

6. Following a series of trading losses, ABC Co. Ltd. resolved to reduce its capital to 50,000 fully paid ₹ 5 shares and to eliminate its securities premium account. The company's balance sheet prior to implementation of the scheme was as below :

**Balance Sheet**

|  | Note No. | ₹               |
|--|----------|-----------------|
| <i>Equity and liabilities</i>  |          |                 |
| <i>Shareholders' funds :</i>   |          |                 |
| Share capital  | 1        | 5,00,000        |
| Reserves and surplus   | 2        | 5,000           |
| <i>Current liabilities :</i>   |          |                 |
| Short-term borrowings (bank overdraft)   |          | 47,000          |
| Trade payables   |          | 1,62,000        |
|  |          | <u>7,14,000</u> |
| <i>Assets</i>  |          |                 |
| <i>Non-current assets :</i>  |          |                 |
| <i>Fixed assets :</i>  |          |                 |
| Tangible   | 3        | 4,30,000        |
| Intangible   |          | 1,20,000        |
| <i>Current assets :</i>  |          |                 |
| Inventories  |          | 90,000          |
| Trade receivables  |          | 74,000          |
|  |          | <u>7,14,000</u> |
| <i>Notes to accounts :</i>   |          |                 |
| (1) <i>Share capital :</i>   |          | ₹               |
| 50,000 fully paid equity shares of ₹ 10 each   |          | 5,00,000        |
| (2) <i>Reserves and surplus :</i>  |          |                 |
| Securities premium   |          | 50,000          |
| Profit and loss statement ( <i>deficit</i> )   |          | (45,000)        |
|  |          | <u>5,000</u>    |
| (3) <i>Fixed assets :</i>  |          |                 |
| Tangible : Land and buildings  |          | 1,52,000        |
| Plant and machinery  |          | 2,78,000        |
|  |          | <u>4,30,000</u> |
| Intangible : Goodwill  |          | 1,20,000        |
|  |          | <u>1,20,000</u> |
| <i>It was resolved to apply the sum available under the scheme :</i>   |          |                 |
| <i>(a) To write off the goodwill account.</i>  |          |                 |
| <i>(b) To write off the debit balance of the profit and loss statement.</i>                                    |          |                 |
| <i>(c) To reduce the book value of the assets by the following amounts :</i>                                   |          |                 |
| Land and buildings   |          | ₹ 36,000        |
| Plant and machinery  |          | ₹ 78,000        |
| Inventories  |          | ₹ 10,000        |
| <i>(d) To write off ₹ 4,000 bad debt and to provide 10% of remaining trade receivables for doubtful debts.</i> |          |                 |

Show by journal entries, the accounting adjustments required to give effect to the scheme and prepare the revised balance sheet after its implementation.

10. The following is the balance sheet as on 31.3.15 of A Ltd. :

| <i>Equity and liabilities</i>                       |  | ₹               |
|---|--|-----------------|
| <i>Shareholders' funds :</i>                        |  |                 |
| Share capital                                       |  | 6,00,000        |
| Reserves and surplus                                |  | (1,90,000)      |
| <i>Non-current liabilities :</i>                    |  |                 |
| Long-term borrowings (6% mortgage debentures)       |  | 1,20,000        |
| <i>Current liabilities :</i>                        |  |                 |
| Short-term borrowings (bank overdraft)              |  | 55,000          |
| Trade payables                                      |  | 1,05,000        |
|   |  | <u>6,90,000</u> |
| <br><i>Assets</i>                                   |  |                 |
| <i>Non-current assets :</i>                         |  |                 |
| <i>Fixed assets :</i>                               |  |                 |
| Tangible  |  | 4,75,000        |
| Intangible  |  | 25,000          |
| <i>Current assets :</i>                             |  |                 |
| Inventories   |  | 85,000          |
| Trade receivables                                   |  | 1,05,000        |
|   |  | <u>6,90,000</u> |
| <br><i>Notes to accounts :</i>                      |  |                 |
| (1) <i>Share capital :</i>                          |  | ₹               |
| Authorised :  |  |                 |
| 3,000 9% cumulative preference shares of ₹ 100 each |  | 3,00,000        |
| 5,000 equity shares of ₹ 100 each                   |  | 5,00,000        |
|   |  | <u>8,00,000</u> |
| Issued, subscribed and fully paid up :              |  |                 |
| 2,000 9% cumulative preference shares of ₹ 100 each |  | 2,00,000        |
| 4,000 equity shares of ₹ 100 each                   |  | 4,00,000        |
|   |  | <u>6,00,000</u> |
| (2) <i>Reserves and surplus :</i>                   |  |                 |
| Deficit in profit and loss statement                |  | (1,90,000)      |
| (3) <i>Fixed assets :</i>                           |  |                 |
| Tangible : Freehold properties                      |  | 1,75,000        |
| Plant and equipment                                 |  | 3,00,000        |
|   |  | <u>4,75,000</u> |
| Intangible : Goodwill at cost                       |  | <u>25,000</u>   |

