

Chapter 9 Issue of Debentures

Question 1.

Vishwas Ltd. issued 2,000; 9% Debentures of ₹ 100 each payable as follows:

₹ 25 on application; ₹ 25 on allotment and ₹ 50 on first and final call.

Applications were received for all the debentures along with the application money did allotment was made. Call money was also received on the due date.

Pass necessary Journal entries in the books of the company.

Solution:

In the books of Vishwas Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c Dr. To 9% Debenture Application A/c (Being application money received for 2,000 debentures at Rs.25 each)		50,000	50,000
	9% Debenture Application A/c Dr. To 9% Debenture A/c (Being debenture application money transferred to 9% Debentures A/c)		50,000	50,000
	9% Debenture Allotment A/c Dr. To 9% Debenture A/c (Being debenture allotment money due on 2,000 Debentures at Rs.25 each)		50,000	50,000
	Bank A/c Dr. To 9% Debenture Allotment A/c (Being debenture allotment money received)		50,000	50,000
	9% Debenture First and Final Call A/c Dr. To 9% Debenture A/c (Being debenture first and final call money due on 2,000 debentures at Rs.50 each)		1,00,000	1,00,000
	Bank A/c Dr. To 9% Debenture First and Final Call A/c (Being debenture first and final call received)		1,00,000	1,00,000

Question 2.

A Ltd. issued 2,000; 9% Debentures of ₹ 100 each on the following terms:

₹ 20 on applications ; ₹ 20 on allotment ; ₹ 30 on first call ; ₹ 30 on final call.

The public applied for 2,400 debentures. Applications for 1,800 debentures were accepted in full.

Applications for 400 debentures were allotted 200 debentures and applications for 200 debentures were rejected. Pass necessary Journal entries.

Solution:

In the books of A Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c Dr. To 9% Debenture Application A/c (Being application money received for 2,400 debentures at Rs.20 each)		48,000	48,000
	9% Debenture Application A/c Dr. To 9% Debenture A/c To 9% Debenture Allotment A/c To Bank A/c (Being debenture application money transferred to 9% debentures A/c for 2,000 debenture, adjusted to debenture allotment account for 200 debentures and money refunded for 200 debentures)		48,000	40,000 4,000 4,000
	9% Debenture Allotment A/c Dr. To 9% Debenture A/c (Being debenture allotment money due on 2,000 debentures at Rs.20 each)		40,000	40,000
	Bank A/c Dr. To 9% Debenture Allotment A/c (Being debenture allotment money received)		36,000	36,000
	Debenture First Call A/c Dr. To 9% Debenture A/c (Being debenture first call money due on 2,000 9% debentures at Rs.30 each)		60,000	60,000
	Bank A/c Dr. To Debenture First Call A/c (Being debenture first call received)		60,000	60,000
	Debenture Final Call A/c Dr. To 9% Debenture A/c (Being debenture Final call money due on 2,000 9% debentures at Rs.30 each)		60,000	60,000
	Bank A/c Dr. To Debenture Final Call A/c (Being debenture first call received on 2,000 9% debenture at Rs.30 each)		60,000	60,000

Question 3.

ABC Ltd. issued 40,000; 10% Debentures of ₹ 100 each at par for cash payable in full along with the application. Applications were received for 60,000 debentures. Debentures were allotted and excess application money was refunded. Pass Journal entries in the books of the company.

Solution:

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Bank A/c (60,000 × 100) Dr. To Debenture Application and Allotment A/c (Being received application money on 60,000 Debenture)		60,00,000	60,00,000
	Debenture Application and Allotment A/c Dr. To 10% Debenture A/c (40,000 × 100) To Bank A/c (Being application money transferred to Debentures A/c)		60,00,000	40,00,000 20,00,000

Question 4.

Narain Laxmi Ltd. invited applications for issuing 7,500; 12% Debentures of ₹ 100 each at a premium of ₹ 35 per debenture. The full amount was payable on application. Applications were

received for 10,000 Debentures. Allotment was made to all the applications on pro rata.
 Pass necessary Journal entries for the above transactions in the books of Narain Laxmi Ltd.
 Solution:

Books of Narain Laxmi Ltd.
Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To 9% Debenture Application and Allotment A/c (Being application money received on 10,000 12% debentures of Rs.100 each at a premium of Rs.35)	Dr.	13,50,000	13,50,000
	Debenture Application and Allotment A/c To 12% Debenture A/c To Securities Premium Reserve A/c To Bank A/c (Being 7,500; 12% debenture of Rs.100 each issued at a premium of Rs.35 and excess money refunded)	Dr.	13,50,000	7,50,000 2,62,500 3,37,500

Question 5.

Raj Ltd. issued 5,000; 8% Debentures of ₹ 100 each at a premium of 5% payable as follows:
 ₹ 10 on application; ₹ 20 along with premium on allotment and balance on first and final call.
 Pass necessary Journal entries.

Solution:

Books of Raj Ltd.
Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To 8% Debenture Application A/c (Being application money received for 5,000 debentures at Rs.10 each)	Dr.	50,000	50,000
	8% Debenture Application A/c To 8% Debenture A/c (Being debenture application money transferred to 8% debentures A/c)	Dr.	50,000	50,000
	8% Debenture Allotment A/c To 8% Debenture A/c To Securities Premium A/c (Being debenture allotment money due on 5,000 8% debentures at Rs.20 including premium of Rs.5)	Dr.	1,00,000	75,000 25,000
	Bank A/c To 8% Debenture Allotment A/c (Being debenture allotment money received)	Dr.	1,00,000	1,00,000
	8% Debenture First and Final Call A/c To 8% Debenture A/c (Being debenture first and final call money due on 5,000 debentures at Rs.75 each)	Dr.	3,75,000	3,75,000
	Bank A/c To 8% Debenture First and Final Call A/c (Being debenture first and final call received)	Dr.	3,75,000	3,75,000

Question 6.

Nipa Limited issued ₹ 10,00,000 Debentures of ₹ 100 each at a premium of 10%, payable 25% on application (including premium) and the balance on allotment. The debentures were applied for and the amount was fully received.

You are required to give Journal entries and prepare Cash Book.

Solution:

Face value = Rs.100
Premium 10% = (100 × 10%) Rs.10
∴ Issue Price = Rs.110
Payable as:

	Rs.25 including premium of Rs.10
On Application (25%) (10+15)	
On Allotment (85%)	Rs.85 per

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Debiture Application A/c To Debiture A/c To Securities Premium A/c (Being debenture application money received for 10,000 debentures at Rs.25 including premium of Rs.10 each transferred to debenture account)		2,50,000	1,50,000 1,00,000
	Debiture Allotment A/c To Debiture A/c (Being debenture allotment due on 10,000 Debentures at Rs.85 each)		8,50,000	8,50,000

Cash Book

Dr.			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
	To Debiture Application A/c	2,50,000		By Balance c/d	11,00,000
	To Debiture Allotment A/c	8,50,000			
		11,00,000			11,00,000

Question 7.

Alok Ltd. issued 7,000, 10% Debentures of ₹ 500 each at a premium of ₹ 50 per debenture redeemable at a premium of 10% after 5 years. According to the terms of issue, ₹ 200 was payable on application and balance on allotment.

Record necessary Journal entries at the time of issue of 10% Debentures.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To Debiture Application A/c (Being application money received for 7,000 debentures Rs.200 each)	Dr.	14,00,000	14,00,000
	Debiture Application A/c To 10% Debiture A/c (Being transferred of application money to Debentures A/c)	Dr.	14,00,000	14,00,000
	Debiture Allotment A/c Loss on issue of Debentures A/c To 10% Debiture A/c To Securities Premium Reserve A/c To premium on Redemption of Debentures A/c (Being allotment due on 7,000 Debentures Rs.300 each at a premium of Rs.50 per debentures and redeemable at premium of 10%)	Dr. Dr.	24,50,000 3,50,000	21,00,000 3,50,000 3,50,000
	Bank A/c To Debiture Allotment A/c (Being allotment money received)	Dr.	24,50,000	24,50,000

Question 8.

Vijay Laxmi Ltd. invited applications for 10,000; 12% Debentures of ₹ 100 each at a premium of ₹ 70 per debenture. The full amount was payable on application.

Applications were received for 13,500 debentures. Applications for 3,500 debentures were rejected and application money was refunded. Debentures were allotted to the remaining applications.

