

## INTERNAL RECONSTRUCTION

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### BASIC CONCEPTS

- Reconstruction is a process by which affairs of a company are reorganized by revaluation of assets, reassessment of liabilities and by writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares.
- Reconstruction account is a new account opened to transfer the sacrifice made by the shareholders for that part of capital which is not represented by lost assets.
- Reconstruction account is utilized for writing-off fictitious and intangible assets, writing down over-valued fixed assets, recording new liability etc.
- If some credit balance remains in the reconstruction account, the same should be transferred to the capital reserve account.
- Methods of Internal reconstruction :
  - Alteration of share capital :
    - Sub-divide or consolidate shares into smaller or higher Denomination
    - Conversion of share into stock or vice-versa
  - Variation of shareholders' rights :
    - Only the specific rights are changed. There is no change in the amount of capital.
  - Reduction of share capital
  - Compromise, arrangements etc.
  - Surrender of Shares.

### Question 1

*Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the Company on 31.3.2012 before reconstruction :*

**Balance Sheet of Green Limited as at 31.3.2012**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
<i>Share Capital:</i>		<i>Fixed Assets:</i>	
<i>Authorised:</i>		<i>Goodwill</i>	20,00,000
1,50,000 Equity Shares of Rs. 50 each	<u>75,00,000</u>	<i>Building</i>	10,00,000
<i>Subscribed and Paid up Capital:</i>		<i>Plant</i>	10,00,000
50,000 Equity Shares of Rs. 50 each	25,00,000	<i>Computers</i>	25,00,000
1,00,000 Equity Shares of Rs. 50 each,		<i>Investments</i>	Nil
Rs. 40 per share paid up	40,00,000	<i>Current Assets</i>	Nil
<i>Secured Loans:</i>		<i>Profit and Loss A/c-Loss</i>	20,00,000
12% First Debentures	5,00,000		
12% Second Debentures	10,00,000		
<i>Current Liabilities:</i>			
<i>Sundry Creditors</i>	5,00,000		
	<u>85,00,000</u>		<u>85,00,000</u>

The following is the interest of Mr. X and Mr. Y in Green Limited:

	<i>Mr. X</i>	<i>Mr. Y</i>
	<i>Rs.</i>	<i>Rs.</i>
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
<i>Sundry Creditors</i>	2,00,000	1,00,000
	<u>12,00,000</u>	<u>6,00,000</u>
<i>Fully paid up Rs. 50 shares</i>	3,00,000	2,00,000
<i>Partly paid up shares (Rs. 40 paid up)</i>	5,00,000	5,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

- Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of Rs. 20 each.
- Mr. X is to cancel Rs. 7,00,000 of his total debt (other than share amount) and to pay Rs. 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.

- (c) Mr. Y is to cancel Rs. 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.
- (d) The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.

You are required to draw the Journal Entries to record the same and also show the Balance Sheet of the reconstructed company. **(November, 2000)**

**Answer**

**Green Limited  
Journal Entries**

		<i>Dr.</i>	<i>Cr.</i>
		<i>Rs.</i>	<i>Rs.</i>
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	
Sundry Creditors 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	

Sundry Creditors Account	Dr.	1,00,000	
To Y			6,00,000
(The total amount due to Y, transferred to his account)			

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, 2012**

Particulars		Notes	Rs.
<b>Equity and Liabilities</b>			
<b>1</b>	<b>Shareholders' funds</b>		
A	Share capital	1	30,00,000
<b>2</b>	<b>Non-current liabilities</b>		
A	Long-term borrowings	2	10,00,000
<b>3</b>	<b>Current liabilities</b>		
A	Trade Payables		2,00,000
	<b>Total</b>		<b>42,00,000</b>
<b>Assets</b>			
<b>1</b>	<b>Non-current assets</b>		
A	Fixed assets		

	Tangible assets	3	30,00,000
<b>2</b>	<b>Current assets</b>		
	Cash and cash equivalents		12,00,000
	<b>Total</b>		<b>42,00,000</b>

