written off.
7. 10,000 equity shares of ₹ 6 each were issued to public for cash, which were fully subscribed.
Prepare Capital reduction A/c and show the extract of Asset forming part of Balance sheet along with notes to accounts of Aarman Ltd. After reconstruction.

Q21. The Following is the Balance sheet of Godfrey Ltd as on 31st March 2018

Liabilities	₹	Assets	₹
5,000 6% Preference Share of ₹ 100 each fully paid up	5,00,000	Goodwill	80,000
40,000 Equity Share of ₹10 each fully paid up	4,00,000	Patents and trade Marks	20,000
Capital Reserve	25,000	Building	2,15,000
5% Debentures of Rs.100 each	2,00,000	Plant & Machinery	2,55,000
Accrued Interest on Debentures	30,000	furniture	60,000
Creditors	1,55,000	Stock	90,000
		Debtors	75,000
		Cash at Bank	12,500
		Cash in hand	2,500
		Profit & Loss A/c	4,00,000
		Preliminary Expenses	1,00,000
Total	13,10,000	Total	13,10,000

Note:

The Preference dividend is in arrears for 3 years.

It was decided to reconstruct the company for which the following scheme was approved by the court.

- The assets are to be revalue as follows :

Building	₹ 2,50,000
Plant and Machinery	₹ 2,25,000
Furniture and Fixtures	₹ 55,000
Stock	₹ 80,000
Debtors	₹ 70,000

- Intangible and fictitious assets are written of completely
- The Preference Share shall be converted in to 7% preference share of ₹ 50 each , number of shares being the same
- The Equity Shares shall be reduced to ₹3 each
- The 5% Debentures shall be converted in to equal numbers of 6% Debentures of ₹ 75
- The Debenture holder also agreed to waive 50 % of the accrued interest.
- Arrears of Preference Dividend to be cancelled.
- The Creditors agreed to waive 30% of their claims and to accept Equity Shares for ₹ 30,000 in part settlement of their renewed claims.

Draft Journal entries (without narration) and give the extract of Balance Sheet to show Shareholders Funds.