Solution:

Books of Vijay Laxmi Limited
Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received on 13,500 12% debenture)		22,95,000	22,95,000
	Debenture Application and Allotment A/c Dr. To 12% Debenture A/c To Securities Premium Reserve A/c To Bank A/c (Being 10,000; 12% debenture issued at a premium of Rs.70 and excess money refunded)		22,95,000	10,00,000 7,00,000 5,95,000

Question 9.

Iron Products Ltd. issued 5,000; 9% Debentures of ₹ 100 each at a premium of ₹ 40 payable as follows:

- (i) ₹ 40, including premium of ₹ 10 on applications;
- (ii) ₹ 45, including premium of ₹ 15 on allotment and
- (iii) Balance as first and final call.

The issue was subscribed and allotment made. Calls were made and due amount was received.

Pass Journal entries.

Solution:

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Bank A/c Dr. To debenture Application A/c (Being application money received)		2,00,000	2,00,000
	Debenture Application A/c Dr. To 9% Debenture A/c To Security Premium Reserve A/c (Being application money adjusted)		2,00,000	1,50,000 50,000
	Debenture Allotment A/c Dr. To 9% Debenture A/c To Security Premium Reserve A/c (Being allotment money due)		2,25,000	1,50,000 75,000
	Bank A/c Dr. To Debenture Allotment A/c (Being allotment money received)		2,25,000	2,25,000
	Debenture First and Final call A/c Dr. To 9% Debenture A/c To Security Premium Reserve A/c (Being first call money due)		2,75,000	2,00,000 75,000
	Bank A/c Dr. To Debenture Final and Final call A/c (First Call money Received)		2,75,000	2,75,000

Question 10.

X Ltd. issued 12,000; 8% Debentures of ₹ 100 each at a discount of 5% payable as 25% on application; 20% on allotment and balance after three months. Pass Journal entries.

Solution:

Face value = Rs.100

Discount 5% = (Rs.100 × 5%) = Rs.5

∴ Issue Price = Rs.95

Payable as:

On Application (25%)	Rs.25 per
On Allotment (85%) (25 - 5)per	Rs.20
On First and Final Call (50%)	Rs.50 per

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c Dr. To 8% Debenture Application A/c (Being application money received for 12,000 8% debentures at Rs.25 each)		3,00,000	3,00,000
	8% Debenture Application A/c Dr. To 8% Debenture A/c (Being debenture application money transferred to 8% debentures A/c)		3,00,000	3,00,000
	8% Debenture Allotment A/c Dr. Discounted on Issue of Debentures A/c Dr. To 8% Debenture A/c (Being allotment money due on 12,000 8% debentures at Rs.20 each at discount of Rs.5)		2,40,000 60,000	3,00,000
	Bank A/c Dr. To 8% Debenture Allotment A/c (Being allotment money received)		2,40,000	2,40,000
	8% Debenture First and Final Call A/c Dr. To 8% Debenture A/c (Being first and final call money due on 12,000 8% debentures at Rs.50 each)		6,00,000	6,00,000
	Bank A/c Dr. To 8% Debenture First and Final Call A/c (Being first and final call received)		6,00,000	6,00,000

Question 11.

Alka Ltd. issued 5,000, 10% Debentures of ₹ 1,000 each at a discount of 10% redeemable at a premium of 5% after 5 years. According to the terms of issue ₹ 500 was payable on application and the balance amount on allotment of debentures. Record necessary entries regarding issue of 10% Debentures.

Solution:

Journal Entries				
Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To Debenture Application A/c (Being application money received for 5,000 debentures Rs.500 each)	Dr.	25,00,000	25,00,000
	Debenture Application A/c To 10% Debenture A/c (Being transferred application money to debentures A/c)	Dr.	25,00,000	25,00,000
	Debenture Allotment A/c Discount on issue of Debentures A/c Loss on issue of Debentures A/c To 10% Debenture A/c To Premium on Redemption of Debentures A/c (Being allotment due on 5,000 debentures Rs.500 each at a discounted of Rs.100 per debentures and redeemable at premium of 5%)	Dr. Dr. Dr.	20,00,000 5,00,000 2,50,000	25,00,000 2,50,000
	Bank A/c To Debenture Allotment A/c (Being allotment money received)	Dr.	20,00,000	20,00,000

Question 12.

Amrit Ltd. was promoted by Amrit and Bhaskar with an authorised capital of ₹ 10,00,000 divide into 1,00,000 shares of ₹ 10 each.

The company decided to issue 1,000, 6% Debentures of ₹ 100 each to Amrit and Bhaskar each for their services in incorporating the company. Pass journal entry.

Solution:

Journal				
Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Incorporation Cost A/c To 6% Debentures A/c (Being 2000 debenture Rs.100 each issued to promoters)	Dr.	2,00,000	2,00,000

Question 13.

A limited company bought a Building for ₹ 9,00,000 and the consideration was paid by issuing 10% Debentures of the normal (face) value of ₹ 100 each at a discount of 10%. Give journal entries.

Solution:

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Building A/c To Vendor A/c (Being building purchased)	Dr.	9,00,000	9,00,000
	Vendor A/c Discount on Issue of Debentures A/c To 10% Debentures A/c (Being issued 10,000, 10% debentures at 10% discount)	Dr. Dr.	9,00,000 1,00,000	10,00,000

Working Note:

$$\text{Number of Debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{9,00,000}{90} = 10,000 \text{ debentures}$$

Question 14.

Wye Ltd. purchased an established business for ₹ 2,00,000 payable as ₹ 65,000 by cheque and the balance by issuing 9% Debentures of ₹ 100 each at a discount of 10%.

Give journal entries in the books of Wye Ltd.

Solution:

In the books of Wye Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Sundry Assets A/c To vendor A/c (Being business purchased)	Dr.	2,00,000	2,00,000
	Vendor A/c To Bank A/c (Being amount paid to vendor in cash)	Dr.	65,000	65,000
	Vendor A/c Discount on Issue of Debentures A/c To 9% Debenture A/c (Being issued 1,500 debentures at 10% discount)	Dr. Dr.	1,35,000 15,000	1,50,000

Working Note:

$$\text{Number of Debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{1,35,000}{90} = 1,500 \text{ debentures}$$

Question 15.

Newton Ltd. purchased a Machinery from B for ₹ 5,76,000 to be paid by the issue of 9% Debentures

of ₹ 100 each at 4% discount. Journalise the transactions.

Solution:

In the books of Newton Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Machinery A/c Dr. To B's A/c (Being machinery purchased from B)		5,76,000	5,76,000
	B's A/c Dr. Discount on Issue of Debentures A/c Dr. To 9% Debenture A/c (Being issued 6,000 debentures at 4% discount)		5,76,000 24,000	6,00,000

Working Note:

$$\text{Number of Debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{5,76,000}{100 - 4} = \frac{5,76,000}{96} = 6,000 \text{ debentures}$$

Question 16.

Reliance Ltd. purchased machinery costing ₹ 1,35,000. It was agreed that the purchase consideration be paid by issuing 9% Debentures of ₹ 100 each. Assume debentures have been issued

(i) at par and

(ii) at a discount of 10%.

Give necessary journal entries.

Solution:

(i)

In the books of Reliance Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Machinery A/c To Vendor A/c (Being machinery purchased)	Dr.	1,35,000	1,35,000
	Vendor A/c To 9% Debenture A/c (Being issued 1,350 debentures at par)	Dr.	1,35,000	1,35,000

Working Note:

$$\text{Number of debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{1,35,000}{100} = 1,350 \text{ debentures}$$

(ii)

In the books of Reliance Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Machinery A/c To Vendor A/c (Being machinery purchased)	Dr.	1,35,000	1,35,000
	Vendor A/c Discount on Issue of Debentures A/c To 9% Debenture A/c (Being issued 1,500 debentures at 10% discount)	Dr. Dr.	1,35,000 15,000	1,50,000

Working Note:

$$\text{Issued the Numbers of debenture} = \frac{\text{purchase Consideration}}{\text{Issue Price}} = \frac{1,35,000}{90} = 1,500 \text{ debentures}$$

Question 17.

Deepak Ltd purchased furniture of ₹ 2,20,000 from M/s. Furniture Mart. 50% of the amount was paid to M/s. Furniture Mart by accepting a Bill of Exchange and for the balance the company issued 9% Debenture of ₹ 100 each at a premium of 10% in favour of M/s. Furniture Mart.

Pass Journal entries in the books of Deepak Ltd.

