

Unit:1 Internal Re-organization

(Capital Reduction)

Q.1 Give Journal entries for the following under the scheme of Capital Reduction:

- (a) The directors returned the fees of Rs.10,000 received by them.
- (b) Debenture holders of the company holding 18% debentures of Rs. 10,00,000 agreed to take over in part settlement of their dues a plant and machinery at Rs. 6,00,000 appearing in Balance Sheet at Rs. 4,80,000.
- (c) A company has to pay a Contingent Liability of Rs. 30,000 on implementation of scheme of Capital reduction. It was recovered from a director of a company who has advanced a Loan of Rs. 50,000 to the company. The Balance was paid to him in cash.
- (d) Rs. 50,000 dividend on preference shares is in arrears. Preference share holders agreed to waive 60% arrears of dividend and for remaining they are given equity shares of Rs. 10 each.
- (e) Creditors of a company were Rs. 1,50,000. They were issued equity share of Rs. 10 each at rate of Rs. 25 for every Rs. 50 due and the Balance was agreed to be paid after one year.
- (f) Creditors have agreed to accept 67% of their claims in the form of Equity Shares and 8% in cash and they have waived the remaining amount of 18,75,000. Write entry for capital reduction.
- (g) A company has to pay one contingent liability of Rs.1,50,000. 50% of this liability is to be paid by one director of company. A director has advanced a loan of Rs.1,25,000 to a company. The company has deducted necessary amount from the director loan and the remaining

amount is paid by equity shares. The company has also paid contingent liability.

(h) Directors have agreed to accept 65% of their claims in the form of equity share and 20% in cash and they have waived the remaining amount of Rs.26,250. Write necessary entries with reference to capital reduction in the books of company.

Q.2 Answer the following:

1. A balance sheet of Steel Ltd. as on 31-12-2024 was as under:

Particulars	Note No.	Amount
I. Equity and Liabilities		
1. Share Holders' Fund		
a. Share Capital		
Equity Shares of Rs.10 each fully paid (10,00,000/10=1,00,000)		10,00,000
10% non-cumulative Pref. Shares of Rs.10 each fully paid (60,000)		6,00,000
b. Reserve & Surplus		
Profit & Loss A/c		(8,10,000)
2. Non-Current Liabilities		
a. Long term borrowings: 10% Debentures		4,00,000
b. Other Long term Liabilities: Director's loan		1,00,000
3. Current Liabilities		
a. Short term borrowings- Bank overdraft		1,40,000
a. Trade payable- Creditors		2,00,000
b. Other current liabilities: Interest due on debentures		20,000
Total		16,50,000
II. Assets		
1. Non-Current Assets		

a. Fixed Assets- Tangible Assets		
Building		4,25,000
Plant & Machineries		2,00,000
Intangible Assets- Goodwill		90,000
Patents		70,000
b. Non-current Investments		1,30,000
c. Other Non-current Assets- Advertisement suspense A/c		70,000
2. Current Assets		
a. Inventories- Stock		2,80,000
b. Trade Receivables- Debtors		3,85,000
Total		16,50,000

On 1-1-2025 tribunal has approved a re-organization of scheme.

1. Every preference share up to Rs.6 and every equity share to be reduced by Rs.8.
2. Investments are to be sold at Rs.1,60,000 and Bank overdraft is to be paid.
3. A dispute worth Rs.50,000 against the company is to be paid out of which Rs.40,000 are collected from director loan. The remaining directors loan is paid off by Rs.50,000 as total settlement by issuing equity shares.
4. Creditors are adjusted by paying 80% of their total dues by issuing equity shares of Rs.10 each.
5. New 12% debentures are paid to the debenture holders against their total amount.
6. Preference dividend for two years is to be paid adjusted by paying 1/3 amount of fully paid equity shares.
7. All intangible assets & unseen assets are to be written off.

Pass necessary entries & prepare a balance sheet after introduction of scheme.

