

## Internal Reconstruction

### Problems

1. On the reconstruction of the company, the following terms were agreed upon

The shareholder to receive in lieu of their present holding (50,000 shares of 10 each) the following

- Fully paid equity shares equal to 2/5 of their holding.
- 5% Preference shares fully paid, to the extent of 1/5 of the above new equity shares
- Rs. 60,000, 6% Debentures

An issue of Rs. 50,000, 5% first debenture was made and allotted payment for the same having been received in Cash.

The goodwill which stood at Rs. 3,00,000 was written down to Rs. 1,50,000.

The plant and Machinery, which stood at Rs. 1,00,000 were written down to 75,000.

The freehold and leasehold premises, which stood at Rs. 1,50,000 were written down to Rs. 1,25,000. Make the Journal entries in the books of the company necessitated by the above reconstruction.

2. The following is the Balance Sheet of ABC Ltd as on 31-03-2021

Liabilities	Amount	Assets	Amount
19,000 shares of Rs. 100 each	19,00,000	Land & Building	1,00,000
Creditors	1,00,000	Machinery	2,60,000
Debentures	1,00,000	Furniture	20,000
		Stock	3,70,000
		Drs	1,80,000
		Goodwill	2,00,000
		P&L A/c	9,70,000
<b>Total</b>	<b>21,00,000</b>	<b>Total</b>	<b>21,00,000</b>

The company is to be reconstructed as follows:

- a. Shares of Rs. 100 are to be reduced to an equal number of fully paid shares of Rs. 40 each
- b. To issue 1,000 new shares of Rs. 40 each as fully paid up to the debenture holders in full settlement
- c. The amount available is to be utilized in writing off the goodwill and P&L A/c and the balance in writing down the value of machinery
- d. Authorized Capital of the company is 20,000 shares of Rs. 100 each.

Give the necessary journal entries. Prepare capital Reduction A/c and Reconstructed Balance Sheet.

3. Following is the Balance Sheet of Bright Company Ltd as on 31-03-2021

Liabilities	Amount	Assets	Amount
<b>Authorised Capital</b>		Patents	8,50,000
10,000 Preference shares of Rs. 100 each	10,00,000	Lease hold Premises	1,30,800
10,000 equity shares of Rs.100 each	10,00,000	Plant & Machinery	42,200
<u>Issued Capital</u>		Debtors	76,500
7,500 Pref shares of Rs. 100each	7,50,000	Stock	55,000
5,000 Equity shares of Rs. 100each	5,00,000	Discount of issue of shares	18,000
Sundry Creditors	30,000	Preliminary expenses	12,000
		P&L A/c	1,15,000
		Cash	500

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Bank Overdraft	20,000		
<b>Total</b>	<b>13,00,000</b>	<b>Total</b>	<b>13,00,000</b>

The Company suffered heavy losses and was not getting on well. The following scheme of reconstruction was adopted:

- a. Rs. 100 of Preference shares be reduced to an equal number of fully paid shares of Rs. 50 each
- b. Rs. 100 equity shares be reduced to an equal number of fully paid shares of Rs. 25 each
- c. The amount so made available for the reduction of the assets to be apportioned as follows: Rs. 30,800 off lease hold premises, Rs. 15,000 off the stock, 20% off plant and machinery and debtors and the balance available to be written off patents. Pass Journal entries and prepare the Balance Sheet after reconstruction.

4. State the affair of Earnest Company Ltd on 31-03-2021 was as follows:

Liability	Amount	Assets	Amount
20,000, Equity shares of 10 each	2,00,000	Goodwill	80,000
15,000, 7% Preference shares of 10 each	1,50,000	Buildings	1,75,000
13,000, 5% Preference shares of 10 each Rs. 5 paid	65,000	Machinery	3,25,000
5% Debentures	1,50,000	Patents	54,000
8% Debentures	3,00,000	Furnitures	15,000
Sundry Creditors	4,50,000	Investment	75,000
Debentures Interest Due	19,500	Sundry Debtors	4,15,000
		Cash	2,000
		Bank	18,000
		Profit and Loss Account	1,75,500
<b>Total</b>	<b>13,34,500</b>	<b>Total</b>	<b>13,34,500</b>

The Following Scheme of Capital Reduction was submitted and Approved by Court

- a. Equity shares of Rs. 10 each to be reduced to Rs. 5 each
- b. 7% Preference shares of Rs. 10 each fully paid to be reduced to 6% Preference shares of Rs.10 each, Rs. 6 per share paid
- c. 5% Preference shares of Rs. 10 each, Rs. 5 paid up were to be reduced to 4 ½ % Preferencesharses of Rs. 10 each, Rs. 3 Per share paid.
- d. The debenture holders agreed to forgo the interest due to them.

