

**Systematic Studies for Professionals**  
(Where your quest for quality education ends)

C.A. Inter

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*Time 1.5 Hrs.*

*Internal Reconstruction*

*Max.Marks:45*

**Q.1** The following is the Balance Sheet as at 31<sup>st</sup> December 2018 of Blackened Prospects Ltd:

<u>Liabilities</u>	<u>Rs.</u>	<u>Assets</u>	<u>Rs.</u>
Subscribed Capital: 3,000		Fixed Assets	
Cumulative 12% Pref. shares		(including goodwill of Rs.1,00,000 )	7,80,000
of Rs.100 each fully paid up	3,00,000	Investments	20,000
4,500 equity shares of		Stock in Trade	2,00,000
Rs.100 each fully paid up	4,50,000	Trade Debtors	1,54,500
Share premium	12,000	Bank balances	62,500
Director's Loan	76,000	Profit & Loss a/c	2,00,000
12% Debentures	2,00,000		
Accrued interest	24,000		
Trade Creditors	<u>3,55,000</u>		
	<u>14,17,000</u>		<u>14,17,000</u>

Contingent liability: Preference Dividends in arrears for 3 years.

The Board of Directors of the Co. decided upon the following scheme of reconstruction:

- (i) Preference shareholders to give up their claims, inclusive of dividends, to the extent of 30% and desire to be paid off an equal amount in cash and for the balance equity shares of Rs.60 paid up would be issued. The authorized capital of the company permitted the issue of additional shares.
- (ii) Fully paid equity shares would be reduced to shares of Rs.60 each paid up.
- (iii) Directors agree to reduce their claim by 40% & decided to accept equity shares Rs.60 paid up for the balance.
- (iv) All equity holders agree to pay the balance in cash.
- (v) Debenture holders agree to forgo 75% of interest & agreed to take over freehold property (Book value – Rs. 1,00,000) at a valuation of Rs.1,50,000 in part repayment of their holdings and to provide additional cash of Rs.1,30,000 secured by a floating charge on the company's assets at an interest of 10% p.a.
- (vi) Goodwill has lost its value and is to be written off fully. Investments appear at 25% above the market value, Obsolete items in stock of Rs.50,000 are to be written off. Bad debts to the extent of 5% of the total debtors would be provided for. Fixed assets to be appreciated by Rs.1,50,000.
- (vii) There were capital commitments totaling Rs.3,00,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.
- (viii) The Directors refund Rs.80,000 of Rs.1,00,000 fees previously received by them.
- (ix) Reconstruction expenses paid Rs.10,000. The scheme was duly approved and put into effect.

**You are required** to draw the Journal Entries to record the same and also show the Balance Sheet of the reconstructed company. {15}

**Q.2** The Balance Sheet of Fortunate Limited as at 31<sup>st</sup> March, 2018 was as follows:

<u>Liabilities</u>	<u>Rs.</u>	<u>Assets</u>	<u>Rs.</u>
Authorised and subscribed		Fixed Assets:	
Capital: 8,000 equity shares of		Machineries	1,00,000
Rs.100 each fully paid	8,00,000	Current Assets:	
10% Preference Share Capital	2,00,000	Stock	3,20,000
Unsecured loan:		Debtors	2,70,000
12% debentures	2,00,000	Bank	30,000
Accrued Interest	24,000	Profit and Loss a/c	6,00,000
Current Liabilities:			
Creditors	72,000		
Provision for Income Tax	24,000		
	<u>13,20,000</u>		<u>13,20,000</u>

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly, it was decided that:

- a) Each share be sub-divided in to ten fully paid equity shares of Rs.10 each.
- b) After sub-division, each shareholder shall surrender to the company 70 percent of his holding, for the purpose of re-issue to debenture holders and creditors as necessary.
- c) Out of shares surrendered, 10,000 shares of Rs.10 each shall be converted in to 12% preference shares of Rs.10 each fully paid up.
- d) The claims of the debenture holders shall be reduced by 60%. In consideration of reduction, the debenture holders shall receive preference shares of Rs.80,000 which are converted out of shares surrendered.

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- e) Preference Shareholders agreed to accept 12% Preference share capital but desire to maintain their dividend to the extent of 75% of current earnings.
- f) Creditors claim shall be reduced to 60 per cent, which is to be settled by the issue of equity shares of Rs.10 each out of shares surrendered.
- g) Machinery is appearing at 80% of Market value.
- h) Tax Liabilities to be discharged immediately Rs.30,000.
- i) 2,000 13% Debentures of Rs.100 each are issued for increasing working capital.
- j) A member holding 100 equity shares opposed the scheme and his shares were taken over by a director on payment of Rs.2,000 as fixed by the court.

**You are required to** show the journal entries giving effect to the above and the resultant Balance Sheet.

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- Q.3 A and B Ltd. had to pass to the hands of a Receiver for Debenture holders who held charge on all assets except uncalled capital. The following is the position as prepared by the Receiver:

	Amount
<b>Share Capital:</b>	
20,000 Shares of ` 50 each fully paid – up	` 10,00,000
1,00,000 Shares of ` 50 each ` 25 per share paid – up	25,00,000
First Debentures	25,00,000
Second Debentures	50,00,000
Unsecured Creditors	40,00,000
Bank Balance	30,00,000
Building and Machinery (Estimated to realize ` 15,00,000)	40,00,000

Following is the interest of A and B in the company:

	A	B
First Debentures	20,00,000	5,00,000
Second Debentures	30,00,000	20,00,000
Unsecured Creditors	6,00,000	9,00,000
	56,00,000	34,00,000
<b>Share Capital:</b>		
Fully Paid Shares	5,00,000	5,00,000
Partly Paid Shares	10,00,000	10,00,000

The following scheme of reconstruction is proposed:

A is to cancel ` 31,00,000 of his total debt, pay cash ` 5,00,000 and he would be issued ` 30,00,000 New First debentures in lieu of First and Second Debentures to be cancelled.

(a) B is to be cancel his total debt by accepting ` 5,00,000 in cash and ` 5,00,000 in New First Debentures.

(b) B is to surrender for cancellation ` 5,00,000 worth of fully paid shares.

Unsecured creditors, other than A and B, agree to reduce their debt by 20% and accept in lieu thereof 1,00,000 shares of ` 10 each fully paid – up and the balance in cash payable in five equal annual installments.

Uncalled capital is to be called up in full and ` 40 per share to be cancelled, thus making these shares of ` 10 each.

Assuming the scheme is duly approved by all parties interested and by court, **show** the reconstructed balance sheet and the journal entries in the books of the company.

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