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Faculty -Commerce

Subject Specailised Accounting

Class -B.Com Part 2

Session-2022-25

Topic

Internal Reconstruction

Outstanding Interest on Debentures

Problem 14

Following balances appeared in the books of Seemanchal Ltd. 2020 :

- 10,000 Equity Shares of ₹ 100 each, ₹ 80 per share paid.
- 5,000, 10% Preference Shares of ₹ 100 each fully paid-up.
- 4,000, 13% Debentures of ₹ 100 each.
- 4,000, 12% Debentures of ₹ 100 each.
- Outstanding interest on above debentures for one year ₹ 48,000 respectively.
- Sundry Creditors ₹ 4,00,000, Bank Overdraft ₹ 1,00,000.
- Land ₹ 3,00,000, Building ₹ 7,00,000, Plant and Machinery Equipments ₹ 2,00,000, Goodwill ₹ 2,00,000, Stock ₹ 3,00,000, ₹ 1,00,000. Debit Balance Statement of Profit & Loss ₹ 5,00,000.

Hence, the following scheme of reconstruction was agreed by the Tribunal and implemented by the company :

- The existing equity shareholders paid ₹ 20 per share in cash to make shares fully paid-up and then agreed to reduce to them ₹ 20 each fully paid-up.
- 10% preference shares were reduced by ₹ 40 each, however, face remained unchanged.
- The claim of 13% debentureholders along with outstanding interest settled by issue of 4,000, 14% debentures of ₹ 100 each.
- The claim of 12% debentureholders along with standing interest was settled by issue of 4,200, 12.5% debentures of ₹ 100 each.
- The assets were revalued as under :
Land ₹ 5,00,000, Building ₹ 4,00,000, Plant and Machinery ₹ 2,50,000, Equipments ₹ 1,20,000, Stock ₹ 2,50,000.
- Fictitious and intangible assets were written off.

You are required :

- Pass necessary journal entries to record the above scheme of reconstruction in the books of Seemanchal Ltd.
- Prepare Balance Sheet of Seemanchal Ltd. after reconstruction.

Solution

Journal of Seemanchal Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr.
	Equity Share Final Call A/c To Equity Share Capital A/c (For share final call money due on 10,000 shares @ ₹ 20 per share)	Dr.	2,00,000	2,00,000
	Bank A/c To Equity Share Final call A/c (For share final call money received)	Dr.	2,00,000	2,00,000
	Equity Share Capital A/c (10,000 × ₹ 100) To Equity Share Capital A/c (10,000 × ₹ 20) To Reconstruction A/c (or capital reduction A/c) (For the reduction of equity share capital)	Dr.	10,00,000	2,00,000 8,00,000
	10% Preference Share Capital A/c (5,000 (s) × ₹ 40) To Reconstruction A/c (or capital reduction A/c) (For the reduction of preference share capital)	Dr.	2,00,000	2,00,000

13% Debentures A/c (4,000 (d) × ₹ 100) Dr.	4,00,000	
Outstanding Interest on 13% Debentures A/c Dr.	52,000	
To 14% Debentures A/c (4,000 (d) × ₹ 100)		4,00,000
To Reconstruction A/c (or Capital Reduction A/c)		52,000
(For settlement of 13% Debentureholders)		
12% Debentures A/c (4,000 (d) × ₹ 100) Dr.	4,00,000	
Outstanding Interest on 12% Debentures A/c Dr.	48,000	
To 12.5% Debentures A/c (4,000 (d) × ₹ 100)		4,20,000
To Reconstruction A/c (or Capital Reduction A/c) Bal. fig.		28,000
(For Settlement of 12% debentureholders)		
Land A/c Dr.	2,00,000	
To Reconstruction A/c (or Capital Reduction A/c)		2,00,000
(For appreciation in the value of land recorded)		
Reconstruction A/c Dr.	12,80,000	
(or Capital Reduction A/c)		
(₹ 8,00,000 + ₹ 2,00,000 + ₹ 52,000 + ₹ 28,000 + ₹ 2,00,000)		
To Building A/c		3,00,000
To Plant and Machinery A/c		1,50,000
To Office Equipments A/c		80,000
To Stock A/c		50,000
To Goodwill A/c		2,00,000
To Statement of Profit and Loss		5,00,000
(For utilisation of reconstruction a/c to write off over valued assets, goodwill and profit and loss statement)		

Balance Sheet of Seemanchal

(as at 31st March, 2020)

Particulars	Note No.	Amount
		₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds :		
(a) Share Capital	1	5,00,000
(b) Reserves and Surplus		-
2. Non-current Liabilities :		
Long Term Borrowings	2	8,20,000
3. Current Liabilities :		
Trade Payables (Sundry Creditors)		4,00,000
Total		17,20,000
II. ASSETS		
1. Non-current Assets :		
Fixed Assets – Tangible	3	12,70,000
2. Current Assets :		
(a) Inventories (Stock)		2,50,000
(b) Trade Receivables (Debtors)		1,00,000
(c) Cash and Cash Equivalents		1,00,000
(Cash at Bank i.e., (-) ₹ 1,00,000 + ₹ 2,00,000)		
Total		17,20,000

Notes of Accounts :**1. Share Capital :**

Authorised, Issued, Subscribed and fully paid-up Capital :

10,000, Equity Shares of ₹ 20 each

5,000, 10% Preference Shares of ₹ 100 each, ₹ 60 each

Total

₹

2,00,000

3,00,000

5,00,000

2. Long-Term Borrowings :

4,000, 14% Debentures of ₹ 100 each

4,200, 12.5% Debentures of ₹ 100 each

Total

4,00,000

4,20,000

8,20,000

3. Fixed Assets - Tangible :

Land

Building

Plant and Machinery

Office Equipments

Total

5,00,000

4,00,000

2,50,000

1,20,000

12,70,000