5. On April 1, 2021, the Balance Sheet of Western Ltd., was as follows:

Liabilities	Amount	Assets	Amount
Share Capital:		Mumbai Works	20,00,000
Authorised, issued and paid up		Kolkata Works	10,00,000
4,00,000 Equity ordinary shares of 5 each fully paid	20,00,000	Investments	35,000
3,00,000, 6% Preference shares of 5 each, fully paid	15,00,000	Stock	1,15,000
‘A’, 6% Debentures secured on Mumbai Works	1,00,000	Debtors	50,000
‘B’, 6% Debentures secured on		Discount on Debentures	
		‘A’	2,500
		‘B’	10,000
		Profit and Loss Account	16,22,500

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Kolkata Works	2,50,000		
Workmen's Compensation Funds:			
Mumbai	25,000		
Kolkata	<u>10,000</u>	35,000	
Bank Overdraft		7,50,000	
Creditors		2,00,000	
<b>Total</b>	<b>48,35,000</b>	<b>Total</b>	<b>48,35,000</b>

On April 1, 2021, a scheme to reduce the capital implemented the following:

- a) The ordinary shares were reduced to Re. 0.25 each.
- b) The preference shares were reduced to Rs. 3.75 each, and the rate of dividend on them to 5%
- c) The 'A' and 'B' debenture holders waived payment of Rs. 42,000 interests (which was included in creditors)
- d) The directors were to refund Rs 50,000 fees they had received.
- e) The 'B' Debenture holders formed a new company to take over the Kolkata Works for Rs. 5,00,000 and this price was satisfied on the same date by the surrender of the 'B' Debentures and the allotment of 50,000 fully paid shares of Rs. 5 each in the new company.
- f) The investment was valued at Rs. 25,000, stock Rs. 50,000 and the debtors at Rs. 40,000. There was no actual liability to workmen at Kolkata. The assets were to be written down accordingly: any fictitious assets were to be eliminated; only necessary reserves were to be retained and the balance available was to be written off to the book value of the Mumbai works

Journalise these transactions and prepare the balance sheet after this scheme is carried out.

6. Balance Sheet of Giri Ltd. as at 31-03-2016 was as follows:

Liabilities	Amount	Assets	Amount
Share Capital:		Goodwill	30,000
4,000, Preference shares of 100 each	4,00,000	Freehold Premises	4,00,000
8,000, Equity shares of 100 each	8,00,000	Plant	6,00,000
5% mortgage debentures	2,00,000	Stock	1,00,000
Bank Overdraft	1,00,000	Debtors	80,000
Creditors	2,00,000	Profit and Loss Account	4,90,000
<b>Total</b>	<b>17,00,000</b>	<b>Total</b>	<b>17,00,000</b>

The following scheme was approved by the court for the company.

- a) Preference shares to be reduced to Rs. 75 per share and equity shares to Rs. 37.50.
- b) Debenture holders to take over stock and debtors in full satisfaction of the amount due to them.
- c) Goodwill to be eliminated completely.
- d) Freehold premises to be depreciated by 50%.
- e) Plant to be appreciated by Rs. 1,00,000.

Give journal entries and prepare the Revised Balance Sheet.

7. Following is the Balance Sheet of Sick Ltd. as on 31-03-2021:

Liabilities	Amount	Assets	Amount
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Equity shares of Rs. 10 each	7,00,000	Fixed	15,00,000
13% Cumulative Preference shares of Rs. 100 each	1,00,000	Assets	35,00,000
8% Debentures	3,00,000	Current	3,00,000
Current Liabilities	39,00,000	Assets	
Provision for Taxation	3,00,000	Profit and Loss Account	
<b>Total</b>	<b>53,00,000</b>	<b>Total</b>	<b>53,00,000</b>

Following scheme of reorganisation is sanctioned:

- a) All existing equity shares are reduced to Rs. 5 Each.
- b) All preference shares are reduced to Rs. 75 Each.
- c) The rate of interest on debentures is increased to 11%. The debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 75 each.
- d) One of the creditors of the company, to whom the company owns Rs. 25,00,000, decided to forego 50% of his claim.
- e) The taxation liability of the Co's is settled at Rs. 4,00,000.
- f) Fixed Assets are to be written down by 33 1/3 %.
- g) Current Assets are to be revalued at Rs. 27,00,000.

Pass Journal entries and prepare Balance Sheet after the re-construction is affected.