The following scheme of reduction of capital was approved by the court and was given effect to :

- (1) The preference shares and equity shares were reduced to ₹ 80 and ₹ 50 per share fully paid up respectively.
- (2) Debentureholders agreed to receive 1,000 preference shares of ₹ 80 each in full satisfaction of their dues.
- (3) The goodwill account and the deficit in profit and loss statement were written off.
- (4) Freehold properties and plant and equipment were depreciated by 20% and 10% respectively.

You are required to give the journal entries to give effect to the above arrangement and to draw up the revised balance sheet.

12. The following is the balance sheet of Meena Ltd. as at 31st March, 2015 :

| <i>Equity and liabilities</i>                           |  | ₹               |
|---|--|-----------------|
| <i>Shareholders' funds :</i>                            |  |                 |
| Share capital   |  | 2,50,000        |
| Reserves and surplus                                    |  | (1,85,000)      |
| <i>Non-current liabilities :</i>                        |  |                 |
| Long-term borrowings (8% debentures)                    |  | 1,00,000        |
| <i>Current liabilities :</i>                            |  |                 |
| Trade payables  |  | 3,30,000        |
| Other current liabilities (creditors for expenses)      |  | 20,000          |
|   |  | <u>5,15,000</u> |
| <br><i>Assets</i>                                       |  |                 |
| <i>Non-current assets :</i>                             |  |                 |
| <i>Fixed assets :</i>                                   |  |                 |
| Tangible  |  | 3,30,000        |
| Intangible  |  | 40,000          |
| <i>Current assets :</i>                                 |  |                 |
| Inventories   |  | 80,000          |
| Trade receivables                                       |  | 55,000          |
| Other current assets (unamortised preliminary expenses) |  | 10,000          |
|   |  | <u>5,15,000</u> |

*Notes to accounts :*

(1) *Share capital :*

    Issued, subscribed and fully paid :

        20,000 equity shares of ₹ 10 each

        10% preference shares of ₹ 100 each

2,00,000

50,000

2,50,000

(2) *Reserves and surplus :*

    Profit and loss statement (*deficit*)

(1,85,000)

(3) *Fixed assets :*

    Tangible : Buildings

2,00,000

        Machinery

1,30,000

3,30,000

    Intangible : Patents

40,000

*With a view to reconstructing the company, it is proposed :*

(a) To reduce : (i) equity shares by ₹ 9 each, (ii) 10% preference shares by ₹ 40 each, (iii) 8% debentures by 10%, (iv) Trade payables by one-third, (v) machinery to ₹ 70,000, and (vi) inventories by ₹ 10,000.

(b) To provide ₹ 15,000 for bad debt.

(c) To write off all the intangible assets.

(d) To raise the rate of preference dividend to 13% and the rate of debenture interest to 13.5%.

Assuming that the aforesaid proposals are duly approved and sanctioned, pass the journal entries to give effect to the above, and show the company's post-reconstruction balance sheet.

In the books of ABC Co. Ltd.

Journal Entries.

| Date | Particulars   | Dr. | Amount    |          |
|------|---|-----|-----------|----------|
|      |   |     | Rs.       | P.       |
|      | Equity share Capital A/c. . . . .   | Dr. | 500,000   |          |
|      | To Capital reduction A/c.   |     |           | 250,000  |
|      | To Eq. sh. Capital A/c.   |     |           | 250,000  |
|      | (Being Eq. sh. of Rs. 10 each reduced to Rs. 5 each as per special resolution No. -- Dated --)  |     |           |          |
|      | Securities premium A/c. . . . .   | Dr. | 50,000    |          |
|      | To Capital reduction A/c.   |     |           | 50,000   |
|      | (Being <del>security</del> value of Securities premium eliminated as per special resolution No. -- Dated --)  |     |           |          |
|      | Capital reduction A/c. . . . .  | Dr. | 1,200,000 |          |
|      | To Profit & Loss A/c  |     |           | 450,000  |
|      | To Goodwill A/c   |     |           | 1,20,000 |
|      | To Land and building A/c  |     |           | 360,000  |
|      | To Plant and machinery A/c.   |     |           | 780,000  |
|      | To Trade receivable   |     |           | 110,000  |
|      | (Being debit balance of Profit & Loss A/c and Goodwill written off and Land and building, Plant and machinery and Trade receivable reduced as per special resolution No. -- Dated --) |     |           |          |

