

TOPIC : Internal Reconstruction

NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.

(2) NEW QUESTION SHOULD BE ON NEW PAGE

QUESTION NO.1

(10 MARKS)

The Summarised Balance Sheet of Revise Limited as at 31st March, 20X1 was as follows :

Liabilities	Rs.	Assets	Rs.
Authorised and subscribed capital: 10,000 Equity shares of Rs. 100 each fully paid	10,00,000	Fixed Assets : Machineries	1,00,000
Unsecured Loans : 12% Debentures	2,00,000	Current assets : Inventory	3,20,000
Accrued interest	24,000	Trade receivables	2,70,000
Current liabilities Trade payables-	72,000	Bank	30,000
Provision for income tax	24,000	Profit and loss accou	6,00,000
	13,20,000		13,20,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly, it was decided that:

- Each share is sub-divided into ten fully paid up equity shares of Rs. 10 each.
- After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.
- Out of shares surrendered, 10,000 shares of Rs. 10 each shall be converted into 12% preference shares of Rs. 10 each, fully paid up.
- The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of Rs. 1,00,000 which are converted out of shares surrendered.
- Trade payables claim shall be reduced to 50 per cent, it is to be settled by the issue of equity shares of Rs. 10 each out of shares surrendered.
- Balance of profit and loss account to be written off.
- The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet.

QUESTION NO.2**(20 MARKS)**

Platinum Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the draft Balance Sheet of the company as on 31st March, 2019 before reconstruction:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share Capital			
50,000 shares of Rs. 50 each fully paid up	25,00,000	Goodwill	22,00,000
1,00,000 shares of Rs. 50 each Rs. 40 paid up	40,00,000	Land & Building	42,70,000
Capital Reserve	5,00,000	Machinery	8,50,000
8% Debentures of Rs. 100 each	4,00,000	Computers	5,20,000
12% Debentures of Rs. 100 each	6,00,000	Inventories	3,20,000
Trade payables	12,40,000	Trade receivables	10,90,000
		Cash at Bank	2,68,000
Outstanding Expenses	<u>10,60,000</u>	Profit & Loss Account	7,82,000
Total	<u>1,03,00,000</u>	Total	<u>1,03,00,000</u>

Following is the interest of Mr. Shiv and Mr. Ganesh in Platinum Limited:

	Mr. Shiv	Mr. Ganesh
8% Debentures	3,00,000	1,00,000
12% Debentures	<u>4,00,000</u>	<u>2,00,000</u>
Total	<u>7,00,000</u>	<u>3,00,000</u>

The following scheme of internal reconstruction was framed and implemented, as approved by the court and concerned parties:

- (1) Uncalled capital is to be called up in full and then all the shares to be converted into Equity Shares of Rs. 40 each.
- (2) The existing shareholders agree to subscribe in cash, fully paid up equity shares of 40 each for Rs.12,50,000.
- (3) Trade payables are given option of either to accept fully paid equity shares of Rs. 40 each for the amount due to them or to accept 70% of the amount due to them in cash in full settlement of their claim. Trade payables for Rs. 7,50,000 accept equity shares and rest of them opted for cash towards full and final settlement of their claim.
- (4) Mr. Shiv agrees to cancel debentures amounting to Rs. 2,00,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due. He also agrees to subscribe further 15% Debentures in cash amounting to Rs. 1,00,000.
- (5) Mr. Ganesh agrees to cancel debentures amounting to Rs. 50,000 out of total debentures due to him and agree to accept 15% Debentures for the balance amount due.
- (6) Land & Building to be revalued at Rs. 51,84,000, Machinery at Rs. 7,20,000, Computers at Rs. 4,00,000, Inventories at Rs. 3,50,000 and Trade receivables at 10% less to as they are appearing in Balance Sheet as above.
- (7) Outstanding Expenses are fully paid in cash.

(8) Goodwill and Profit & Loss A/c will be written off and balance, if any, of Capital Reduction A/c will be adjusted against Capital Reserve.

You are required to pass necessary Journal Entries for all the above transactions and draft the company's Balance Sheet immediately after the reconstruction.

QUESTION NO.3

(10 MARKS)

The following is the Balance Sheet of Star Ltd. as on 31st March, 2019:

	Rs.
A. Equity & Liabilities	
1. Shareholders' Fund:	
(a) Share Capital:	
9,000 7% Preference Shares of Rs. 100 each fully paid	9,00,000
10,000 Equity Shares of Rs. 100 each fully paid	10,00,000
(b) Reserve & Surplus:	
Profit & Loss Account	(2,00,000)
2. Non-current liabilities:	
"A" 6% Debentures (Secured on Bombay Works)	3,00,000
"B" 6% Debentures (Secured on Chennai Works)	3,50,000
3. Current Liabilities and Provisions:	
(a) Workmen's Compensation Fund:	
Bombay Works	10,000
Chennai Works	5,000
(b) Trade Payables	<u>1,25,000</u>
Total	<u>24,90,000</u>
B. Assets:	
Non-current Assets:	
1. PPE:	
Bombay Works	9,50,000
Chennai Works	7,75,000
2. Investment:	
Investments for Workman's Compensation Fund	15,000
3. Current Assets:	
(a) Inventories	4,50,000
(b) Trade Receivables	2,50,000
(c) Cash at Bank	<u>50,000</u>
	<u>24,90,000</u>

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

- (i) Paid up value of 7% Preference Share to be reduced to Rs. 80, but the rate of dividend being raised to 9%.
- (ii) Paid up value of Equity Shares to be reduced to Rs. 10.
- (iii) The directors to refund Rs. 50,000 of the fees previously received by them.
- (iv) Debenture holders forego their interest of Rs. 26,000 which is included among the trade payables.

- (v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.
- (vi) "B" 6% Debenture holders agreed to take over the Chennai Works at Rs. 4,25,000 and to accept an allotment of 1,500 equity shares of Rs. 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works) they allotted 9,000 equity shares of Rs. 10 each fully paid at par to Star Ltd.
- (vii) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of Rs. 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.
- (viii) Inventory was to be written off by Rs. 1,90,000 and a provision for doubtful debts is to be made to the extent of Rs. 20,000.
- (ix) Chennai works completely written off.
- (x) Any balance of the Capital Reduction Account is to be applied as two-third to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.