8. The Balance sheet of Nischal Ltd., as at 31-03-2021 is as under:

Equity & Liabilities	Amount
12% Preference shares of Rs. 100 each fully paid	12,00,000
Equity shares of Rs. 10 each fully paid	12,00,000
10% Debentures	8,00,000
Outstanding interest on Debentures	80,000
Bank Overdraft	60,000
Sundry Creditors	3,00,000
<b>Total</b>	<b>36,40,000</b>

Assets	Amount
Goodwill	2,00,000
Land and Building	12,00,000
Plant and Machinery	10,00,000
Furniture and Fixtures	3,00,000
Patents and Patterns	1,50,000
Stock	1,00,000
Debtors	1,30,000
Cash and Bank	60,000
Profit and Loss account	5,00,000
<b>Total</b>	<b>36,40,000</b>

Nischal Ltd., passed a special resolution to reconstruct its affairs and got sanction for the same from the relevant court and the scheme of reconstruction is as under:

- a) The 12% preference shares are to be converted into same number of 15% preference shares of Rs. 75 each fully paid.

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- b) The equity shares are to be converted into same number of equity shares of Rs. 5 each fully paid.
- c) Debenture holders agree to forego interest outstanding subject to the condition that the rate of interest be increased to 15%.
- d) Creditors agree to forego 25% of their claim.
- e) Land and Buildings be valued at Rs. 15,00,000.
- f) The amount thus made available be utilized to write off fictitious assets to bring down the value of Plant and Machinery by 40%.

You are required to pass necessary journal entries and prepare the reconstructed balance sheet.

9. Balance sheet of Farewell Ltd. as on 31-3-2018 was

Liabilities	Amount	Assets	Amount
2,000, Preference shares of 100 each	2,00,000	Goodwill	15,000
4,000, Equity shares of 100 each	4,00,000	Land and Buildings	2,00,000
8% Mortgage debentures	1,00,000	Plant	3,00,000
Bank Loan	50,000	Stock	50,000
Sundry Creditors	1,00,000	Debtors	20,000
		Cash	20,000
		Profit and Loss Account	2,45,000
<b>Total</b>	<b>8,50,000</b>	<b>Total</b>	<b>8,50,000</b>

The following scheme of internal reconstruction was approved by the court.

- 1) Preference shares are to be reduced to 50 per share fully paid.
- 2) Equity shares are to be reduced to 25 each fully paid.
- 3) 8% Debentures holders to take over stock and debtors in full settlement of their amount.
- 4) Cost of reconstruction Rs. 15,000.
- 5) Eliminate Goodwill and Profit and Loss Account completely.
- 6) Plant value is reduced to 50% of its present value.

Journalise the Entries for the above scheme of internal reconstruction and prepare reconstructed balance sheet.

### Surrender of Shares

10. The position of the company on 31/03/2021 was as follows

- a) 20,000 Equity shares of Rs 100 each – Rs 20,00,000
- b) 10,000 6% debentures of Rs 100 each – Rs 10,00,000
- c) Interest due on debentures – Rs 1,20,000

The book value of all the fixed assets and current assets of the company was Rs 9,40,000. The following was the scheme approved by the court.

- a) The existing shares to be converted into shares of Rs 5 each and 90% of these shares to be surrendered by the shareholders.
- b) The total amount due to debenture holders to be satisfied by the issue of new 8% debentures for Rs 4,90,000.
- c) Issue of new Equity shares of Rs 5 each for Rs 2,50,000 (Out of surrendered shares)
- d) Shares surrendered and not issued to be cancelled.
- e) Accumulated losses to be written off.

Draft the suitable journal entries for the above details.

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11. Balance Sheet of A Ltd as on 31<sup>st</sup> March 2021.

Liabilities	Amount	Assets	Amount
<b>Authorised &amp; Issued Capital</b>		Fixed Assets	14,30,000
8,000 Shares of Rs 100 each	8,00,000	Stock	80,000
6% Debentures	14,00,000	Debtors	30,000
Interest accrued on the above	70,000	Investments	17,000
Trade Creditors	4,50,000	Cash	1,03,000
Income Tax due	10,000	Profit and Loss A/c	10,70,000
<b>Total</b>	<b>27,30,000</b>	<b>Total</b>	<b>27,30,000</b>

The following scheme of reorganization was approved and confirmed by the court.

- a) Each share shall be sub divided into 20 fully paid equity shares of Rs 5 each.
- b) After subdivision, each shareholders shall surrender 95% of their holdings for the company for the purpose of re-issue to debentures holders and creditors as far as requirement.
- c) Of the surrendered shares 46,000 shares of Rs 5 each shall be converted into 8% participating preference shares of Rs 5 each fully paid.
- d) Debenture holders claims to be reduced to 2,30,000. This will be satisfied by the issue to them of 46,000 participative preference shares of Rs 5 each.
- e) The claims of unsecured creditors shall be reduced by 80% and the balance shall be satisfied by allotting them equity shares of Rs 5 each fully paid from the shares surrendered.
- f) Shares surrendered and not issued shall be cancelled.

Journalise the various entries and prepare the balance sheet after reconstruction assuming that the tax liability is not paid.