

State the Right Alternative.

1. In case of sub-division of share capital the total number of shares—

- (i) Increases
- (ii) Decreases
- (iii) Does not change.

Ans. (i) Increases

2. If the shares of smaller denomination—are converted into the shares of higher denomination without changing the total amount of share capital, then it is a case of—

- (i) Consolidation of share capital
- (ii) Sub-division of share capital
- (iii) Decrease in unissued share capital.

Ans. (i) Consolidation of share capital

3. When a company converts its equity shares into the capital stock, then the account to be credited is —

- (i) Equity share capital account
- (ii) Equity capital stock account
- (iii) No entry is required.

Ans. (ii) Equity capital stock account

4. A Ltd. with a share capital of 10,000 equity shares of Rs. 10 each fully paid decides to repay Rs. 5 per share thus making each share of Rs. 5 fully paid. It is a case of—

- (i) Reducing share capital by returning the excess capital
- (ii) Reducing the liability on account of uncalled capital
- (iii) Reducing the paid-up capital.

Ans. (i) Reducing share capital by returning the excess capital

5. For writing off the accumulated losses under the scheme of capital reduction, we debit—

- (i) Share capital account
- (ii) Accumulated losses account
- (iii) Capital reduction account.

Ans. (iii) Capital reduction account.

6. If there is any balance in the capital reduction account after writing off all the accumulated losses, then the same is transferred to —

- (i) Share capital account
- (ii) Capital reserve account
- (iii) General reserve account.

Ans. (ii) Capital reserve account

7. A company has issued capital of 10,000 equity shares of Rs. 10 each fully paid. It decides to convert its capital into 20,000 equity shares of Rs. 5 each. It is a case of

- (i) Consolidation of share capital
- (ii) Sub-division of share capital
- (iii) Decrease in unissued share capital.

Ans. (ii) Sub-division of share capital

8. If the creditors are willing to reduce their claims against the company, (hen the amount of reduction in their claim will be transferred to

- (i) Share capital account
- (ii) Creditors account
- (iii) Capital reduction account.

Ans. (iii) Capital reduction account.

9. Any loss on revaluation of the assets at the time of internal reconstruction, will be charged from—

- (i) Revaluation account
- (ii) Share capital account

(iii) Capital reduction account.

Ans. (iii) Capital reduction account.

10. In which of the following cases, procedure of reduction of capital is not called for:

- (i) Redemption of preference shares
- (ii) Forfeitures of shares
- (iii) Surrender of shares or gift of shares
- (iv) All of the above

Ans. (iv) All of the above

11. In a scheme of reorganisation amount of shares surrendered by shareholders is transferred to:

- (i) Capital reduction account
- (ii) Shares surrendered account
- (iii) Capital reserve account
- (iv) Reserve capital account

Ans. (ii) shares surrendered account

12. Amount sacrificed by shareholders are credited to:

- (i) Capital reduction account
- (ii) Shares surrendered account
- (iii) Capital reserve account
- (iv) Reserve capital account

Ans. (i) Capital reduction account

13. To carry out capital reduction, permission is required from:

- (i) The Competent Court
- (ii) Company law Board
- (iii) Central government

(iv) SEBI

Ans: (i) The Competent Court

State whether the following statements are “True” or “False”:

1. Reduction of capital is unlawful except when sanctioned by the court.

Ans: True

2. According to sec. 94 of the companies act, a limited company can increase, sub-divide or consolidate all or part of its existing share if authorised by its articles of association.

Ans: True

3. Redemption of preference shares in accordance with the provisions of section 80 is reduction of preference share capital.

Ans: False

4. A company must pass a special resolution for reduction of capital.

Ans: True

5. The word “And reduced” cannot be added to the name of the company if no direction has been given by the court.

Ans: True

6. Alteration of share capital can be affected by passing an ordinary resolution.

Ans: True

7. Cancellation of unissued capital is also a case of capital reduction

Ans: True

8. Only unsuccessful companies undertake capital reduction.

Ans: True

9. No journal entry is required for cancellation of unissued share capital.

Ans: True

10. Consent of creditors is not required if capital reduction involves the writing off of paid up capital

lost or not represented by available assets.

Ans: True

11. A company is free to reduce or extinguish the uncalled liability of its members.

Ans: False

12. Consent of creditors is required if capital reduction involves diminution of liability regarding uncalled capital or return of paid up capital.

Ans: True