Solution:

Books of Deepak Ltd.
Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Furniture A/c To Furniture Mart A/c (Being furniture purchased from furniture mart)	Dr.	2,20,000	2,20,000
	Furniture Mart A/c To Bills Payable A/c (Being bill accepted from furniture mart against 50% payment)	Dr.	1,10,000	1,10,000
	Furniture Mart A/c To 9% Debenture A/c To Securities Premium A/c (Being issued 1,000 9% debentures of Rs.100 each at a premium of 10% furniture mart)	Dr.	1,10,000	1,00,000 10,000

Working Note:

$$\text{Numbers of Debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{1,10,000}{100 + 10} = \frac{1,10,000}{110} = 1,000 \text{ debentures}$$

Question 18.

X Ltd. took over the assets of ₹ 6,00,000 and liabilities of ₹ 80,000 of Y Ltd for an agreed purchase consideration of ₹ 6,00,000 payable 10% in cash and the balance by the issue of 12% Debentures of ₹ 100 each. Give necessary journal entries in the books of X Ltd., assuming that:

Case (a): The debentures are issued at par.

Case (b): The debentures are issued at 20% premium.

Case (c): The debentures are issued at 10% discount.

Solution:

Journal

Sr. No.	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Assets A/c Dr. Goodwill A/c (Balancing figure) Dr. To Liabilities A/c To Y Ltd (Being purchase of business of Y Ltd)		6,60,000 20,000	80,000 6,00,000
	Y Ltd Dr. To Cash A/c (Being payment made in cash)		60,000	60,000
(a)	Y Ltd Dr. To 12 % Debenture A/c (Being purchase consideration discharged by issue of 12% Debentures)		5,40,000	5,40,000
(b)	Y Ltd Dr. To 12% Debentures A/c To Security Premium Reserve A/c (Being purchase consideration discharged by issue of 12 % Debentures)		5,40,000	4,50,000 90,000
(c)	Y Ltd Dr. Discount on Issue of Debentures A/c Dr. To 12% Debenture A/c (Being purchase consideration discharged by issue of 12% Debentures)		5,40,000 60,000	6,00,000

Working Notes:

- 1) Numbers of Debentures Issued = $\frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{5,40,000}{120} = 4,500$ Debentures
- 2) Numbers of Debentures Issued = $\frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{5,40,000}{90} = 6,000$ Debentures

Question 19.

X Ltd. took over the assets of ₹ 6,60,000 and liabilities of ₹ 80,000 of Y Ltd. for ₹ 6,00,000. Give necessary journal entries in the books of X Ltd. assuming that:

Case (a): The purchase consideration was payable 10% in cash and the balance in 5,400; 12% Debentures of ₹ 100 each.

Case (b): The purchase consideration was payable 10% in cash and the balance in 4,500; 12% Debentures of ₹ 100 each issued at 20% premium.

Solution:

Journal

Sr. No.	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Assets A/c Dr. Goodwill A/c (Balancing Figure) Dr. To Liabilities A/c To Y Ltd (Being purchase of business took over)		6,60,000 20,000	80,000 6,00,000
(a)	Y Ltd Dr. To Cash A/c To 12 % Debenture A/c (Being purchase consideration discharged)		6,00,000	60,000 5,40,000
(b)	Y Ltd Dr. To Cash A/c To 12% Debentures A/c To Security Premium Reserve A/c (Purchase consideration discharged)		6,00,000	60,000 4,50,000 90,000

Question 20.

Perfect Barcode Ltd. purchased computers from M/s. Computer Mart and paid the consideration as follows:

(a) 1,000, 10% Debentures of ₹ 100 each at a discount of 10% ; and

(b) Issued a cheque for ₹ 80,000 for the balance amount.

Pass the journal entry in the books of Perfect Barcode Ltd.

Solution:

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Computers A/c Dr. Discount on issue of Debenture A/c Dr. To 10% Debentures A/c To Bank A/c (Being purchase consideration 10% discount discharged)		1,70,000 10,000	1,00,000 80,000

Question 21.

Lotus Ltd. took over assets of ₹ 2,50,000 and liabilities of ₹ 30,000 of Goneyby Company for the purchase consideration of ₹ 3,30,000. Lotus Ltd. paid the purchase consideration by issuing debentures of ₹ 100 each at 10% premium.

Give journal entries in the books of Lotus Ltd.

Solution:

Books of Lotus Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Assets A/c Dr.		2,50,000	
	Goodwill A/c Dr.		1,10,000	
	To Sundry Liabilities A/c			30,000
	To Goneby Company A/c			3,30,000
	(Being business purchased of goneby company)			
	Goneby Company A/c Dr.		3,30,000	
	To Debenture A/c			3,00,000
	To Securities Premium A/c			30,000
	(Being issued 3,000 debenture at 10% premium)			

Working Note:

$$\text{Numbers of Debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{3,30,000}{100 + 10} = \frac{3,30,000}{110} = 3,000 \text{ debentures}$$

Question 22.

Exe Ltd. purchased the assets of the book value ₹4,00,000 and took over the liabilities of ₹ 50,000 from Mohan Bros. It was agreed that the purchase consideration, settled at ₹ 3,80,000 be paid by issuing debentures of ₹ 100 each.

Pass journal entries if debenture are issued:

- (a) at par
- (b) at a discount of 10% and
- (c) at a premium of 10%.

It was agreed that any fraction of debentures be paid in cash.

Solution:

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Assets A/c	Dr.	4,00,000	
	Goodwill A/c	Dr.	30,000	
	To Liabilities A/c			50,000
	To Mohan Bros. A/c			3,80,000
	(Being business purchased of mohan bros.)			

(a) When Debentures are issued at par

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Mohan Bros A/c (WN 1)	Dr.	3,80,000	
	To Debenture A/c			3,80,000
	(Being issued 3,800 debenture at par)			

(b) When Debentures are issued discount at 10%

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Mohan Bros. A/c (WN 2)	Dr.	3,80,000	
	Discount on issue of Debenture A/c	Dr.	42,220	
	To Debenture A/c			4,22,200
	To Bank A/c			20
	(Being issued 4,222 debentures of Rs.100 each at 10% discount to Mohan Bros. and fraction of debentures is paid in cash)			

(c) When Debentures are issued premium at 10%

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Mohan Bros. A/c (WN 3)	Dr.	3,80,000	
	To Debenture A/c			3,45,400
	To Securities Premium A/c			34,540
	To Bank A/c			60
	(Being issued 3,454 debentures of Rs.100 each at 10% premium to mohan bros. and fraction of debentures is paid in cash)			

Working Notes:

(1)

$$\text{Numbers of Debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{3,80,000}{100} = 3,800 \text{ debentures}$$

(2)

$$\text{Numbers of Debentures Issued} = \frac{\text{purchase Consideration}}{\text{Issue Price}} = \frac{3,80,000}{100 - 10} = \frac{3,80,000}{90} = 4,222 \text{ debentures}$$

(3)

$$\text{Numbers of Debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{3,80,000}{100 + 10} = \frac{3,80,000}{110} = 3,454 \text{ debentures}$$

Question 23.

R Ltd. purchased the assets of S Ltd. for ₹ 5,00,000. It also agreed to take over the liabilities of S Ltd. amounted to ₹ 2,00,000 for a purchase consideration of ₹ 2,80,000. The payment of S Ltd. was made by issue of 9% Debentures of ₹ 100 each at par.
Pass necessary journal entries in the books of R Ltd.

Solution:

In the books of R Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Assets A/c Dr. To Sundry Liabilities A/c To S Ltd. A/c To Capital Reserve A/c (Being assets purchased and liabilities took over from S Ltd.)		5,00,000	2,00,000 2,80,000 20,000
	S Ltd. A/c Dr. To 9% Debenture A/c (Being issued 2,800 9% debenture of Rs.10 each)		2,80,000	2,80,00

Working Note:

$$\text{Numbers of Debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{2,80,000}{100} = 2,800 \text{ Debentures}$$

Question 24.

Romi Ltd. acquired assets of ₹ 20 lakhs and took over creditors of ₹ 2 lakhs from Kapil Enterprises.

Romi Ltd. issued 8% Debentures of ₹ 100 each at a discount of 25% as purchase consideration.

Record necessary journal entries in the books of Romi Ltd.

Solution:

Books of Romi Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Assets A/c Dr. To Creditors A/c To Kapil Enterprises A/c (Being assets purchased and creditors took over from Kapil enterprises)		20,00,000	2,00,000 18,00,000
	Kapil Enterprises A/c Dr. To 8% Debenture A/c To Securities Premium A/c (Being issued 14,400 8% debentures of Rs.100 each at a premium of 25% to Kapil enterprises)		18,00,000	14,40,000 3,60,000

Working Note:

$$\text{Numbers of Debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{18,00,000}{100 + 25} = 14,400 \text{ debentures}$$

Question 25.

