

Chapter 10 Redemption of Debentures

Question 1.

A public limited company is a manufacturer of chemical fertilisers. Its annual turnover is ₹ 50 crores. The company had issued 5,000, 12% Debentures of ₹ 500 each at par. Calculate the amount of Debentures Redemption Reserve which needs to be created to meet the requirements of law.

Solution:

Amount required to be transferred to DRR = 25% of the Face value of Debentures
= 25% of Rs 25, 00,000 = Rs 6,25,0000

Question 2.

Z Ltd. had issued following debentures:

(a) 1,00,000, 10% fully convertible debentures of ₹ 100 each on 1st April, 2016 redeemable by conversion after 5 years.

(b) 20,000, 10% Debentures of ₹ 100 each redeemable after 4 years, 25% Debentures in Cash and 75% by conversion.

State the amount of DRR required to be created as per the Companies Act,2013.

Solution:

(a) As the debentures are fully convertible, there is no need for creation of Debenture Redemption Reserve.

(b) For the non- convertible part of debentures, DRR would be created as follows:

Amount required to be transferred to DRR (25% of Face Value) = 20, 00,000 × 25% = 1, 25,000

Question 3.

Dow Ltd. issued ₹ 2,00,000; 8% Debentures of ₹ 10 each at a premium of 8% on 30th June, 2016 redeemable on 31st March, 2018. How much amount should be transferred to Debentures Redemption Reserve before redemption of debentures?

Solution:

As per Section 71 (4) of the Companies Act, 2013, an amount equal to **at least 25%** of the value of debentures is to be transferred to the Debenture Redemption Reserve Account.

Thus, the amount to be transferred to Debenture Redemption Reserve A/c would be $2,00,000 \times 25\% = \text{Rs.}50,000$.

Question 4.

Nirbhai Chemicals Ltd.issued ₹ 10,00,000; 6% Debentures of ₹ 50 each at a premium of 8% on 30th June, 2017 redeemable on 30th June, 2018. The issue was fully subscribed. Pass journal entries for issue and redemption of debentures. How much amount should be transferred to Debentures Redemption Reserve before redemption of debentures? Also, state how much amount should be invested in specified securities ?

Solution:

As per Section 71 (4) of the Companies Act, 2013, an amount equal to **at least 25%** of the value of debentures is to be transferred to the Debenture Redemption Reserve Account.

Thus, the amount to be transferred to Debenture Redemption Reserve A/c would be $10,00,000 \times 25\% = \text{Rs.}2,50,000$

Further, as per Rule 18 (7) every company required to create Debenture Redemption Reserve is to invest an amount **at least equal to 15%** of the value of debentures in specified securities.

Thus, amount transferred to Debenture Redemption Investment A/c would be $10,00,000 \times 15\% = \text{Rs.}1,50,000$.

Journal
In the Books of Nirbhai Chemicals Ltd.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2017 30 th June	Bank A/c Dr. To 6% Debenture A/c To Securities Premium Reserve A/c (Being debenture issued)		10,80,000	10,00,000 80,000
2018 31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being DRR created)		2,50,000	2,50,000
30 th April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made in specified securities)		1,50,000	1,50,000
30 th June	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment encashed)		1,50,000	1,50,000
30 th June	6% Debenture A/c Dr. To Debenture holders' A/c (Being amount due on 6% debenture)		10,00,000	10,00,000
30 th June	Debenture holders' A/c Dr. To Bank A/c (Being payment made on redemption)		10,00,000	10,00,000
30 th June	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being transfer of debenture redemption reserve to general reserve)		2,50,000	2,50,000

Note:

As the question was silent, so the entries for interest on debentures have been ignored.
The students' may Journalize the entries related to interest on debentures as given below.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2018 31 st Mar	Debenture Interest A/c Dr. To Debenture holders' A/c (Being interest on 6% debenture due for 9 months)		45,000	45,000
31 st Mar	Debenture holders' A/c Dr. To Bank A/c (Being payment of interest to debenture holders)		45,000	45,000
31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)		45,000	45,000

Question 5.

Export-Import Bank of India (EXIM Bank) issued 20,000, 10% Debentures of ₹ 100 each through public issue and 10,000, 10% Debentures of ₹ 100 each through private placement. State the amount of investment to be made by EXIM Bank before redemption of debentures.

Solution:

Banking Companies have been exempted to invest in specified securities as per the Companies Act, 2013.

Question 6.

SRCC Ltd. has issued on 1st April, 2016, 20,000, 12% Debentures of ₹ 100 each redeemable by draw of lots as under:

During the year ended on 31st March, 2017 – 15 %

During the year ended on 31st March, 2018 – 25 %

During the year ended on 31st March, 2019 – 15 %

During the year ended on 31st March, 2020 – 25 %

During the year ended on 31st March, 2021 – 20 %

How much minimum investment or deposit should be made by SRCC Ltd. as per Companies Act, 2013 before redemption of debentures? When should it be made ?

Solution:

Year ended on	Date of Investment	Redeemable Amount	Minimum amount of DRI
31 st March 2017	On or before 30 th April 2016	$20,00,000 \times 15\%$ = 3,00,000	$3,00,000 \times 15\%$ = 45,000
31 st March 2018	On or before 30 th April 2017	$20,00,000 \times 25\%$ = 5,00,000	$5,00,000 \times 15\%$ = 75,000
31 st March 2019	On or before 30 th April 2018	$20,00,000 \times 15\%$ = 3,00,000	$3,00,000 \times 15\%$ = 45,000
31 st March 2020	On or before 30 th April 2019	$20,00,000 \times 25\%$ = 5,00,000	$5,00,000 \times 15\%$ = 75,000
31 st March 2021	On or before 30 th April 2020	$20,00,000 \times 20\%$ = 4,00,000	$4,00,000 \times 15\%$ = 60,000

Question 7.

IFCI Ltd.(An All India Financial Institution) issued 10,00,000; 9% Debentures of SRCC Ltd. ₹ 50 each on 1st April, 2011 redeemable on 1st April, 2017. How much amount of Debentures Redemption Reserve is required before the redemption of debentures ? Also,pass journal entries for issue and redemption of debentures.

