
Chapter 6

Issue and Redemption of Debentures

EXERCISE-2.1

1 marks

1. Amrit Company Limited purchased assets of the book value of Rs.2,20,000 from another company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of Rs.100 each at a premium of 10%. Record necessary journal entries.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Assets A/c Dr To Vendor A/c (Being assets purchased worth ₹ 2,20,000)		2,20,000	2,20,000
(ii)	Vendor A/c Dr To 10% Debentures A/c To Securities Premium A/c (Being issued 2,000 debentures of ₹ 100 each at 10% premium)		2,20,000	2,00,000 20,000

2. A company purchased assets of the value of Rs.1,90,000 from another company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of Rs.100 each at a discount of 5%. Record

necessary journal entries.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Assets A/c Dr To Vendor A/c - (Being assets purchased worth ₹ 1,90,000)		1,90,000	1,90,000
(ii)	Vendor A/c Dr Discount A/c Dr To 10% Debentures A/c (Being issue of 2,000 debentures of ₹ 100 each at a discount of 5%)		1,90,000 10,000	2,00,000

3. Rose Bond Limited purchased a business for Rs. 22,00,000. Purchase Price was paid by 6% debentures. Debentures of Rs. 20,00,000 were issued at a premium of 10% for the purpose. Record necessary journal entries.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Sundry Assets A/c Dr To Vendor A/c (Being assets purchased worth ₹ 22,00,000)		22,00,000	22,00,000
(ii)	Vendor A/c Dr To 6% Debentures A/c To Securities Premium A/c (Being 2,000 debentures of ₹ 100 each issued at 10% premium)		22,00,000	20,00,000 2,00,000

4. Nikhil and Ashwin Limited bought business of Agarwal Limited consisting sundry assts of Rs. 3,60,000, sundry creditors Rs. 1,00,000 for a consideration of Rs. 3,07,200. It issued 14% debentures of Rs. 100 each fully paid at a discount of 4% in satisfaction of purchase consideration. Record necessary

journal entries.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Sundry Assets A/c	Dr	3,60,000	
	Goodwill A/c	Dr	47,200	
	To Agarwal Ltd			3,07,200
	To Sundry Creditor's A/c			1,00,000
	(Being business purchased from Agarwal Ltd)			
(ii)	Agarwal Ltd A/c	Dr	3,07,200	
	Discount A/c	Dr	12,800	
	To 14% Debentures A/c			3,20,000
	(Being 3,200 debentures issued of ₹ 100 each at a discount of 4%)			

Working Note

$$\begin{aligned}
 \text{Number of Debentures issued} &= \frac{\text{Purchase Price}}{\text{Issue Price}} \\
 &= \frac{3,07,200}{96} = 3,200
 \end{aligned}$$

Note If business is purchased and assets and liabilities are mentioned along with purchase price, pass a journal entry. To balance the entry use word 'Goodwill' if difference is on debit side and word 'Reserves' if difference is on credit side.

DO IT YOURSELF II

2. Record necessary journal entries in each of the following cases:

- a. 27,000, 7% debentures of Rs. 100 each issued at par, redeemable at par.
- b. 25,000, 7% debentures of Rs. 100 each issued at par redeemable at 4% premium.
- c. 20,000, 7% debentures of Rs. 100 each issued at 5% discount and redeemable at par.
- d. 30,000, 7% debentures of 100 each issued at 5% discount and redeemable at 2½ % premium.
- e. 35,000, 7% debentures of Rs. 100 each issued at 4% premium and

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redeemable.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(a) (i)	Bank A/c Dr To 7% Debentures A/c (Being 27,000 debentures issued at par)		27,00,000	27,00,000
(ii)	7% Debentures A/c Dr To Bank A/c (Being 27,000 debentures of 100 each redeemable at par)		27,00,000	27,00,000
(b) (i)	Bank A/c Dr Loss on Issue A/c Dr To 7% Debentures A/c To Premium on Redemption A/c (Being 25,000 debentures of ₹ 100 each issued at par)		25,00,000 1,00,000	25,00,000 1,00,000
(ii)	7% Debentures A/c Dr Premium on Redemption A/c Dr To Bank A/c (Being 25,000 debentures of ₹ 100 each redeemable at premium)		25,00,000 1,00,000	26,00,000
(c) (i)	Bank A/c Dr Discount on Issue A/c Dr To 7% Debentures A/c (Being 20,000 debentures of ₹ 100 each issued at discount 5%)		19,00,000 1,00,000	20,00,000
(ii)	7% Debentures A/c Dr To Bank A/c (Being 20,000 debentures of ₹ 100 each redeemable at par)		20,00,000	20,00,000
(d) (i)	Bank A/c Dr Loss on Issue A/c Dr To 7% Debentures A/c To Premium on Redemption A/c (Being 30,000 debentures of ₹ 100 each issued at discount 5%)		28,50,000 2,25,000	30,00,000 75,000