Romi Ltd. acquired assets of ₹ 20 lakhs and took over creditors of ₹ 2 lakhs from Kapil Enterprises.

Romi Ltd. issued 8% Debentures of ₹ 100 each at a discount of 10% as purchase consideration.

Record necessary journal entries in the books of Romi Ltd.

Solution:

Books of Romi Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Assets A/c Dr. To Creditors A/c To Kapil Enterprises A/c (Being assets purchased and Creditors took over from Kapil Enterprises)		20,00,000	2,00,000 18,00,000
	Kapil Enterprises A/c Dr. Discount on Issue of Debentures A/c Dr. To 8% Debenture A/c (Being issued 20,00 8% Debentures of Rs.100 each at discount of 10% to Kapil Enterprises)		18,00,000 2,00,000	20,00,000

Working Note:

$$\text{Numbers of Debentures Issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}} = \frac{18,00,000}{100 - 10} = 20,000 \text{ debentures}$$

Question 26.

X Ltd. issued 10% Debentures of nominal value of ₹ 10,00,000 as follows:

- (i) To sundry persons for cash at par ₹ 5,00,000 nominal.
- (ii) To a vendor for ₹ 5,50,000 for purchase of fixed assets ₹ 5,00,000 nominal.

Pass journal entries in the books of X Ltd.

Solution:

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Bank A/c Dr. Fixed Assets A/c Dr. To 10% Debentures A/c To Security Premium Reserve A/c (Being purchase consideration discharged by issue of 10% Debentures)		5,00,000 5,50,000	10,00,000 50,000

Question 27.

Best Barcode Ltd. took a loan of ₹ 5,00,000 from a bank giving ₹ 6,00,000; 9% Debentures as collateral security. Pass journal entries regarding issue of debentures, if any, and show this loan in the Balance Sheet of the company.

Solution:

**Balance Sheet of
Best Barcode Ltd.**

Particulars	Note No.	Rs.
I. Equity and Liabilities		
1. Shareholder's Funds		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	5,00,000
Total		5,00,000
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	2	5,00,000
Total		5,00,000

NOTES TO ACCOUNTS

Note No.	Particulars	Rs.
1	Long-Term Borrowings	
	Loan (Secured by issue of 9% Debentures of Rs.6,00,000 as Collateral Security)	5,00,000
2	Cash and Cash Equivalents	
	Cash at Bank	5,00,000

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To Loan A/c (Being loan taken against issuing 9% Debentures as collateral Security)	Dr.	5,00,000	5,00,000

Alternative Method:

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To Loan A/c (Being loan taken against issuing 9% Debentures as collateral Security)	Dr.	5,00,000	5,00,000
	Debenture Suspense A/c To 9% Debentures A/c (Being issued 9% Debentures of Rs.6,00,0000 as collateral security)	Dr.	6,00,000	6,00,000

**Balance Sheet of
Best Barcode Ltd.**

Particulars	Note No.	Rs.
I. Equity and Liabilities		
1. Shareholder's Funds		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	5,00,000
Total		5,00,000
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	2	5,00,000
Total		5,00,000

NOTES TO ACCOUNTS

Note No.	Particulars	Rs.
1	Long - Term Borrowings	
	Secured:	
	Loan (Secured by issue of 9% Debentures of Rs.6,00,000 as Collateral Security)	5,00,000
	9% Debenture(Issued as Collateral Security to Bank against loan)	6,00,000
	Less: Debenture Suspense Account	(6,00,000)
		5,00,000
2	Cash and Cash Equivalents	
	Cash at Bank	5,00,000

Question 28.

A company took a loan of ₹ 4,00,000 from Bandhan Bank Ltd. and issued 8% Debentures of ₹ 4,00,000 as a collateral security.

Solution:

Debentures issued as Collateral Security shown separately

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c Dr. To Loan from Bandhan Bank Ltd. (Being loan taken against issuing 8% Debentures as collateral Security)		4,00,000	4,00,000
	Debenture Suspense A/c Dr. To 8% Debentures A/c (Being issued 8% Debentures as collateral security)		4,00,000	4,00,000

Company's Balance Sheet

Balance Sheet

Particulars	Note No.	Rs.
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non-Current Liabilities		
Long-Term Borrowings	1	4,00,000
Total		4,00,000
II. Assets		
1. Non-Current Assets		
2. Current Assets		
Cash and Cash Equivalents	2	4,00,000
Total		4,00,000

NOTES TO ACCOUNTS

Note No.	Particulars	Rs.
1	Long-Term Borrowings	
	Secured:	
	Loan form Bandhan Bank (Secured by issue of Debentures of Rs.4,00,000)	4,00,000
	8% Debenture(Issued as Collateral Security to Bank against loan)	4,00,000
	Less: Debenture Suspense Account	(4,00,000)
		4,00,000
2	Cash and Cash Equivalents	
	Cash at Bank	4,00,000

Alternative Method

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c	Dr.	4,00,000	
	To Loan Form Bandhan Bank Ltd A/c			4,00,000
	(Being loan taken from Bandhan Bank secured by issuing Debentures as collateral Security)			

Balance Sheet

Particulars	Note No.	Rs.
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non-Current Liabilities		
Long-Term Borrowings	1	4,00,000
Total		4,00,000
II. Assets		
1. Non-Current Assets		
2. Current Assets		
Cash and Cash Equivalents	2	4,00,000
Total		4,00,000

NOTES TO ACCOUNTS

Note No.	Particulars	Rs.
1	Long-Term Borrowings	
	Secured:	
	Loan from Bandhan Bank (Secured by issue of 8% Debenture of Rs.4,00,000 as Collateral Security)	4,00,000
2	Cash and Cash Equivalents	
	Cash at Bank	4,00,000

Question 29.

X Ltd. took a loan of ₹ 3,00,000 from IDBI Bank. The company issued 4,000; 9% Debentures of ₹ 100 each as a collateral security for the same. Show how these items will be presented in the Balance Sheet of the company.

Solution:

X Ltd.
Balance Sheet

Particulars	Note No.	Rs.
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non-Current Liabilities		
Long-Term Borrowings	1	3,00,000
Total		3,00,000
II. Assets		
1. Non-Current Assets		
2. Current Assets		
Cash and Cash Equivalents	2	3,00,000
Total		3,00,000

NOTES TO ACCOUNTS

Note No.	Particulars	Rs.
1	Long-Term Borrowings	
	Secured:	
	Loan Form IDBI (Secured by issue of Debentures of Rs.4,00,000)	3,00,000
	9% Debenture(Issued as Collateral Security to Bank against loan)	4,00,000
	Less: Debenture Suspense Account	4,00,000
		3,00,000
2	Cash and Cash Equivalents	
	Cash at Bank	3,00,000

Question 30.

Journalise the following:

(a) A debenture issued at ₹ 95, repayable at ₹ 100.

(b) A debenture issued at ₹ 95, repayable at ₹ 105.

(c) A debenture issued at ₹95, repayable at ₹ 105.

The face value of debenture is ₹ 100 in each of the above cases.

Solution:

Journal Entries

Sr. No.	Particulars	L.F.	Debit Rs.	Credit Rs.
a.	Bank A/c Dr. To Debenture Application A/c (Being debentures application money received)		95	95
	Debenture Application A/c Dr. Discount On Issue of Debentures A/c Dr. To Debenture A/c (Being debenture of Rs.100 each issued at Rs.95 with the term repayable at par)		95 5	100
b.	Bank A/c Dr. To Debenture Application A/c (Being debenture application money received)		95	95
	Debenture Application A/c Dr. Discount On Issue of Debentures A/c Dr. Loss on Issue of Debentures A/c Dr. To Debenture A/c To premium on Redemption A/c (Being debenture of Rs.100 each issued of Rs.95 with the term repayable at Rs.105)		95 5 5	100 5
c.	Bank A/c Dr. To Debenture Application A/c (Being debenture application received)		100	100
	Debenture Application A/c Dr. Loss On Issue of Debentures A/c Dr. To Debenture A/c To premium on Redemption A/c (Being debenture of Rs.100 each issued at par with the term repayable at Rs.105)		100 5	100 5

Question 31.