Solution:

**In the books of IFCI Limited
Journal**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2011 1 st April	Bank A/c Dr. To 9% Debenture Application A/c (Being debenture Application money received)		5,00,00,000	5,00,00,000
1 st April	9% Debenture Application A/c Dr. To 9% Debenture A/c (Being debenture application money transferred to debenture account)		5,00,00,000	5,00,00,000
2017 1 st April	9% Debenture A/c Dr. To Debenture holders' A/c (Being debentures due for redemption)		5,00,00,000	5,00,00,000
1 st April	Debenture holders' A/c Dr. To Bank A/c (Being amount due for redemption paid to debenture holders)		5,00,00,000	5,00,00,000

Notes:

1. No DRR is to be created for All India Financial Institutions.
2. Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards.
However, the entries related to interest on debentures every year from April 01, 2011 to March 31, 2017 can be recorded as provided below.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2011 31 st Mar	Debenture Interest A/c Dr. To Debenture holders A/c (Being interest on 9% debentures due)		45,00,000	45,00,000
31 st Mar	Debenture holders' A/c Dr. To Bank A/c (Being payment of interest to debenture holders')		45,00,000	45,00,000
31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Being transfer of debenture interest to Statement of Profit and Loss)		45,00,000	45,00,000

Question 8.

On 31st March, 2003, G Ltd. had ₹ 8,00,000; 9% Debentures due for redemption. The company had a balance of ₹ 1,40,000 in its Debentures Redemption Reserve. Pass necessary journal entries for redemption of debentures.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2002 31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to DRR)		60,000	60,000
30 th April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed)		1,20,000	1,20,000
2003 31 st Mar	9% Debenture A/c Dr. To Debenture holders' A/c (Being debenture due for redemption)		8,00,000	8,00,000
31 st Mar	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in specified securities is now encased)		1,20,000	1,20,000
31 st Mar	Debenture holders' A/c Dr. To Bank A/c (Being amount paid to debenture holders)		8,00,000	8,00,000
31 st Mar	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR transferred to general reserve)		2,00,000	2,00,000

Working Notes:

Amount for DRR (25% of Debentures Issued) = $8,00,000 \times \frac{25}{100} = 2,00,000$

Less: Existing amount in DRR = 1,40,000

DRR to be created for redemption = 60,000

Notes:

1. No interest has been calculated on Investments as rate of interest is not provided.
2. Entries for interest on debentures have been ignore, however, the entries have been provided for reference.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2002 31 st Mar	Debenture Interest A/c Dr. To Debenture holder' A/c (Being interest on 9% debenture due)		72,000	72,000
31 st Mar	Debenture holder' A/c Dr. To Bank A/c (Being payment of interest to debenture holders')		72,000	72,000
31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)		72,000	72,000

Question 9.

On 31st March, 2016, W Ltd. had the following balances in its books:

9% Debentures – ₹ 6,00,000

Debentures Redemption Reserve – ₹ 50,000

Surplus, i.e. Balance in Statement of Profit and Loss – ₹ 3,00,000

On that date, the company decided to transfer ₹ 1,00,000 to Debentures Redemption Reserve. It also decided to redeem debentures of ₹ 3,00,000 on 30th June, 2016.

Pass necessary journal entries in the books of the company.

Solution:

Books Of W Ltd.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2016 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus transferred to debenture redemption reserve)		1,00,000	1,00,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed)		45,000	45,000
2017 Mar.31	9% Debenture A/c Dr. To Debenture holders' A/c (Being debenture due for redemption)		3,00,000	3,00,000
Mar.31	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in specified is now encased)		45,000	45,000
Mar.31	Debenture holders A/c Dr. To Bank A/c (Being amount due to debenture holders Paid)		3,00,000	3,00,000
	Debenture Redemption Reserves A/c To General Reserves A/c (50% Debenture Redemption Reserves transferred to General Reserves A/c)		75,000	75,000

Working Note:

$$\text{Specified Securities} = 3,00,000 \times \frac{15}{100} = ₹45,000$$

Note:

- Here, the entry for transferring the amount of DRR to General Reserve has been passed with 50% of DRR amount, since the company has not fully redeemed all its debentures. Therefore, 50% of DRR amount i.e. 50% of 1,50,000, has been transferred to General Reserve.
- As the question was silent, entries for interest on debentures have been ignored. However, these have been provided for reference.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2017 31 st Mar	Debenture Interest A/c Dr. To Debenture holder A/c (Being interest on 9% debenture due for 12 month)		33,750	33,750
31 st Mar	Debenture holders' A/c Dr. To Bank A/c (Being payment of interest to debenture holders')		33,750	33,750
31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)		33,750	33,750

Question 10.

A Ltd. has credit balance of ₹ 1,26,000 in Surplus, i.e., Balance in Statement of Profit and Loss. Instead of declaring dividend it is resolved to utilize the profits to redeem its ₹ 1,20,000 Debentures redeemable at a premium of 5%.

Pass necessary journal entries in the books of the company.

Solution:

Journal				
Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Statement of profit or Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)		1,20,000	1,20,000
	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed)		18,000	18,000
	Debentures A/c Dr. Premium on Redemption of Debenture A/c Dr. To Debenture holders' A/c (Being debenture due for redemption along with Premium)		1,20,000 6,000	1,26,000
	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in specified securities is now encased)		18,000	18,000
	Debenture holders' A/c Dr. To Bank A/c (Being payment made to debenture holders)		1,26,000	1,26,000
	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to capital reserve)		1,20,000	1,20,000

In case of redemption of debentures by profits, 100% of the nominal value of debentures is transferred to Debenture Redemption Reserve A/c.

Question 11.