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Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(ii)	7% Debentures A/c Dr Premium on Redemption A/c Dr To Bank A/c (Being 30,000 debentures of ₹ 100 each redeemable at premium)		30,00,000 75,000	30,75,000
(e) (i)	Bank A/c Dr To 7% Debentures A/c To Securities Premium A/c (Being 35,000 debentures of ₹ 100 each issued at premium)		36,40,000	35,00,000 1,40,000
(ii)	7% Debentures A/c Dr To Bank A/c (Being 35,000 debentures of ₹ 100 each redeemable at par)		35,00,000	35,00,000

EXERCISE-2.2

2 marks

1. Diwakar enterprises Ltd. Issued 10,00,000, 6% debentures on April 1, 2002. Interest is paid on September 30, 2002 and March 31, 2003.

Record necessary journal entries assuming that income tax is deducted @30% of the amount of interest.

(Amount of tax Rs.18,000 for the year ending March 31, 2003)

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2002 Apr 1	Bank A/c To 6% Debentures A/c (Being 10,000, 6% debentures issued)	Dr	10,00,000	10,00,000
Sep 30	Interest on 6% Debentures A/c To Debenture Holder's A/c To Income Tax Payable A/c (Being Interest due for 6 months @ 6% pa and tax deducted @ 30% at source)	Dr	30,000	21,000 9,000

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Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2003 Mar 31	6% Debenture Holder's A/c To Bank A/c (Being interest paid)	Dr	21,000	21,000
	6% Debenture Interest A/c To Debenture Holder's A/c To Income Tax Payable A/c (Being interest due for 6 months @ 6% Pa and tax deducted @ 30% at source)	Dr	30,000	21,000 9,000
	6% Debenture Holder's A/c To Bank A/c (Being interest paid)	Dr	21,000	21,000
	Income Tax Payable A/c To Bank A/c (Being tax deposited)	Dr	18,000	18,000
	Profit and Loss A/c To Debenture Interest A/c (Being debenture interest transferred to Profit and Loss Account)		60,000	60,000

Note It is assumed that debentures are issued worth ₹ 10,00,000 instead of 10,00,000 debentures.

Working Note

$$10,00,000 \times \frac{6}{100} \times \frac{6}{12} = 30,000$$

$$\text{Tax} = 30,000 \times \frac{30}{100} = 9,000$$

Tax Paid = 9,000 of Sept 2002 + 9,000 of March 2003 = 18,000

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2. Laser India Ltd. Issued 7,00,000, 8% debentures of Rs. 100 each at par. Company deducts income tax from the interest of these debentures at source. Interest is to be paid on these debentures half-yearly on September 30 and March 31, every year. Amount of income tax deducted half-yearly is Rs. 2,80,000.

Answer
Start

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2002 Apr 1	Bank A/c To 8% Debentures A/c (Being 7,00,000 debentures issued)	Dr	7,00,00,000	7,00,00,000
Sep 30	8% Debenture Interest A/c To Debenture Holder's A/c To Income Tax Payable A/c (Being interest on debentures due for 6 months @ 8% pa and tax deducted at source)	Dr	28,00,000	25,20,000 2,80,000
	Debenture Holder's A/c To Bank A/c (Being interest Paid)	Dr	25,20,000	25,20,000
2003 Mar 31	8% Debenture Interest A/c To Debenture Holder A/c To Income Tax Payable A/c (Being interest on debentures due for 6 months @ 8% pa and tax deducted at source)	Dr	28,00,000	25,20,000 2,80,000
	Debenture Holder's A/c To Bank A/c (Being interest paid)	Dr	25,20,000	25,20,000
	Being income tax Payable A/c To Bank A/c (Income tax deposited)	Dr	5,60,000	5,60,000
	Profit and Loss A/c To Debenture Interest A/c (Being debenture interest transferred to profit and loss account)	Dr	56,00,000	56,00,000