Pass journal entries in the following cases:

- A Co.Ltd. issued ₹ 40,000; 12% Debentures at a premium of 5% redeemable at par.
- A Co.Ltd. issued ₹ 40,000; 12% Debentures at a discount of 10% redeemable at par.
- A Co.Ltd. issued ₹ 40,000; 12% Debentures at par redeemable at 10% premium.
- A Co.Ltd. issued ₹ 40,000; 12% Debentures at a discount of 5% and redeemable at 5% premium.
- A Co.Ltd. issued ₹ 40,000; 12% Debentures at a premium of 10% redeemable at 110%.

Solution:

Journal Entries

Sr. No.	Particulars	L.F.	Debit Rs.	Credit Rs.
a.	Bank A/c To 12%Debenture Application A/c (Being debentures application money received)	Dr.	42,000	42,000
	12%Debenture Application A/c To 12%Debenture A/c To Securities Premium A/c (Being debenture application money transferred to 12% Debentures account and securities premium account)	Dr.	42,000	40,000 2,000
b.	Bank A/c To 12% Debenture Application A/c (Being debenture application money received)	Dr.	36,000	36,000
	12% Debenture Application A/c Discount On Issue of Debentures A/c To 12% Debenture A/c (Being debenture of Rs.40,000 issued at 10% discount)	Dr. Dr.	36,000 4,000	40,000
c.	Bank A/c To 12% Debenture Application A/c (Being debenture application money received)	Dr.	40,000	40,000
	12%Debenture Application A/c Loss On Issue of Debentures A/c To 12% Debenture A/c To Premium on Redemption A/c (Being debenture of Rs.40,000 issued at par with the term repayable at 10% premium)	Dr. Dr.	40,000 4,000	40,000 4,000
d.	Bank A/c To 12%Debenture Application A/c (Being debenture application money received)	Dr.	38,000	38,000
	12% Debenture Application A/c Discount on Issue of Debentures A/c Loss On Issue of Debentures A/c To 12%Debenture A/c To Premium on Redemption A/c (Being debenture of Rs.40,000 issued at 5% discount with the term repayable at 5% premium)	Dr. Dr. Dr.	38,000 2,000 2,000	40,000 2,000
e.	Bank A/c To 12%Debenture Application A/c (Being debenture application money received)	Dr.	44,000	44,000
	12% Debenture Application A/c Loss On Issue of Debentures A/c To 12%Debenture A/c To Securities Premium A/c To Premium on Redemption A/c (Being debenture of Rs.40,000 issued and Payable with at 10% premium)	Dr. Dr.	44,000 4,000	40,000 4,000 4,000

Question 32.

Footfall Ltd.issues 10,000 Debentures of Pass necessary journal entries relating to the issue of

Debentures for the following:

(a) Issued ₹ 28,000; 10% Debentures of ₹ 100 each at a premium of 15% redeemable at par.

(b) Issued ₹ 30,000; 10% Debentures of ₹ 100 each at a premium of 10% and redeemable at a premium of 15%.

(c) Issued ₹ 80,000; 10% Debentures of ₹ 100 each at par repayable at a premium of 10%. 100 each at a discount of 10% redeemable at a premium of 5% after the expiry of three years.

Pass journal entries for the issue of these debentures.

Solution:

In the books of Footfall Ltd.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To Debenture Application A/c (Being debentures application money received for 10,000 debentures at Rs.90 each)	Dr.	9,00,000	9,00,000
	Debenture Application A/c Discount on Issue of Debentures A/c Loss On Issue of Debentures A/c To Debenture A/c To Premium on Redemption A/c (Being 10,000 debenture of Rs.100 each issued at 10% discount with the term repayable at 5% redemption)	Dr. Dr. Dr.	9,00,000 1,00,000 50,000	10,00,000 50,000
	Debentures A/c Premium on Redemption A/c To Debenture holders' A/c (Being debenture due for redemption along with premium on redemption)	Dr. Dr.	10,00,000 50,000	10,50,000
	Debenture holders' A/c To Bank A/c (Being amount due for redemption paid to debenture holders)	Dr.	10,50,000	10,50,000

Question 33.

Pass necessary journal entries relating to the issue of Debentures for the following:

(a) Issued ₹ 4,00,000; 9% Debentures of ₹ 100 each at a premium of 8% redeemable at 10% premium.

(b) Issued ₹ 6,00,000; 9% Debentures of ₹ 100 each at par, repayable at a premium of 10%.

(c) Issued ₹ 10,00,000; 9% Debentures of ₹ 100 each at a premium of 5%, redeemable at par.

Solution:

Journal Entries				
Sr. No.	Particulars	L.F.	Debit Rs.	Credit Rs.
a.	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received on 4,000 9% debentures)		4,32,000	4,32,000
	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debenture A/c To Securities Premium Reserve A/c To Premium on Redemption of debentures A/c (Being 4,000 9% debenture issued at a premium of Rs.8 and redeemable at premium of 10%)		4,32,000 40,000	4,00,000 32,000 40,000
b.	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received on 6,000 9% debentures)		6,00,000	6,00,000
	Debenture Application and Allotment A/c Dr. Loss On Issue of Debentures A/c Dr. To 9% Debenture A/c To premium on Redemption of Debentures A/c (Being 6,000 9%debenture issued at par and redeemable at premium of 10%)		6,00,000 60,00	6,00,000 60,000
c.	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received on 10,000 9% debentures)		10,50,000	10,50,000
	Debenture Application and Allotment A/c Dr. To 9% Debenture A/c To Securities Premium Reserve A/c (Being 1,000 9% debentures issued at a premium of Rs.5)		10,50,000	10,00,000 50,000

Question 34.

Pass necessary journal entries relating to the issue of Debentures for the following:

- (a) Issued ₹ 28,000; 10% Debentures of ₹ 100 each at a premium of 15% redeemable at par.
- (b) Issued ₹ 30,000; 10% Debentures of ₹ 100 each at a premium of 10% and redeemable at a premium of 15%.
- (c) Issued ₹ 80,000; 10% Debentures of ₹ 100 each at par repayable at a premium of 10%.

Solution:

Journal Entries

Sr. No.	Particulars	L.F.	Debit Rs.	Credit Rs.
a.	Bank A/c To Debenture Application and Allotment A/c (Being application money received 280 debentures Rs.115 each)	Dr.	32,200	32,200
	Debenture Application and Allotment A/c To 10% Debenture A/c To Securities Premium Reserve A/c (Being 280 10% debenture issued at a premium of 15%)	Dr.	32,200	28,000 4,200
b.	Bank A/c To Debenture Application and Allotment A/c (Being application money received)	Dr.	33,000	33,000
	Debenture Application and Allotment A/c Loss On Issue of Debentures A/c To 10% Debenture A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being 300 10% debenture issued at a premium of 10% and redeemable at a premium of 15%)	Dr. Dr.	33,000 4,500	30,000 3,000 4,500
c.	Bank A/c To Debenture Application and Allotment A/c (Being application money received)	Dr.	80,000	80,000
	Debenture Application and Allotment A/c Loss On Issue of Debentures A/c To 10% Debenture A/c To Premium on Redemption of Debentures A/c (Being 800 10% debentures issued at a par and redeemable at premium of 10%)	Dr. Dr.	80,000 8,000	80,000 8,000

Question 35.

Journalise the following transaction at the time of issue of 12% Debentures:

Nandan Ltd. issued ₹ 90,000, 12% Debentures of ₹ 100 each at a discount of 5% redeemable at 110%.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c Dr. To Debenture Application and Allotment A/c (900, 12% Debentures issued at a discount of 5%)		85,500	85,500
	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 12% Debentures A/c To Premium on Redemption of Debentures A/c (900, 12% Debentures issued at a discount of 5%, redeemable at a premium of 10%)		85,500 13,500	90,000 9,000

Question 36.

Pass necessary journal entries for the issue of Debentures in the following cases:

(a) ₹ 40,000; 12% Debentures of ₹ 100 each issued at a premium of 5% redeemable at par.

(b) ₹ 70,000; 12% Debentures of ₹ 100 each issued at a premium of 5% redeemable at a premium of 110.

Solution:

a.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c Dr. To Debenture Application A/c (Being 400 debentures issued at Rs.100 at a premium of 5%)		42,000	42,000
	Debenture Application A/c Dr. To 12% Debenture A/c To Securities Premium A/c (Being 400 debentures issued at a premium of 5% and redeemable at par)		42,000	40,000 2,000

b.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c Dr. To Debenture Application A/c (Being 700 debentures issued at Rs.100 at a premium of 5%)		73,500	73,500
	Debenture Application A/c Dr. Loss On Issue of Debentures A/c Dr. To 12% Debenture A/c To Securities Premium Reserve A/c To Premium on Redemption A/c (Being 70,000 debenture issued at a premium of 5% and redeemable at Rs.110)		73,500 7,000	70,000 3,500 7,000

Question 37.

