

Welcome to your students, I doctor Champa Ramkrishna Parab associate Professor Head Department of Commerce MES College of Arts and Commerce Zuarinagar Goa present before you module 13.

Module 13 is continuation of your Model 12 where we have dealt with your problem number one. All the adjustment pertaining to your questions were explained to you. Along with that, we have also prepared your Journal.

Now, as we have prepared your Journal , along with Journal as a part of your internal reconstruction scheme we are supposed to prepare something called as your Capital Reduction Account. The Thrust of Internal Reconstruction scheme is the Capital Reduction Account, that is, why compulsorily Reduction Account is to be prepared in order to find out the difference to be transferred to Capital Reserve.

Outline: we have covered the question which is talking about the change in the face value of your equity preference and shares. We're talking about the sacrifices made by creditors/ Debenture holders, as a part of problem, we have also writing off of the Fictitious Assets /tangible assets and now we are going to transfer the balance in our reduction account to Capital Reserve Account.

The learning outcomes: The student will be able to know the type of transactions and adjustments while dealing with the internal reconstruction scheme of the company, approved by the Court of Law and as provided and permitted by the Articles of Association of the company. Further you will be able to know and complete the accounting treatment in the form of the preparation of Journal, Capital Reduction Account and finally the

balance sheet in the end, after completing your Journal as well as the Reduction Account.

I present before you the Capital Reduction Account for problem number one which we had in our module 12. Dear students though you can see here only the capital reduction account, do remember the account is prepared based on the Journal which was presented to you in Module 12. Accordingly as per Journal entry number one, on the “by” side or the credit side what you have is the preference capital, the money entered is 40,000. It is the money of the capital reduction account because capital reduction account in your entry number one was credited for rupees 40,000.

Similarly, the item called as “by equity share capital”, It is as per your entry 2, but the money of your entry 2, towards or against your reduction account was 1, 50,000 as we are preparing the capital reduction account, it is the money of the reduction account which is going to come in amount column.

Further, you have 7% Debentures, this you have as per your next entry wherein sacrifice was made by debentures/ debenture holders which is a profit to the company. So reduction was credited for 6000. So Reduction account what we're writing is your 7% debentures account and the amount is 6000. This 6000 is nothing but it is the amount of capital reduction.

Further sacrifice was made by debenture holders towards the interest due to them and the entire money is the amount of the profit this, entire money, which is the amount of the profit, is the sacrifice to be credited to

Capital Reduction Account. So, whole money is credited to reduction account and shown on the “by” side.

Similarly creditors have forgone/ sacrificed 20% of the money due to them. Accordingly that 20% money was credited to Capital Reduction Account and that is why what is coming on the “by” side of Reduction Account is creditors account to the extent of rupees 10,000 so these are the transactions in our Journal as per our module 12 where reduction account was credited. So when reduction account was credited, all the things will appear on the credit side of the Reduction account.

I come to the left hand side/debit side when we talk about the debit side of your reduction account, we have written off Fictitious Assets called P and L Account as well as preliminary expenses. So “To” P and L Account and “To” preliminary Expenses, you have for writing off both these fictitious assets to your Reduction Account.

Further, there was fall in the value of plant where plant was reduced, so capital reduction account was debited for 50,000 against your plant. So the plant is written down and the money which is entered is 50,000. It is the money against the Reduction account. For the patterns values are also reduced as a result reduction was debited for rupees 40,000 and this 40,000 was against our intangible asset called Patterns. So we are writing on the debit side of reduction account patterns for rupees 40,000.

Finally all the transactions are over. We are coming to the last part where u needs to check the total of Capital Reduction Account so as we

