

Illustration 10 :

Following is the Summary Balance Sheet of Umesh Ltd. as on 31-3-2018 :

Liabilities	₹	Assets	₹
6000 10% Cumulative preference shares of ₹ 100/- each fully paid up	6,00,000	Goodwill	2,00,000
15000 Equity Shares of ₹ 100 each, fully paid up	15,00,000	Land and Building	19,50,000
Loans	2,22,000	Plant & Machinery	70,000
Creditors	7,50,000	Stock	4,00,000
		Trade Debtors	2,88,000
		Bank Balance	1,26,000
		Profit & Loss Account	38,000
	<u>30,72,000</u>		<u>30,72,000</u>

Note: Preference Dividend was in arrears ₹ 1,20,000/-. The Board of Directors of the Co. decided upon the following scheme of reconstruction, which was approved by all concerned.

- Paid up value of equity shares shall be reduced to ₹ 50/- per share, face value being ₹ 100/-.
- Preference shares are to be converted into 13% debentures of ₹ 100/- each with regard to the 80% of dues (including arrears of preference dividend) and for the balance (including dividend arrears) equity shares of ₹ 100/- each (₹ 50/- paid up) shall be issued.
- All equity shareholders agreed to pay the balance amount, making shares fully paid up.
- The Plant-Machinery was revalued at ₹ 90,000/-.
- The value of stock was reduced by ₹ 1,00,000/-.
- Land and Building shall be written down to ₹ 15,50,000/-.
- Creditors agreed to forego their claims by 10%.
- Loan was fully settled for ₹ 2,00,000/-.
- Goodwill debit balance of Profit and Loss account shall be written off.
- Cost of reconstruction ₹ 5,000/- was paid. Above resolution was carried out.

You are required to :

- Pass journal entries in the books of the company.
- Prepare Capital Reduction account.
- Prepare Balance Sheet after reconstruction.

(T.Y.B.Com., Oct. 08, adapted)

Solution :**JOURNAL OF UNMESH LTD.**

Following is the Summary Balance-sheet of M/s. Siddhant Ltd. as on 31-03-2018.

Liabilities	₹	Assets	₹
Equity shares of ₹ 10 each	10,00,000	Fixed Assets	21,00,000
12% Cumulative Preference Shares of ₹ 100 each	7,00,000	Stock	20,00,000
10% Debentures	3,00,000	Sundry Debtors	15,00,000
Sundry Creditors	36,00,000	Bank	1,10,000
Provision for Tax	5,00,000	Share issue Expenses	40,000
		Profit and Loss Account	3,50,000
	<u>61,00,000</u>		<u>61,00,000</u>

Note : Preference dividend for 3 years was in arrears.

Following scheme of reconstruction was approved:

- (1) Write off Fixed assets by 20%, Sundry Debtors by 15%, and reduce the value of stock to 55% of its book-value.
 - (2) Preference shareholders to forego arrears of preference dividend.
 - (3) Directors to give temporary loan of ₹ 5,00,000 to Company.
 - (4) The Company settled tax liability to the extent of ₹ 5,40,000 and to meet the expenses of reconstruction amounted to ₹ 10,000.
 - (5) Sundry Creditors to give a remission of 20% of their claims and a company to allot 11% Preference shares of ₹ 100 each fully paid up in settlement of the balance amount.
 - (6) 10% debentures to be converted into 13% Debentures of ₹ 1,60,000 in full settlement of their claim.
 - (7) Equity shares to be reduced to ₹ 2 each fully paid up and 12% cumulative Preference shares to be reduced to 1,00,000 cumulative Preference shares of ₹ 2 each fully paid up.
 - (8) Write off debit balance in Profit and Loss Account and Share issue Expenses.
- Draft journal entries and prepare Capital Reduction Account and Balance sheet after reconstruction.

March 2005, Oct 2014, T.Y.B.A.F., Oct 2014, 2015, adapted)

Illustration 11 :

Following is the summarised Balance Sheet of Surya Ltd. as on 31-03-15 :

Liabilities	₹	Assets	₹
10,00,000 Equity Shares of ₹ 10 each, ₹ 8 paid up	1,28,00,000	Land and Buildings	60,00,000
Profit and Loss Account	1,20,00,000	Plant and Machinery	60,00,000
Security Premium	40,00,000	Furniture	44,00,000
10% Debentures	40,00,000	Investments	30,00,000
Bank Term Loan	40,00,000	Debtors	94,00,000
Creditors	60,00,000	Bank Balance	1,00,00,000
		Stock	40,00,000
	4,28,00,000		4,28,00,000

The company decides to buy-back maximum number of equity shares as may be permitted at a price of ₹ 20 per share being the current market price.

Assuming that the buy back is actually carried out, you are required to :

- Pass necessary Journal Entries in the books of the company and
- Prepare Notes to Accounts of Share Capital and Reserve and Surplus as they would appear in Notes to Accounts forming part of the Balance Sheet of Surya Ltd. as on 31st March, 2015. (Do not prepare the Balance Sheet)

(T.Y.B.Com., April 2016, adapted)

Solution :

In the Books of Surya Ltd.

FOR BUY-BACK [When Offer Price is given]

Illustration 13 : (Maximum Buy-Back at Given Offer Price)

The Summary Balance Sheet of M Ltd. (a non-listed company) as on 31-3-2012 is as follows:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Equity Shares of ₹ 10 each	3,00,000	Net Block of Fixed Assets	8,00,000
Preference Shares of ₹ 100 each	1,00,000	Long Term Investments	1,00,000
Securities Premium A/c	1,50,000	Bank	7,50,000
General Reserve	1,00,000		
Profit & Loss A/c	1,00,000		
Debentures	8,00,000		
Trade Payables	1,00,000		
	16,50,000		16,50,000

Keeping in view all the legal requirements, ascertain the maximum no. of equity shares that M Ltd. can buy back @ ₹ 30 per share, being the current market price. Assume that the buy-back is carried out actually on the changed terms and accordingly record the entries in the Journal of M Ltd. and prepare its balance sheet thereafter.

Solution :

Illustration 2 :

On 1-4-2010 Mrs. Minal had ₹ 3,00,000, 12% Debentures at ₹ 94 each (face value ₹ 100). Interest is payable half yearly on 30th June and 31st December every year.

On 1-9-2010 Mrs. Minal sold ₹ 90,000 of 12% debentures at ₹ 95 cum-interest.

These 12% debentures were quoted at ₹ 96 per debenture at the stock exchange on 31-3-2011. Draw up 12% Debenture account in the books of Mrs. Minal for the year ended 31-3-2011.

Solution :

(T.Y.B.Com., Oct. 12, adapted)

During the year ended 31st March, 2013 Mr. Virag bought and sold the following 12% Debentures of ₹ 100 each of Limozin Ltd. Interest being payable by Limozin Ltd. on 1st April and 1st October each year.

Date	Particulars
1st June, 2012	Bought 300 Debentures at ₹ 92 ex-interest
1st September, 2012	Bought 100 Debentures at ₹ 94 cum-interest
1st December, 2012	Sold 200 Debentures at ₹ 95 ex-interest
1st February, 2013	Bought 150 Debentures at ₹ 98 cum-interest

Books are closed on 31st March every year. Market price on 31st March, 2013 was ₹ 90 per Debenture. You are required to prepare Investment in 12% Debentures in Limozin Ltd. Account for the year ended 31st March, 2013 in the books of Mr. Virag (Apply AS 13).