Pass necessary journal entries for the issue of Debentures in the following cases:

(a) ₹ 40,000; 15% Debentures of ₹ 100 each issued at a discount of 10% redeemable at par.

(b) ₹ 80,000; 15% Debentures of ₹ 100 each issued at a premium of 10% redeemable at a premium of 10%.

Solution:

a.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To Debenture Application A/c (Being 400 debentures issued at Rs.100 at a premium of 10%)	Dr.	36,000	36,000
	Debenture Application A/c Discount on Issue of Debentures A/c To 15% Debenture A/c (Being 400 debentures issued at discount and redeemable at par)	Dr. Dr.	36,000 4,000	40,000

b.

Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To Debenture Application A/c (Being 800 debentures issued at Rs.100 at a premium of 10%)	Dr.	88,000	88,000
	Debenture Application A/c Loss On Issue of Debentures A/c To 15% Debenture A/c To premium on Redemption A/c To Securities Premium A/c (Being 800 debenture issued at a premium of 10% and redeemable at a premium of 10%)	Dr. Dr.	88,000 8,000	80,000 8,000 8,000

Question 38.

XYZ Ltd. issued 5,000, 10% Debentures of ₹ 100 each on 1st April, 2015 at a discount of 10% redeemable at a premium of 10% after 4 years. Give journal entries for the year ended 31st March, 2016, assuming that the interest was payable half-yearly on 30th September and 31st March. Tax is to be deducted @ 10%.

Solution:

Books of XYZ Ltd.
Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2015 1st April	Bank A/c To Debenture Application A/c (Being application money received)	Dr.	4,50,000	4,50,000
1st April	Debenture Application A/c Loss On Issue of Debentures A/c To 10% Debenture A/c To premium on Redemption A/c (Being 5,000 debentures of Rs.100 each issued at 10% discount with the term repayable at premium of 10%)	Dr. Dr.	4,50,000 1,00,000	5,00,000 50,000
2015 30th Sep	Interest on Debentures A/c To Debenture holders A/c To Income Tax Payable A/c (Being interest due on 10% debentures)	Dr.	25,000	22,500 2,500
30th Sep	Debenture holders A/c To Bank A/c (Being interest on debentures paid to debenture holders)	Dr.	22,500	22,500
30th Sep	Income Tax Payable A/c To Bank A/c (Being payment of tax on interest on debentures)	Dr.	2,500	2,500
2016 31st Mar	Interest on debentures A/c To Debentures holders' A/c To Income Tax Payable A/c (Being interest due on 10% debentures)	Dr.	25,000	22,500 2,500
31st Mar	Debenture holders A/c To Bank A/c (Being interest on debentures paid to debenture holders)	Dr.	22,500	22,500
31st Mar	Income Tax Payable A/c To Bank A/c (Being payment of tax on interest on debentures)	Dr.	2,500	2,500
31st Mar	Profit and Loss A/c To Interest on debentures A/c (Being interest on debentures transferred to profit and loss account)	Dr.	50,000	50,000

Working Note:

$$\text{Interest on Debentures (6 months)} = 5,00,000 \times \frac{6}{12} \times \frac{10}{100} = ₹25,000$$

Question 39.

Bright Ltd. issued 5,000; 10% Debentures of ₹ 100 each on 1st April, 2015. The issue was fully subscribed. According to the terms of issue, interest on the debentures is payable half-yearly on 30th September and 31st March and the tax deducted at source is 10%.

Pass necessary journal entries related to the debenture interest for the year ending 31st March, 2016 and transfer of interest on debentures of the year to the Statement of Profit and Loss.

Solution:

The books of Bright Ltd.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2016 31 st Mar	Debentures Interest A/c Dr. To Debenture holders A/c To Income Tax Payable A/c (Being debentures interest due)		25,000	22,500 2,500
	Debenture holders A/c Dr. Income Tax Payable A/c Dr. To Bank A/c (Being interest on debentures paid)		22,500 2,500	25,000
31 st Mar	Statement of Profit and Loss A/c Dr. To Debentures Interest A/c (Being interest transferred to profit and loss)		50,000	50,000

Question 40.

On 1st April, 2015, V.V.L. Ltd issued 1,000, 9% Debentures of ₹ 100 each at a discount of 6%, redeemable at a premium of 10% after three years. Pass necessary journal entries for the issue of debentures and debenture interest for the year ended 31st March, 2016, assuming that interest is payable on 30th September and 31st March and the rate of tax deducted at source is 10%. The company closes its books on 31st March every year.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2015 Apr. 01	Bank A/c Dr. To Debenture Application and Allotment A/c (1,000, 9% Debentures issued at a discount of 6%) Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (1,000, 9% Debentures issued at a discount of 6%, redeemable at a premium of 10%)		94,000 94,000 16,000	94,000 1,00,000 10,000
Sept 30	Debenture Interest A/c Dr. To Debentureholders' A/c To TDS Payable A/c (Interest on debentures due) Debentureholders' A/c Dr. To Bank A/c (Payment of interest to debentureholders')		4,500 4,050 450	4,050 450
2016 Mar 31	TDS Payable A/c Dr. To Bank A/c (Payment of tax to government) Debenture Interest A/c Dr. To Debentureholders' A/c To TDS Payable A/c (Interest on debentures due) Debentureholders' A/c Dr. To Bank A/c (Payment of interest to debentureholders') TDS Payable A/c Dr. To Bank A/c (Payment of tax to government)		450 4,500 4,050 450 450	450 4,050 450 4,050 450

Question 41.

X Ltd. issued 30,000, 10% Debentures of ₹ 100 each at a discount of 5% on 1st April, 2015. As per the terms of issue, debentures are to be redeemed at the end of five years. Show the amount of discount to be written off from Statement of Profit and Loss every year.

Solution:

$$\text{Discount Amount} = 30,00,000 \times 5\% = 1,50,000$$

$$\text{Written off discount Amount (every Year)} = \frac{1,50,000}{5} = 30,000$$

Question 42.

A limited company issued ₹ 10,00,000; 9% Debentures at a discount of 6% on 1st April, 2014. These debentures are to be redeemed equally, in 5 annual installments starting from 31st March, 2015.

Discount on Issue of Debentures is written off during the tenure of debentures.

Pass the journal entries for issue of debentures and writing off the discount.

Solution:

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2014 1 st April	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received on issue of Debenture)		9,40,000	9,40,000
1 st April	Debenture Application and Allotment A/c Dr. Discount on Issue of Debenture A/c Dr. To 9% Debenture A/c (Being application money transferred to Debentures A/c)		9,40,000 60,000	10,00,000
2015 31 st Mar	Statement of Profit and Loss A/c Dr. To Discount on Issue of Debenture A/c (Being discount on Issue of Debenture written off)		20,000	20,000
2016 31 st Mar	Statement of Profit and Loss A/c Dr. To Discount on Issue of Debenture A/c (Being discount on Issue of Debenture written off)		16,000	16,000
2017 31 st Mar	Statement of Profit and Loss A/c Dr. To Discount on Issue of Debenture A/c (Being discount on Issue of Debenture written off)		12,000	12,000
2018 31 st Mar	Statement of Profit and Loss A/c Dr. To Discount on Issue of Debenture A/c (Being discount on Issue of Debenture written off)		8,000	8,000
2019 31 st Mar	Statement of Profit and Loss A/c Dr. To Discount on Issue of Debenture A/c (Being discount on Issue of Debenture written off)		4,000	4,000

Working Note

Calculation discount amount to be written off every year

$$\text{Discount Amount} = 10,00,000 \times 6\% = 60,000$$

Question 43.

On 1st April, 2014, Popular Ltd. issued 20,000; 10% Debentures of ₹ 100 each at a discount of 10% redeemable at par. Show the Discount on Issue of Debentures Account if

(a) such debentures are redeemable after 4 years, and

(b) such debentures are redeemable by equal annual drawings in 4 years, starting from 31st March, 2015. Popular Ltd. follows financial year as its accounting year.

