

# Internal Reconstruction Part- III

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# Problem II

Pleasant Ltd. decided to reorganise its capital structure as it has incurred heavy losses in the past. The ledger balances of the company as at 31<sup>st</sup> March, 2017 include the following:

Particulars:	₹
Equity Share Capital (₹ 10 each)	4,00,000
8% Preference Share Capital (₹ 100 each)	2,50,000
7% Debentures (Secured against stock)	2,00,000
Debentures Interest Due	7,000
Creditors	1,60,000
Goodwill	50,000
Freehold Property at Cost	1,60,000
Plant and Machinery at Cost	4,90,000
Provision for Depreciation on Machinery	1,20,000
Stock	1,30,000
Debtors	80,000
Bank	20,000
Preliminary expenses	30,000

Contingent liability (not provided for):

- (i) Preference dividend in arrears for four years
- (ii) Claim for damages not accepted by the company ₹ 25,000.

The following scheme of reconstruction has been agreed upon and duly approved by the court:

- (i) Reduce paid up value of each equity share to ₹ 5.
- (ii) Issue one equity share of ₹ 10, ₹ 5 paid up for every ₹ 40 of gross dividend in arrears.
- (iii) Convert 8% Preference Shares of ₹ 100 each into ₹ 2,00,000 10% Preference shares of ₹ 100 each.
- (iv) Debentureholders agreed to accept ₹ 1,80,000 in full satisfaction of their claims. They took over freehold property at an agreed value of ₹ 2,00,000 and paid the balance to the company in cash.
- (v) Reduce book value of plant and machinery to ₹ 3,50,000 and provide for bad and doubtful debts at the rate of 10%.
- (vi) Pay ₹ 12,000 in cash for contingent liability in respect of claim for damages.
- (vii) One of the creditors for ₹ 30,000 agrees to accept cash of ₹ 15,000 in full settlement of his claim.
- (viii) Write off all fictitious assets including goodwill.

Pass Journal entries to implement the scheme.

[B.Com (Hons.) Delhi, 2014 Modified]

# Solution

**Note:** As the Trial Balance or the Previous Balance Sheet is not given, there is some missing information which is to be ascertained first and then only we may proceed further with the solution. So, we will start with the preparation of trial balance:

## **Trial Balance as at 31<sup>st</sup> March. 2017**

<b>Dr. Balance</b>	<b>Amount</b>	<b>Cr. Balance</b>	<b>Amount</b>
Goodwill	50,000	Equity Sh. Cap.	4,00,000
Freehold Property	1,60,000	8% Pref. Sh. Cap.	2,50,000
Plant & Machinery	4,90,000	7% Deb.	2,00,000
Stock	1,30,000	O/S Deb. Interest	7,000
Debtors	80,000	Creditors	1,60,000
Bank	20,000	Prov. For Dep.	1,20,000
Preliminary Expenses	30,000		
Surplus( B.F) ( <b>Negative</b> )	<b>1,77,000</b>		
	<hr/> <b>11,37,000</b> <hr/>		<hr/> <b>11,37,000</b> <hr/>





Date	Particulars	Dr.( Amount)	Cr.( Amount)
31.3.17	Bank A/C To Debenture holders A/C	Dr. 20,000	20,000
31.3.17	Debenture holders A/C To Freehold Property A/C	Dr. 2,00,000	2,00,000
31.3.17	Reconstruction A/C To Prov. For Dep. A/C To Prov. For Doubtful Debts A/C Note: Plant & Mach.= Rs. 4,90,000 Prov. For Dep. = Rs. 1,20,000 Revalued Amount = Rs. 3,50,000 Excess Prov . = Rs. 20,000	Dr. 28,000	20,000 8,000
31.3.17	Reconstruction A/C To Bank A/C ( On Account of Contingent Liability i.e. Payment of Unrecorded Liability)	Dr. 12,000	12,000
31.3.17	Creditors A/C To Bank A/C To Reconstruction A/C	Dr. 30,000	15,000 15,000



Date	Particulars	Dr.( Amount)	Cr.( Amount)
31.3.17	Reconstruction A/C Dr. To Preliminary Expenses A/C To Surplus A/C ( Negative ) To Goodwill A/C	2,57,000	30,000 1,77,000 50,000
31.3.17	Reconstruction A/C Dr. To Capital Reserve A/C (2,00,000 - 10,000 + 50,000 + 27,000 + 40,000 – 28,000 – 12,000 + 15,000 – 2,57,000 )	25,000	25,000

# Problem III

## ILLUSTRATION 6.

The Balance Sheet of Naina Lohia Ltd. as at 31st March 2010 was as follows :

<i>Particulars</i>	<i>₹</i>
<b>I. EQUITY AND LIABILITIES :</b>	
75,000 Equity shares of ₹10 each	7,50,000
5,000, 10% Preference Shares of ₹100 each	5,00,000
Securities Premium	2,25,000
Surplus (Balance)	(5,00,000)
Loan (Unsecured)	1,25,000
Creditors	7,50,000
Expenses due	62,500
Employees Provident Fund	1,12,500
	<u>20,25,000</u>
<b>II. ASSETS :</b>	
Patents	1,25,000
Plant and Machinery	7,50,000
Equipments	25,000
Inventories	3,75,000
Book Debts	6,25,000
Bank Balance	37,500
Preliminary Expenses	12,500
Goodwill	75,000
	<u>20,25,000</u>

# Contd.

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Dividend on Preference Shares is in arrears for five years.