Working Note Interest = $7,00,00,000 \times \frac{8}{100} \times \frac{6}{12} = 28,00,000$

DO IT YOURSELF IV

1. X Ltd. Issued 2,000, 10% debentures of Rs.100 each at a discount of 8% on 1 Jan, 1992 which are redeemable at par by annual drawings in 4 years commencing from 31st March 1993 as per the following redemption plan: 1st Draw 10%, 2nd Draw 20%, 3rd Draw 30%, and 4th Draw 40%. Calculate the amount of discount to be written-off each year assuming that X Ltd. follows calendar year as its accounting year.

Answer Calculation of Discount to be written off each year

$$\text{Total Discount} = 2,000 \text{ (debentures)} \times 100 \times \frac{8}{100} = ₹ 16,000$$

Date	Period	Amt. (₹)	Product	Discount Written off
1 Jan 92 - 31 Dec 92	12 months	2,00,000	24,00,000	$\frac{240}{780} \times 16,000 = 4,923$
1 Jan 93-31 Mar 93	3 months	2,00,000	6,00,000	$\frac{222}{780} \times 16,000 = 4,554$
1 Apr 93-31 Dec 93	9 months	1,80,000	16,20,000	
1 Jan 94- 31 Mar 94	3 months	1,80,000	5,40,000	$\frac{180}{780} \times 16,000 = 3,692$
1 Apr 94-31 Dec 94	9 months	1,40,000	12,60,000	
1 Jan 95-31 Mar 95	3 months	1,40,000	4,20,000	$\frac{114}{780} \times 16,000 = 2,339$
1 Apr 95-31 Dec 95	9 months	80,000	7,20,000	
1 Jan 96 - 31 Mar 96	3 months	80,000	2,40,000	$\frac{24}{780} \times 16,000 = 492$
			78,00,000	= 16,000

2. Z Ltd. issued 15,00,000, 10% debenture of Rs.50 each at premium of 10% payable as Rs.20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called and duly received. Record necessary entries when premium money is included:

(i) in application money

(ii) in allotment money

Answer (i) When premium is included in Application Money

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(a)	Bank A/c (15,00,000 × 20) Dr To 10% Debenture Application A/c (Being 15,00,000, 10% debentures issued at ₹ 20 each on application including ₹ 5 as premium)		3,00,00,000	3,00,00,000
(b)	10% Debenture Application A/c Dr To 10% Debentures A/c (15,00,000 × 15) To Securities Premium A/c (15,00,000 × 5) (Being application money transferred to 10% debenture and premium account)		3,00,00,000	2,25,00,000 75,00,000
(c)	10% Debenture Allotment A/c Dr To 10% Debentures A/c (15,00,000 × 35) (Being balance money due on allotment)		5,25,00,000	5,25,00,000
(d)	Bank A/c Dr To 10% Debenture Allotment A/c (Being allotment money received)		5,25,00,000	5,25,00,000

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(ii) When premium is included in Allotment Money

	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(a)	Bank A/c (15,00,000 × 20) Dr To 10% Debenture Application A/c (Being issued 15,00,000 debentures and received ₹ 20 on application)		3,00,00,000	3,00,00,000
(b)	10% Debenture Application A/c Dr To 10% Debentures A/c (Being money transferred to debenture account)		3,00,00,000	3,00,00,000
(c)	10% Debenture Allotment A/c Dr (15,00,000 × 35) To 10% Debentures A/c (15,00,000 × 30) To Securities Premium A/c (15,00,000 × 5) (Being allotment money due including premium)		5,25,00,000	4,50,00,000 75,00,000
(d)	Bank A/c Dr To 10% Debenture Allotment A/c (Being allotment money received)		5,25,00,000	5,25,00,000

Accountancy Part 2

3. Z Ltd. issued 5,000, 10% debentures of Rs.100 each at a discount of 10% on 1.1.2005. The debentures are to be redeemed every year draw of lots – 1,000 debenture to be redeemed every year starting on 31.12.2005. Record the necessary journal entries including the payment of interest and writing off the discount on issue of debentures. The interest is payable on 30th June and 31st December. Z Ltd. Closes its books of accounts on 31st December.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2005 Jan 1	Bank A/c Dr To Debentures Application A/c (Being 5,000 10% debentures issued @ 100 each at discount of 10%)		4,50,000	4,50,000
	Debentures Application A/c Dr Discount on Issue A/c Dr To 10% Debentures A/c (Being application money transferred to debenture and discount adjusted)		4,50,000 50,000	5,00,000
Jun 30	Debenture Interest A/c Dr To Debenture Holders A/c (Being debenture interest due for 6 months)		25,000	25,000
	Debenture Holders A/c Dr To Bank A/c (Being interest on debentures paid)		25,000	25,000
Dec 31	Debenture Interest A/c Dr To Debenture Holder A/c (Being debenture interest due for 6 months)		25,000	25,000
	Debenture Holders A/c Dr To Bank A/c (Being interest on debentures paid)		25,000	25,000
	Profit and Loss A/c Dr To Debenture Interest A/c To Discount on Issue of Debentures A/c (Being discount on issue written off and debenture interest transferred to profit and loss account)		66,667	50,000 16,667
2006 Jun 30	Debenture Interest A/c Dr To Debenture Holders A/c (Being debenture interest due for 6 months on ₹ 4,00,000)		20,000	20,000

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Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
Dec 31	Debenture Holders A/c To Bank A/c (Being debenture interest paid)	Dr	20,000	20,000
	Debenture Interest A/c To Debenture Holder A/c (Being debenture interest due for 6 months on ₹ 4,00,000)	Dr	20,000	20,000
	Debenture Holders A/c To Bank A/c (Being debentures interest paid)	Dr	20,000	20,000
	Profit and Loss A/c To Debenture Interest A/c To Discount on Issue of Debenture A/c (Being discount on Issue written off and debenture interest transferred to profit and loss account)	Dr	53,333	40,000 13,333

Note (i) Same five entries will repeat every year with change in amount only
(ii) Interest will be calculated on outstanding amount of Debentures every year.

Working Note

$$\text{Discount on Debentures} = 5,00,000 \times \frac{10}{100} = 50,000$$

Discount to be written off each year

Year ended	Outstanding Debenture	Ratio	Amount to be Written off
Dec 31 2005	5,00,000	5	$50,000 \times \frac{5}{15} = 16,667$
2006	4,00,000	4	$50,000 \times \frac{4}{15} = 13,333$
2007	3,00,000	3	$50,000 \times \frac{3}{15} = 10,000$
2008	2,00,000	2	$50,000 \times \frac{2}{15} = 6,667$
2009	1,00,000	$\frac{1}{15}$	$50,000 \times \frac{1}{15} = 3,333$

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4. M Ltd. issued 10,000, 8% debentures of Rs.100 each at a premium of 10% on 1.1.2004. It purchased sundry assets of the value of Rs,2,50,000 and took over the liabilities of Rs,1,90,000 and issued 8% debentures at a discount of 5% to the vendor. On the same date it took loan from the Bank for Rs.1,00,000 and issued 8% debentures as Collateral Security. Record the relevant journal entries in the books of M Ltd. and prepare the extract of balance sheet on 31.12.2004. Ignore interest.

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2004 Jan 1	Bank A/c Dr To 8% Debenture Application A/c (Being 10,000 debentures issued @ 100 each at a premium of 10%)		11,00,000	11,00,000
	8% Debenture Application A/c Dr To 8% Debentures A/c To Securities Premium A/c (Being application money transferred to debenture and premium account)		11,00,000	10,00,000 1,00,000
	Sundry Assets A/c Dr To Other Liabilities A/c To Vendor A/c (Bal fig) (Being business purchased)		2,50,000	1,90,000 60,000
	Discount on Issue of Debenture A/c Dr Vendor A/c Dr Profit and Loss A/c Dr To 8% Debentures A/c (Being 632 debenture issued @ 95 each against ₹ 60,000)		3,160 60,000 40	63,200
	Debenture Suspense A/c Dr To 8% Debenture A/c (Being debentures issued as collateral security)		1,00,000	1,00,000

