

**FINAL C.A.     ACCOUNTS     HOMEWORK ASSIGNMENT- 6(SOL.)**

**Internal Reconstruction**

**Sol.1.     Journal Entries in the of Hiranyagarbha Ltd.**

	Particulars	Debit	Credit
1.	Equity Share Capital (Rs.50 per share) Dr. To Equity Share Capital A/c (Rs.2.50 per share) To Reconstruction A/c (Balance of Rs.47.50 per share) (Being Reduction in Equity Share Capital vide Board Resolution dated...)	7,50,000	37,500 7,12,500
2.	Bank A/c Dr. To Equity Share Application and Allotment (Being Share Application Money received by way of Rights Issue i.e. 15,000 New Equity Shares x 3 x Rs.2.50 per share)	1,12,500	1,12,500
3.	Equity Share Application and Allotment Dr. To Equity Share Capital (Rs.2.50 per share) (Being new equity shares allotted for the Share Application money received)	1,12,500	1,12,500
4.	7% Preference Share Capital Dr. Reconstruction A/c (balancing figure) Dr. To 5% Preference Share Capital (Rs.6,00,000 ÷ Rs.50 x 4 x 10) To Equity Share Capital (Rs.2.50) (Rs.6,00,000 ÷ Rs.50 x 6 x 2.50) (Being settlement of Preference Shareholders under Reconstruction Scheme)	6,00,000 60,000	4,80,000 1,80,000
5.	Loan A/c Dr. To Equity Share Capital (Rs.2.50 per share) (12,000 x 2.50) To 5% Preference Share Capital (12,000 x 10) (Being settlement of Loan by issue of equity shares and preference shares)	1,50,000	30,000 1,20,000
6.	Bank A/c Dr. To Equity Share Capital (Rs.2.50 per share) (Being allotment of shares to Directors i.e. 40,000 Shares x Rs.2.50)	1,00,000	1,00,000

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7.	Loan To Bank (Being repayment of loan)	Dr.	2,00,000	2,00,000
8.	Reconstruction A/c To Preliminary Expenses To Profit & Loss Account To Plant To Trademarks & Goodwill (Balancing figure) (Being surplus on reconstruction utilized to write off the excessive assets)	Dr.	6,52,500	11,000 4,40,000 3,50,000 1,66,500

**Note :** No entry is necessary for cancellation of arrears of fixed cumulative dividend. Also, there is no requirement to disclose the same as Contingent Liability, after cancellation. On account of the cancellation of arrears of dividend, the voting rights of Preference Shareholders are affected as laid down in the Companies Act.

**2. Balance Sheet of Hiranyagarbha Ltd. (and Reduced)**

Liabilities	Rs.	Assets	
<b>Share Capital :</b> Authorised :		<b>Fixed Assets</b>	
Eq. Share Cap. (Rs.2.50 each)	7,50,000	Bldg. (as per last B/S)	4,00,000
5% Pref. Sh. Cap. (Rs.10 each)	6,00,000	Plant(2,68,000 – 35,000)	2,33,000
Issued, Sub. & Paid up Cap.		Trade Marks (3,18,000 – 1,66,500)	1,51,500
1,84,000 Equity Shares of		<b>Current Assets :</b>	
Rs.2.50 each(15,000 + 72,000	4,60,000	Stock (as per last B/s.)	4,00,000
+ 12,000 +40,000 + 45,000)		Debtors (as per last B/s.)	3,28,000
5% Pref. Share cap. (Rs.10 each)	6,00,000	Bank	12,500
<b>Loan</b>		(1,00,000 + 1,12,500 –	
(5,73,000 – 2,00,000 – 1,50,000)	2,23,000	2,00,000)	
<b>Current Liabilities :</b> Creditors	2,07,000		
Other Liabilities	35,000		
<b>Total</b>	<b>15,25,000</b>	<b>Total</b>	<b>15,25,000</b>

**3. Reconstruction Account**

Particulars	Rs.	Particulars	Rs.
To 5% Pref. Share Capital etc.	60,000	By Eq. Share Cap. (Rs.50)	7,12,500
To Preliminary Expenses	11,000		
To Profit and Loss Account	4,40,000		
To Plant	3,50,000		
To Trademarks & Goodwill (bal. Fig.)	1,66,500		
<b>Total</b>	<b>7,12,500</b>	<b>Total</b>	<b>7,12,500</b>

**Sol.2.**

**1. Computation of Debentures to be issued to Pref. Shareholders w.e.f. 1<sup>st</sup> April, 2009**

Rs.4,00,000 ÷ (Rs.100+Rs.10 Premium) = 3,636.36 Deb. of Rs.100 each at 10% Premium.

Hence,	3% Debentures issued	3,636 Debentures at Rs.100	=	Rs.3,63,600
	Premium on issue of Debentures	3,636 Debentures at Rs.10	=	Rs.36,360
	Cash paid for fractional holding	(balancing figure)	=	Rs.40
	Total Due to Preference Shareholders		=	Rs.4,00,000

