"Critics are most welcome"

Feedback : please forward your feedback to

PHONE : 7569989230 by SMS or CALL

this will help for better notes in future.

2016

B.V.REDDY'S CA IPCC TAXATION NOTES

For more files log on to : www. caclub india b vinay reddy.com

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INTERNAL RECONSTRUCTION

— BY - B. VINAY REDDY
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STEPS:

1. Journal Entries : Format ▸

In the Books of B.V. Reddy Ltd.

Journal Entries

Date	Particulars	Dr. Amt (₹)	Cr. Amt (₹)

2. Open Capital Reduction A/c

Capital Reduction A/c

Dr		Cr
To, - - - (write off)	By - - -	
To P&L A/c	By - - -	
To Goodwill A/c		
To Cap. reserve A/c (Balancing figure)		

★ Capital Reduction A/c also known as Reconstruction A/c

3. Balance sheet in shedule III format :

B.V. Reddy limited (and reduced (os)) After Reconstruction

Balance sheet as on 31st March, 2016

Particulars	Note No.	Amount (₹)

4. Notes to Balancesheet / Notes to Accounts

JOURNAL ENTRIES

RULES	DEBIT	CREDIT
	Appreciation in Asset	Decrease in Asset
	Decrease in Liability	Increase in Liability

Liabilities
Eg: Pref dividend

- Existing in Balance sheet
  - Paid: Liability A/c Dr, To, Bank A/c
  - Waived: Liability A/c Dr, To, Reconstr. A/c
- Not in Balance sheet
  - Paid: Reconstr. To Bank
  - Waived: NO ENTRY

Expenses

- General / O/s exp: Outstanding exp. A/c Dr, To, cash A/c/ Bank A/c (salary o/s paid)
- Reconstruction expense: Capital Reduction A/c Dr, To, Cash A/c / Bank A/c (Eg: penalty)

1. Pref share / Equity shares written down / Converted

TO ₹ 2 of ₹10 each — Amt colu ₹ 2

BY ₹ 2 of " — 10 - 2 = ₹ 8

Entry:

E.S.C / P.S.C (₹ 10) A/c Dr.
 To, E.S.H / P.S.H A/c

(Being E.S.C transferred to E.S.H)

E.S.H / P.S.H A/c Dr
 To, E.S.C P.S.C (₹ 2) A/c (₹8)
 To, Capital Reduction A/c

(Being SUB-Division of XX shares of ₹ each with ₹ paid up / fully paid up into XX share of ₹ each with ₹ paid up by resolution in General meeting dated - - - -)

2. Converting ₹ 2 share to ₹ 10

Same entry (only denomination changes per share)

Narration:

(Being Consolidation of XX shares of ₹ with ₹ paid up into XX share with ₹ paid as per GM dt - - -)

3. Conversion of fully paid shares into stock

E.S.C A/c Dr
 To, Equity stock

(Being conversion of XX fully paid E-shares of ₹ into ₹ Equity stock as per resolution in GM dt - - - -)

4. Reconversion of stock → shares

Equity stock A/c Dr
 To, E.S.C A/c

(Being Reconversion of - - - -)

5. Pref. Dividend in arrears of 3 yrs to be waived by 2/3rd & for Bal 1/3rd equity shares allotted

cap. reduction A/c Dr — Amt colum P.S.C in B/S × % (Rate) ★★★
 To, E.S.C A/c

(Being 1/3rd arrears of PD of 3 yrs to be satisfied by issue of E.S)

6. Deb. Holders Agreed to take land of ₹ 150 lakh & bal remains as liability (not relevant)

Debentures A/c Dr
 To, Land A/c

(Being claim of DH settled by transfer of Land)

7. Int accrued — If given claim for Int 50% foregone — paid in cash

Int. accrued on Debt. Dr — Accrued Int to Bank to CR
 To, Bank A/c

(Being accrued int paid in cash)

8. Sold Inv.

Bank A/c Dr
 To, Investment A/c

(Being inv. sold in cash)

9. 70% of Director's loan waived & for Bal E.S. allowed

Director's loan A/c Dr
 To, E.S.C A/c
 To cap. Reduction A/c (70% Ad)

(Being Directors loan waived by 70% & for Bal. being discharged by issue of equity shares)

10. Any Assets written off / Decrease in value

capital Reduction A/c Dr
 To, Asset A/c

(Being Decrease in value of Assets)

11. Company's contractual commitments have been settled by 5% penalty.

Cap. Reduction A/c Dr (contract Amt × 5%)
 To, Bank A/c

(Being penalty on cancellation contract paid)

12. V.V.V. Imp

Mr. X agrees to cancel Debt Amt 50,000 out of total Debt & agree to accept 15% Debt for Balance & also agreed to subscribe new Debt ₹ 1,00,000

12% Debt 3,00,000
15% Debt 6,00,000
 To Mr. B.V. Reddy 9,00,000

(Being liability of Mr. B.V.R ascertained)

Bank A/c Dr 1,00,000
 To Mr. B.V. Reddy 1,00,000

(Being amt paid under reconstruction)

Mr. B.V. Reddy 10,00,000 (Debt amt + subscribe)
 To,
 To, 15% Debent A/c 9,50,000
 To, cap. reduction 50,000

(Being liability of Mr. B.V.R settled)

B. Uncalled cap. is to be called up in full & convert to ₹ 40 of ₹ 50 V.V. imp

Share final call A/c Dr
To, E.S.C A/c
(Being final call made)