## Notes to accounts

		Rs.
<b>1. Share Capital</b>		
Equity share capital		
Issued, subscribed and paid up		
150,000 equity shares of Rs. 20 each		30,00,000
	<b>Total</b>	<b>30,00,000</b>
<b>2. Long-term borrowings</b>		
Secured		
14% First Debentures		10,00,000
	<b>Total</b>	<b>10,00,000</b>
<b>3. Tangible assets</b>		
Building		10,00,000
Plant		10,00,000
Computers		10,00,000
	<b>Total</b>	<b>30,00,000</b>

## Working Note:

## Capital Reduction Account

	Rs.		Rs.
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

## Question 2

The following is the Balance sheet of Weak Ltd. as on 31.3.2012:

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs.100 each	1,00,00,000	Fixed assets	1,25,00,000
12% cumulative preference shares of Rs.100 each	50,00,000	Investments (Market value Rs.9,50,000)	10,00,000
10% debentures of Rs.100 each	40,00,000	Current assets	1,00,00,000
Sundry creditors	50,00,000	P & L A/c	4,00,000
Provision for taxation	1,00,000	Preliminary expenses	2,00,000
	2,41,00,000		2,41,00,000

The following scheme of reorganization is sanctioned:

- (i) All the existing equity shares are reduced to Rs.40 each.
- (ii) All preference shares are reduced to Rs.60 each.
- (iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of Rs.100 each and exchange the same for fresh debentures of Rs.70 each for every debenture held by them.
- (iv) One of the creditors of the company to whom the company owes Rs.20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of Rs.40 each in full satisfaction of his claim.
- (v) Fixed assets are to be written down by 30%.
- (vi) Current assets are to be revalued at Rs.45,00,000.
- (vii) The taxation liability of the company is settled at Rs.1,50,000.
- (viii) Investments to be brought to their market value.
- (ix) It is decided to write off the fictitious assets.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above. **(May, 2007)**

## Answer

### Journal Entries in the books of Weak Ltd.

		Rs.	Rs.
(i)	Equity share capital (Rs.100) A/c	Dr.	1,00,00,000
	To Equity Share Capital (Rs.40) A/c		40,00,000

	To Capital Reduction A/c (Being conversion of equity share capital of Rs.100 each into Rs.40 each as per reconstruction scheme)		60,00,000
(ii)	12% Cumulative Preference Share capital (Rs.100) A/c Dr. To 12% Cumulative Preference Share Capital (Rs.60) A/c To Capital Reduction A/c (Being conversion of 12% cumulative preference share capital of Rs.100 each into Rs.60 each as per reconstruction scheme)	50,00,000	30,00,000 20,00,000
(iii)	10% Debentures A/c Dr. To 12% Debentures A/c To Capital Reduction A/c (Being 12% debentures issued to 10% debenture-holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)	40,00,000	28,00,000 12,00,000
(iv)	Sundry Creditors A/c Dr. To Equity Share Capital A/c To Capital Reduction A/c (Being a creditor of Rs.20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of Rs.40 each in full settlement of his dues as per reconstruction scheme)	20,00,000	12,00,000 8,00,000
(v)	Provision for Taxation A/c Dr. Capital Reduction A/c Dr. To Liability for Taxation A/c (Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)	1,00,000 50,000	1,50,000
(vi)	Capital Reduction A/c Dr. To P & L A/c To Preliminary Expenses A/c To Fixed Assets A/c To Current Assets A/c To Investments A/c	99,50,000	4,00,000 2,00,000 37,50,000 55,00,000 50,000

	To Capital Reserve A/c (Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Preliminary Expenses, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)		50,000
(vii)	Liability for Taxation A/c To Current Assets (Bank A/c) (Being the payment of tax liability)	Dr.	1,50,000 1,50,000