are dealing with Capital Reduction Account we find that the credit side of Reduction account is more and the credit total of your capital Reduction account is coming to 2, 14,800, to be copied pasted as it is on the left hand side, called as your total. So if you compare the left and right hand side, the total of "by side" is more which is copied pasted on the left hand side. So from these 1, 94,800 we need to deduct now all the money value appearing on the left hand side amounting to 1, 94,800 that's how the balance is coming to 20,000. So any difference in the reduction account wherein the credit side is more than your debit side it is to be transferred to Capital Reserve account and this capital reserve account specially come because of the differences and the balancing figure this answer what you got is 20,000. This you need to write in that Journal entry which I had shown you all as a part of Model 12. I had said when you are dealing with your all the Journal entries and once you complete all the adjustment you need to leave five lines and prepare Capital Reduction Account and after preparing your reduction account you come to know the difference in the reduction account to be transferred to Capital Reserve. So as per our Capital Reduction Account, the difference is 20,000. So you have to pass a Journal entry. Your Journal entry will be Capital Reduction Account, debit "To" capital Reserve Account, 20,000. Narration will be, being balance in capital reduction, account transferred to Capital Reserve Account. And once you have done with your capital reduction account, your last step is to prepare balance sheet.

Last step is to prepare the balance sheet. Small clue I want to give as a part of our advanced company accounts subject, our first Unit was final account you all have studied the format of your P and L A/C account as

well as the balance sheet. We are using same format of your balance sheet because we need to prepare balance sheet. But one important thing to be noted is that when you deal with internal reconstruction, what is expected from the student is that you need to prepare the New Balance sheet taking into consideration the items which are available in your question in your old balance sheet as well as in your adjustments, in the capital reduction account. Meaning you need not prepare full balance sheet or you need not show entire format of your balance sheet accordingly. Accordingly I present before you based on the old balance sheet, the Journal entry and the reduction account, what is called as your New Balance sheet. Now do remember small thing some of the items cannot come directly, for that you need to prepare the notes to balance sheet. So even in this question notes to balance sheet are prepared. So we have something called share capital, reserves surplus for which notes are prepared. I will show you the same as in between items are not taken because they are not there. In our question we have long term borrowings in the form of debentures, trade payables in the form of your creditors and then we have made the total. We are having tangible asset but do not forget notes are done for tangible and intangible asset only because part of your tangible asset like plant has been written off. Your intangible asset Patterns is also been written off so accordingly the notes are to be shown by way of the reduction. We are having inventories as it is to be copied pasted from the old balance sheet because there was no adjustment in the question talking about the Inventory there are trade Receivable, no change so to be copied pasted as it is, but if there are adjustment related items with regard to your debtors, then you need to look into the same. You have further something called as cash and cash balance. After preparing your balance sheet liabilities items and asset item

you need to make the total of your balance sheet and the total of your liabilities in our coming to to 3,09.000 let me show to you all the notes to your balance sheet. Let's glance through the same.

Notes please check here we have note one. What we have is the share capital. Our share capital is divided into authorize any issued paid up. Authorized capital is copied pasted as it is from your old balance sheet. Then further what you have as a part of your issued and paid up capital is please check you need to look at your Journal. So you have two types of issued and paid up capital in the question. One was equity shares and another one was Preference shares first one was equity shares, another one was your preference shares. Do remember as a part of the internal Reconstruction scheme, you have issued some new equity shares to creditors. Old balance sheet had equity shares of 15,000, additional shares are given to creditors. That means right now, company has 15,000 + 4000 equity shares of 10 each, which will come to one 19000. Beside this we have New preferences the paid up value is 40. No change in the number money is 40,000. This has come as a part of your entry number one an entry 2. So you have to add up the value of issued and paid up capital against your equity and preferences and the same has to be copied, pasted in your balance sheet against capital. Plus there is Capital Reserve. This Capital Reserve is nothing but if you prepare your Capital Reduction account and the difference in the reduction account was your. Capital reserve to be copied, pasted as a part of note, later on to be taken to balance sheet. There are long terms borrowings so remaining amount of dentures are 54,000. That will go as your long term borrowing. There is trade payable amounting to 5000, under tangible asset you had plant

amounting 2,00,000 , written off is 50000 written off remaining plant is one 1,50,000. There was intangible asset called as patents amounting to 1, 00,000, what is written off is 40,000 remaining is 60,000 .Inventories are taken as it is, no change. Then there are trade receivables there two items one is your bills Receivable and then there is better because there are two items the Lotus prepared for the same and finally there is a note on cash and cash equivalent. Only one item taken as it is. So all these notes will prepare and these notes whatever we prepare these notes will be shown in your balance sheet as a part of your balance sheet and in the Note number column we have entered the note number and in the amount column we have entered the amount.

Thank you so much.