

FINAL C.A. ACCOUNTS HOMEWORK ASSIGNMENT- 6

Internal Reconstruction

Q.1. The Balance Sheet of Hiranyagarbha Ltd. before reconstruction is given below –

Liabilities	Rs.	Assets	Rs.
Authorised and Issued Capital		Bldg. at Cost less Dep.	4,00,000
12,000 7% Preference Shares of Rs.50 each	6,00,000	Plant at Cost less Depreciation	2,68,000
15,000 Equity Shares of Rs.50 each (Note : Pref. Dividend is in arrear for 5 years)	7,50,000	Trade Marks and Goodwill at Cost	3,18,000
Loan	5,73,000	Stock	4,00,000
Sundry Creditors	2,07,000	Debtors	3,28,000
Other Liabilities	35,000	Preliminary Expenses	11,000
		Profit & Loss A/c	4,40,000
Total	21,65,000	Total	21,65,000

The Company is now earning low profits and having Working Capital problems. A scheme of reconstruction has been approved by both classes of shareholders. A summary of the scheme is as follows :

- (1) Equity Shareholders have agreed that their Rs.50 shares should be reduced to Rs.2.50 by cancellation of Rs.47.50 per share. They have also agreed to subscribe in each for the three new Equity Shares of Rs.2.50 each for each Equity Share held.
- (2) Preference Shareholders have agreed to cancel the arrears of dividends and to accept for each Rs.50 Share, 4 new 5% Preference shares of Rs.10 each plus 6 new Equity Shares of Rs.2.50 each, all credited as fully paid.
- (3) Lenders to the Company of Rs.1,50,000 have agreed to convert their loan into Shares and for this purpose they will be allotted 12,000 New Preference Shares of Rs.10 each and 12,000 New Equity Shares of Rs.2.50 each.
- (4) Directors have agreed to subscribe in cash for 40,000 New Equity Shares of Rs.2.50 each in addition to any shares to be subscribed by them under (a) above.
- (5) Of the cash received by the issue of new shares, Rs.2,00,000 is to be used to reduce the loans.
- (6) The Equity Share Capital cancelled is to be applied – (1) To write off the preliminary expenses; (2) To write off the debit balance in the P & L A/c; and (3) to write off Rs.35,000 from the value of Plant. Any balance remaining is to be used to write down the value of Trade Marks and Goodwill.

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Show the Journal Entries for the scheme and prepare the Balance Sheet of the company after reconstruction. The Nominal Capital as reduced is to be at the old figures of Rs.6,00,000 for Preference Capital and Rs.7,50,000

Q.2. The Balance Sheet as at 31st March, 2009 of Maharishi Ltd was as under (Rs.000's)-

Liabilities	Rs.	Assets	Rs.	
Share Capital		Fixed Assets		
8,000 Equity Shares of Rs.100 each, Rs.50 per share paid up	4,00	Goodwill at Cost	40	
4,000 11% Cumulative Pref. Sh. of Rs.100 each, fully paid up	4,00	Others	8,50	
Premium recd. on Pref Shares	40	Less: Depreciation	2,70	6,20
General Reserve	60	Investments		25
Current Liabilities	3,10	Stock in Trade		2,10
Contingent Liab. not provided for: Preference dividends are in arrears for three years including the year ended 31 st March 2009	-	Sundry Debtors		2,55
		Cash and Bank Balances		1,00
Total	12,10	Total		12,10

The funds of the Company are sufficient to discharge its liabilities including Preference Dividends in arrears. However, the Company does not want to deplete its resources. It would also like to reflect the values of some of its assets in a realistic manner. The Board of Directors of the Company decided and proposed the following scheme of rehabilitation / reconstruction to be effective from 1st April, 2009 :

- (1) The Cumulative Preference Shareholders are to be issued, in exchange of their holdings 13% Debentures of the face Value of Rs.100 each at a premium of 10%. Fractional holdings are to be paid off in Cash.
- (2) Arrears in Preference Dividends to be converted into Equity Shares of Rs.100, Rs.50 per share paid up.
- (3) After the issue of the Equity Shares mentioned in (2) above, the paid up value of all the Equity Shares is to be reduced to Rs.25 each.
- (4) Face Value of all Equity Shares to be reduced to Rs.50 each and the balance of the unpaid portion is to be called up fully.
- (5) Goodwill has lost its value and has to be written off. Market Value of other Fixed Assets is determined, as at 31st March 2009, at Rs.5,00,000.
- (6) Investments have no Market Value and have to be written off.
- (7) Stock in Trade is to be valued at 110% of its book value and Sundry Debtors are to be discounted by 5%.

The scheme as approved by the Directors, is duly accepted by all authorities & put into effect. During the working for the half ended 30th September, 2009 it is noticed that the trading for the period has resulted in an increase of bank increase of bank balances by Rs.55,100, Sundry Debtors by Rs.40,000. Trade Creditors by Rs.26,000 and a decrease in stock by Rs.8,000. Depreciation for the half year on Fixed Assets at 10% per annum is to be provided. The increase in the Bank Balances was prior to the Company paying the half yearly interest on Debentures and redeeming one half of the Debentures on 30th September, 2009.

From the above information, you are required to prepare the Balance Sheet of the Company as at 30th Sep. 2009. All working notes, including Journal Entries, Ledger Accounts etc. are to form part of your answer.