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Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Reserves and Surplus		Bank	12,00,000
Securities Premium	1,00,000	Sundry Assets	2,50,000
Secured Loan			
10,000 8% Debenture issued for cash	10,00,000	Discount on Issue of Debenture	3,160
632 8% Debenture issued for purchase consideration	63,200	Profit and Loss	40
Loan from Bank	1,00,000		
8% Debenture	1,00,000		
(-) Debenture Suspence (1,00,000)			
Sundry Liabilities	1,90,000		
	14,53,200		14,53,200

Working Note

$$\text{Number of debenture to be issued} = \frac{\text{Purchase Price}}{\text{Price Per Debenture}} = \frac{60,000}{95} = 631.57$$

Note Debenture cannot be sold in part so debenture issued will be 632 in number.

5. On 1.1.2005 Fast Computers Ltd. issued 20,00,000, 6% debentures of Rs.100 each at a discount of 4%, redeemable at a premium of 5% after three years.

The amount was payable as follows:

On application Rs.50 per debenture,

Balance on allotment,

Record the necessary journal entries for issue of debentures.

Answer

Journal Entries

(In lakhs)

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2005 Jan 1	Bank A/c Dr To Debentures Application A/c (Being 20 lakh debentures issued and received ₹ 50 each on application)		1,000	1,000
	Debenture Application A/c Dr To 6% Debentures A/c (Being application money transferred to 6% debentures account)		1,000	1,000

Accountancy Part 2

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Debenture Allotment A/c Dr		920	
	Loss on Issue of Debenture A/c Dr		180	
	To 6% Debenture A/c			1,000
	To Premium on Redemption A/c			100
	(Being amount due on 20 lakh debentures ₹ 46 each after 4% discount on issue and 5% premium on redemption)			
	Bank A/c Dr		920	
	To Debenture Allotment A/c			920
	(Being allotment money received)			

Working Note

$$\begin{aligned}
 \text{Loss on Issue} &= 4\% \text{ Discount on Issue} + 5\% \text{ Premium on Redemption} \\
 &= 9\% \text{ of } 20,00,00,000 \\
 &= \frac{9}{100} \times 20,00,00,000 = 1,80,00,000
 \end{aligned}$$

6. D Ltd. Purchased machinery worth Rs.2,00,000 from E Ltd. on 1.1.2001. Rs.50,000 were paid immediately and the balance was paid by issue of Rs.1,60,000, 12% Debentures in D Ltd. Record the necessary journal entries for recording the transactions in the books of D Ltd.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2001 Jan 1	Machinery A/c Dr		2,00,000	
	To E Ltd			2,00,000
	(Being machinery purchased from E Ltd)			
	E Ltd A/c Dr		50,000	
	To Bank A/c			50,000
	(Being paid ₹ 50,000 immediately)			
	E Ltd A/c Dr		1,50,000	
	Discount on Issue of Debenture A/c Dr		10,000	
	To 12% Debenture A/c			1,60,000
	(Being debentures issued in settlement to E Ltd)			

Note Difference in value of debentures issued and amount due to E Ltd is considered as discount on issue

EXERCISE-2.3

4 marks

1. X Ltd. decides to redeem 8,000, 10% debentures of Rs.100 each on January 1, 2004 at a premium of 5%. The company has a balance of Rs.9, 00,000 at the credit of its profit and loss account. The company closes its books on December 31 every year. What journal entries the company will be recorded to redeem the above debentures.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2004 Jan 1	Profit and Loss Appropriation A/c Dr To Debenture Redemption Reserve A/c (Being profit transferred to debenture redemption reserve account)		4,00,000	4,00,000
	10% Debenture A/c Dr Premium on Redemption A/c To 10% Debenture Holder A/c (Being debentures redeemed out of profits)		8,00,000 40,000	8,40,000
	Debenture Holder A/c Dr To Bank A/c (Being amount paid to debenture holder)		8,40,000	8,40,000
Dec 31	Debenture Redemption Reserve A/c Dr To General Reserve A/c (Being DRR transferred to general reserve)		4,00,000	4,00,000

Note It is assumed that redemption is made out of profits.

