

Internal Reconstruction Part- IV

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Problem III

ILLUSTRATION 8.

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

<i>Particulars</i>	<i>₹</i>
I. EQUITY AND LIABILITIES :	
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>
II. ASSETS :	
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.

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 Balance in Shares Surrendered A/C = (6,00,000 - 90,000 - 75,000)	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 To P & M A/C (B.F.)	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.
I. EQUITY AND LIABILITIES			
Shareholder's Fund			
Share Capital	1	12,15,000	
Reserves & Surplus(SPR)	2	2,25,000	14,40,000
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Non Current Liabilities			
Long Term Provision	3		1,12,500
Current Liability			
a) Trade Payables	4	4,50,000	
b) Other	5	62,500	5,12,500
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Total			20,65,000
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II. Assets			
Fixed Assets	6		6,42,500
Current Assets			
Inventories		3,25,000	
Trade Receivables		5,85,000	
Cash and Cash Equivalent	7	5,12,500	14,22,500
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Total			20,65,000
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Notes to Accounts

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

Problem IV

Katrina Ventures Ltd. whose Statement of Affairs as on 31 March, 2017, appearing below, formulated a scheme of reconstruction details of which follow and secured approval of all concerned :

Particulars		Note No.	(₹)
I	EQUITY AND LIABILITIES		
	1. Shareholder's Funds		
	(a) Share Capital		
	Equity Share Capital		
	50,000 Equity Shares of ₹ 20 each, ₹ 10 paid-up		5,00,000
	8% Preference share capital:		
	4,000 shares of ₹ 100 each ₹ 75 paid-up		3,00,000
	(b) Reserve and Surplus		
	Surplus Account		(2,14,000)
	2. Non-Current Liabilities		
	(a) Long-term Borrowings (9% Debentures)		3,00,000
	3. Current Liabilities		
	(a) Short-term borrowings (Bank overdraft)		75,000
	(b) Trade Payables (Creditors including interest due to Bank of ₹ 7,500)		42,000
	(c) Other current Liabilities (Interest due on debentures)		54,000
	Total		10,57,000
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets: Tangible		5,60,000
	Intangible (Patents)		40,000
	(b) Non-Current Investments (at cost) (Market value ₹ 27,500)		32,500
	2. Current Assets		4,24,500
	Total		10,57,000

Preference dividend is in arrears for one year.

- (i) Preference shareholders to give up their claims, inclusive of dividends, to the extent of 30% and desire to be paid off;
- (ii) Debentureholders agree to give up its claims to interest in consideration of their claim for rate of interest being enhanced to 10%;
- (iii) Bank agrees to give up 50% of its interest outstanding in consideration of their being paid off at once;
- (iv) Sundry creditors would like to grant a discount of 5% if they were to be paid off immediately;

Contd.

- (v) Balances on profit and loss account, patents and copyrights and 25% of the sundry debtors of ₹ 60,000 to be written off. Fixed assets to be written down by ₹ 7,000. Investments to reflect their market value;
- (vi) To the extent not specifically stated, equity shareholders suffer no reduction of their rights.
- (vii) Cost of reconstructions ₹ 1,675.

Pass journal entries in the books of the company assuming that the scheme has been put through fully with the equity shareholders bringing in necessary cash to pay off the parties and to leave a working capital of ₹ 1,10,000.

Draw the balance sheet after reconstruction.

[B.Com. (Hons.) Delhi]

Solution

Solution

Date	Particulars		Dr.(Amount)	Cr.(Amount)
31.3.2017	8% Pref. Share Cap. A/C To Preference Shareholders A/C To Reconstruction A/C	Dr.	3,00,000	2,10,000 90,000
31.3.2017	*Reconstruction A/C To Preference Shareholders A/C Amt. of Dividend to be payable = 70% of (3,00,000*8%) *Treating it as an unrecorded Liability	Dr.	16,800	16,800
31.3.2017	9% Debentures A/C O/S Deb. Int. A/C To 10% Debentures A/C To Reconstruction A/C	Dr. Dr.	3,00,000 54,000	3,00,000 54,000
31.3.2017	Sundry Creditors A/C To Reconstruction A/C	Dr.	3,750	3,750
31.3.2017	Sundry Creditors A/C To Reconstruction A/C Discount given by Creditors = 5% of (42,000 - 7,500)	Dr.	1,725	1,725

Contd.

Date	Particulars		Dr.(Amount)	Cr.(Amount)
31.3.2017	Preference Shareholders A/C	Dr.	2,26,800	
	Sundry Creditors A/C	Dr.	36,526	
	Bank Overdraft A/C	Dr.	75,000	
	To Bank A/C			3,38,325

Balance Sheet

Particulars	Note No.	Amt.	Amt.
I. EQUITY AND LIABILITIES			
Shareholder's Fund			
Share Capital	1		8,00,000
Non- Current Liabilities			
Long Term Borrowings	2		3,00,000
			<hr/>
TOTAL			11,00,000
			<hr/>
II. ASSETS			
Fixed Assets	3		5,53,000
Non Current Investments	4		27,500
Current Assets			
Trade Receivables	5	4,09,500	
Cash & Bank Balances	6	1,10,000	5,19,500
		<hr/>	<hr/>
TOTAL			11,00,000
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Notes to Accounts

Particulars	Amount	Amount
1. Share Capital		
50,000 Shares of Rs. 20 Each, Rs. 10 Paid Up	5,00,000	
Less: Reduction In Share Capital	(1,50,000)	
Add: Cash Brought	4,50,000	
50,000 shares of Rs. 20 each, Rs. 16 Paid Up	_____	8,00,000
2. Long Term Borrowings		
10% Debentures		3,00,000
3. Fixed Assets		
Book Value	5,60,000	
Less: Depreciation	(7,000)	
	_____	5,53,000
4. Non Current Investments		27,500
5. Trade Receivables		4,09,500
6. Cash & Cash Equivalent		1,10,000