Extra Practice Examples

Capital Reduction

1. 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 1875,000. Write journal Entry for Capital Reduction.
2. Dividend on 8% cumulative preference shares of Rs. 3, 00,000 is outstanding since last two years. Under the scheme of capital Reduction, for outstanding dividend of Rs. 100, an equity share of Rs. 25 is given as full settlement. write journal entries.
3. The following balances were extracted from books of Shahrukh Ltd.as on 31-03-2026:

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 31-03-2025.

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.

5) Assets to be revalued and reduced by following amounts: Land-Building-32,320 & Machinery-99,200. You are required to show the Journal Entries and Balance Sheet after Capital Reduction.

4. **The Balance Sheet of XYZ Ltd. as on 31-3-2026 was as follows:**

Particulars	**Note No.**	**Rs.**
I. Equity and Liabilities		
1. Share Holders' Fund		
a. Share Capital		
Equity Shares of Rs.100 each fully paid up		8,00,000
5%Cum. Preference Shares of each Rs.100		4,00,000
b. Reserve and Surplus: Profit and Loss A/c(Dr.)		(3,60,000)
2. Non-Current Liabilities:		
a. Long Term Borrowings:		
10% Debentures		2,00,000
Bank Loan		8,00,000
3.Current Liabilities:		
a. Trade Payables : Creditors		1,80,000
b. Other Current Liabilities : Interest on Debentures		20,000
Total		20,40,000
II. ASSETS:		
1. Non-Current Assets:		
a. Fixed Assets: Tangible Assets: Land & Building		4,00,000
Plant & Machinery		6,00,000
Intangible Assets: Goodwill		80,000
Patents		40,000
b. Non-Current Investments (MarketValueRs.1,44,000)		1,60,000
2. **Current Assets:**		
a. Inventories: Stock		5,20,000

b. Trade Receivables: Debtors		2,40,000
Total		20,40,000

A scheme of Capital Reduction as approved by the tribunal was as follows:
(1) Stock is overvalued by Rs. 1,20,000.
(2) Revaluation of non-current investments is with the market value.
(3) It is also decided to sell a piece of Land at such a price, charging 25% profits on book values at to maintain the working capital of the company at Rs. 80,000. The remaining land and building is to be appreciated by 25%.
(4) Creditors agreed to continue their 80% rights.
(5) Debenture-holders agreed to waive their outstanding interest.
(6) Preference Share dividend was in arrears since 1-4-2025.They agreed to accept cash for the dividend.
(7) Necessary amount required to implement the scheme and also writing off intangible assets and accumulated losses be obtained by reducing both the share capital in their paid up share capital ratio. Pass necessary journal entries and prepare new Balance Sheet in the books of company.

5. Following balances appeared in the books of Ninja Limited as on 31st March 2023:

Debit balance	Amt.	Credit balance	Amt.
Goodwill	6,00,000	24,000 7% cumulative preference shares of Rs. 100	
Land & building	28,80,000		
Machinery	26,40,000	each	24,00,000
Investments	2,88,000	4,80,000 equity shares of Rs 10 each, fully paid	48,00,000
Current assets	41,28,000	8% debentures of Rs. 100	
Profit and loss Account	20,40,000	Each	24,00,000
		Debenture interest due	96,000
		loan from directors	4,80,000
		Current liabilities	24,00,000
	1,25,76,000		**1,25,76,000**

Note: 1. Claims for damage against the company pending in the court of law amounted to Rs. 2, 40,000.

2. Arrears of preference share dividend for 1 year.

Scheme of capital reduction as approved by the court was as follows:

1. the preference share is to be reduced up to Rs. 80 and equity share is to be reduced by RS.7.50

2. Preference shareholders waived half of the arrears of dividend and for remaining amount issues necessary number of new equity shares after capital reduction (per share as new value)

3. Debenture holders agreed to take over part of the land and building having book value Rs. 8, 64,000 at Rs. 12, 00,000 and 2, 88,000 equity shares of new value of each share were issued to them for the balance.

4. Debenture holders waived their interest due on debentures.

5. The claims for damage pending in the court of law were settled by issuing 28,800 equity shares of new value of each fully paid.

6. Directors converted their loan into 1, 92,000 equity shares in the same amount at new per share value of share.

7. All intangible and fictitious assets were written off.

8. The assets were revalued as under: Plant and machinery Rs. 16,80,000 Investment Rs. 2,40,000.

From the above information pass necessary journal entries in the books of company and prepare balance sheet after capital reduction.

Bonus Shares

1. Nayasa Co. Ltd. has utilized General Reserve of ₹2,10,000 to declare bonus share of ₹100 each at a premium of 5%. Pass necessary entries in the books of the company.

2. TVS Co. Ltd. has decided to utilise ₹3,00,000 out of General Reserve to declare bonus to the shareholders in the form of payment of final call at ₹3 per share on 1,00,000 equity shares of ₹10 each. Along with this company further decided to utilise the balance of Securities Premium Account to issue fully paid up bonus shares in the ratio of one equity share for every five equity shares held. Show entries in the books of company.
3. The following balances are shown in the books of the company.

Particulars	Amount
Equity share capital of Rs.100 each, Rs.80 per share paid up	80,00,000
Profit prior to incorporation	4,40,000
P & L A/c	15,60,000
Security Premium	3,60,000
Capital Redemption Reserve	16,40,000

The company declares a bonus to make partly paid up shares as fully paid up share and 5:1 fully paid-up Bonus shares are declared. Give the necessary entries in the books of the company.

4. Pramukh co. Ltd. has an authorized capital of ₹2,00,000 in Equity shares of ₹100 each. The issued capital of company was Rs.1,20,000 divided in to shares of Rs.100 each, ₹80 per share called up and paid up. Balance of General Reserve is ₹1,08,000. The company declares a bonus to make partly paid up shares as fully paid up share. Write entries in the books of Company.
5. A Ltd. has issued 25,000 shares of ₹100 each, which are fully paid-up. Resolution is passed by the company to issue 3 shares as Bonus shares against every 5 existing equity shares at a premium of 12%. There is adequate balance in General Reserve A/c. Write Journal Entry