**Balance Sheet of Weak Ltd. (and reduced) as on 31.3.2012**

Particulars		Notes	Rs.
<b>Equity and Liabilities</b>			
<b>1</b>	<b>Shareholders' funds</b>		
a	Share capital	1	82,00,000
b	Reserves and Surplus	2	50,000
<b>2</b>	<b>Non-current liabilities</b>		
a	Long-term borrowings	3	28,00,000
<b>3</b>	<b>Current liabilities</b>		
a	Trade Payables		30,00,000
	<b>Total</b>		<b>1,40,50,000</b>
<b>Assets</b>			
<b>1</b>	<b>Non-current assets</b>		
a	Fixed assets		
	Tangible assets	4	87,50,000
b	Investments	5	9,50,000
<b>2</b>	<b>Current assets</b>	6	43,50,000
	<b>Total</b>		<b>1,40,50,000</b>

**Notes to accounts**

		Rs.
<b>1. Share Capital</b>		
Equity share capital		
Issued, subscribed and paid up		



150,000 equity shares of Rs. 20 each		52,00,000
Preference share capital		
Issued, subscribed and paid up		
12% Cumulative Preference shares of Rs. 60 each		30,00,000
<b>Total</b>		<b>82,00,000</b>
<b>2. Reserves and Surplus</b>		
Capital Reserve		50,000
<b>3. Long-term borrowings</b>		
Secured		
12% Debentures		28,00,000
<b>4. Tangible assets</b>		
Fixed Assets	1,25,00,000	
Adjustment under scheme of reconstruction	(37,50,000)	87,50,000
<b>5. Investments</b>	10,00,000	
Adjustment under scheme of reconstruction	(50,000)	9,50,000
<b>6. Current assets</b>	45,00,000	
Adjustment under scheme of reconstruction	(1,50,000)	43,50,000

**Working Note:**
**Capital Reduction Account**

	Rs.		Rs.
To Liability for taxation A/c	50,000	By Equity share capital	60,00,000
To P & L A/c	4,00,000	By 12% Cumulative preference share capital	20,00,000
To Preliminary expenses	2,00,000	By 10% Debentures	12,00,000
To Fixed assets	37,50,000	By Sundry creditors	8,00,000

To Current assets	55,00,000		
To Investment	50,000		
To Capital Reserve (balancing figure)	50,000		
	<u>1,00,00,000</u>		<u>1,00,00,000</u>

**Question 3**

The following is the summarized Balance Sheet of X Ltd. as on 31<sup>st</sup> March, 2012:

Liabilities	Rs.	Assets	Rs.
12,000, 10% Preference shares of Rs.100 each	12,00,000	Goodwill	90,000
24,000, Equity shares of Rs.100 each	24,00,000	Land & building	12,00,000
10% Debentures	6,00,000	Plant & machinery	18,00,000
Bank overdraft	6,00,000	Stock	2,60,000
Sundry Creditors	3,00,000	Debtors	2,80,000
		Cash	30,000
		Profit & Loss Account	14,00,000
		Preliminary expenses	40,000
	<u>51,00,000</u>		<u>51,00,000</u>

On the above date, the company adopted the following scheme of reconstruction:

- (i) The equity shares are to be reduced to shares of Rs.40 each fully paid and the preference shares to be reduced to fully paid shares of Rs.75 each.
- (ii) The debenture holders took over stock and debtors in full satisfaction of their claims.
- (iii) The Land and Building to be appreciated by 30% and Plant and machinery to be depreciated by 30%.
- (iv) The fictitious and intangible assets are to be eliminated.
- (v) Expenses of reconstruction amounted to Rs.5,000.

Give journal entries incorporating the above scheme of reconstruction and prepare the reconstructed Balance Sheet. **(November, 2009)**

