

Workings:

Contribution	Amount (₹)	Utilization	Amount (₹)
1. Value of Eq. sh. Reduced	*	1. Debit balance of Profit & Loss A/c	*
2. Value of pref. sh. Reduced	*	2. Fictitious Assets:	
3. Value of Debenture Reduced	*	-- Preliminary Expenses	*
4. Value of Loan Reduced	*	-- Discount on share	*
5. Claim of Creditors Reduced	*	-- discount on Debenture	*
6. Any Other Liabilities Reduced	*	- Underwriting Brokerage /commission	*
7. Value of Assets Increase	*	-- Advertising Suspense	*
8. Profit on sales of Assets	*	3. Intransible Assets Written Off:	
9. Profit on Assets taken over By the debenture	*	-- Paten	*
		-- Tread Mark	*
		-- Copyrights	*
		-- Goodwill	*
		4. Value of any Other Assets Reduced:	
		-- Deprecation	*

		-- Bad debt	*
		-- Provision for bad debt	*
		5. Value of Liabilities Increase:	*
		6. Arrear pref.sh. dividend(if cancel then do not taken)	*
		7. Reconstruction Expenses	*
		8. Loss on sales of Fixed Assets	*
		CAPITAL RESERVE	**
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Journal Entries

1. *For replacement of share of one denomination by the share of another denomination.*

Share Capital (Old denomination) Account	Dr. [Paid-up value of old shares]
To Share Capital (New denomination) Account	[Paid-up value of new shares]
To Capital Reduction/Reconstruction Account	[Difference]

2. *For reducing called-up Share Capital (without changing denomination)*

Share Capital Account	Dr. [Amount reduced]
To Capital Reduction/Reconstruction Account	

3. For surplus on revaluation of fixed assets

Individual Fixed Asset Account
To Capital Reduction/Reconstruction Account Dr. [Amount of appreciation]

4. For waiver of preference dividend arrears by an issue of shares/debentures

Capital Reduction/Reconstruction Account
To Share Capital Account Dr.
To Debentures Account

5. For issue of shares/debenture against accrued interest already provided in the Balance Sheet

Accrued Interest Account
To Share Capital Account Dr.
To Debentures Account
To Capital Reduction/Reconstruction Account

6. For transfer of favourable balance on reserve accounts

Individual Reserve Account
To Capital Reduction/Reconstruction Account Dr.

7. For expenses incurred on reconstruction

Capital Reduction/Reconstruction Account
To Bank Account Dr.

8. For writing-off the fictitious assets and other assets

Capital Reduction/Reconstruction Account
To Profit and Loss Account Dr.
To Goodwill Account
To Plant and Machinery Account
To Patents Account
To Stock Account

9. For capitalisation of surplus on Capital Reduction Account

Capital Reduction/Reconstruction Account
To Capital Reserve Account Dr.

CAPITAL REDUCTION

REDUCTION OF FACE VALUE AND PAID-UP VALUE OF SHARES FOR THE PURPOSE OF WRITING OFF LOSSES

1. The balance sheet of M Ltd. as on 31.3.15 is given below :

Balance Sheet as at 31.3.15

<i>Equity and liabilities</i>	₹
<i>Shareholders' funds :</i>	
Share capital	3,00,000
Reserves and surplus	(1,50,000)
<i>Current liabilities :</i>	
Trade payables	1,00,000
	<u>2,50,000</u>
 <i>Assets</i>	
<i>Non-current assets :</i>	
Fixed assets	1,80,000
<i>Current assets :</i>	
Inventories	25,000
Trade receivables	40,000
Cash and cash equivalents	5,000
	<u>2,50,000</u>

Notes to accounts :

(1) <i>Share capital :</i>	₹
15,000 equity shares of ₹ 10 each, fully paid	1,50,000
1,500 preference shares of ₹ 100 each, fully paid	1,50,000
	<u>3,00,000</u>
(2) <i>Reserves and surplus :</i>	
Deficit in profit and loss statement	(1,50,000)
(3) <i>Fixed assets :</i>	
Land and building	1,45,000
Machinery	35,000
	<u>1,80,000</u>

It was resolved :

- (i) That the equity shares of ₹ 10 each and preference shares of ₹ 100 each be reduced to the same number of shares, each of ₹ 4 and ₹ 40 respectively.
- (ii) That the amount thus released be utilised :
 - (a) in writing down the inventories by ₹ 10,000 ;
 - (b) in writing off the adverse balance of the profit and loss statement ; and
 - (c) in reducing the machinery by ₹ 10,000. The balance left was to be used in raising a provision for bad debts against trade receivables.

Give the journal entries recording the above transactions in the books of the company. Give also the balance sheet of the company after reduction of capital.

