

TOPICS : Buy Back of Share & 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 asset Inventory	3,20,000
Accrued interest	24,000	Trade receivables	2,70,000
Current liabilities		Bank	30,000
Trade payables-	72,000	Profit and loss account	6,00,000
Provision for income tax	24,000		
	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

(10 MARKS)

Following is the summarized Balance Sheet of Super Ltd. as on 31st March, 2018.

Liabilities	In Rs.
Share Capital	
Equity Shares of Rs. 10 each fully paid up	17,00,000
Reserves & Surplus	
Revenue Reserve	23,50,000
Securities Premium	2,50,000
Profit & Loss Account	2,00,000
Infrastructure Development Reserve	1,50,000
Secured Loan	
9% Debentures	22,50,000
Unsecured Loan	8,50,000
Current Maturities of Long term borrowings	<u>15,50,000</u>
	<u>93,00,000</u>
Assets	
Fixed Assets	
Tangible Assets	58,50,000
Current Assets	
Current Assets	<u>34,50,000</u>
	<u>93,00,000</u>

Super Limited wants to buy back 35,000 equity shares of Rs. 10 each fully paid up on 1st April, 2018 at Rs. 30 per share.

Buy Back of shares is fully authorized by its articles and necessary resolutions have been passed by the company towards this. The payment for buy back of shares will be made by the company out of sufficient bank balance available as part of the Current Assets.

Comment with calculations, whether the Buy Back of shares by the company is within the provisions of the Companies Act, 2013.

QUESTION NO.3

(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		Goodwill	22,00,000
50,000 shares of Rs. 50 each fully paid up	25,00,000	Land & Building	42,70,000
1,00,000 shares of Rs. 50 each Rs. 40 paid up	40,00,000	Machinery	8,50,000
		Computers	5,20,000

Capital Reserve	5,00,000	Inventories	3,20,000
8% Debentures of Rs. 100 each	4,00,000	Trade receivables	10,90,000
12% Debentures of Rs. 100 each	6,00,000	Cash at Bank	2,68,000
Trade payables	12,40,000	Profit & Loss Account	7,82,000
Outstanding Expenses	<u>10,60,000</u>		
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.4**(10 MARKS)**

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

Equity & Liabilities	Rs. Lakhs	Assets	Rs. Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of Rs. 10 each Fully Paid Up	8,000	Investments	2,350
10% Redeemable Pref. Shares of Rs. 10 each Fully Paid Up	2,500	Cash at Bank	2,300
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		
Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1st April, 2019 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at Rs. 20 per Share. In order to make cash available, the Company sold all the Investments for Rs. 2,500 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares.