



Q12. X.Ltd. issued 15,000, 10% debentures of Rs.100 each. Give journal entries and the Balance Sheet in each of the following cases:

- (i) The debentures are issued at a premium of 10%;
- (ii) The debentures are issued at a discount of 5%;
- (iii) The debentures are issued as a collateral security to bank against a loan of Rs.12,00,000; and
- (iv) The debentures are issued to a supplier of machinery costing Rs.13,50,000.

Answer

(i)

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c (15,000 × 110) Dr To 10% Debentures A/c (15,000 × 100) To Securities Premium A/c (15,000 × 10) (Being issued 15,000, 10% debentures of ₹ 100 each at 10% premium)		16,50,000	15,00,000 1,50,000

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Reserves and Surplus		Current Assets	
Securities Premium	1,50,000	Cash at Bank	16,50,000
Secured Loans			
10% Debentures	15,00,000		
	16,50,000		16,50,000

(ii)

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c (15,000 × 95) Dr Discount on Issue of Debentures A/c (15,000 × 5) Dr To 10% Debentures (15,000 × 100) (Being issued 15,000, 10% debentures of ₹ 100 each at 5% discount)		14,25,000 75,000	15,00,000

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Secured Loans		Current Assets	
10% Debentures	15,00,000	Cash at Bank	14,25,000
		Miscellaneous Expenditure	
		Discount on Issue Debentures	75,000
	15,00,000		15,00,000

(iii) No entry will be passed for issuing debentures as a collateral security

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Secured Loans			
Bank Loan	12,00,000		
(Being 15,000 10% Debentures @ ₹ 100 each issued as a collateral security to bank against a loan of ₹ 12,00,000)			

Alternative Method

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Debenture Suspense A/c Dr To 10% Debentures A/c (Being issued 15,000, 10% debentures of ₹ 100 each as collateral security to bank against a loan of ₹ 12,00,000)		15,00,000	15,00,000

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Secured Loans			
Bank Loan	12,00,000	Debenture Suspense	15,00,000
10% Debentures of ₹ 100 each (Being 15,000 10% Debentures @ ₹ 100 each issued as a collateral security to bank against a loan)	15,00,000		

(iv)

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Machinery A/c Dr To Vendor A/c (Being machinery purchased from vendor)		13,50,000	13,50,000
(ii)	Vendor A/c Dr Discount on Issue of Debentures A/c (15,000 × 10) To 10% Debentures A/c (15,000 × 100) (Being 15,000, 10% debentures @ ₹ 100 each issued at 10% discount to the vendor in consideration of machinery of ₹ 13,50,000)		13,50,000 1,50,000	15,00,000

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Secured Loans		Fixed Assets	
10% Debentures	15,00,000	Machinery	13,50,000
		Miscellaneous Expenditure	
		Discount on Issue of Debentures	1,50,000

Answer**Journal Entries**

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr Discount on Issue of Debenture A/c Dr To Debenture A/c (Being debenture of ₹ 100 issued at ₹ 5 discount with the term repayable at ₹ 100)		95 5	100
(ii)	Bank A/c Dr Loss on Issue of Debenture A/c Dr To Debenture A/c To Premium on Redemption of Debentures A/c (Being debenture of ₹ 100 issued at a discount of ₹ 5 and with the term repayable at ₹ 105)		95 10	100 5
(iii)	Bank A/c Dr Loss on Issue of Debenture A/c Dr To Debenture A/c To Premium on Redemption of Debentures A/c (Being debenture of ₹ 100 issued with the term repayable at ₹ 105)		100 5	100 5

Working Note

$$\begin{aligned}
 \text{Price of debenture} &= \frac{\text{Amount due to Vendor}}{\text{Number of debentures issued}} \\
 &= \frac{13,50,000}{15,000} = ₹ 90 \text{ each}
 \end{aligned}$$

***** END *****