## Answer

**In the books of X Ltd.**  
**Journal Entries**

31 <sup>st</sup> March, 2012		Rs.	Rs.
(i)	Equity Share Capital A/c (Rs. 100) <span style="float: right;">Dr.</span> To Equity Share Capital A/c (Rs. 40) To Capital Reduction A/c (Being 24,000 equity shares of Rs.100 each reduced to Rs.40 each fully paid up)	24,00,000	9,60,000 14,40,000
(ii)	10% Preference Share Capital A/c (Rs.100) <span style="float: right;">Dr.</span> To 10% Preference Share Capital A/c (Rs.75) To Capital Reduction A/c (Being 12,000 Preference shares of Rs.100 each reduced to Rs.75 each fully paid up)	12,00,000	9,00,000 3,00,000
(iii)	10% Debentures A/c <span style="float: right;">Dr.</span> To Stock A/c To Debtors A/c To Capital Reduction A/c (Being Debenture holders given stock and debtors in full settlement of their claims)	6,00,000	2,60,000 2,80,000 60,000
(iv)	Land & Building A/c <span style="float: right;">Dr.</span> To Capital Reduction A/c (Being Land & Building appreciated by 30%)	3,60,000	3,60,000
(v)	Reconstruction expenses A/c <span style="float: right;">Dr.</span> To Cash A/c (Being expenses of reconstruction paid)	5,000	5,000
(vi)	Capital Reduction A/c <span style="float: right;">Dr.</span> To Goodwill A/c To Profit and Loss A/c To Plant & Machinery A/c To Preliminary expenses A/c To Reconstruction expenses A/c To Capital Reserve A/c (Bal. Fig.) (Being various losses written off, assets written down and balance in Capital Reduction A/c transferred to Capital Reserve A/c)	21,60,000	90,000 14,00,000 5,40,000 40,000 5,000 85,000

**Balance Sheet (And Reduced) of X Ltd.**  
as at 31<sup>st</sup> March, 2012

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

**Notes to accounts**

			Rs.
<b>1. Share Capital</b>			
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
<b>Total</b>			<b>18,60,000</b>
<b>2. Reserves and Surplus</b>			
Capital Reserve			85,000
<b>3. Tangible assets</b>			
Land and Building	15,60,000		
Plant and Machinery	12,60,000		
<b>Total</b>			<b>28,20,000</b>

## Question 4

The following scheme of reconstruction has been approved for Win Limited:

- (i) The shareholders to receive in lieu of their present holding at 1,00,000 shares of Rs.10 each, the following:
  - (a) New fully paid Rs.10 Equity shares equal to  $\frac{3}{5}$ <sup>th</sup> of their holding.
  - (b) 10% Preference shares fully paid to the extent of  $\frac{1}{5}$ <sup>th</sup> of the above new equity shares.
  - (c) Rs.40,000, 8% Debentures.
- (ii) An issue of Rs.1 lakh 10% first debentures was made and allotted, payment for the same being received in cash forthwith.
- (iii) Goodwill which stood at Rs.1,40,000 was completely written off.
- (iv) Plant and machinery which stood at Rs.2,00,000 was written down to Rs.1,50,000.
- (v) Freehold property which stood at Rs.1,50,000 was written down by Rs.50,000.

You are required to draw up the necessary Journal entries in the Books of Win Limited for the above reconstruction. Suitable narrations to Journal entries should form part of your answer.

(May, 2010)

## Answer

## Journal Entries

		Rs.	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			1,20,000
To 8% Debentures A/c			40,000
To Reconstruction 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 Application & Allotment A/c			1,00,000
(Being amount received on issue of 10% First Debentures for application and allotment Account)			

10% First Debentures Application and allotment A/c To 10% First Debentures Account (Being allotment of 10% first Debentures)	Dr.	1,00,000	1,00,000
Reconstruction A/c To Goodwill Account To Plant and Machinery Account To Freehold Property Account (Being Reconstruction Account utilized for writing off of Goodwill, Plant and Machinery and Freehold property as per the scheme)	Dr.	2,40,000	1,40,000 50,000 50,000

**Question 5**

The following is the summarized Balance Sheet of Bumbum Limited as at 31<sup>st</sup> March, 2012:

	₹
Sources of funds	
<i>Authorized capital</i>	
50,000 Equity shares of ₹ 10 each	5,00,000
10,000 Preference shares of ₹ 100 each	<u>10,00,000</u>
	<u>15,00,000</u>
<i>Issued, subscribed and paid up</i>	
30,000 Equity shares of ₹ 10 each	3,00,000
5,000, 8% Redeemable Preference shares of ₹ 100 each	5,00,000
<i>Reserves &amp; Surplus</i>	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	1,80,000
2,500, 9% Debentures of ₹ 100 each	2,50,000
Sundry Creditors	<u>1,70,000</u>
	<u>26,50,000</u>
Application of funds	
Fixed Assets (net)	7,80,000
Investments (market value ₹ 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Sundry Debtors	6,20,000