Solution:

Case (a)

Discount on Issue of Debentures Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2014-15 Apr. 01	10% Debentures		2,00,000	2014-15 Mar. 31	Statement of Profit and Loss		50,000
				Mar. 31	Balance c/d		1,50,000
			2,00,000				2,00,000
2015-16 Apr. 01	Balance b/d		1,50,000	2015-16 Mar. 31	Statement of Profit and Loss		50,000
				Mar. 31	Balance c/d		1,00,000
			1,50,000				1,50,000
2016-17 Apr. 01	Balance b/d		1,00,000	2016-17 Mar. 31	Statement of Profit and Loss		50,000
				Mar. 31	Balance c/d		50,000
			1,00,000				1,00,000
2017-18 Apr. 01	Balance b/d		50,000	2017-18 Mar. 31	Statement of Profit and Loss		50,000
			50,000				50,000

Working Notes:

WN1: Calculation of discount to be written-off

$$\text{Total Discount} = 20,00,000 \times \frac{10}{100} = 2,00,000$$

$$\text{Discount written-off each year} = \frac{2,00,000}{4} = 50,000$$

Case (b)

Discount on Issue of Debentures Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2014-15 Apr. 01	10% Debentures		2,00,000	2014-15 Mar. 31	Statement of Profit and Loss		80,000
				Mar. 31	Balance c/d		1,20,000
			2,00,000				2,00,000
2015-16 Apr. 01	Balance b/d		1,20,000	2015-16 Mar. 31	Statement of Profit and Loss		60,000
				Mar. 31	Balance c/d		60,000
			1,20,000				1,20,000

2016-17				2016-17			
Apr. 01	Balance b/d		60,000	Mar. 31	Statement of Profit and Loss		40,000
				Mar. 31	Balance c/d		20,000
			60,000				60,000
2017-18				2017-18			
Apr. 01	Balance b/d		20,000	Mar. 31	Statement of Profit and Loss		20,000
			20,000				20,000

Working Notes:

At the end of	Outstanding Balance	Weight	Discount Written-off
Year I	20,00,000	4	$80,000 \left(\frac{4}{10} \times 2,00,000 \right)$
Year II	15,00,000	3	$60,000 \left(\frac{3}{10} \times 2,00,000 \right)$
Year III	10,00,000	2	$40,000 \left(\frac{2}{10} \times 2,00,000 \right)$
Year IV	5,00,000	1	$20,000 \left(\frac{1}{10} \times 2,00,000 \right)$
		10	

Question 44.

On 1st April 2012, Z Ltd. issued ₹ 10,00,000, 10% Debentures of ₹ 100 each at 94% redeemable at par. The debentures are to be redeemed by drawings method in the following manner:

Year end	2nd	3rd	4th	5th
Nominal value of Debentures to be Redeemed	10%	20%	30%	40%

Calculate the amount of discount on issue of debentures to be written off each year.

Solution:

At the end of	Outstanding Balance	Weight	Discount Written-off
Year I	10,00,000	10	$15,000 \left(\frac{10}{40} \times 60,000 \right)$
Year II	10,00,000	10	$15,000 \left(\frac{10}{40} \times 60,000 \right)$
Year III	9,00,000	9	$13,500 \left(\frac{9}{40} \times 60,000 \right)$
Year IV	7,00,000	7	$10,500 \left(\frac{7}{40} \times 60,000 \right)$
Year V	4,00,000	4	$6,000 \left(\frac{4}{40} \times 60,000 \right)$
		40	

Working Notes:

WN1: Calculation of discount to be written-off

$$\text{Discount} = 10,00,000 \times \frac{6}{100} = 60,000$$

Question 45.

A company issued 9% Debentures of ₹ 10,00,000 at 8% discount, redeemable at par. The debentures are to be redeemed by drawings method in the following manner:

Year-end	Amount (Face Value) (₹)
2	1,00,000
3	2,00,000
4	3,00,000
5	4,00,000

Calculate the amount of discount on issue of debentures to be written off each year.

Solution:

At the end of	Outstanding Balance	Weight	Discount Written-off
Year I	10,00,000	10	$20,000 \left(\frac{10}{40} \times 80,000 \right)$
Year II	10,00,000	10	$20,000 \left(\frac{10}{40} \times 80,000 \right)$
Year III	9,00,000	9	$18,000 \left(\frac{9}{40} \times 80,000 \right)$
Year IV	7,00,000	7	$14,000 \left(\frac{7}{40} \times 80,000 \right)$
Year V	4,00,000	4	$8,000 \left(\frac{4}{40} \times 80,000 \right)$
		40	

Working Notes:

WN1: Calculation of discount to be written-off

$$\text{Discount} = 10,00,000 \times \frac{6}{100} = 60,000$$

Question 46.

Kangaroo Ltd. issued 5,000, 8% Debentures of ₹ 100 each at a discount of 8%. The company decided to write off discount in the year of loss from Capital Reserve which has a balance of ₹ 1,00,000. Pass the journal entry for writing off discount.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Capital Reserve A/c Dr. To Discount on Issue of Debentures A/c (8% discount on 5,000, 8% Debentures of Rs.100 each written off)		40,000	40,000

Working Notes:

WN1: Calculation of discount to be written-off

$$\text{Discount} = 5,00,000 \times \frac{8}{100} = 40,000$$

Question 47.

Grand Hotels Ltd. issued 30,000, 7% Debentures of ₹ 100 each at a discount of 5% redeemable at a premium of 5%. It decided to write off loss on issue of debentures first from Capital Reserve then from Securities Premium Reserve and balance from Statement of Profit and Loss. It has balances as follows:

Capital Reserve – ₹ 80,000 and Securities Premium Reserve – ₹ 1,00,000.

Pass the journal entry for writing off loss on Issue of Debentures.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Capital Reserve A/c Dr. Securities Premium A/c Dr. Statement of Profit and Loss Dr. To Discount on Issue of Debentures A/c (Loss on issue of 30,000, 7% Debentures of Rs.100 each written off)		80,000 1,00,000 1,20,000	3,00,000

Working Notes:

WN1: Calculation of discount to be written-off

$$\text{Discount} = 30,00,000 \times \frac{10}{100} = 3,00,000$$

First Rs 80,000 will be set-off from Capital Reserve

Next Rs 1,00,000 will be set-off from Securities Premium

Remaining Rs 1,20,000 (3,00,000 – 80,000 – 1,00,000) will be set-off from Statement of Profit & Loss

Question 48.

Kitply Ltd. issued ₹ 2,00,000, 10% Debentures at a discount of 5%. The terms of issue provide the repayment at the end of 4 years. Kitply Ltd. has a balance of ₹ 5,00,000 in Securities Premium

Reserve. The company decided to write off discount on issue of debentures from Securities Premium Reserve in the first year.

Pass the journal entry.

Solution:

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Security Premium Reserve A/c (2,00,000 × 5%) Dr. To Discount on Issue of Debentures A/c (2,00,000 × 5%) (Being discount on Issue of Debentures written off)		10,000	10,000

Question 49.

Typhoo Ltd. issued 5,000, 9% Debentures of ₹ 100 each at a discount of 5% redeemable at the end of 5 years at a premium of 10%. Typhoo Ltd. has a balance of ₹ 2,00,000 in Securities Premium Reserve. Loss on Issue of debentures is to be written off equally over the life of debentures from Securities Premium Reserve to the extent possible.

Pass the journal entries for writing off the Loss on Issue of Debentures.

Solution:

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Security Premium Reserve A/c Dr. To Loss on Issue of Debentures A/c (Being Loss on Issue of Debentures written off)		15,000	15,000

Working Note:

Calculation amount of discount to be written off every year = Loss on issue of Debentures
 = 5,00,000 × 15% = 75,000

Amount of loss on issue of Debentures to be written off (every year) = $\frac{75,000}{5} = 15,000$

Question 50.

Tetley Ltd. issued 10,000, 9% Debentures of ₹ 100 each at a discount of 5% redeemable at the end of 5 years at a premium of 10%. Tetley Ltd. has a balance of ₹ 50,000 in Securities Premium Reserve. Loss on Issue of debentures is to be written off equally over the life of debentures.

Pass the journal entries for writing off the Loss on Issue of Debentures.

Solution:

Journal

Year	Particulars	L.F.	Dr. Rs.	Cr. Rs.
I year	Security Premium Reserve A/c Dr. To Loss on Issue of Debentures A/c (Being loss on issue of Debentures written off)		30,000	30,000
II year	Security Premium Reserve A/c Dr. Statement of Profit and Loss A/c Dr. To Loss on Issue of Debentures A/c (Being loss on Issue of Debentures written off)		20,000 10,000	30,000
III year	Statement of Profit and Loss A/c Dr. To Loss on Issue of Debentures A/c (Loss on Issue of Debentures written off)		30,000	30,000

Note: Entry III will be passed for next two years.

