

Accounting for Internal Reconstruction

Capital Reorganisation Account

	₹		₹
Goodwill Account	1,50,000	Equity Share Capital Account	2,00,000
Machinery Account	25,000		
Leasehold Premises Account	25,000		
	2,00,000		2,00,000

50,000 equity
continuously, the
which was duly

ive :

of the above

and allotted;

TUTORIAL NOTE

Capital Reorganisation Account, Reconstruction Account and Capital Reduction Account are one and same in nature.

Illustration 4 (Settlement of Taxation Liability)

The following is the balance sheet of Sick Ltd. as on 31 March, 20.....

Liabilities	₹	Assets	₹
13% Cumulative Preference Shares of ₹ 100 each	1,00,000	Fixed Assets	15,00,000
Equity Shares of ₹ 10 each	7,00,000	Current Assets	35,00,000
8% Debentures	3,00,000	Profit and Loss Account	3,00,000
Current Liabilities	39,00,000		
Provision for Taxation	3,00,000		
	53,00,000		53,00,000

B/L will be given in its revised vertical form.

The following scheme of reorganisation is sanctioned :

- (a) Fixed assets are to be written down by 33-1/3%.
- (b) Current assets are to be revalued at ₹ 27,00,000.
- (c) Preference shareholders decide to forego their right to arrears of dividend which are in arrears for three years.
- (d) The taxation liability of the company is settled at ₹ 4,00,000 and the same is paid immediately.
- (e) One of the creditors of the company to whom the company owes ₹ 25,00,000 decides to forego 50% of his claim. He is allotted 1,00,000 equity shares of ₹ 5 each in part satisfaction of the balance of his claim.
- (f) The rate of interest on debentures is increased to 11%. The debentureholders surrender their debentures of ₹ 100 each and exchange the same for 'fresh debentures of ₹ 75 each.
- (g) The existing equity and preference shares are reduced to ₹ 5 and ₹ 75 each respectively.

Pass necessary journal entries and show the new balance sheet of the company. [B.Com. (Hons.)]

E & L

1. J. Capital - 925000
2. L.T. Reserve - 2250000
3. Current liabilities - 2150000

1000000
2200000

Cr. (₹)

2,00,000
50,000
50,000
2,00,000

1,50,000
25,000
25,000

5,00,000

5,00,000

Accounting for Internal Reconstruction

12.23

9. Trade Receivables	75,000
Less : written off	5,000
	<u>70,000</u>
10. Cash and Cash Equivalents	2,500
Cash in hand	12,500
Cash at bank	<u>15,000</u>

Illustration 7 (Forfeiture of Shares)

The following was the balance sheet of Tin Toys Ltd. as on 31 March 2013 :

Equity and Liabilities	₹	Assets	₹
Authorised Capital: 20,000		Goodwill	10,000
Ordinary Shares of ₹ 10 each	2,00,000	Buildings	20,500
Issued, Subscribed and Paid-up		Machinery	50,850
12,000 Shares of		Preliminary expenses	1,500
₹ 10 each	1,20,000	Stock	10,275
Less: Calls-in-arrears		Book Debts	15,000
(₹ 3 per share)		Cash at Bank	1,500
on 3,000 shares	9,000	Negative Surplus	20,800
Sundry Creditors	15,425		
Provision for taxes	4,000		
	<u>1,30,425</u>		<u>1,30,425</u>

The directors find that the machinery is overvalued by ₹ 10,000. It is now proposed to write down this asset to its true value and extinguish goodwill account, profit and loss and preliminary expenses accounts by adopting the following scheme : (a) Forfeit the shares on which the calls are outstanding. (b) Reduce the paid-up capital by ₹ 3 per share. (c) Re-issue the forfeited shares at ₹ 5 per share. (d) Utilise the provision for taxes, if necessary. Draft the journal entries necessary for giving effect to the above scheme and prepare the reconstructed balance sheet of the company.

[B.Com. (Hons.)]

Solution

**Tin Toys Ltd.
Journal Entries**

Date	Particulars	Dr. (₹)	Cr. (₹)
(i)	Equity Share Capital Account Dr. To Share Forfeited Account To Calls-in-Arrears Account (Forfeiture of 3,000 equity shares for non-payment of calls-in-arrears).	30,000	21,000 9,000
(ii) / (iii)	Equity Share Capital Account Dr. To Reconstruction Account (Reduction of ordinary share capital consisting of 9,000 shares by ₹ 3 each)	27,000	27,000
(iv)	Bank Account Dr. Share Forfeited Account Dr. To Equity Share Capital Account	15,000 6,000	21,000