# Balance sheet of ABC Co. Ltd on ... (and reduced)

| Liabilities           | Rs.     | Assets                              | Rs.     |
|-----------------------|---------|-------------------------------------|---------|
| Shareholder's fund:   |         | Non-Current Assets:                 |         |
| Share Capital         | 250,000 | Land and building 152,000           |         |
| Current liabilities:  |         | less: Redveal 36,000                | 116,000 |
| Short term borrowings | 47,000  | Plant and machinery 27,800          |         |
| Trade payable         | 16,200  | less: Redveal 7,800                 | 20,000  |
|                       |         | Current Assets:                     |         |
|                       |         | Inventories 9,000                   |         |
|                       |         | less: Redveal 1,000                 | 8,000   |
|                       |         | Trade receivable 74,000             |         |
|                       |         | less: Bad and doubtful debts 11,000 | 63,000  |
|                       | 459,000 |                                     | 459,000 |

## Workings: Calculation of Capital reduction scheme

| Contribution                          | Rs.     | Utilization              | Rs.     |
|---------------------------------------|---------|--------------------------|---------|
| Value of Eq. M. redveal<br>50,000 x 5 | 250,000 | Debit balance of P/L A/c | 45,000  |
| Securities premium eliminated         | 50,000  | Goodwill written off     | 120,000 |
|                                       |         | Value of assets redveal: |         |
|                                       |         | Land and building        | 36,000  |
|                                       |         | Plant and machinery      | 7,800   |
|                                       |         | Inventories              | 1,000   |
|                                       |         | Bad debts                | 1,000   |
|                                       |         | Provision doubtful       | 700     |
|                                       | 300,000 |                          | 300,000 |

In the books of A Ltd.  
Journal Entries.

| Date | Particulars  | Dr. | Cr.          |                                       |
|------|--|-----|--------------|---------------------------------------|
|      |  |     | Amount<br>Rs | Amount<br>Rs                          |
|      | Equity share Capital A/c<br>To Capital reduction<br>To Equity share Capital<br>(Being equity share of Rs. 100 each reduced to<br>Rs. 50 each as per special resolution No. ... Dated ...)  | Dr. | 400,000      | 200,000<br>200,000                    |
|      | 9% Cumulative pref. share Cap. A/c<br>To Capital reduction<br>To 9% Cumulative pref. sh. Cap. A/c<br>(Being 9% Cumulative pref. sh. of Rs. 100 each reduced to<br>Rs. 80 each as per special resolution No. ... Dated ...)   | Dr. | 300,000      | 60,000<br>240,000                     |
|      | Debenture A/c<br>To 9% Cumulative pref. sh. Capital A/c<br>To Capital reduction A/c<br>(Being debenture holders agreed to receive 1000 pref.<br>shares of 80 each in full satisfaction of their dues<br>as per special resolution No. ... Dated ...)                               | Dr. | 120,000      | 80,000<br>40,000                      |
|      | Capital reduction A/c<br>To Profit & L/y A/c<br>To Goodwill<br>To Freehold premises<br>To Plant and equipment<br>(Being debit balance of P/L A/c and Goodwill<br>written off and Freehold premises, plant and<br>equipment reduced as per special resolution No. ...<br>Dated ...) | Dr. | 280,000      | 100,000<br>25,000<br>35,000<br>30,000 |

# Balance sheet of A Ltd as on 1.4.15 (and reduced)

| Liabilities  | Rs.                | Assets                           | Rs.               |
|--|--------------------|----------------------------------|-------------------|
| Share holders fund:                                      |                    | Non-Current assets:              |                   |
| Equity share Capital<br>5000 sh. @ 50 each.              | 200,000            | Freehold premises<br>less, Dep.  | 175000<br>35000   |
| 9% Cumulative pref. share Capital<br>3000 sh. @ 80 each. | 240,000            | Plant and equipment<br>less Dep. | 300,000<br>30,000 |
| <del>Non Current liability:</del>                        |                    |                                  | 140,000           |
| <del>Long term borrowings (mortgage<br/>debenture)</del> | <del>120,000</del> | Current assets:                  |                   |
| Current liability:                                       |                    | Inventories                      | 85000             |
| Short term borrowings (Bank<br>overdraft)                | 55,000             | Trade receivable                 | 105000            |
| Trade payable  | 105,000            |                                  |                   |
|  |                    |                                  |                   |
|  | 609,000            |                                  | 609,000           |