2. A balance sheet of Divya Ltd. as on 31-03-2025 was as under:

Particulars	Note No.	Amount
I. Equity and Liabilities		
1.Share Holders' Fund		
a.Share Capital		
Equity Shares of Rs.100 each fully paid		7,00,000
10% Pref. Shares of Rs.100 each fully paid		2,10,000
b. Reserve & Surplus		
Profit & Loss A/c		(1,20,000)
2.Non-Current Liabilities		
a. Long term borrowings: 12% Debentures		2,24,000
b. Other Long term Liabilities: Director's loan		42,000
3.Current Liabilities		
a. Trade payable- Creditors		2,97,200
b. Other current liabilities: Accrued Interest on debentures		26,800
Total		13,80,000
II. Assets		
1. Non-Current Assets		
a. Fixed Assets- Tangible Assets		
Land & Building		4,20,000
Plant & Machineries		2,03,000
Intangible Assets- Goodwill		1,20,000
b. Non-current Investments		49,000
c.Other Non-current Assets- Preliminary expenses		34,500
2. Current Assets		
a. Inventories- Stock		2,03,000
b. Trade Receivables- Debtors		1,50,500
c. Cash & Cash Equivalents: Bank balance		2,00,000
Total		13,80,000

Contingent liability: Claim of compensation against the company Rs.65,000. Tribunal has approved a re-organization of scheme.

1. Every preference share by Rs.90 and every equity share to be reduced by Rs.30.

2. The debenture holders agreed to forgo their accrued interest and also agreed to accept a piece of land having book value of Rs.1,12,000 at valuation of Rs.1,40,000 in part payment of their holding.

3. The remaining land and building were valued at Rs.3,50,000.

4. Investments are to be sold at Rs.55,000. Reconstruction expenses amounted to Rs. 21,000.

5. It was decided that Company has to pay claim against itself. For this the amount of Rs.42,000 was adjusted against the credit balance of Director's loan A/c in the company.

6. All intangible and fictitious assets are to be written off.

Pass necessary entries & prepare a balance sheet after introduction of scheme.

3. The following balances were extracted from books of Shahrukh Ltd.as on 31-03-2025:

Particulars	Amount
3200 Equity Shares of Rs.100 each fully paid	3,20,000
2400 8% Preference Shares of Rs. 100 each	2,40,000
Preliminary Expenses	48,000
Securities Premium	80,000
Debtors	38,720
Stock	8,000
Goodwill	24,000
Creditors	32,000
Land & Building	1,28,000
Machinery	2,56,000
P & L A/c (Debit)	1,37,280
Patents	32,000

The following scheme of capital reduction sanctioned by the Tribunal is as under:

(1) Equity Shares are to be reduced by Rs. 90 each.

(2) Preference Shares are to be reduced to Rs. 90 each.

(3) One new Equity share paid up to the extent of 50% only to be issued for each Rs.100 gross preference dividend, which has not been declared since 31-03-2024.

4) All credit balances not being the outside liabilities and all debit balances not being the amount receivable as well as the intangible assets are to be written off.

- (1) Present value of Land and Building has been appreciated by 150%.
- (2) Equity shares to be reduced to Rs. 10 per share paid, by cancelling Rs. 90 per share, the face value remaining the same Rs. 100 and the equity shareholders paying a call of Rs. 50 per share to provide funds for the company's working capital
- (3) Unsecured loans to be paid immediately to the extent of Rs. 1,00,000.
- (4) Unsecured creditors to be paid immediately to the extent of 10% of their claims and they accept a remission of 20% of their total claims.
- (5) Investment Allowance Reserve, being no longer required, to be transferred to Profit and Loss Account.
- (6) Investments to be brought to their market value
- (7) The amount available as a result of the scheme to be used to write off the debit balance of Profit and Loss Account.

