

Hello students, welcome to this next module. in the second part of Problem 2 where we continue with the balance sheet after the company has undertaken the process of reconstruction.

We will be showing how the items of share capital, reserves, machinery, losses, etc will appear in the newly reconstructed balance sheet.

Let's have a look at how our balance sheet would appear Of the newly reconstructed company.

Firstly, the name of the balance sheet would change to this Dishtavo Ltd and reduced. You have to put this and reduced in brackets.

Now you are told to prepare the balance sheet according to the Companies Act of 2013 Schedule 3.

So you first draw up your your particulars note and the amount columns and accordingly we will fill it step by step.

Now under the first part of the balance sheet, that is equity and liabilities, we have shareholders funds. Our shareholders funds begin with the issued, subscribed and paid up share capital of the company. In our first Journal entry, we are told that the equity share capital has been reduced from rupees ₹10 seven, but the number of shares continue to remain the same. So your share capital is now valued at ₹ 8,40,000 the. Face value of the share is rupees 7, so you have 1,20,000 equity shares of rupees seven each fully paid

The second entry that we need was the entry where we reduced our preference share capital from rupees 100 to rupees 60. Now our preference share capital is worth rupees 60. We had 6000 preference shares of Rupees 100. Now our preference share capital is 6000 shares of Rupees 60. So that effect should also be shown 60 10% preference shares of rupees 60 each fully ₹ 3,60,000. This entry of 3,60,000 you take to the balance sheet.

The next item in our balance sheet is reserves and surplus. Now the balancing figure of a capital reduction account that is your capital reserve account is rupees 32,500, so this amount is going to be shown in the balance sheet under reserves and surplus 32,500. Remember, in the previous balance sheet we had a loss of 8,50,000 which we have written off in our capital reduction account.

We also had a general reserve which we have utilized for the purpose of capital reduction, so both those entries will not come here directly. The capital reserve, that is the balancing figure of the capital reduction account will appear in this in this particular entry, money received again share warrants share application money. This information is not provided to us.

Non current liabilities. We have long term borrowings. Let us refer to our working note #1. Where we calculated the value of a new debentures, we were told that the debentures had to be of 8% and the face

value of these debentures was rupees 50. So accordingly, we calculated 3000 debentures at the rate of rupees 50. Each so you have 1, 50,000 as the value of your debentures.

The next working note current liability, short term borrowing, says no information provided in the problem.

Now trade payables that is Sundry Creditors We have to prepare a working note because as per our adjustment #7 there was an unrecorded payment made to our creditors, which we showed in this particular Journal entry. So, we have to prepare a working note showing our creditors Ledger. So, if you look at this working note the calculation of closing creditors. you have your creditors account, and you start off with the opening balance being on the credit side. So 6, 50,000 was your opening balance.

As for the Journal entry, Creditor's to bank account, you have to show bank account on the debit side because the payment of 80,000 was made on this balancing figure that is 6,15,000 -- 80,000. 5, 70,000 will be shown in the balance sheet. So this 5,70,000 will appear here.

So your total of your equity and liabilities should be 19, 52,500.

Coming to the second part of the balance sheet that is the asset side, we have non current assets here. We had fixed assets and as per your adjustment #5 you were told that fixed assets were reduced by 5,52,000. So here your fixed assets originally in the problem we're given as 13, 80,000. From this you are going to deduct 5, 52,000. You get this balance of 8,82,000

Coming to the second part of your assets, your current assets. No information is given about current investments. In case of inventories again, we refer to the adjustment #5 where we are told that stock or inventory is reduced by 38,000. So from our inventory worth ₹ 3,90,000 we deduct 38,000 to arrive at 3,52,000.

Trade receivables. Sundry debtors for this also we have to prepare a working note because of. Adjustment #7 where it is told to us that they were unrecorded debtors worth rupees 3,34,000.

So in a working note for debtors, we show the opening balance on the debit side as 2, 10,000.

In our Journal entry for capital reduction that is. As shown here, debtors account debited to capital reduction 3, 34,000 capital reduction account will be shown on the debit side As 3,34,000, so the balancing figure will be 5, 44,000 which will be showing in our balance sheet.

The next item in our assets under other under current assets is cash and cash equivalents. Now, students remember that we have paid creditors we have paid reconstruction expenses, so accordingly, the balance of cash and cash equivalents will change, so this again has to be shown in a working note.

If you look at this working note #4 the calculation of our closing cash balance. As usual, we start with the opening balance of cash on the debit side we have. We show the payment of creditors rupees. 80,000 on the credit side of this account, the reconstruction expenses that have been paid 11,500 is also shown on the credit side, and finally the balancing figure that is too 2, 28,500.

So if you total the assets side you get 90, 52,500, which is the same as that of the equity and liabilities.

So students, these are the steps that you need to follow when you are preparing your balance sheet and when you are preparing your Journal entries capital reduction account and the balance sheet for internal reconstruction. you have to first look at the problem. Look at the adjustments given and 1st pass Journal entries in relation to these adjustments. Prepare working notes wherever necessary simultaneously. If the capital reduction account is affected in any way. Then please transfer the amounts to the capital reduction account. Finally, at the end we are we have to prepare our balance sheet and remember that you have to prepare or fill the balance sheet with the new adjusted values. And please also never forget that sometimes you need to prepare working notes for sundry creditors, sundry debtors and also of cash and cash equivalents in case any money has been received or money has spent.

These are my references.

Thank you.