2. G Ltd. issued 5,00,000, 12 % debenture of Rs.100 each on April 1, 2002 redeemable at par on July 1, 2003. The company received applications for 6,00,000 debentures and the allotment was made to all the applicants on pro-rata basis. The debenture were redeemed on due date. How much amount of Debenture Redemption Reserve is to be created before the redemption is carried out? Also record necessary journal entries regarding issue and

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redemption of debenture. Ignore tax deducted at source.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2002 Apr 1	Bank A/c Dr To 12% Debenture Application A/c (Being application money received on 6,00,000 debentures @ 100 each)		6,00,00,000	6,00,00,000
	Debenture Application A/c Dr To 12% Debentures A/c To Bank A/c (Being application money for 5 lakh debenture transferred to debenture account and balance ₹ 1,00,00,000 refunded)		6,00,00,000	5,00,00,000 1,00,00,000
2003 Jul 1	12% Debenture A/c Dr To Debenture Holder A/c (Being amount due for redemption)		5,00,00,000	5,00,00,000
	Debenture Holder A/c Dr To Bank A/c (Being redemption amount paid)		5,00,00,000	5,00,00,000

Note No Debenture Redemption Reserve (DRR) is required because maturity period is less than 18 months.

Select the correct answer for the following multiple choice s:

1. Debentures which are transferable by mere delivery are:

- (a) Registered debentures, (b) First debentures,
(c) Bearer debentures.

2. The following journal entry appears in the books of X Co. Ltd.

Bank A/c	Dr	4,75,000
Loss on issue of debenture A/c	Dr	75,000
To 12% Debentures A/c		5,00,000
To Premium on Redemption of Debenture A/c		50,000

Debentures have been issued at a discount of

- (a) 15% (b) 5% (c) 10%

Answer (b) 5%

3. X Co Ltd purchased assets worth ? 28,80,000. It issued debentures of ? 100 each at a discount of 4% in full satisfaction of the purchase consideration. The number of debentures issued to vendor is

(a) 30,000 (b) 28,800 (c) 32,000

Answer (a) 30,000

4. Convertible debentures cannot be issued at a discount if 1 (a) they are to be immediately converted

(b) they are not to be immediately converted

(c) None of the above

Answer (a) They are to be immediately converted

5. Discount on issue of debentures is shown under the following head in the Balance Sheet

(a) Profit and loss account

(b) Miscellaneous expenditure

(c) Debentures account

Answer (b) Miscellaneous expenditure

6. When debentures are issued at par and are redeemable at a premium, the loss on such an issue debited to

(a) Profit and loss account

(b) Debentures applications and allotment account

(c) Loss on issue of debentures account

Answer (c) Loss on issue of debentures account

7. Excess value of net assets over purchase consideration at the time of purchase of business is credited to

(a) General reserve

(b) Capital reserve

(c) Vendor's account

Answer (b) Capital reserve

8. When all the debentures are redeemed, balance in the debentures redemption fund account is transferred to

- (a) Capital reserve**
- (b) General reserve**
- (c) Profits and loss appropriation account**

Answer (b) General reserve

9. The nominal and book values of debenture redemption fund investments account are respectively ? 1,00,000 and ? 96,000.

The company sold investments of nominal value of? 30,000 at a price which was just sufficient to redeem debentures of ? 30,000 at 10% premium, the profit on sale of investment is

- (a) Rs. 4,200 (b)Rs. 3,000 (c) Nil**

Answer (a) Rs. 4,200

10. Own debentures are those debentures of the company which

- (a) the company allots to its own promoters**
- (b) the company allots to its Director**
- (c) the company purchase from the market and keeps them as investments**

Answer (c) The company purchase from the market and keeps them as investments

11. Profit on cancellation of own debentures is transferred to

- (a) Profit and loss appropriation account**
- (b) Debenture redemption reserve**
- (c) Capital reserve**

Answer (c) Capital reserve

12. When debentures are redeemed out of profits, an equal amount is transferred to

- (a) General reserve**
- (b) Debenture redemption reserve**
- (c) Capital reserve**

Answer (b) Debenture redemption reserve

13. Profit on sale of debenture redemption fund investments in the first instance is credited to

- (a) Debenture redemption fund account**
- (b) Profit and loss appropriation account**
- (c) General reserve account**

Answer (a) Debenture redemption fund account

14. The balance of sinking fund investment account after the realisation of investments is transferred to

- (a) Profit and loss account**
- (b) Debentures account**
- (c) Sinking fund account**

Answer (c) Sinking fund account

15. When debentures are issued at a discount and are redeemable at a premium, which of the following accounts is debited at the time of issue

- (a) Debentures account**
- (b) Premium on redemption of debentures account**
- (c) Loss on issue of debentures account**

Answer (c) Loss on issue of debentures account .

