

TEST - Internal Reconstruction**Total Marks - 30****Time Allowed - 1 Hour****Question 1****[2]****MCQ**

1. When the object of reconstruction is usually to re-organise capital or to compound with creditors or to effect economies then such type of reconstruction is called

- (a) Internal reconstruction with liquidation
 (b) Internal reconstruction without liquidation of the company
 (c) External reconstruction
 (d) None of the above.

2. Reconstruction is a process by which affairs of a company are reorganized by

- (a) Revaluation of assets and Reassessment of liabilities.
 (b) Writing off the losses already suffered by reducing the paid-up value of shares and/or varying the rights attached to different classes of shares.
 (c) Both (a) and (b).
 (d) None of the above

Question 2**[14]**

Planet Limited has decided to reconstruct the Company since it has accumulated huge losses. The following is the balance sheet of the company as on 31st March, 2022 before reconstruction:

Particulars	Note No.	Amount (₹ in lakh)
<u>Equity & Liabilities</u>		
<u>Shareholder's Funds</u>		
Share Capital	1	2,100
Reserves & Surplus	2	(783)
<u>Non-Current Liabilities</u>		
Long term Borrowings	3	1,050
<u>Current liabilities</u>		
Trade Payables	4	153
Other Liabilities	5	<u>36</u>
Total		<u>2,556</u>
<u>Assets</u>		
<u>Non-Current Assets</u>		
PPE	6	1,125
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	<u>6</u>
Total		<u>2,556</u>

Notes to Accounts:

		₹ In lakh
(1)	Share Capital Authorised: 300 lakh Equity shares of ₹ 10 each 12 lakh, 8% Preference shares of ₹ 100 each	3,000 <u>1,200</u> 4,200
	Issued, Subscribed and Paid up: 150 Lakh Equity Shares of ₹ 10 each, fully paid up 6 lakh 8% Preference shares of ₹ 100 each, fully paid up	1,500 <u>600</u> 2,100
(2)	Reserves and Surplus Debit balance of Profit & Loss A/c	(783)
(3)	Long term borrowings 6% Debentures (Secured by freehold property) Director's Loan	600 <u>450</u> 1,050
(4)	Trade payables Trade payables for Goods	153
(5)	Other Liabilities Interest Accrued and Due on 6% Debentures	36
(6)	PPE Freehold Property Plant & Machinery	825 <u>300</u> 1,125
(7)	Current Investments Investments in Equity Instruments	300
(8)	Inventories Finished Goods	450
(9)	Trade Receivables Trade receivables for Goods	675
(10)	Cash & Cash Equivalents Balance with bank	6

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

- (1) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.
- (2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.
- (3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
- (4) Interest accrued and due on Debentures to be paid in cash.
- (5) Remaining Freehold Property to be valued at ₹ 550 lakh.
- (6) All investments sold out for ₹ 425 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be allotted.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying penalty of ₹ 72 lakhs.

You are required to:

- Pass Journal Entries for all the transactions related to internal reconstruction;
- Prepare Capital Reduction Account, Bank Account; and
- Prepare Notes to Accounts on Share Capital and PPE, immediately after the implementation of internal reconstruction

Question 3

[14]

Following information from Balance Sheet of Ruby Limited as on 31st March, 2023.

	Amount ₹
Authorised and Issued equity share capital:	
60,000 shares of ₹ 100 each fully paid	60,00,000
40,000 7% cumulative preference shares of ₹ 100 each fully paid	40,00,000
General Reserve	12,00,000
Loan from Director	8,80,000
Trade Payables	49,20,000
Outstanding expenses	6,40,000
Bank loan	6,00,000
Patent	8,00,000
Plant & machinery	60,00,000
Building	11,00,000
Trade receivables	47,00,000
Inventory	32,60,000
Cash	2,40,000
Bank Balance	4,60,000
Profit and Loss account	16,80,000

Note: The arrears of preference dividend amount to ₹ 5,60,000.

The company had suffered losses since last 3 years due to bad market conditions and hope for a better position in the future.

The following scheme of reconstruction has been agreed upon and duly approved by all concerned:

- Equity shares to be converted into 6,00,000 shares of ₹ 10 each.
- Equity shareholders to surrender to the company 80 percent of their holdings.
- Preference shareholders agree to forgo their right on arrears of dividends in consideration of which 7% preference shares are to be converted into 8% preference shares.
- Trade payables agree to reduce their claim by one fourth in consideration of their getting shares of ₹ 10,00,000 out of the surrendered equity shares.
- Directors agree to forego the amounts due on account of loan.
- Surrendered shares not otherwise utilized to be cancelled.
- Assets to be reduced as under:

	₹
Patent to	Nil
Plant & Machinery by	8,00,000
Inventory by	6,80,000

(8) Trade receivables to the extent of ₹ 34,00,000 are considered good.

(9) Revalued figures for building is accepted at ₹ 14,00,000.

(10) Bank loan is paid.

(11) Any surplus after meeting the losses should be utilized in writing down the value of the plant further.

(12) Expenses of reconstruction amounted to ₹ 1,20,000.

(13) Further 80,000 equity shares were issued to the existing members for increasing the working capital. The issue was fully subscribed and paid up.

You are required to pass the Journal Entries for giving effect to the above arrangement and also to draw up the resultant Balance Sheet of the Company.