

Internal Reconstruction

Q.1. Illustration 24

Following is the summary balance sheet of M/s Sonam Limited as on 31st March, 2018:

Summary Balance sheet as on 31-3-2018

Liabilities	₹	Assets	₹
10% Preference shares of ₹ 10 each	5,00,000	Goodwill	2,00,000
Equity shares of ₹ 10 each	10,00,000	Land and 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
Total	26,00,000	Total	26,00,000

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

- Each Equity share will be written down from ₹ 10 to ₹ 6 fully paid up.
- 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 fully paid up.
- 10% Debentures holders agreed to waive 20% of their rights.
- Assets were revalued as: Land and building ₹ 12,00,000
 - Stock to be reduced by 20%
- Creditors due are settled as follows:
 - 30% immediate payment
 - 50% paid by issue of 10% debentures
 - 20% amount cancelled.
- All Intangible and fictitious assets are to be written off.
- 10,000 Equity shares of ₹ 6 each were issued to public for cash.

You are required to prepare:

- Capital Reduction Account
- Balance sheet of sonam Limited after reconstruction.

Q.2. Illustration 17

Following is the summary balance sheet of Satyaraj Ltd. As on 31st March 2018.

Liabilities	₹	Assets	₹
SHARE CAPITAL		Goodwill	3,40,000
1,60,000 Equity Shares of ₹ 5 each fully paid	8,00,000	Land & Building	2,60,000
4,000 6% Cumulative Preference Shares of ₹ 100 each fully paid	4,00,000	Equipment's	2,50,000
8% Debentures (₹ 100 each)	1,50,000	Sundry debtors	2,40,970
Bank Overdraft	3,40,360	Stock	3,30,340
Sundry Creditors		Investment	45,450
(Including ₹ 20,000 interest due on bank overdraft)		Cash at Bank	20,240
		Profit & Loss A/c	6,03,360
	20,90,360		20,90,360

Preference dividend is in arrears for five years. Following scheme of reconstruction was approved by the court.

1. Equity shares be reduced to ₹ 1.25 each and then to be consolidated into share of ₹ 10 each.
2. 6% Preference shares be reduced to ₹ 40 each and then to be subdivided into shares of ₹ 10 each.
3. Interest accrued but not due on 8% Debentures for half year ended 31st March 2018 has not been provided in the above balance sheet. The debentures holder have agreed to receive 40% of this interest in cash immediately and provision for the balance be made in the books of account.
4. ₹ 24,000 be paid to preference shareholders in lieu of arrears of preference dividend.
5. The debentures holder have also agreed to accept equal number of 9% debentures of ₹ 60 each in exchange of 8% debentures of ₹ 100 each.
6. 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.
7. Investments be sold for ₹ 40,000.

Q.3. Illustration 16 : (BS before and after Reconstruction)

Following balance appeared in the books of anmol Ltd. As on 31-3-2018.

10,000 Equity Shares of ₹ 100 each, ₹ 80 per share paid up

5,000 10% Preference Shares of ₹ 100 each.

4,000 13% Debentures of ₹ 100 Each.

4,000 12% Debentures of ₹ 100 Each.

Outstanding interest on above Debentures for one year ₹ 52,000 and ₹ 48,000 respectively.

Sundry Creditors - ₹ 4,00,000, Bank Overdraft - ₹ 1,00,000, Goodwill - ₹ 2,00,000, Land - ₹ 3,00,000, Building - ₹ 7,00,000, Plant and Machinery - ₹ 4,00,000, Computer - ₹ 2,00,000, Stock - ₹ 3,00,000, Debtors - ₹ 1,00,000.

The Company has suffered heavy losses in the past.

Hence the following scheme of reconstruction was agreed by the shareholders and sanctioned by the court and implemented by the company.

- (a) The existing equity shareholders paid ₹ 20 per share in cash to make their shares fully paid up and then agreed to reduce them to ₹ 20 each fully paid.
- (b) 10% Preference shares were reduced by ₹ 40 each, however face value remained unchanged.
- (c) The claim of 13% Debentures along with outstanding interest was settled by issue of 4,000 – 14% Debentures of ₹ 100 each.
- (d) The claim of 12% Debentures along with outstanding interest was settled by issue of 4,200 – 12.5% Debentures of ₹ 100 each.
- (e) The assets were revalued as under:

Land - ₹ 5, 00,000	Building - ₹ 4, 00,000
Plant and Machinery - ₹ 2, 50,000	Computer - ₹ 1, 20,000

Fictitious and intangible assets were written off.

You are required to:

1. Prepare summary of Assets and liabilities of Anmol Ltd. Before reconstruction.

2. Pass necessary journal entries to record the above scheme of reconstruction in the books of Anmol Ltd.
3. Prepare Balance sheet of Anmol Ltd. After reconstruction.