Mansi Ltd. had 6,000; 10% Debentures of ₹ 100 each due for redemption on 31st March, 2017. Assuming that the debentures were redeemed out of profits, pass necessary journal entries for the redemption of debentures. There was a credit balance of ₹ 6,00,000 in Surplus, i.e., Balance in Statement of Profit and Loss.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2016 31 st Mar	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)	Dr.	6,00,000	6,00,000
30 th April	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified equal to 15% of the value of debenture redeemed)	Dr.	90,000	90,000
2017 31 st Mar	10% Debenture A/c To Debenture holders A/c (Being debenture due for redemption)	Dr.	6,00,000	6,00,000
31 st Mar	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encased)	Dr.	90,000	90,000
31 st Mar	Debenture holders' A/c To Bank A/c (Being payment made to debenture holders)	Dr.	6,00,000	6,00,000
31 st Mar	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.	6,00,000	6,00,000

In case of redemption of debentures by profits, 100% of the nominal value of debentures is transferred to DRR A/c.

Note:

As the question was silent, entries for interest on debentures have been ignored. However, these have been provided for reference.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2017 31 st Mar	Debenture Interest A/c To Debenture Holders A/c (Being interest on 10% debenture due)	Dr.	60,000	60,000
31 st Mar	Debenture Holders A/c To Bank A/c (Being payment of interest to debenture holders)	Dr.	60,000	60,000
31 st Mar	Statement of Profit and Loss A/c To Debenture Interest A/c (Being payment of interest to debenture holders')	Dr.	60,000	60,000

Question 12.

India Textiles Corporation Ltd. has outstanding ₹ 50,00,000; 9% Debentures of ₹ 100 each due for

redemption on 31st July, 2017. Pass journal entries for redemption assuming that there is a balance of ₹ 3,00,000 in Debentures Redemption Reserve on the date of redemption.

Solution:

Books of India Textiles Corporation Ltd
Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2017 31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Redemption to Debenture A/c (Being profit transferred to debenture redemption reserve)		9,50,000	9,50,000
30 th April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified equal to 15% of the value of debenture redeemed)		7,50,000	7,50,000
2017 31 st July	9% Debenture A/c Dr. To Debenture holders A/c (Being debenture due for redemption)		50,00,000	50,00,000
31 st July	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now encased)		7,50,000	7,50,000
31 st July	Debenture holders A/c Dr. To Bank A/c (Being payment made to debenture holders)		50,00,000	50,00,000
31 st July	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		12,50,000	12,50,000

Working Notes:**1. Calculation of amount transferred to Debenture Redemption Reserve Account**

Amount for DRR (25% of Debenture Issued) = $\left(50,00,000 \times \frac{25}{100}\right) = ₹12,50,000$

Less : Amount already exist in Debenture Redemption Reserve = ₹3,00,000

Debenture Redemption Reserve to to be created for redemption = ₹9,50,000

2. Calculation of amount invested in Specified Securities

Investment made in Specified Securities = $50,00,000 \times \frac{15}{100} = ₹7,50,000$

Note:

As the question was silent, entries for interest on debentures have been ignored.

However, these have been provided for reference.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2017 31 st Mar	Debenture Interest A/c Dr. To Debenture Holders A/c (Being interest on 9% debenture due)		4,50,000	4,50,000
31 st Mar	Debenture holders A/c Dr. To Bank A/c (Being payment of interest debenture holders)		4,50,000	4,50,000
31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)		4,50,000	4,50,000

Question 13.

Manish Ltd. issued ₹ 40,00,000; 8% Debentures of ₹ 100 each on 1st April, 2016. The terms of issue stated that the debentures are to be redeemed at a premium of 5% on 30th June, 2018. The company decided to transfer ₹ 10,00,000 out of profits to Debentures Redemption Reserve on 31st March, 2017 and ₹ 10,00,000 on 31st March, 2018.

Pass journal entries regarding the issue and redemption of debentures, DRR and investment without providing for the interest or loss on issue of debentures.

Solution:

Books of Manish Ltd.
Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2016 1 st April	Bank A/c Dr. To Debenture Application A/c (Being debenture application money received)		40,00,000	40,00,000
	Debenture Application A/c Dr. Loss on Issue of Debenture A/c Dr. To 8% Debenture A/c To Premium on Redemption of Debenture A/c (Being debenture issued with the term repayable at 5% Premium)		40,00,000 2,00,000	40,00,000 2,00,000
2017 31 st Mar	Statement of Profit and Loss A/c (Note 1) Dr. To Debenture Redemption Reserve A/c (Being Surplus amount is transferred to debenture redemption Reserve)		10,00,000	10,00,000
2018 31 st Mar	Statement of Profit and Loss A/c (Note 1) Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption Reserve)		10,00,000	10,00,000
30 th April	Debenture Redemption investment A/c (Note 2) Dr. To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed)		6,00,000	6,00,000
31 st Mar	8% Debenture A/c Dr. Premium on Redemption of Debenture A/c Dr. To Debenture holders A/c (Being debenture due to redemption along with premium)		40,00,000 2,00,000	42,00,000
30 th June	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now encased)		6,00,000	6,00,000
30 th June	Debenture holders A/c Dr. To Bank A/c (Being amount paid to debenture holders)		42,00,000	42,00,000
30 th June	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		20,00,000	20,00,000

Note:

- As per Section 71(4) of the Companies Act, 2013, companies are required to create DRR at 25% of the total value of debentures. However, it is the discretion of the company to transfer more amounts to DRR than the prescribed amount of 25%. In this case, as explicitly specified about company's discretion for creation of DRR of a total amounting to Rs.20,00,000 which is 50% of the total value of redeemable debentures is allowed.
- As explicitly stated in the question, entries for interest on debentures have been ignored.

Question 14.

Godrej Ltd. has 20,000; 7% Debentures of ₹ 100 each due for redemption on 31st August, 2017. There is a balance of ₹ 3,50,000 in Debentures Redemption Reserve Account as on 31st March, 2015. Investment, as required by the Companies Act, 2013 is made on 1st April, 2016 in fixed deposit bearing interest @ 6 % p.a. Bank deducted TDS @ 10 % on its maturity which is 31st March, 2017.

Pass journal entries for redemption of debentures.

Solution:

Journal
In the Books of Godrej Ltd.

