

Internal Reconstruction

- Meaning

It is an arrangement made by the companies whereby the claims of shareholders, debenture holders, creditors and other liabilities are altered/reduced, so that the accumulated loss are written off, asset are valued at its fair value and the balance sheet shows the true and fair view of the financial statement

- Forms of internal reconstruction

- i. Re-organization or alteration of share capital
- ii. Reduction of share capital and other liabilities

- Objectives of internal reconstruction

- i. To resolve the problem of over-capitalization/ huge accumulated losses/ over valuation of assets
- ii. When the capital structure of a company is complex and is required to make it simple
- iii. When change is required in the face value of shares of the company

- Meaning of capital reduction account

It involves sacrifice on the part of shareholders, debenture holders and creditors. The amount sacrificed by them shall be utilized in writing off of losses and to bring down the assets to their real values. An account called capital Reduction also called Internal Reconstruction Account or capital Reorganization Account is opened for this purpose. Amounts sacrificed by various parties are credited to this account. It is generally resorted to write of the past accumulated losses of the company

1. Differentiate between internal and external reconstruction

BASISFOR COMPARISON	INTERNAL RECONSTRUCTION	EXTERNAL RECONSTRUCTION
Meaning	Internal reconstruction refers to the method of corporate restructuring wherein existing company is not liquidated to form a new one.	External reconstruction is one in which the company undergoing reconstruction is liquidated to take over the business of existing

**BASISFOR
COMPARISON****INTERNAL
RECONSTRUCTION****EXTERNAL
RECONSTRUCTION**

company.

New company

No new company is formed.

New company is formed.

Use of specific terms in
Balance Sheet

Balance Sheet of the company
contains "And Reduced".

No specific terms are used in the
Balance sheet.

Capital reduction

Capital is reduced and the external
liability holders waive their claims.

No reduction in the capital

Approval of court

Approval of court is must.

No approval of court is required.

Transfer of Assets and
Liabilities

No such transfer takes place.

Assets and liabilities of existing
company are transferred to the new
company.