The following scheme of reconstruction was approved by the court :

- (i) Equity shares are to be converted into 1,50,000 shares of ₹5 each.
- (ii) Equity shareholders agreed to surrender to the company 80% of their holdings.
- (iii) Preference shareholders agreed to forego their right to unpaid dividend. They also agreed to reduce each preference share from ₹100 to ₹80.
- (iv) Creditors agreed to reduce their claim by two fifth ( $\frac{2}{5}$ ) in consideration of their getting shares of ₹90,000 out of surrendered equity shares.
- (v) Unsecured Loan is converted into ₹75,000 equity shares out of shares surrendered and remaining amount of loan is waived.
- (vi) Surrendered shares not utilised are to be cancelled.
- (vii) Assets are to be reduced as under :  
Goodwill by ₹75,000; Plant by ₹1,00,000; Equipments by ₹2,00,000; Book debts by ₹40,000; Inventories by ₹50,000. All intangible and fictitious assets are to be written off.
- (viii) Any surplus left should be utilised in writing down plant and machinery further.
- (ix) Cost of reconstruction amounted ₹25,000.
- (x) Further 1,00,000 shares were issued to existing shareholders to increase working capital.  
The issue was fully subscribed and paid for.

Draft journal entries for the above arrangement. Also prepare Reconstruction Account and resultant Balance Sheet.

*(B.Com. Hons. Delhi University, 2018)*



# Solution

Date	Particulars		Dr.( Amount)	Cr.( Amount)
31.3.10	Equity Share Capital (Rs.10) A/C To Equity Share Capital (Rs. 5) A/C	Dr.	7,50,000	7,50,000
31.3.10	Equity Share Capital (Rs. 5) A/C To Shares Surrendered A/C	Dr.	6,00,000	6,00,000
31.3.10	Preference Share Capital (Rs.100) A/C To Preference Share Capital (Rs.80) A/C To Reconstruction A/C	Dr.	5,00,000	4,00,000 1,00,000
31.3.10	Shares Surrendered A/C To Equity Share Capital A/C	Dr.	90,000	90,000
31.3.10	Creditors A/C To Reconstruction A/C	Dr.	3,00,000	3,00,000
31.3.10	Shares surrendered A/C To Equity Share Capital	Dr.	75,000	75,000



Date	Particulars		Dr.( Amount)	Cr.( Amount)
31.3.10	Unsecured Loan A/C To Reconstruction A/C	Dr.	1,25,000	1,25,000
31.3.10	Shares Surrendered A/C To Reconstruction A/C <b>Balance in Shares Surrendered A/C</b> <b>= (6,00,000 - 90,000 - 75,000)</b>	Dr.	4,35,000	4,35,000
31.3.10	Reconstruction A/C To Bank A/C	Dr.	25,000	25,000
31.3.10	Reconstruction A/C To Goodwill A/C To Plant A/C To Equipment A/C To Book Debts A/C To Inventories A/C To Preliminary Expenses A/C To Surplus A/C To Patents A/C <b>To P &amp; M A/C (B.F.)</b>	Dr.	9,35,000	75,000 1,00,000 20,000 40,000 50,000 12,500 5,00,000 1,25,000 12,500
31.3.10	Bank A/C To Equity Share Capital A/C	Dr.	1,00,000	1,00,000

# Balance Sheet

Particulars	Note No.	Amt.	Amt.
<b>I. EQUITY AND LIABILITIES</b>			
<b>Shareholder's Fund</b>			
Share Capital	1	12,15,000	
Reserves & Surplus(SPR)	2	2,25,000	14,40,000
		<hr/>	
<b>Non Current Liabilities</b>			
Long Term Provision	3		1,12,500
<b>Current Liability</b>			
a) Trade Payables	4	4,50,000	
b) Other	5	62,500	5,12,500
		<hr/>	
<b>Total</b>			<b>20,65,000</b>
			<hr/>
<b>II. Assets</b>			
<b>Fixed Assets</b>	6		6,42,500
<b>Current Assets</b>			
Inventories		3,25,000	
Trade Receivables		5,85,000	
Cash and Cash Equivalent	7	5,12,500	14,22,500
			<hr/>
<b>Total</b>			<b>20,65,000</b>
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# Notes to Accounts

Particulars	Amount	Amount
<b>1. Share Capital</b>		
5,000, 10% Pref. Shares of Rs.80 each	4,00,000	
<b>1,63,000*</b> Equity Shares of Rs. 5 Each	8,15,000	
*(1,50,000 – 1,20,000 + 18,000 + 15,000 + 1,00,000)	<u>                    </u>	12,15,000
<b>2. Reserves &amp; Surpluses</b>		
SPR		
<b>3. Long Term Provisions</b>		2,25,000
Employees PF		
<b>4. Trade Payables</b>		1,12,500
Creditors		
<b>5. Other Current Liabilities</b>		4,50,000
O/S Expenses		
<b>6. Fixed Assets</b>		62,500
P & M	6,37,500	
Equipments	5,000	
	<u>                    </u>	6,42,500
<b>7. Cash and Cash Equivalent</b>		
Balance B/D	37,500	
Less: Cost of Reconstruction	(25,000)	
Add: Issue of Equity Share Capital	5,00,000	
	<u>                    </u>	5,12,500