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2016 Apr.01	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities)		3,00,000	3,00,000
2017 Mar.31	Bank A/c Dr. Tax Payable A/c Dr. To Interest on Debenture Redemption Investment A/c To Debenture Redemption Investment A/c (Being investment encased and interest received)		3,16,200 1,800	18,000 3,00,000
Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being Debenture Redemption Reserve created)		1,50,000	1,50,000
31 st Aug	7% Debenture A/c Dr. To Debenture holders A/c (Being amount due o 7% Debenture)		20,00,000	20,00,000
31 st Aug	Debenture holders A/c Dr. To Bank A/c (Being payment made on redemption on Debenture)		20,00,000	20,00,000
31 st Aug	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		5,00,000	5,00,000

Working Notes:

WN 1: Calculation of amount transferred to DRR)

Amount for DRR (25% of Debenture Issued) = $20,00,000 \times \frac{25}{100} = ₹ 5,00,000$

Less : Amount already exist in Debenture Redemption Reserve = ₹ 3,50,000

Debenture Redemption Reserve to be created for redemption = ₹ 1,50,000

Note:

In order to maintain consistency with the guidelines issued by Ministry of Corporate Affairs, the year of transfer to DRR and investment has been assumed to be in 2014 because guidelines say that every company is required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and investment if passed in any of the year then redemption would take place in the following year.

Question 15.

Apollo Ltd. issued 21,000; 8% Debentures of ₹ 100 each on 1st April, 2011 redeemable at a premium of 8% on 30th June, 2017. The company decided to transfer the required amount to Debentures Redemption Reserve in three equal annual installments starting with 31st March, 2015. Required investment was made in Government Securities on 30th April, 2017. Ignore interest on debentures

and also investment.

Pass necessary journal entries regarding issue transfer to DRR, investment, and redemption of debentures.

Solution:

IN the books of Apollo Limited

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2011 1 st April	Bank A/c Dr. To 8% Debenture application A/c (Being debenture application money received)		21,00,000	21,00,000
	8% Debenture application A/c Dr. Loss on Issue of debenture A/c Dr. To 8% Debenture A/c To Premium on Redemption A/c (Being 21,00,000 8% debenture of 10 each issued with the term repayable at 8% premium)		21,00,000 1,68,000	21,00,000 1,68,000
2015 31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being profit transferred to debenture redemption reserve)		1,75,000	1,75,000
2016 31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being profit transferred to debenture redemption reserve)		1,75,000	1,75,000
2017 31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c		1,75,000	1,75,000

	(Being profit transferred to debenture redemption reserve)			
30 th April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in government securities equal to 15% of the value of debentures redeemed)		3,15,000	3,15,000
30 th June	8% Debenture A/c Dr. Premium on Redemption Reserve A/c To Debentures Holders' A/c (Being debenture due for redemption along with Premium)		21,00,000 1,68,000	22,68,000
	Bank A/c Dr. To Debenture Redemption Reserve A/c Dr. (Being investment made in specified securities now encased)		3,15,000	3,15,000
	Debenture holders A/c Dr. To Bank A/c (Being payment made to debenture holders)		22,68,000	22,68,000
	Debenture Redemption Reserve A/c Dr. To General reserve A/c (Being debenture redemption reserve transferred to general reserve)		5,25,000	5,25,000

Working Notes:

1. Calculation of amount transferred to Debenture Redemption Reserve

As per Section 71(4) of the Companies Act, 2013, companies are required to create Debenture Redemption Reserve at 25% of the total value of debentures. Here, debentures worth Rs.21,00,000 are to be redeemed, so. the amount of Debenture Redemption Reserve will be:

$$\text{Debenture Redemption Reserve (25\%)} = 21,00,000 \times \frac{25}{100} = ₹5,25,000$$

$$\text{Annual Instalments for (3 years)} = \frac{5,25,000}{3} = ₹1,75,000$$

Question 16.

JB Ltd. issued ₹ 10,00,000; 6% Debentures at a premium of 4% redeemable at a premium of 5% after four years. The debentures were issued on 1st April,2014. Pass journal entries at the time of issue and redemption of debentures assuming that all legal requirements were complied.

Solution:

In the books of JB Limited
Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2014 1 st April	Bank A/c Dr. To 6% Debenture Application A/c (Being debenture application money received)		10,40,000	10,40,000
1 st April	6% Debenture application A/c Dr. Loss on Issue of Debenture A/c Dr. To 6% Debenture A/c To Securities Premium A/c To Premium on Redemption A/c (Being debentures of Rs.10,00,000 issued 4% premium with the term redeemable at 5% premium)		10,40,000 50,000	10,00,000 40,000 50,000
2017 31 st Mar	Statement of Profit and Loss A/c Dr.		2,50,000	
	To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)			2,50,000
30 th April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in government securities equal to 15% of the value of debenture redeemed)		1,50,000	1,50,000
2018 31 st Mar	6% Debenture A/c Dr. Premium on Redemption A/c Dr. To Debenture holders A/c (Being debenture due for redemption along with the premium)		10,00,000 50,000	10,50,000
31 st Mar	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment is made in securities is now encashed)		1,50,000	1,50,000
31 st Mar	Debenture holders A/c Dr. To Bank A/c (Being amount paid to debenture hordes)		10,50,000	10,50,000
31 st Mar	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		2,50,000	2,50,000

As per Section 71(4) of the Companies Act, 2013, companies are required to create DRR at 25% of the total value of debentures. Accordingly, DRR would be created for:

$$\text{Debenture Redemption Reserve}(25\%) = 10,00,000 \times \frac{25}{100} = ₹2,50,000$$

Note:

Interest on Debentures has been ignored as the question was silent.

However, the students' may pass the following entries given below for their reference.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2015 and 2018 Mar.31	Debenture Interest A/c To Debenture holders A/c (Being Interest on 6% debenture due)	Dr.	60,000	60,000
Mar.31	Debenture holders A/c To Bank A/c (Being Payment of interest to Debenture holders)	Dr.	60,000	60,000
Mar.31	Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	60,000	60,000

Question 17.

On 1st April, 2014, following were the balances of Blue Bird Ltd.

10% Debentures (redeemable on 30th September, 2017) – ₹ 15,00,000

Debentures Redemption Reserve – ₹ 2,00,000

The company met the requirements of the Companies Act, 2013 regarding Debentures Redemption Reserve and Investment and redeemed the debentures.

