Class :- T.Y.B.Com (Sem. V) **Topic :- Accounting for Capital Restructuring**
Subject :- Advanced Accounting - I **Subject Teacher :- Dr. Ughade S. S.**

Topic – 2. Accounting for Capital Restructuring (Internal Reconstruction)

Introduction :

Reasons for Capital Restructuring

Capital restructuring is a corporate operation aimed at changing the ratio of equity and debt in a firm's capital structure. It is usually done in response to a crisis such as:

- Changing market conditions.
- Hostile takeover bid.
- Bankruptcy.

Before capital restructuring is implemented, the company must carefully analyze its liquidity and capital structure. This means that financial modeling, as well as financial statement valuation and analysis, are essential.

Benefits of Capital Restructuring

Capital restructuring is an operational approach primarily used to deal with changes that impact a business's financial stability. However, it can also be used to rearrange capital assets to position the company to take advantage of growth opportunities.

In essence, capital restructuring is done to change a company's holdings and finances. The goal is for the business to achieve its objectives while operating more efficiently.

Strong communication skills are a must since restructuring will require delicate negotiations with equity and debt holders in a bid to balance out their interests.

Increasing the Value of a Business

Capital restructuring can be compared to the process of repurposing or improving a home. To increase the value of a home and make it more appealing, homeowners usually make improvements and enhancements such as remodeling the house or repurposing the use of some rooms.

Capital restructuring works along the same lines to improve the finances and function of a business in a bid to make it more appealing to investors. If done properly, the restructuring can improve the business's reputation in the marketplace, prompting prospective, current, and former customers to consume more of its goods and services.

Causes of Capital Restructuring

Before embarking on capital restructuring, a business's owners or managers may want to make changes to improve the company's general prospects. In some cases, the restructuring may be triggered by economic changes such as the start of a recession or bankruptcy.

In economic-driven cases, a capital restructuring will focus on protecting and keeping the core of the business intact during the period of economic downturn. It does this by using some of its capital assets to offset operating expenses during this period.

On the other hand, capital restructuring may come as a result of positive economic changes that create a number of growth opportunities, prompting the rearrangement of assets to capitalize on new possibilities to increase the bottom line and reputation of the business.

Assessing the Current Capital Structure

Before undergoing capital restructuring, the business should assess its current capital structure to determine if there is truly a need for structural change. Once the reasons for making the change have been identified, it will be easier to see what changes should be made to reap the most benefits.

Like other business processes, capital restructuring requires great attention to detail, the ability to predict and understand market movements, and the capacity to use such information effectively.

A successful capital restructuring can:

- Better position the business for growth.
- Effectively support a company through slow periods.
- Help maintain productivity through extremely adverse circumstances.

The major aim of restructuring is to significantly modify the current structure, operations, or debt of a company as a potential way to improve the business as a whole and eliminate or reduce financial harm.

Restructuring can be done in situations where a business has trouble paying its debts. Capital restructuring will help adjust and consolidate the terms of the debt, creating a way to settle its bondholders. The business does this by selling off its assets or cutting costs.

A business could also undertake capital restructuring as a way to prepare for a:

- Merger.
- Buyout.
- Sale.
- Transfer to an individual or corporate entity.
- Change in business goals and direction.

When evaluating its business model, a company may find that there are products or services that do not generate enough revenue to cover debts and payroll. After agreeing with its creditors and shareholders, the company may decide to issue equity to:

- Facilitate debt reduction.
- Sell off its assets.
- File for bankruptcy.
- Restructure all financial arrangements.

Meaning

Capital restructuring is an operational approach primarily used to deal with changes that impact a business's financial stability. If done properly, the restructuring can improve the business's reputation in the marketplace, prompting prospective, current, and former customers to consume more of its goods and services.

Definition

Capital restructuring is a corporate operation that involves changing the mixture of debt and equity in a company's capital structure. It is performed in order to optimize profitability or in response to a crisis like bankruptcy, hostile takeover bid, or changing market conditions.

Types of restructuring

- Legal restructuring
- Turnaround restructuring
- Cost restructuring
- Repositioning restructuring
- Spin-off restructuring
- Divestment
- Mergers and acquisitions
- Maintain transparency throughout the process

Types

1)External Reconstruction

External reconstruction is the form of restructuring which involves liquidation of the existing company and formation of a new company to take over the running of its business as well as to take over its assets and liabilities at some decided values.

External reconstruction is a form of company reorganization that involves the liquidation of the existing company followed by its takeover by a new company. The existing company that gets liquidated is termed as transferor company and the new company formed is termed as transferee company.

2)Internal Reconstruction

Internal reconstruction is a method of reconstructing an earlier state in a language's history using only language-internal evidence of the language in question. ... It is possible to apply internal reconstruction even to proto-languages reconstructed by the comparative method.

The reduction of share capital, or the internal restructuring of a company can be done in various ways. The objective is to mitigate losses and restructuring of share capital in a way to balance out the assets and the liabilities.

Capital Reduction Account

Capital Reduction/Reconstruction Account is used for reducing share capital, paying/waiving off liabilities or revaluation of assets in order to write off unnecessary items such as P/L (Dr), Goodwill, Fictitious assets etc.