Cash & Bank balance	2,80,000
Preliminary expenses	<u>1,40,000</u>
	<u>26,50,000</u>

In Annual General Meeting held on 20<sup>th</sup> June, 2012 the company passed the following resolutions:

- (i) To split equity share of ₹10 each into 5 equity shares of ₹2 each from 1<sup>st</sup> July, 2012.
- (ii) To redeem 8% preference shares at a premium of 5%.
- (iii) To redeem 9% Debentures by making offer to debenture holders to convert their holdings into equity shares at ₹ 10 per share or accept cash on redemption.
- (iv) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10<sup>th</sup> July, 2012 investments were sold for ₹ 5,55,000 and preference shares were redeemed.

40% of Debentureholders exercised their option to accept cash and their claims were settled on 1<sup>st</sup> August, 2012.

The company fixed 5<sup>th</sup> September, 2012 as record date and bonus issue was concluded by 12<sup>th</sup> September, 2012.

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30<sup>th</sup> September, 2012. All working notes should form part of your answer. **(November, 2010)**

**Answer**

**Bumbum Limited**  
**Journal Entries**

2009		Dr. (₹)	Cr. (₹)
July 1	Equity Share Capital A/c (₹ 10 each) <span style="float: right;">Dr.</span> To Equity share capital A/c (₹ 2 each) (Being equity share of ₹ 10 each splitted into 5 equity shares of ₹ 2 each)	3,00,000	3,00,000
July 10	Cash & Bank balance A/c <span style="float: right;">Dr.</span> To Investment A/c To Profit & Loss A/c (Being investment sold out and profit on sale credited to Profit & Loss A/c)	5,55,000	4,90,000 65,000

July 10	8% Redeemable preference share capital A/c Dr. Premium on redemption of preference share A/c Dr. To Preference shareholders A/c (Being amount payable to preference share holders on redemption)	5,00,000 25,000	5,25,000
July 10	Preference shareholders A/c Dr. To Cash & bank A/c (Being amount paid to preference shareholders)	5,25,000	5,25,000
July 10	Securities premium A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)	5,00,000	5,00,000
Aug 1	9% Debentures A/c Dr. Interest on debentures A/c Dr. To Debenture holders A/c (Being amount payable to debenture holders along with interest payable)	2,50,000 7,500	2,57,500
Aug. 1	Debenture holders A/c Dr. To Cash & bank A/c (1,00,000 + 7,500) To Equity share capital A/c To Securities premium A/c (Being claims of debenture holders satisfied)	2,57,500	1,07,500 30,000 1,20,000
Sept. 5	Securities premium A/c Dr. To Bonus to shareholders A/c (Being securities premium capitalized to issue bonus shares)	1,10,000	1,10,000
Sept. 12	Bonus to shareholders A/c Dr. To Equity share capital A/c (Being 55,000 fully paid equity shares of ₹ 2 each issued as bonus in ratio of 1 share for every 3 shares held)	1,10,000	1,10,000



Sept. 30	Securities Premium A/c To Premium on redemption of preference shares A/c (Being premium on preference shares adjusted from securities premium account)		25,000	25,000
Sept. 30	Profit & Loss A/c To Interest on debentures A/c (Being interest on debentures transferred to Profit and Loss Account)	Dr.	7,500	7,500

**Note:** For capitalisation of Bonus shares and transfer to capital redemption reserve account any other free reserves given in the balance sheet may also be used.