**2. Journal Entries**

	<b>Particulars</b>		<b>Debit</b>	<b>Credit</b>
<b>1.</b>	11% Preference Share Capital A/c To 13% Debentures A/c To Premium on Issue of Debentures A/c To Cash and Bank A/c (Being Issue of 3,636 13% debentures of Rs.100 each at a Premium of Rs.10 to calcel 4,000 11% Cumulative Preference Shares of Rs.100 each, fraction Rs.40 was paid in cash under to the scheme of reconstruction vide Board Resolution dated)	Dr.	4,00,000	3,63,600 36,360 40
<b>2.</b>	Capital Reduction A/c To Equity Share Capital A/c (Being issue of 2,640 Equity Shares of Rs.100 each Rs.50 paid-up for Arrears of Preference Dividend = Rs.4,00,000 x 11% x 3 years)	Dr.	1,32,000	1,32,000
<b>3.</b>	Equity Share Capital A/c To Capital Reduction A/c (Being reduction of paid up value of 10,640 equity shares of Rs.100 each, Rs.50 paid up to shares of Rs.50 each, Rs.25 paid up) (50% of 5,32,000)	Dr.	2,66,000	2,66,000
<b>4.</b>	Bank A/c To Equity Share Capital A/c (Being Call money received on 10,640 equity shares of Rs.25 to make the Equity shares fully paid up)	Dr.	2,66,000	2,66,000
<b>5.</b>	Capital Reduction A/c To Goodwill A/c To Investment A/c To Fixed Assets A/c (8,50,000 – 2,70,000) – 5,00,000 To Sundry Debtors A/c (Being settlement of Loan by issue of equity shares and preference shares)	Dr.	1,57,750	40,000 25,000 80,000 12,750
<b>6.</b>	Stock A/c To Capital Reduction A/c (Being Value of stock written up under scheme of reconstruction vide Board resolution dated ...)	Dr.	21,000	21,000
<b>7.</b>	General Reserve A/c To Capital Reduction A/c (Being shortfall in Capital Reduction trfd. from General Res.)	Dr.	2,750	2,750

**3. Capital Reduction A/c**

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Equity Share Capital A/c	1,32,000	By Equity Share Cap. A/c	2,66,000
To Goodwill A/c	40,000	By Stock	21,000
To Investment A/c	25,000	By General Reserve (Bal. fig.)	2,750
To Fixed Assets A/c	80,000		
To Sundry Debtors A/c	12,750		
<b>Total</b>	<b>2,89,750</b>	<b>Total</b>	<b>2,89,750</b>

**4. Cash and Bank Balances on 1<sup>st</sup> April 2009 (after reconstruction)**

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To balance b/d	1,00,000	By 11% Cum. Pref. Shares	40
To Equity Share Capital – Call Money	2,66,000	By balance c/d (bal. fig.)	3,65,960
<b>Total</b>	<b>3,66,000</b>	<b>Total</b>	<b>3,66,000</b>

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**5. Balance Sheet as at 1<sup>st</sup> April 2009 (and Reduced)**

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
<b>Share Capital :</b> 10,640 Equity Shares of Rs.50 each fully paid	5,32,000	<b>Fixed Assets</b> (at agreed value)	5,00,000
<b>Reserve and Surplus</b>		<b>Current Assets :</b>	
Securities Premium	40,000	Stock in Trade (2,10,000 + 10%)	2,31,000
Premium on Issue of Debentures	36,360	Sundry Debtors(2,55,000 – 5%)	2,42,250
Gen. Reserve (60,000 – 2,750)	57,250	Cash and Bank (as per WN 4)	3,65,960
<b>Secured Loans :</b>			
13% Debentures	3,63,600		
<b>Current Liabilities:</b> (as per last B/s)	3,10,000		
<b>Total</b>	<b>13,39,210</b>	<b>Total</b>	<b>13,39,210</b>

**6. Computation of Half-Yearly Profit upto 30.09.2009**

<b>Particulars</b>	<b>Rs.</b>	<b>Rs.</b>
Increase in Bank Balances	55,100	-
Increase in Sundry Debtors	40,000	95,100
<b>Less :</b> Decrease in Stock	8,000	
<b>Less :</b> Increase in Trade Creditors	26,000	34,000
Trading Profit before Interest and Depreciation		<b>61,100</b>
<b>Less:</b> Interest for ½ year at 13% on Rs.3,63,600	23,634	
<b>Less:</b> Depreciation for ½ year on Rs.5,00,000 at 10% p.a.	25,000	48,634
<b>Net Profit for six months period</b>		<b>12,466</b>

**7. Balance Sheet of Maharishi Ltd. as at 30<sup>th</sup> September 2009 (and Reduced)**

<b>Liabilities</b>	<b>Rs.</b>	<b>Assets</b>	<b>Rs.</b>
<b>Share Capital :</b> 10,640 Equity Shares of Rs.50 each fully paid	5,32,000	<b>Fixed Assets</b> Gross 5,00,000	
<b>Reserve and Surplus :</b>		Less: Depreciation <u>25,000</u>	4,75,000
Securities Premium A/c	40,000	<b>Current Assets :</b>	
Premium on Issue of Deb.	36,360	St. in Trade (2,31,000 – 8,000)	2,23,000
General Reserve	57,250	Sundry Deb. (2,42,250 + 40,000)	2,82,250
Profit & Loss A/c	12,466	Cash and Bank (as per WN below)	2,15,626
<b>Secured Loans :</b> 13% Debentures	1,82,800		
<b>Current Liabilities :</b> (3,10,000 + 26,000)	3,36,000		
<b>Total</b>	<b>11,95,876</b>	<b>Total</b>	<b>11,95,876</b>

**8. Computation of Cash and Bank Balance as on 30.09.2009**

<b>Particulars</b>	<b>Rs.</b>	<b>Rs.</b>
Balance as on 01.04.04 (after reconstruction)		3,65,960
<b>Add :</b> Increase in Bank Balances due to trading activity		55,100
		4,21,060
<b>Less :</b> Interest on Debentures at 13% for 6 months	23,634	
<b>Less :</b> Redemption of ½ of 13% Debentures	1,81,800	2,05,434
Bank Balance before considering Equity and Preference Shares		<b>2,15,626</b>