

Specialised Accounts
B. Com Part II
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Question

The following share capital of 2 Limited consist of the followings.

- ① 10,000, 6% Preference share of 100 each and
- ② 50,000 Equity share of Rs 1.0 each.

The share were fully paid by the end of the year, & it has accumulated losses to the extent of Rs 35,000 besides preliminary expenses totalling Rs 20,000. It was also ascertained that the fixed assets stood in the book at Rs 14,00,000 were over valued to the extent of Rs 4,00,000. A scheme of capital reduction was adopted and approved by the court in order to remove the over valuation and to write off the losses and preliminary expenses. Under the scheme 6% Preference share were to be converted in to 7% Preference share of Rs 60 each and equity share were to be converted in to share of Rs 2 each. Also the dividends on Preference share which were to be cancelled.

State the journal entries to be passed on the implementation of the scheme.

Solution.

Journal Entries

6% Preference Share Capital A/c Dr 10,00,000
 to 7% Preference Share (Rs 60) 6,00,000
 " Capital Reduction. 4,00,000

(Being deduction of 6% Preference share of Rs 100 into 7% Pref Share of Rs 60 and)

Equity Share Capital A/c Dr (10) 5,00,000

 to Equity Share Capital A/c. 1,00,000
 " Capital Reduction A/c. 4,00,000

(Being 10 equity share reduced to Rs 2 per share)

Prof Share Dividend A/c Dr 1,80,000

 to Capital Reduction A/c. 1,80,000

(Being Preference share dividend waived)

Capital Reduction A/c Dr 9,80,000

 to Accumulated losses A/c 3,50,000
 " Fixed Assets A/c - 4,00,000
 " Preliminary expenses. 20,000
 " Capital Reserve. 2,10,000

(Being losses & assets written off & balance transferred to Capital Reserve)