Pass necessary journal entries for the above transactions in the books of the company.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2017 31 st Mar	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being surplus amount is transferred to DRR)	Dr.	1,75,000	1,75,000

30 th April	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed)	Dr.		2,25,000	2,25,000
30 th Sep	10% Debenture A/c To Debenture holders A/c (Being 10% debenture due for redemption)	Dr.		15,00,000	15,00,000
30 th Sep	Bank A/c To Debenture Redemption Investment A/c (Being investment made in specified securities now encashed)	Dr.		2,25,000	2,25,000
30 th Sep	Debenture holders A/c To Bank A/c (Being amount paid to debenture holders)	Dr.		15,00,000	15,00,000
30 th Sep	A/c To General Reserve A/c (Being DRR amount is transferred to general reserve)	Dr.		3,75,000	3,75,000

Working Note:

$$\text{Amount for DRR (25\%)} \left(15,00,000 \times \frac{25}{100} \right) = 3,75,000$$

$$\text{Less : Existing Amount in Debenture Redemption Reserve} = 2,00,000$$

$$\text{Debenture Redemption Reserve to be created for redemption} = 1,75,000$$

$$\text{Investment in specified securities} = 15,00,000 \times \frac{15}{100} = 2,25,000$$

Note:

Interest on Debentures has been ignored as the question was silent.

However, the students' may pass the following entries given below for their reference.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2017 and 2018 31 st Mar	Debenture Interest A/c To Debenture holders A/c (Being interest on 7% debenture due)	Dr.	75,000	75,000
31 st Mar	Debenture holders A/c To Bank A/c (Being payment of interest debenture holders)	Dr.	75,000	75,000
31 st Mar	Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	75,000	75,000

Question 18.

Mahima Ltd. issued ₹ 38,00,000, 9% Debentures of ₹ 100 each on 1st April, 2013. The debentures were redeemable at a premium of 5% on 30th June, 2015. The company transferred an amount of ₹ 9,50,000 to Debentures Redemption Reserve on 31st March, 2015. Investments as required by law

were made in fixed deposit of a bank on 1st April, 2015.

Ignoring interest on fixed deposit, pass necessary journal entries starting from 31st March, 2015 regarding redemption of debentures.

Solution:

Journal				
Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2015 31 st Mar	Statement of Profit and Loss A/c Dr. To Debentures Redemption Reserve A/c (Being amount transferred to DRR)		9,50,000	9,50,000
1 st April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being amount invested in specified security)		5,70,000	5,70,000
30 th June	Bank A/c Dr. To Debenture Redemption Investment A/c (Being debenture Redemption Investment realized)		5,70,000	5,70,000
30 th June	9% Debenture A/c Dr. Premium on Redemption of Debenture A/c Dr. To Debenture holder's A/c (Debenture due for redemption)		38,00,000 1,90,000	39,90,000
30 th June	Debenture holder's A/c Dr. To Bank A/c (Debentures redeemed)		39,90,000	39,90,000
30 th June	Debentures Redemption Reserve A/c Dr. To General Reserve A/c (Debentures Redemption Reserve transferred to General Reserve)		9,50,000	9,50,000

Working Notes:

Amount transferred to DRR (25% of face value) = Rs.38, 00,000 × 25% = Rs.9,50,000

Amount transferred to DRI (15% of face value) = Rs.38,00,000 × 15% = Rs.5,70,000

Question 19.

On 1st April, 2013 the following balances appeared in the books of Blue and Green Ltd.:

12 % Debentures (Redeemable on 31st August, 2015) – ₹ 20,00,000

Debentures Redemption Reserve – ₹ 2,00,000.

The company met the requirements of Companies Act, 2013 regarding Debentures Redemption Reserve and Debentures Redemption Investments and redeemed the debentures.

Ignoring interest on investments, pass necessary journal entries for the above transactions in the books of company.

Solution:

Journal

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2015 Mar.31	Statement of Profit and Loss A/c Dr. To Debentures Redemption Reserve A/c (Being amount transferred to DRR)		3,00,000	3,00,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being amount invested in specified security)		3,00,000	3,00,000
Aug 31	Bank A/c Dr. To Debenture Redemption Investment A/c (Being debenture Redemption Investment realized)		3,00,000	3,00,000
Aug 31	9% Debenture A/c Dr. To Debenture holders A/c (Being debenture due for redemption)		20,00,000	20,00,000
Aug 31	Debenture holders A/c Dr. To Bank A/c (Being debentures redeemed)		20,00,000	20,00,000
Aug 31	Debentures Redemption Reserve A/c Dr. To General Reserve A/c (Being debentures Redemption Reserve transferred to General Reserve)		5,00,000	5,00,000

Working Note:

Amount transferred to DRR (25% of face value) = Rs.20, 00,000 × 25% = Rs.5,00,0000

Old Balance in Debentures Redemption Reserve = Rs.2, 00,000

Net Amount transferred to DRR = Rs.5,00,000 - Rs.2, 00,000 = Rs.3,00,000

Amount transferred to DRI (15% of face value) = Rs.20, 00,000× 15% = Rs.3, 00,000

Question 20.

Rich sugar Ltd. issued ₹ 20 Lakh, 8% Debentures divided into debentures of ₹ 100 each on 1st April, 2013, redeemable in four equal annual installments starting from 31st March, 2016. The company decided to transfer to Debentures Redemption Reserve ₹ 2,50,000 each year on 31st March, 2014 and 2015.

The company invested ₹ 3,00,000 in Government securities as required by the Companies Act, 2013.

Pass necessary journal entries for the above transactions.