Bank A/c Dr
To, Share final call A/c
(Being money on final call received)

E.S.C A/c (₹ 50) A/c Dr
To, E.S.H A/c
(Being E.S.C tr to E.S.H)

E.S.H A/c Dr
To, E.S.C A/c (₹ 40)
To, cap reduction A/c
(Being conversion of - - - - -)

14. Existing SH agreed to subscribe in cash, fully paid up equity shares of ₹ 40 each for ₹ 12,50,000

Bank A/c 12,50,000
To E.S.C A/c 12,50,000
(Being new shares allotted of ₹ 40 each at 12,50,000)

15. Trade Cr. are given option of either to accept fully paid E.S. of ₹ 40 each for the amount due to them (or)
To accept 70%. of amt due them in cash for full settlement

Trade Cr of 7,50,000 accept E.S.C & rest opted for cash
They will get 70% of their dues

Trade Cr. A/c Dr 12,40,000
To, E.S.C A/c 7,50,000
To, Bank A/c 3,43,000
(Amt due × 70%)
To, cap. Reduction A/c 1,47,000
(Amt due × 30%)
(Being payment made to Cr in shares (or) cash as per scheme)

16. Write off any Assets, P&L Dr Bal, GW etc (or) Decrease in value etc,
(write all similar items in one entry only)

cap. Reduction A/c Dr
To Asset A/c / P&L A/c
GW A/c
(Being amt of cap. reduction utilized in writing of - - - - - - -)

17. The SH to receive in lieu of their present holding at 1L shares of ₹ 10 each,

a. New fully paid ₹ 10 E.S equal to 3/5 of total holding
b. 10% P.S. to the extent of $\frac{1}{5}$th of above new E.S.
c. 40,000 8% Debentures

Equity share cap A/c (old Amt) 10L
To E.S.C (₹ 10/share) 6L
To, 10% P.S.C 1,20,000
(6L × 1/5)
To, 8% Deb 40,000
To, Cap. reduction A/c 2,40,000
(Being New E.S, 10% P.S, 8% Debt issued and balance tr to reconstruction A/c as per the scheme - - -)

18. Rate of Debt increased from 10% to 12% & DH surrender their existing Debt of ₹ 100 each & exchange same for fresh Deb of ₹ 70 each

10% Debt A/c Dr
To 12% Deb
To cap Reduction A/c
(Being 12% Debt issued to 10% DH for 70% of claims & bal tr to CR A/c)

19. The company would issue 11% Debentures to 3L to augment its working cap after settles of Bank over draft

Cash / Bank A/c Dr 3L
To 11% Debt 3L
(Being Issue of new Debt)

Bank over draft A/c Dr
To, Bank A/c
(Being over draft settled)

20. V.V. imp
In full settlement of 75% of the claim, unsecured cr agreed to accept 4 shares of ₹ 7.5 fully paid against their claim for each share of ₹ 60.

Bal. 25% is to be postponed & payable at the end of 3 yrs from date of reconstruction
The nominal share cap increased accordingly,

7.5 ₹ × 4 share = ₹ 30 for every ₹ 60

Half of amt is waived

3,00,000 × 75% = 2,25,000 × 50%
= 1,12,500

Unsecured Cr A/c 3,00,000
To E.S.C 1,12,500
To cap. Reduction 1,12,500
To loan 75,000
(Being settlement of creditors by issue of Equity shares and to to loan)

21. Prov. for Taxation & Taxation liability Treatment
V. V. IMP

* B/S Prov for Taxation 2L
Adj. Taxation liability 3L
Prov < Tax payable
Entr:
Prov for Taxation A/c Dr 2L
Cap. Reduction A/c Dr 1L
To, liability for taxat 3L
(Being conversion of prov for tax into liability for tax, for settlement of amount due)

liability for taxation A/c Dr 3L
To, Bank A/c 3L
(Being settlement of taxation)

Prov > Tax payable
B/S 3L — Adj. 1L

Prov for taxation 3L
To, Bank 1L
To, Cap Reduction 2L
(Being liability for taxation settled)

for Balance sheet presentation
Trade ~~payables~~ Inv.
1. can be assumed as long-term by treating it was invested in same line of Business i.e, in subsidaries
2. can be assumed as Current Asset (Inv) by treating it was held for Trading purposes.

22. E.S.C 20,000 shares of ₹ 100 each = 20,00,000 V.V.IMP

* Each share sub-divided into ₹ 10 each fully paid up & after sub-division, each SH shall surrender to the comp 50% of his holding for purpose of reissue to DH & TP.

Out of surrendered 20,000 shares of ₹ 10 each shall be converted into 10% p.s.c of ₹ 10 each.
Shares surrendered & not re-issued shall be cancelled

E.S.C A/c (₹100) 20,00,000
To, share surrender 10,00,000
To, E.S.C (₹10) A/c 10,00,000
(Being sub-division of 20,000 Equity shares of ₹ 100 each into 2L Equity shares of ₹ 10 each & surrender of 1,00,000 such sub-divided shares as per Reconstruction scheme)

Share surrender A/c 10,00,000
To, 10% P.S.C A/c 2,00,000
To, E.S.C A/c 78,000
(claim of DH + TP = 78,000)
To, Reconstruction A/c 7,22,000
(Issued P.S & E.S to discharge the claims of DH & TP as per scheme & bal. in share surrender A/c is tr to reconstruction A/c)