### Balance Sheet as at 30<sup>th</sup> September, 2012

Particulars		Notes	Rs.
<b>Equity and Liabilities</b>			
<b>1</b>	<b>Shareholders' funds</b>		
a	Share capital	1	4,40,000
b	Reserves and Surplus	2	14,72,500
<b>2</b>	<b>Current liabilities</b>		
a	Trade Payables		1,70,000
<b>Total</b>			<b>20,82,500</b>
<b>Assets</b>			
<b>1</b>	<b>Non-current assets</b>		
a	Fixed assets		
	Tangible assets		7,80,000
<b>2</b>	<b>Current assets</b>		
	Cash and cash equivalents		2,02,500
	Trade payables		6,20,000
	Other current assets	3	4,80,000
<b>Total</b>			<b>20,82,500</b>

### Notes to accounts

		Rs.
<b>1. Share Capital</b>		
Authorized share capital		
2,50,000 Equity shares of ` 2 each	5,00,000	

10,000 Preference shares of ₹ 100 each	<u>10,00,000</u>	
		<u>15,00,000</u>
Issued, subscribed and paid up		
2,20,000 Equity shares of ₹ 2 each		4,40,000
<b>2. Reserves and Surplus</b>		
Securities Premium	85,000	
Capital Redemption Reserve	5,00,000	
General Reserve	6,50,000	
Profit & Loss A/c (1,80,000 + 65,000 – 7,500)	2,37,500	
<b>Total</b>		<b>14,72,500</b>
<b>3. Other current assets</b>		
Preliminary expenses	1,40,000	
Deferred tax assets	3,40,000	
<b>Total</b>		<b>4,80,000</b>

**Working Notes:**

	₹
<b>1. Redemption of preference share:</b>	
5,000 Preference shares of ₹ 100 each	5,00,000
Premium on redemption @ 5%	<u>25,000</u>
Amount Payable	<u>5,25,000</u>
<b>2. Redemption of Debentures</b>	
2,500 Debentures of ₹ 100 each	2,50,000
Less: Cash option exercised by 40% holders	<u>(1,00,000)</u>
Conversion option exercised by remaining 60%	<u>1,50,000</u>
Equity shares issued on conversion = $\frac{1,50,000}{10} = 15,000$ shares	
<b>3. Issue of Bonus Shares</b>	
Existing equity shares after split (30,000 x 5)	1,50,000 shares
Equity shares issued on conversion	<u>15,000 shares</u>
Equity shares entitled for bonus	<u>1,65,000 shares</u>
Bonus shares (1 share for every 3 shares held) to be issued	55,000 shares

<b>4. Securities Premium A/c</b>	
Balance as per balance sheet	6,00,000
Add: Premium on equity shares issued on conversion of debentures (15,000 x 8)	<u>1,20,000</u>
	7,20,000
Less: Capitalization for bonus issue (55,000 x 2)	(1,10,000)
Adjustment for premium on preference shares	(25,000)
Transfer to capital redemption reserve	<u>(5,00,000)</u>
Balance	<u>85,000</u>
<b>5. Cash and Bank Balance</b>	
Balance as per balance sheet	2,80,000
Add: Realization on sale of investment	<u>5,55,000</u>
	8,35,000
Less: Paid to preference share holders	(5,25,000)
Paid to Debenture holders (7,500 + 1,00,000)	<u>(1,07,500)</u>
Balance	<u>2,02,500</u>

6. Interest of ₹ 7,500 paid to debenture holders have been debited to Profit & Loss Account.

### EXERCISES

1. *The paid-up capital of Toy Ltd. amounted to Rs. 2,50,000 consisting of 25,000 equity shares of Rs. 10 each. Due to losses incurred by the company continuously, the directors of the company prepared a scheme for reconstruction which was duly approved by the court. The terms of reconstruction were as under:*
- (i) *In lieu of their present holdings, the shareholders are to receive:*
    - (a) *Fully paid equity shares equal to 2/5th of their holding.*
    - (b) *5% preference shares fully paid-up to the extent of 20% of the above new equity shares.*
    - (c) *3,000 6% second debentures of Rs. 10 each.*
  - (ii) *An issue of 2,500 5% first debentures of Rs. 10 each was made and fully subscribed in cash.*
  - (iii) *The assets were reduced as follows:*
    - (a) *Goodwill from Rs. 1,50,000 to Rs. 75,000.*
    - (b) *Machinery from Rs. 50,000 to Rs. 37,500.*
    - (c) *Leasehold premises from Rs. 75,000 to Rs. 62,500.*
- Show the journal entries to give effect to the above scheme of reconstruction.*