2. Following was the balance sheet of X Ltd. as on 31st March, 2015 :

Balance Sheet

<i>Equity and liabilities</i>	₹
<i>Shareholders' funds :</i>	
Share capital	2,00,000
Reserves and surplus	(45,000)
<i>Current liabilities :</i>	
Trade payables	20,000
	<u>1,75,000</u>
 <i>Assets</i>	
<i>Non-current assets :</i>	
<i>Fixed assets :</i>	
Tangible	1,00,000
Intangible (goodwill)	20,000
<i>Current assets :</i>	
Inventories	25,000
Trade receivables	28,000
Cash and cash equivalents	2,000
	<u>1,75,000</u>

Notes to accounts :

(1) <i>Share capital :</i>	₹
<i>Issued, subscribed and fully paid :</i>	
10,000 equity shares of ₹ 10 each	1,00,000
10,000 7½% preference shares of ₹ 10 each	1,00,000
	<u>2,00,000</u>
(2) <i>Reserves and surplus :</i>	
Deficit in profit and loss statement	<u>(45,000)</u>

It was resolved that equity shares of ₹ 10 each be reduced to shares of ₹ 6 each and 7½% preference shares of ₹ 10 each be reduced to 8% preference shares of ₹ 7 each. The number of shares in each case was to remain the same. It was further resolved that the amounts so available be used for writing off the deficit in profit and loss statement and goodwill account and to write down the tangible fixed assets as far as possible.

- (a) Show the necessary journal entries in the books of the company.
- (b) Prepare the balance sheet as revised after the above entries.

INTERNAL RECONSTRUCTION OF COMPANIES (CAPITAL REDUCTION AND ALTERATION OF) SHARE CAPITAL

In the books of M Ltd.
Journal Entries

1.

		Dr.	Cr.
Date	Particulars	Rs.	Rs.
	Eq. Sh. Capital A/c Dr. To Capital Reduction To Eq. Sh. Capital (Being equity share of Rs. 10 each reduced to Rs. 4 each as per special resolution No. - Dated - -)	150,000	90,000 60,000
	Preference Share Capital A/c Dr. To Capital Reduction To Pref. Sh. Capital (Being pref. sh. of Rs. 100 each reduced to Rs. 40 each as per special resolution No. - Dated - -)	150,000	90,000 60,000
	Capital Reduction A/c Dr. To Profit & Loss A/c. To Inventories A/c. To Machinery A/c. To Prov. for doubtful debt A/c. (Being the amounts of Profit & Loss (Dr. balance), Inventories, Machinery and Sundry debtors written down as per special resolution No. - Dated - -)	180,000	150,000 10,000 10,000 10,000

Balance sheet of M Ltd as on 31.3.15 (and reduced)

Liabilities	Rs.	Assets	Rs.
Shareholders' funds:		Non-Current Assets:	
Equity share capital	60,000	Land and building	14,500
Preference share capital	60,000	Machinery	3,500
		Less: reduced	10,000
Current liabilities:			2,500
Trade payables	100,000	Current assets:	
		Inventories	2,500
		Less: Reduced	10,000
			1,500
		Trade Receivables	60,000
		Less: Provision	10,000
			30,000
		Cash and cash equivalents	500
			220,000
	220,000		220,000

Workings - Calculation of Capital reduction scheme.

Contribution	Rs.	Utilization of	Rs.
Value of Eq. sh. reduced (15000 x 6)	90,000	Debit balance of P/L A/c	1,00,000
Value of Pref. sh. reduced (1500 x 60)	90,000	Value of assets reduced	
		Inventories	10,000
		Machinery	10,000
		Provision for doubtful debts (balancing figure)	10,000
	1,80,000		1,80,000

2.

In the books of X Ltd.
Journal Entries.

Dr. Cr.

Date	Particulars	L F	Amount Rs.	Amount Rs.
	Eq. Sh. Capital A/c. Dr. To Capital reduction A/c. To Eq. Sh. Capital (Being Eq. Sh. of Rs. 10 each reduced to Rs. 6 each as per special resolution No. . . . Dated. . . .)		100,000	40,000 60,000
	7½% Pref. Sh. Capital A/c. Dr. To Capital reduction A/c. To 8% Pref. Sh. Capital (Being 7½% Pref. Sh. of Rs. 10 each reduced to Rs. 7 each as per special resolution No. . . . Dated. . . .)		100,000	30,000 70,000
	Capital reduction A/c. Dr. To Profit & Loss A/c. To Goodwill A/c. To Tangible fixed Assets (Being profit & loss (Dr. balance) and goodwill written off and reduced the value of tangible fixed Assets as per special resolution No. . . . Dated. . . .)		70,000	45,000 20,000 5,000

Balance sheet of X Ltd as on 1.4.15 (and reduced)

Liabilities	Rs.	Assets	Rs.
Share holder's fund:		Non Current assets:	
Eq. Sh. Capital	60,000	Tangible fixed assets	100,000
8% Pref. Sh. Capital	70,000	Less: Reduced	50,000
			95,000
Current liabilities:		Current assets:	
Trade payable	20,000	Inventories	25,000
		Trade receivables	28,000
		Cash and cash equivalents	2,000
	15,000		55,000
			150,000

Working Calculation of Capital reduction scheme

Contribution	Rs.	Utilization	Rs.
Value of equity sh. reduced		Debit balance of P/L A/c	45,000
10,000 x 4	40,000	Goodwill written off	20,000
Value of pref. sh. reduced			
10,000 x 3	30,000	Tangible fixed assets reduced (balancing figure)	5,000
	70,000		70,000
			70,000