Working Note :

Loss on Issue of Debentures = Discount on Issue of Debentures + Premium on Redemption of Debentures
 $= 10,00,000 \times 5\% + 10,00,000 \times 10\% = 50,000 + 1,00,000 = 1,50,000$

Loss on Issue of Debentures to be written off (every year) = $\frac{1,50,000}{5} = 30,000$

Question 51.

Global Ltd. issued 10,000, 8% Debentures of ₹ 100 each redeemable at the end of 3 years at a premium of ₹ 9.

Pass the journal entries for writing off the Loss on Issue of Debentures. Also prepare Loss on Issue of Debentures Account.

Solution:

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Statement of Profit and Loss A/c Dr. To Loss on Issue of Debentures A/c (Being loss on Issue of Debentures written off)		30,000	30,000

Note : Same entry to be passed for next two years

Loss on issue of Debentures = $10,000 \times 9\% = 90,000$

Loss on issue of Debentures to be written off (every year) = $\frac{90,000}{3} = 30,000$

Loss on Issue of Debentures A/c

Dr.			Cr.		
Year	Particular	Rs.	Year	Particular	Rs.
I year	To 8% Debentures A/c	90,000	I year	By Statement of Profit and Loss A/c	30,000
				By Balance c/d	60,000
		90,000			90,000
II year	To Balance b/d	60,000	II year	By Statement of Profit and Loss A/c	30,000
				By Balance c/d	30,000
		60,000			60,000
III year	To Balance b/d	30,000	III year	By Statement of Profit and Loss A/c	30,000
		30,000			30,000

Question 52.

On 1st April, 2013, ABC Ltd. issued 10,000, 10% Debentures of ₹ 100 each at a discount of 4% redeemable after 5 years at a premium of 6%.

Pass the necessary journal entries for issue of debentures and writing off Loss on issue of Debentures. Also prepare Loss on issue of Debentures Account.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2013 Apr. 01	Bank A/c Dr. To Debenture Application and Allotment A/c (10,000, 10% Debentures issued at a discount of 4%)		9,60,000	9,60,000
	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (10,000, 10% Debentures issued at a discount of 4%, redeemable at a premium of 6%)		9,60,000 1,00,000	10,00,000 60,000
2014-15	Statement of Profit and Loss Dr. To Loss on Issue of Debentures A/c (One-fifth loss written-off)		20,000	20,000
2015-16	Statement of Profit and Loss Dr. To Loss on Issue of Debentures A/c (One-fifth loss written-off)		20,000	20,000
2016-17	Statement of Profit and Loss Dr. To Loss on Issue of Debentures A/c (One-fifth loss written-off)		20,000	20,000
2017-18	Statement of Profit and Loss Dr. To Loss on Issue of Debentures A/c (One-fifth loss written-off)		20,000	20,000
2018-19	Statement of Profit and Loss Dr. To Loss on Issue of Debentures A/c (One-fifth loss written-off)		20,000	20,000

Working Notes:

WN1: Calculation of discount to be written-off

$$\text{Discount} = 10,00,000 \times \frac{10}{100} = 1,00,000$$

Discount on Issue of Debentures Account

Dr.				Cr.			
Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
2013-14	10% Debentures A/c		1,00,000	2013-14			
Apr. 01			1,00,000	Mar. 31	Balance c/d		1,00,000
			1,00,000				1,00,000
2014-15				2014-15			
Apr. 01	Balance b/d		1,00,000	Mar. 31	Statement of Profit and Loss		20,000
				Mar. 31	Balance c/d		80,000
			1,00,000				1,00,000
2015-16				2015-16			
Apr. 01	Balance b/d		80,000	Mar. 31	Statement of Profit and Loss		20,000
				Mar. 31	Balance c/d		60,000
			80,000				80,000
2016-17				2016-17			
Apr. 01	Balance b/d		60,000	Mar. 31	Statement of Profit and Loss		20,000
				Mar. 31	Balance c/d		40,000
			60,000				60,000
2017-18				2017-18			
Apr. 01	Balance b/d		40,000	Mar. 31	Statement of Profit and Loss		20,000
				Mar. 31	Balance c/d		20,000
			40,000				40,000
2018-19				2018-19			
Apr. 01	Balance b/d		20,000	Mar. 31	Statement of Profit and Loss		20,000
			20,000				20,000

Question 53.

Feeble Ltd. issued 10% Debentures at 94% for ₹ 20,00,000 on 1st July, 2013 repayable by five equal annual installments of ₹ 4,00,000 each starting from 30th June, 2014. Calculate the amount of discount to be written off in every accounting year assuming that the company decides to write off the debentures discount during the life of the debentures.

Solution:

Calculation of Discount to be written-off

At the end of	Outstanding Balance	Weight	Discount Written-off
Year I (2013-14)	20,00,000	5	$1,20,000 \times \frac{5}{15} \times \frac{9}{12} = 30,000$
Year II (2014-15)	16,00,000	5/4	$1,20,000 \times \frac{5}{15} \times \frac{3}{12} + 1,20,000 \times \frac{4}{15} \times \frac{9}{12}$ $10,000 + 24,000 = 34,000$
Year III (2015-16)	12,00,000	4/3	$1,20,000 \times \frac{4}{15} \times \frac{3}{12} + 1,20,000 \times \frac{3}{15} \times \frac{9}{12}$ $8,000 + 18,000 = 26,000$
Year IV (2016-17)	8,00,000	3/2	$1,20,000 \times \frac{3}{15} \times \frac{3}{12} + 1,20,000 \times \frac{2}{15} \times \frac{9}{12}$ $6,000 + 12,000 = 18,000$
Year V (2017-18)	4,00,000	2/1	$1,20,000 \times \frac{2}{15} \times \frac{3}{12} + 1,20,000 \times \frac{1}{15} \times \frac{9}{12}$ $4,000 + 6,000 = 10,000$
Year VI (2018-19)	Balance	1	$1,20,000 \times \frac{1}{15} \times \frac{3}{12} = 2,000$
		15	1,20,000

Question 54.

On 1st May, 2016, Goodluck Ltd. issued 16,000, 9% Debentures of ₹ 100 each at a discount of 10% redeemable at a premium of 10% redeemable after five years. All the debentures were subscribed and allotment was made. Discount on issue of Debentures is to be written off over the life of the debentures.

Prepare the Balance Sheet (extract) as at 31st March, 2017 showing Discount on issue of Debentures.

Solution:

**Extract of Balance Sheet
as on March 31, 2017**

Particulars	Note No.	Rs.
I. Assets		
1. Non - Current Assets		
a. Other Non-Current Assets	1	96,000
2. Current Assets		
a. Other Current Assets	2	32,000
Total		1,28,000

NOTES TO ACCOUNTS

Note No.	Particulars	Rs.
1.	Other Non-Current Assets	
	Loss on issue of Debentures	1,28,000
	Less: Disclosed as Other Current Assets	(32,000)
		96,000
2.	Other Current Assets	
	Loss on issue of Debentures	32,000

Question 55.

On 1st June, 2015, R Energy Ltd. issued 10,000, 7% Debentures of ₹ 100 each at a discount of 10% redeemable at a premium of 10% at the end of five years. All the debentures were subscribed and allotment was made. Loss on issue of Debentures is to be written off over the life of the debentures. Prepare the Balance Sheet (extract) as at 31st March, 2016 and 31st March, 2017 showing Loss on issue of Debentures.

Solution:

**Extract of Balance Sheet
as on March 31, 2016**

Particulars	Note No.	Rs.
I. Assets		
1. Non-Current Assets		
a. Other Non-Current Assets	1	1,20,000
2. Current Assets		
a. Other Current Assets	2	40,000
Total		1,60,000

NOTES TO ACCOUNTS

Note No.	Particulars	Rs.
1.	Other Non-Current Assets	
	Loss on issue of Debentures	1,60,000
	<i>Less: Disclosed as Other Current Assets</i>	<u>(40,000)</u>
		1,20,000
2.	Other Current Assets	
	Loss on issue of Debentures	40,000

**Extract of Balance Sheet
As on March 31, 2017**

Particulars	Note No.	Rs.
I. Assets		
1. Non-Current Assets		
a. Other Non-Current Assets		80,000
2. Current Assets		
a. Other Current Assets		40,000
Total		1,20,000

NOTES TO ACCOUNTS

Note No	Particulars	Rs.
1.	Other Non-Current Assets	
	Loss on issue of Debentures	1,20,000
	<i>Less: Shown as Other Current Assets</i>	<u>(40,000)</u>
		80,000
2.	Other Current Assets	
	Loss on issue of Debentures	40,000