Solution:

In the books of Rich Sugar Limited
Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2013 1 st April	Bank A/c To 8% Debenture Application A/c (Being debenture application money received)	Dr.	20,00,000	20,00,000
1 st April	8% Debenture Application A/c To 8% Debentures A/c (Being debenture application transferred to 8% debenture account)	Dr.	20,00,000	20,00,000
2014 31 st Mar	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being profit transferred to debenture redemption reserve)	Dr.	1,25,000	1,25,000
2015 31 st Mar	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being profit transferred to debenture redemption reserve)	Dr.	2,50,000	2,50,000

30 th April	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in government securities equal to 15% of the value of debentures redeemed)	Dr.		3,00,000	3,00,000
2016 31 st Mar	8% Debenture A/c To debentures holders' A/c (Being debenture due for redemption)	Dr.		5,00,000	5,00,000
31 st Mar	Debenture holders A/c To Bank A/c (Being amount of debenture paid to debenture holders)	Dr.		5,00,000	5,00,000
31 st Mar	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.		1,25,000	1,25,000
2017 31 st Mar	8% Debenture A/c To Debenture holders' A/c (Being debenture due for redemption)	Dr.		5,00,000	5,00,000
31 st Mar	Debenture holders' A/c To Bank A/c (Being amount of debenture paid to debenture holders)	Dr.		5,00,000	5,00,000
31 st Mar	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.		1,25,000	1,25,000
2018 31 st Mar	8% Debenture A/c To Debenture holders' A/c (Being debenture due for redemption)	Dr.		5,00,000	5,00,000

31 st Mar	Debenture holders' A/c To Bank A/c (Being amount of debenture paid to debenture holders)	Dr.	5,00,000	5,00,000
31 st Mar	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.	1,25,000	1,25,000
2019 31 st Mar	8% Debenture A/c To Debenture holders' A/c (Being debenture due for redemption)	Dr.	5,00,000	5,00,000
31 st Mar	Debenture holders' A/c To Bank A/c (Being amount of debenture paid to debenture holders)	Dr.	5,00,000	5,00,000
31 st Mar	Bank A/c To Debenture redemption investment A/c (Being investment made in securities now encashed)	Dr.	3,00,000	3,00,000
31 st Mar	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.	5,00,000	5,00,000

'As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entry for investment in Government securities has been passed a year before first redemption year.

Note:

Interest on Debentures has been ignored as the question was silent. However, the students' may pass the following entries given below for their reference.

Debenture Interest A/c To Debenture holders A/c (Being interest due)	Dr.		@Interest provided in Question
Debenture holders A/c To Bank A/c (Being payment of interest debenture holders)	Dr.		
Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of Profit and Loss)	Dr.		With total interest paid in a year

Question 21.

Hp Ltd. has 1,00,000; 8% Debentures of ₹ 50 each due for redemption in five equal annual installments starting from 30th June, 2015. Debentures Redemption Reserve has a balance of ₹ 5,00,000 on that date. Pass journal entries.

Solution:

In the books of HP Limited
Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2015 31 st Mar	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)		7,50,000	7,50,000
30 th April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made in specified securities @ 15% of the value of debentures redeemable in first installment, i.e.Rs.10,00,0000)		1,50,000	1,50,000
30 th June	8% Debenture A/c Dr. To Debenture holders A/c (Being 20,000 8% debenture of Rs.50 each due for redemption)		10,00,0000	10,00,000
30 th June	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now enchased)		1,50,000	1,50,000
30 th June	Debenture holders' A/c Dr. To Bank A/c (Being payment made to debenture holders)		10,00,000	10,00,000
30 th June	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		2,50,000	2,50,000
2016 30 th April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities @ 15% of the value of debenture redeemable in second installment , i.eRs.10,00,000)		1,50,000	1,50,000
30 th June	8% Debenture A/c Dr. To Debenture holders A/c (Being 20,000 8% debenture of Rs.50 each due for redemption)		10,00,000	10,00,000
30 th June	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now enchased)		1,50,000	1,50,000
30 th June	Debenture holders A/c Dr. To Bank A/c (Being Payment made to debenture holders)		10,00,000	10,00,000

30 th June	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.		2,50,000	2,50,000
2017 30 th April	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @ 15% of the value of debenture redeemable in second installment , i.e.Rs.10,00,000)	Dr.		1,50,000	1,50,000
30 th June	8% Debenture A/c To Debenture holders A/c (Being 20,000 8% debenture of Rs.50 each due for redemption)	Dr.		10,00,000	10,00,000
30 th June	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now enchased)	Dr.		1,50,000	1,50,000
30 th June	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)	Dr.		10,00,000	10,00,000
30 th June	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.		2,50,000	2,50,000
2018 30 th April	Debenture Redemption Investment A/c To Bank A/c (Being investment made in specified securities @ 15% of the value of debenture redeemable in second installment , i.e.Rs.10,00,000)	Dr.		1,50,000	1,50,000
30 th June	8% Debenture A/c	Dr.		10,00,000	

	To Debenture holders A/c (Being 20,000 8% debenture of Rs.50 each due for redemption)			10,00,000
30 th June	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)		1,50,000	1,50,000
30 th June	Debenture holders A/c Dr. To Bank A/c (Being payment made to debenture holders)		10,00,000	10,00,000
30 th June	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		2,50,000	2,50,000
2019 30 th April	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities @ 15% of the value of debenture redeemable in second installment , i.e.Rs.10,00,000)		1,50,000	1,50,000
30 th June	8% Debenture A/c Dr. To Debenture holders A/c (Being 20,000 8% debenture of Rs.50 each due for redemption)		10,00,000	10,00,000
30 th June	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)		1,50,000	1,50,000
30 th June	Debenture holders A/c Dr. To Bank A/c (Being payment made to debenture holders)		10,00,000	10,00,000
30 th June	Debenture Redemption Reserve A/c Dr.		2,50,000	
	To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)			2,50,000

As per circular no. 04/2015 issued by Ministry of Corporate Affairs every company is required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entry for investment in Government securities has been passed a year before first redemption year. Also, it has been assumed that investments will be encashed before debentures are redeemed.

Note:

Interest on Debentures has been ignored as the question was silent. However, the students' may pass the following entries given below for their reference.

Debenture Interest A/c Dr. To Debenture Holders A/c (Being interest due)		
Debenture holders A/c Dr. To Bank A/c (Being payment of Interest debenture holders)		@Interest provided in Question
Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Being transfer of debenture interest to statement of Profit and Loss)		With the total interest paid in a year

Question 22.

