



Question 8. Describe the steps for creating Sinking Fund for redemption of debentures.

Answer The steps involved in creation of Sinking Fund on redemption of Debenture are

- (i) Calculate the amount of profit to be set-aside annually with the help of sinking fund table.
- (ii) Set aside the amount of profit at the end of each year and credit to Debenture Redemption Fund (DRF) Account.
- (iii) Purchase the investments of the equivalent amount at the end of first year and debit Debenture Redemption Fund Investment (DRFI) Account.
- (iv) Receive interest on investment at the end of each subsequent year.
- (v) Purchase the investments equivalent to the fixed amount of profit set aside and the interest earned every year except last year (year of redemption).
- (vi) Receive interest on investment for the last year.
- (vii) Set aside the fixed amount of profit for the last year.
- (viii) Encash the investments at the end of the year of redemption.
- (ix) Transfer the profit/loss on sale of investments reflected in the balance of Debenture Redemption Fund Investment Account to Debenture Redemption Fund Account.
- (x) Make payment to debenture holders.
- (xi) Transfer Debenture Redemption Fund A/c balance to General Reserve.

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