[South Guj. Uni., S.Y., April, 2016]

5. A balance sheet of Nivana Ltd. as on 31-03-2025 was as under:

Particulars	Note No.	Amount
I. Equity and Liabilities		
1. Share Holders' Fund		
c. Share Capital		
Equity Shares of Rs.10 each fully paid		20,00,000
10% Red.Pref. Shares of Rs.100 each fully paid		8,00,000
d. Reserve & Surplus		
Profit & Loss A/c		(5,80,000)
2. Non-Current Liabilities		
a. Long term borrowings: 12% Debentures		6,00,000
b. Other Long term Liabilities: Director's loan		2,00,000
3. Current Liabilities		
a. Short term borrowings: Bank Overdraft		3,00,000
b. Trade payable- Creditors		5,18,000
c. Other current liabilities: Accrued Interest on debentures		72,000
Total		39,10,000
II. Assets		
1. Non-Current Assets		
a. Fixed Assets- Tangible Assets- Land		8,00,000

Building	6,00,000
Machineries	2,80,000
Intangible Assets- Goodwill	6,00,000
b. Non-current Investments	4,50,000
c. Other Non-current Assets- Advertisement Suspense Account	50,000
3. Current Assets	
a. Inventories- Stock	7,20,000
b. Trade Receivables- Debtors	4,00,000
c. Cash & Cash Equivalents: Bank balance	10,000
Total	39,10,000

Tribunal has approved following re-organization of scheme.

1. Every equity share is to be reduced by Rs.2.50.
2. Preference shareholders are given 15% 6000 preference shares of Rs.100 each and 80,000 equity shares of Rs.2.50 each.
3. The debenture holders are given 20,000 equity shares of Rs.2.50 each for their accrued interest on debentures. Rate of interest of Debentures is increased to 15%. Debenture holders are given Rs.2,00,000, 15% debentures of Rs.100 each at Rs.90.
4. Director's loan of Rs.80,000 is to be cancelled and for balance amount of loan 20,000 equity shares of Rs.2.50 are given as full settlement.
5. Investments are to be sold for Rs.6,00,000. Amount of Bank overdraft is paid.
6. Creditors of Rs.3,18,000 are paid immediately and balance is to be paid at quarterly intervals.
7. All intangible and fictitious assets are to be written off.
8. The assets are to be adjusted to fair value as under:

Assets	Amount
Debtors	3,60,000
Stock	6,40,000
Machinery	2,00,000
Building	5,00,000
Land	6,40,000

9. Balance amount of Capital Reduction Account is to be used to write off balance of Equity share capital.

Pass necessary entries & prepare a balance sheet after introduction of scheme.

[South Guj. Uni., S.Y., October, 2023]

Nivana Ltd.(AND REDUCED)

Balance sheet of as on 31-03-2023

Particulars	Note No.	Amount
I. Equity and Liabilities		
1. Share Holders' Fund		
a. Share Capital		
b. Reserve & Surplus		
Profit & Loss A/c(5,80,000-5,80,000)		-----
2. Non-Current Liabilities		
a. Long term borrowings: 15% Debentures		1,80,000
b. Other Long term Liabilities: Director's loan (2,00,000-2,00,000)		-----
3. Current Liabilities		
a. Short term borrowings: Bank Overdraft		8000
b. Trade payable- Creditors(5,18,000-3,18,000)		2,00,000
c. Other current liabilities: Accrued Interest on debentures(72,000-72,000)		-----

Total		
II. Assets		
1. Non-Current Assets		
a. Fixed Assets- Tangible Assets- Land		6,40,000
Building		5,00,000
Machineries		2,00,000
Intangible Assets- Goodwill		-----
b. Non-current Investments		-----
c. Other Non-current Assets- Advertisement Suspense Account		-----
2. Current Assets		
a. Inventories- Stock		6,40,000
b. Trade Receivables- Debtors		3,60,000
c. Cash & Cash Equivalents: Bank balance		-----
Total		

Note:1 Share capital

Particulars	Amount
Equity Share capital (20,00,000-5,00,000+2,00,000+50,000+50,000-4,48,000)	13,52,000
10% Red.Pref. Sharecapital (8,00,000-8,00,000)	-----
15% Pref.Sahre capital	6,00,000
Total	

Note:2 Cash & Cash Equivalents

Bank balance (10,000+6,00,000-3,18,000-3,00,000)= (8000)	-----