## Calculation of Capital reduction scheme

| Contribution                               | Rs.     | Utilization  | Rs.     |
|--|---------|--|---------|
| Value of Eq. sh. reduced<br>5000 x 50      | 200,000 | Debit balance of P/L a/c<br>written off              | 100,000 |
| Value of 9% Pref. sh. reduced<br>3000 x 80 | 240,000 | Depreciation of fixed assets<br>Free hold properties | 35,000  |
| Value of debenture reduced                 | 40,000  | Plant and equipment                                  | 30,000  |
|  | 280,000 |  | 280,000 |

| Date | Particulars  | Amount<br>Rs.                    | Amount<br>Rs.  |
|------|--|----------------------------------|--|
|      | Eq. 4% Capital A/c . . . . . Dr.<br>To Capital reduction A/c<br>To Eq. 4% Capital<br>(Being equity share of Rs. 10 each reduced by Rs. 2 each as per special resolution No. . . . Dated . . .)   | 200,000<br><br>180,000<br>20,000 |  |
|      | 10% Pref. 4% Capital A/c . . . . . Dr.<br>To Capital reduction A/c<br>To 13% Pref. 4% Capital<br>(Being 10% pref. share of Rs. 100 each reduced to 13% Pref. share of Rs. 60 each as per special resolution No. . . . Dated . . .)   | 50,000                           | 20,000<br>30,000   |
|      | 8% Debenture A/c . . . . . Dr.<br>To Capital reduction A/c<br>To 13.5% Debenture A/c<br>(Being 8% debenture of Rs. . . . reduced by 10% and the rate of debenture interest to 13.5% as per special resolution No. . . . Dated . . .)   | 100,000                          | 10,000<br>90,000   |
|      | Capital reduction A/c . . . . . Dr.<br>To Profit & Loss A/c<br>To Patent<br>To Trade receivables<br>To Unamortised preliminary Exp.<br>To Machinery<br>To Inventory<br>(Being debit balance of P/L A/c, Patent written off and reduced in the value of Trade receivable, Unamortised Preliminary Exp, Machinery and Inventory as per special resolution No. . . . Dated . . .) | 320,000                          | 18,500<br>40,000<br>15,000<br>10,000<br>60,000<br>10,000 |



# Balance sheet of Meena 27/09/15 (and reduced)

| Liability                 | Rs.            | Assets              | Rs.            |
|---------------------------|----------------|---------------------|----------------|
| Shareholders' funds:      |                | Non-current assets: |                |
| Eq. sh. Capital           | 20,000         | Building            | 200,000        |
| 10% Pref. sh. Capital     | 30,000         | Machinery           | 130,000        |
| Non-current liabilities:  |                | less: Redwood       | 60,000         |
| Long term borrowings      | 90,000         |                     | 70,000         |
| Current liabilities:      |                | Current assets:     |                |
| Trade payables            | 220,000        | Inventories         | 80,000         |
| Other current liabilities | 20,000         | less: redwood       | 10,000         |
|                           |                | Trade receivables   | 55,000         |
|                           |                | less: Bad debts     | 15,000         |
|                           |                |                     | 40,000         |
|                           | <u>380,000</u> |                     | <u>380,000</u> |

## Calculation of Capital reduction scheme

| Contribution  | Rs.            | Utilization                      | Rs.            |
|---|----------------|----------------------------------|----------------|
| Value of equity share redwood<br>$20,000 \times 9$                | 180,000        | Debit balance of P/L A/c         | 185,000        |
| Value of 10% Pref. share redwood<br>$500 \times 40$               | 20,000         | Patents written off              | 49,000         |
| Value of 8% debenture redwood<br>$100,000 \times \frac{10}{100}$  | 10,000         | Bad debts                        | 15,000         |
| Value of Trade payables redwood<br>$330,000 \times \frac{1}{100}$ | 119,000        | Unamortised preliminary expenses | 10,000         |
|   |                | Machinery redwood                | 60,000         |
|   |                | Inventories redwood              | 10,000         |
|   | <u>329,000</u> |                                  | <u>329,000</u> |