Venus Ltd. had 9,000, 9% Debentures of ₹ 100 each due for redemption. These debentures are to be redeemed in 3 equal installments (starting from 31st March,2015) at a premium of 10%. The company had a balance of ₹ 25,000 in the Debentures Redemption Reserve.

Pass necessary entries for redemption of debentures assuming that company transfer the balance of DRR to General Reserve after redeeming all the debentures.

Solution:

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2014 Mar. 31	Statement of Profit and Loss Dr. To Debenture Redemption Reserve A/c (Transfer to DRR)		2,00,000	2,00,000
Apr. 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Invested in 15% securities)		45,000	45,000
2015 Mar. 31	9% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders' (3,000, 9% Debentures due for payment at 10% premium)		3,00,000 10,000	3,10,000
	Bank A/c Dr. To Debenture Redemption Investment A/c (Encashment of DRI)		45,000	45,000
	Debentureholders' A/c Dr. To Bank A/c (Payment to debentureholders')		3,10,000	3,10,000
Apr. 30	Debenture Redemption Investment A/c Dr.		45,000	

	To Bank A/c (Invested in 15% securities)			45,000
2016 Mar. 31	9% Debentures A/c Premium on Redemption of Debentures A/c To Debentureholders' (3,000, 9% Debentures due for payment at 10% premium)	Dr. Dr.	3,00,000 10,000	3,10,000
	Bank A/c To Debenture Redemption Investment A/c (Encashment of DRI)	Dr.	45,000	45,000
	Debentureholders' A/c To Bank A/c (Payment to debentureholders')	Dr.	3,10,000	3,10,000
Apr. 30	Debenture Redemption Investment A/c To Bank A/c (Invested in 15% securities)	Dr.	45,000	45,000
2017 Mar. 31	9% Debentures A/c Premium on Redemption of Debentures A/c To Debentureholders' (3,000, 9% Debentures due for payment at 10% premium)	Dr. Dr.	3,00,000 10,000	3,10,000
	Bank A/c To Debenture Redemption Investment A/c (Encashment of DRI)	Dr.	45,000	45,000
	Debentureholders' A/c To Bank A/c (Payment to debentureholders')	Dr.	3,10,000	3,10,000
	Debenture Redemption Reserve A/c To General Reserve A/c	Dr.	2,25,000	2,25,000

Working Notes:

Amount transferred to DRR = $9,00,000 \times \frac{25}{100} = 2,25,000$

Existing Balance = Rs 25,000

Net Amount Transferred = $2,25,000 - 25,000 = 2,00,000$

Amount transferred to DRI = $9,00,000 \times \frac{15}{100} = 1,35,000$ (in three equal instalments of 45,000 each)

Question 23.

Shakti Enterprises Ltd. issued 30,000; 8% Debentures of ₹ 100 each on 1st October, 2014 redeemable in five equal annual installments starting with 31st March, 2018. The Board decides to transfer to Debentures Redemption Reserve ₹ 50,000 and ₹ 4,00,000 on 31st March 2015 and 2016 respectively and balance required to be transferred to Debentures Redemption Reserve on 31st March, 2017. Pass journal entries.

Solution:

In the books of Shakti Enterprises Ltd.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2014 1 st Oct	Bank A/c To 8% Debenture A/c (Being debentures issued)	Dr.	30,00,000	30,00,000
2015 31 st Mar	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being DRR created)	Dr.	50,000	50,000

2016 31 st Mar	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being DRR created)	Dr.	4,00,000	4,00,000
2017 31 st Mar	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being DRR created)	Dr.	3,00,000	3,00,000
30 th April	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @15% of the debenture redeemed in first instalment, i.e. Rs. 6,00,000)	Dr.	90,000	90,000
2018 31 st Mar	8% Debenture A/c To Debenture holders' A/c (Being 6,000 8% debenture of Rs.100 each due for redemption)	Dr.	6,00,000	6,00,000
31 st Mar	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	90,000	90,000
31 st Mar	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)	Dr.	6,00,000	6,00,000
30 th April	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @15% of the debenture redeemed in first instalment, i.e. Rs. 6,00,000)	Dr.	90,000	90,000

2019 31 st Mar	8% Debenture A/c To Debenture holders A/c (Being 6,000 8% debenture of Rs.100 each due for redemption)	Dr.	6,00,000	6,00,000
31 st Mar	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now enchased)	Dr.	90,000	90,000
31 st Mar	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)	Dr.	6,00,000	6,00,000
30 th April	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @15% of the debenture redeemed in first instilment, i.e. Rs. 6,00,000)		90,000	90,000
2020 31 st Mar	8% Debenture A/c To Debenture holders A/c (Being 6,000, 8% debenture of Rs.100 each due for redemption)	Dr.	6,00,000	6,00,000
31 st Mar	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now enchased)	Dr.	90,000	90,000
31 st Mar	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)		6,00,000	6,00,000
30 th April	Debenture Redemption Investment A/c To Bank A/c		90,000	90,000

	(Being investment is made in specified securities @15% of the debenture redeemed in first instalment, i.e. Rs.6,00,000)			
2021 31 st Mar	8% Debenture A/c To Debenture holders A/c (Being 6,000 8% debenture of Rs.100 each due for redemption)	Dr.	6,00,000	6,00,000
31 st Mar	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	90,000	90,000
31 st Mar	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)		6,00,000	6,00,000
30 th April	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @15% of the debenture redeemed in first instalment, i.e. Rs.6,00,000)		90,000	90,000
2022 31 st Mar	8% Debenture A/c To Debenture holders A/c (Being 6,000 8% debenture of Rs.100 each due for redemption)	Dr.	6,00,000	6,00,000
31 st Mar	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	90,000	90,000
31 st Mar	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)		6,00,000	6,00,000
31 st Mar	Debenture Redemption reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.	7,50,000	7,50,000

As per circular no. 04/2015 issued by Ministry of Corporate Affairs every company is required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entry for investment in Government securities has been passed a year before first redemption year and will be passed before redemption of debentures every year in case of draw of lots.

