Workings: Amount Amount Contribution Utilization (<del>2</del>) (₹) 1. Value of Eq. sh. Reduced 1. Debit balance of Profit & Loss A/c 2. Value of pref. sh. Reduced 2. Fictitious Assets: 3. Value of Debenture Reduced -- Preliminary Expenses -- Discount on share 4. Value of Loan Reduced -- discount on Debenture - Underwriting Brokerage 5. Claim of Creditors Reduced /commission --Advertising Suspense 6. Any Other Liabilities Reduced 3.Intransible Assets Written 7. Value of Assets Increase Off: --Paten 8. Profit on sales of Assets -- Tread Mark -- Copyrights 9. Profit on Assets taken over -- Goodwill By the debenture

4. Value of any Other

Assets Reduced:

--Deprecation

		Bad debt	*
		Provision for bad debt	*
		5. Value of Liabilities Increase:	*
		6. Arrear pref.sh. dividend(if	*
		cancel then do not taken)	
		7. Reconstruction Expenses	*
		8. Loss on sales of Fixed	*
		Assets	
		CAPITAL RESERVE	**
	**		**
	- 27.72		

### **Journal Entries**

1. For replacement of share of one denomination by the share of another denomination.

Share Capital (Old denomination) Account

To Share Capital (New denomination) Account

To Capital Reduction/Reconstruction Account

[Difference]

To Capital Reduction/Reconstruction Account [Difference]

2. For reducing called-up Share Capital (without changing denomination)
Share Capital Account
To Capital Reduction/Reconstruction Account

3. For surplus on revaluation of fixed assets Individual Fixed Asset Account To Capital Reduction/Reconstruction Account	Dr. [Amount of appreciation]
4. For waiver of preference dividend arrears by an Capital Reduction/Reconstruction Account To Share Capital Account To Debentures Account	issue of shares/debentures Dr.
5. For issue of shares/debenture against accrued in Accrued Interest Account To Share Capital Account To Debentures Account To Capital Reduction/Reconstruction Account	interest already provided in the Balance Sheet Dr.
6. For transfer of favourable balance on reserve ac Individual Reserve Account To Capital Reduction/Reconstruction Account	Dr.
7. For expenses incurred on reconstruction Capital Reduction/Reconstruction Account To Bank Account	Dr.
8. For writing-off the fictitious assets and other ass Capital Reduction/Reconstruction Account To Profit and Loss Account To Goodwill Account To Plant and Machinery Account To Patents Account To Stock Account	sets Dr.
9. For capitalisation of surplus on Capital Reduction Capital Reduction/Reconstruction Account To Capital Reserve Account	Dr.

## CAPITAL REDUCTION



# REDUCTION OF FACE VALUE AND PAID-UP VALUE OF SHARES FOR THE PURPOSE OF WRITING OFF LOSSES



1. The balance sheet of M Ltd. as on 31.3.15 is given below:

Balance Sheet as at 31.3.15

Equity and liabilities		₹
Shareholders' funds :		
Share capital		3,00,000
Reserves and surplus		(1,50,000)
Current liabilities :		
Trade payables		1,00,000
		2,50,000
Assets		
Non-current assets :		
Fixed assets		1,80,000
Current assets:		
Inventories		25,000
Trade receivables		40,000
Cash and cash equivalents		5,000
		2,50,000
Notes to accounts:		
(1) Share capital:		₹
15,000 equity shares of ₹ 10 each, fully p	paid	1,50,000
1,500 preference shares of ₹ 100 each, fu	ılly paid	1,50,000
		3,00,000
(2) Reserves and surplus:		
Deficit in profit and loss statement		(1,50,000)
(3) Fixed assets:		
Land and building		1,45,000
Machinery		35,000
Com This has been not a		1,80,000

### It was resolved:

- (i) That the equity shares of ₹ 10 each and preference shares of ₹ 100 each be reduced to the same number of shares, each of ₹ 4 and ₹ 40 respectively.
- (ii) That the amount thus released be utilised:
  - (a) in writing down the inventories by ₹ 10,000;
  - (b) in writing off the adverse balance of the profit and loss statement; and
  - (c) in reducing the machinery by ₹ 10,000. The balance left was to be used in raising a provision for bad debts against trade receivables.

Give the journal entries recording the above transactions in the books of the company. Give also the balance sheet of the company after reduction of capital.

2. Following was the balance sheet of X Ltd. as on 31st March, 2015:

#### Balance Sheet

Equity and liabilities	7
Shareholders' funds:	
Share capital	2,00,000
Reserves and surplus	(45,000)
Current liabilities:	(15,000)
Trade payables	20,000
	1,75,000
Assets	
Non-current assets:	
Fixed assets:	
Tangible	1,00,000
Intangible (goodwill)	20,000
Current assets:	
Inventories	25,000
Trade receivables	28,000
Cash and cash equivalents	2,000
	1,75,000
Notes to accounts:	
(1) Share capital:	₹
Issued, subscribed and fully paid:	
10,000 equity shares of ₹ 10 each	1,00,000
10,000 7 ½% preference shares of ₹ 10 each	1,00,000
10,000 , 72 , 1	
	2,00,000
(2) Reserves and surplus:	/4E 000
Deficit in profit and loss statement	(45,000)

It was resolved that equity shares of ₹ 10 each be reduced to shares of ₹ 6 each and  $7^{1}/_{2}$ % preference shares of ₹ 10 each be reduced to 8% preference shares of ₹ 7 each. The number of shares in each case was to remain the same. It was further resolved that the amounts so available be used for writing off the deficit in profit and loss statement and goodwill account and to write down the tangible fixed assets as far as possible.

