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Faculty -Commerce

Subject Specailised Accounting

Class -B.Com Part 2

Session-2022-25

Topic

Internal Reconstruction

Problem 18

The following is the Balance Sheet of Rama Ltd. as on 31st March, 2020 :

I. EQUITY AND LIABILITIES

Share Capital

50,000 Equity Shares of ₹ 10 each fully paid
 30,000, 10% Preference Shares of ₹ 10 each fully paid
 Dr. Balance of Statement of Profit & Loss
 Trade Payables

	₹
	5,00,000
	3,00,000
	(3,74,000)
	1,60,000
Total	5,86,000
	1,50,000
	1,00,000
	1,60,000
	1,70,000
	6,000
Total	5,86,000

II. ASSETS

Patents
 Freehold Property
 Trade Receivables
 Inventories
 Cash at Bank

The following scheme of reconstruction was passed and sanctioned :

- (1) A new company by the name of Rama (2020) Ltd. to be formed to take over the entire business of Rama Ltd.
- (2) One equity share of ₹ 10, ₹ 5 per share paid-up is to be given in exchange of every two equity shares of Rama Ltd.
- (3) One 12% preference share of ₹ 100 each is to be given in exchange of every 15 preference shares of Rama Ltd.
- (4) Arrears of preference dividends to be cancelled.
- (5) The Trade Payable will receive 60% of their dues in cash and 25% in equity shares of ₹ 10 each and the balance is to be foregone.
- (6) The partly paid equity shares are to be made fully paid-up by receiving cash from the holders.
- (7) Profit, if any, on taking over be utilised to write off the value of the patents.

You are required to :

- (i) Show the closing entries in the books of Rama Ltd.
- (ii) Show the opening entries in the books of Rama (2020) Ltd.
- (iii) Prepare the opening Balance Sheet of Rama (2020) Ltd.

Solution

Closing Entries in the Books of Rama Ltd.

Date	Particulars	L.F.	Amount	Amount
	Realisation A/c		₹	₹
	To Patents A/c	Dr.	5,86,000	
	To Freehold Property A/c			1,50,000
	To Inventories A/c			1,00,000
	To Trade Receivable A/c			1,70,000
	To Cash at Bank A/c			1,60,000
	(Transfer of assets to Realisation)			

Trade Payable A/c To Realisation A/c (Transfer of Trade Payable to realisation)	Dr.	1,60,000	1,60,000
Rama (2020) Ltd. To Realisation A/c (Being the purchase price due)	Dr.	3,25,000	3,25,000
10% Preference Share Capital A/c To Preference Shareholders A/c (Being transfer of Share Capital to Shareholders)	Dr.	3,00,000	3,00,000
Preference Shareholders A/c To Realisation A/c (Being the profit on payment to preference shareholders)	Dr.	1,00,000	1,00,000
Shares in Rama (2020) Ltd. 12% Preference Shares in Rama (2020) Ltd. To Rama (2020) Ltd. (Being shares received in settlement of purchase consideration)	Dr. Dr.	1,25,000 2,00,000	3,25,000
Preference Shareholders A/c To 12% Pref. Shares in Rama (2020) Ltd. (Being the shares in new company given to shareholders)	Dr.	2,00,000	2,00,000
Equity Shareholders A/c To Realisation A/c (Being loss on realisation)	Dr.	1,000	1,000
Equity Share Capital A/c To Equity Shareholder A/c (Transfer of share capital to shareholders)	Dr.	5,00,000	5,00,000
Equity Shareholders A/c To Statement of Profit & Loss (Transfer of Statement of Profit & Loss to shareholders)	Dr.	3,74,000	3,74,000
Equity Shareholders A/c To Shares in Rama (2020) Ltd. (Being the shares received in new company)	Dr.	1,25,000	1,25,000

Opening Entries in the Books of Rama (2020) Ltd.

Date	Particulars	L.F.	Dr. Cr.	
			Amount	Amount
			₹	₹
	Business Purchases A/c To Liquidator of Rama Ltd. A/c (Being the purchase of business)	Dr.	3,25,000	3,25,000
	Patents A/c	Dr.	1,50,000	
	Freehold Property A/c	Dr.	1,00,000	
	Inventories A/c	Dr.	1,70,000	
	Trade Receivable A/c	Dr.	1,60,000	
	Cash A/c	Dr.	6,000	
	To Trade Payable A/c			1,36,000
	To Business Purchases A/c			3,25,000
	To Capital Reserve A/c (Being assets/liability taken over)			1,25,000
	Liquidator of Rama Ltd. A/c To Equity Share Capital A/c To 12% Preference Share Capital A/c (Discharge of purchase consideration)	Dr.	3,25,000	1,25,000 2,00,000

Trade Payable A/c To Cash A/c To Equity Share Capital A/c (Payment to sundry Trade Payable)	Dr.	1,36,000	96,000 40,000
Bank A/c To Equity Share Capital A/c (Amount received from equity shareholders)	Dr.	1,25,000	1,25,000
Capital Reserve A/c To Patents A/c (Profit utilised to write off patents)	Dr.	1,25,000	1,25,000

Opening Balance Sheet of Rama (2020) Ltd.