Note:

The question is silent in regards to the payment of interest. Accordingly, following entries may be passed at the end of every year (i.e. on 31 March before the redemption of debentures). However, it may be ignored as nothing has been explicitly specified in the question.

Interest Entries for Reference:

Debenture Interest A/c To Debenture Holders A/c (Being interest due)	Dr.		Interest Rate × Amount of Debentures Outstanding
Debenture holders A/c To Bank A/c (Being payment of Interest debenture holders)	Dr.		
Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.		With the total interest paid in a year

Question 24.

Tata Motors Ltd. issued 40,000; 7% Debentures of ₹ 100 each on 1st July, 2009 redeemable at premium of 5% as under:

On 31st March, 2015 – 16,000 Debentures

On 31st March, 2016 – 16,000 Debentures

On 31st March, 2017 – 8,000 Debentures

It was decided to transfer amount out of profit to Debentures Redemption Reserve ₹ 2,00,000 on 31st March, 2012; ₹ 4,00,000 on 31st March, 2013 and balance on 31st March, 2014. It invested the required amount in terms of the Companies Act, 2013 in Government Securities and decided to realise them after last redemption. Pass journal entries ignoring interest.

Solution:

In the books of Tata Motors Limited.

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
2009 Jul.01	Bank A/c Dr. To Debenture Application A/c (Being debenture application money received)		40,00,000	40,00,000
	Debenture Application A/c Dr. Loss on Issue of Debenture A/c To 7% Debenture A/c To Premium on Redemption A/c (Being 40,000 7% debenture of Rs.100 each issued)		40,00,000 2,00,000	40,00,000 2,00,000
2012 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption Reserve)		2,00,000	2,00,000
2013 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption Reserve)		4,00,000	4,00,000
2014 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)		4,00,000	4,00,000

Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed on march 31,2014)	Dr.	2,40,000	2,40,000
2015 Mar.31	7% Debenture A/c Premium on Redemption of Debenture A/c To Debenture holders' A/c (Being 16,000 7% debenture of Rs.100 each due for redemption along 5% premium on redemption)	Dr.	16,00,000 80,000	16,80,000
Mar.31	Debenture holders' A/c To Bank A/c (Being amount paid to debenture holders)	Dr.	16,80,000	16,80,000
Mar.31	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.	4,00,000	4,00,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed on march 31,2015)	Dr.	2,40,000	2,40,000
2016 Mar.31	7% Debenture A/c Premium on Redemption of Debenture A/c To Debenture holders' A/c (Being 16,000 7% debenture of Rs.100 each due for redemption along 5% premium on redemption)	Dr. Dr.	16,00,000 80,000	16,80,000
Mar.31	Debenture holders' A/c	Dr.	16,80,000	

	To Bank A/c (Being amount of debenture paid to debenture holders)			16,80,000
Mar.31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		4,00,000	4,00,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed on march 31,2016)		1,20,000	1,20,000
2017 Mar.31	7% Debenture A/c Dr. Premium on Redemption of Debenture A/c Dr. To Debenture holders' A/c (Being 8,000 7% debenture of Rs.100 each due for redemption along 5% premium on redemption)		8,00,000 40,000	8,40,000
Mar.31	Debenture holders' A/c Dr. To Bank A/c (Being amount of debenture paid to debenture holders)		8,40,000	8,40,000
Mar.31	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now enchased)		6,00,000	6,00,000
Mar.31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		2,00,000	2,00,000

Working Note:

Calculation of amount of Debenture Redemption Reserve

$$\text{Amount for DRR}(25\%) \left(40,00,000 \times \frac{25}{100} \right) = ₹10,00,000$$

$$\text{Less : Amount transferred in 2012} = ₹2,00,000$$

$$\text{Less : Amount transferred in 2013} = ₹4,00,000$$

$$\text{Amount transferred in 2014} = ₹4,00,000$$

Question 25.

Ananya Ltd. had an authorised capital of ₹ 10,00,00,000 divided into 10,00,000 equity shares of ₹ 100 each. The company had already issued 2,00,000 shares. The dividend paid per share for the year ended 31st March,2007 was ₹ 30. The management decided to export its products to African countries. To meet the requirements of additional funds, the finance manager put up the following three alternate proposals before the Board of Directors:

- Issue 47, 500 equity shares at a premium of ₹ 100 per share.
- Obtain a long-term loan from bank which was available at 12% per annum.
- Issue 9% Debentures at a discount of 5%.

After evaluating these alternatives, the company decided to issue 1,00,000, 9% Debentures on 1st

April, 2008. The face value of each debentures was ₹ 100. These debentures were redeemable in four installments starting from the end of third year, which were as follows:

Year	III	IV	V	VI
Amount (₹)	10,00,000	20,00,000	30,00,000	40,00,000

Prepare 9% Debenture Account form 1st April, 2008 till all the debentures were redeemed.

Solution:

9 % Debenture A/c

Dr.			Cr.		
Date	Particular	Rs.	Date	Particular	Rs.
2009 31 st Mar	To Balance c/d	1,00,00,000	2008 1 st April	By Debenture Application A/c	95,00,000
		1,00,00,000	1 st April	By Dis. on Iss. of Debentures A/c	5,00,000
					1,00,00,000
2010 31 st Mar	To Balance c/d	1,00,00,000	2009 1 st April	By Balance b/d	1,00,00,000
		1,00,00,000			1,00,00,000
2011 31 st Mar	To Debenture holder's A/c	10,00,000	2010 1 st April	By Balance b/d	1,00,00,000
31 st Mar	To Balance c/d	90,00,000			1,00,00,000
		1,00,00,000			
2012 31 st Mar	To Debenture holder's A/c	20,00,000	2011 1 st April	By Balance b/d	90,00,000
31 st Mar	To Balance c/d	70,00,000			90,00,000
		90,00,000			
2013 31 st Mar	To Debenture holder's A/c	30,00,000	2012 1 st April	By Balance b/d	70,00,000
31 st Mar	To Balance c/d	40,00,000			70,00,000
		70,00,000			
2014 31 st Mar	To Debenture holder's A/c	40,00,000	2013 1 st April	By Balance b/d	40,00,000
		40,00,000			40,00,000