- (a) Show the necessary journal entries in the books of the company.
- (b) Prepare the balance sheet as revised after the above entries.

			0
	INTERNAL RECONSTRUCTION OF	COMP	HTNIES
	CAPITAL REDUCTION AND ALTERATION	OF)	
(A)	SHARE CAPPITL	dilità.	1
1.	In the books of M Ltd.		0.0
- 1	Journal Entries	Dre	CE.
Date	Particular 100000 total	Ro.	p.
	Eq. 44. Capital Afc Dr.	150,000	10.00
0000	TO ital and retiran	eyod abin	90,000
	To Eq. 4h Capital	0 1	
	1 Reina courter share of Rs. Weach reducal to		
2003	As. 4 each as per special resolution No- Dated)		
140.0	Preforence chare Capital Ale Dr.	150,000	
0.65	To Capital Reduction		90,000
20,040			100,000
	Deing pref. yh. of Ry. (ro each reduced to Rs. 40 each on per special resolvation No-Delent.)	0	ENHAM
	Goeach on per species	10	
0	Capital Reduction Afe To Robit 7 his Afe.	180,000	150,000
(6)	to properties Alc.		lopes
डेंग्रुवर्ध	To Machinery Alc. To Machinery Alc.	FEETW.	lo,ow
	To Prov. for doubt the debt Alc.	1,200	
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(138.)	Machinem and Sondry desters Writter down as per	X will	
	Special resulvation No - Porter -)		

Balance their of M	LHL	an on 31.3.15 ( and reduce	l)	
TO MAINTHAN OF	diny	CAPITAL REDUCTION	1	
· Léabilities	Po.	Austral et 12	Ps).	
. Stareholders Finds:	City	Non-Correct Asset:		
Equity share capital	60,000	and and brilding	1450m	
. Reference share capital	60,000	Machiner 35000 cos; reduced 10,000		
a 1- liabilities:		cos: reduced 10,000	25000	
Convert léabilités:	100,000	Correct ands:		
Trade payables		Inventories 25000		
reduced to	lo eace		15000	
(- lated - on no	dulur	Trade Receivables gopois		
000 001			30,000	
000,021		Cash and Cash equivalents	5000	
	000,010	The Block II . PARKA	220,000	
Land Andrews		their protection of Rolling	1	
Workings Calculation of Capital reduction scheme				
1		a HA MEDIUS HOLD AND AND A	Pa	
Contribution	Rs.	Utilization of	Rs.	
0.00,03		Debit bolance of P/L Afc.	150,000	
Value of Egyn. redreal	90,000	value of anets reduced Inventories		
(15000×6)	The one	mentarly	10,000	
of Ref. Sh. redrew	) end & 1	machinen	loon	
Value (100 x60)	00,000	deophen and sugar fortis	1	
	( - lak	WITH - OIL WILLOW MICH DOTTED		
		Provision for duritheldest	10,000	
		Provision for doubtheldests (borlancing figure)		
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To Eartal reduction Afc.	Ref. W	60,00
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as per special resolvation No Datal)	ring ubis	1
	100 010	
7-2". Pref. 4. Capital Afc Dr.	100,000	30,010
To 8% Pref. 84. Capital		70,000
10. Def M. of Rs. Locath redrealty Rs.7		
Laren as per special resolution No. Dated)		
	70,000	Ministron
Capital reduction Afc. Dr. To Prohit 7 Lun Afc.	700	4500
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to Tangible fixel Amit		5000
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Written off and reduced the value of tangible fixed Ariets as per special resolvantion No.	bx no!	
fixed Ariets as per special resolvantion No.		haday.
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I American		11 0	Taba
- Liabilities	ps.	Asset	R).
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8.7. Pref. 44. Capital	60,0W	100,000 H	
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trade pargable	20,000	Inventories ?	25000
The state of the s		Trade receivables	28000
0,001	Aa	Cash and Cash equivaled	2000
010/06		To 8% Pat 14 Capit	
1730,05			0.1
edvent to Po. 7	1500W	eing 9 5% Ref. 41. of 61.	153 000
( felol -	13/1	aren as per special ors	150,000
		Iration Calana	6)
working Calculation of Capi	in rec	wetin scheme	
	1	Ja Rock short of	
Contribution	Rs.	Utilization	Rs.
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last-coute the realized	3.0	Debib Galance of PLAGE	45000
value of equity sh. redeel	1 33 MAN	Goodwill Written off	11 199
10,00×4	40,000	alegain without the	20,000
Value of pref. Sh. reduced 100	l resilva	war with when the there	
10,0WX3	30,000	( Install	
		Tangible fixedames	5000
		reduced (balancing figure)	13,
		0007	
	2		
	70,000		70,000
	•	Scanned with CamScanner	