TEST YOUR UNDERSTANDING III

• Indicate in the column below, the account to be debited in case of the following transactions.

Transaction Account to be Debited

- 1. Issue of debentures to a vendor in consideration of the business purchase.**
- 2. Setting aside the amount for creating sinking fund for redemption of debentures.**
- 3. The balance of debenture redemption reserve account after redemption of the debentures.**
- 4. Purchase of own debentures by the company.**
- 5. Writing off discount on issue of debentures.**

Answer Account to be Debited

1. Vendor A/c
2. Profit and Loss Appropriation A/c
3. Debenture Redemption Reserve A/c

- 4. Own debentures A/c
- 5. Profit and Loss A/c

• **Indicate in the column below, the account to be credited in case of the following transactions**

Transaction Account to be Credited

- 6. Debentures issued at a discount and are redeemable at par.**
- 7. Transfer of interest on sinking fund investments to sinking fund account.**
- 8. Balance of DRR account after the redemption of Debentures.**
- 9. Profit on sale of sinking fund investment account.**
- 10. Writing off the loss on issue of debentures.**

Answer Account to be Credited

- 6. On Issue-Debenture A/c
- On Redemption-Bank A/c .
- 7. Sinking Fund A/c
- 8. General Reserve A/c
- 9. Profit transferred to Debenture Sinking Fund A/c
- 10. Loss on Issue of Debentures A/c

DO IT YOURSELF VI

- 1. G Ltd. has 800 lakhs, 10% debentures of Rs.100 each due for redemption on March 31, 2003. Assume that Debenture Redemption Reserve has a balance of Rs. 3,40,00,00,000 on that date. Record necessary entries at the time of redemption of debenture.**

Accountancy Part 2

Answer

Journal Entries

(in Lakhs)

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2003 Mar 31	Profit and Loss Appropriation A/c Dr To Debenture Redemption Reserve A/c (Being transfer of profits to debenture redemption reserve as per SEBI guidelines)		6,000	6,000
	10% Debenture A/c Dr To Debenture Holder A/c (Being 80,000 lakh debentures redeemed)		80,000	80,000
	Debenture Holders A/c Dr To Bank A/c (Being money paid to debenture holders)		80,000	80,000
Mar 31	Debenture Redemption Reserve A/c Dr To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		40,000	40,000

2. Note:

Debentures for 80,000 (lakhs) were to be redeemed as per SEBI guidelines, 50% debenture redemption reserve is to be maintained. For Rs. 80,000 (lakhs) it comes to 40,000 (lakhs). Debenture redemption reserve already exist in books for Rs.34,000 (lakhs). Hence entry for balance 6,000 (lakhs) is passed in this solution.

Accountancy Part 2

2. R Ltd. issued 88,00,000, 8 % debenture of Rs. 50 each at a premium of 5 % on July 1, 2000 redeemable at par by conversion of debenture into shares of Rs.20 each at a premium of Rs.2 per share on June 30, 2003. Record necessary entries for redemption of debenture.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	8% Debentures A/c Dr		4,400	
	To Debenture Holders A/c			4,400
	(Being 88 lakh 8% debentures redeemed at par)			
	Debenture Holders A/c Dr		4,400	
	To Share Capital A/c			4,000
	To Securities Premium A/c			400
	(Being 200 lakh shares issued @ 20 par at premium ₹ 2 in conversion of debentures)			

Working Note

$$\text{Number of shares to be issued} = \frac{44,00,00,000}{22} = 2,00,00,000 \text{ shares}$$

3. C Ltd. has outstanding 11,00,000, 10% debentures of Rs.200 each, on April 1, 2003. The Board of Directors have decided to purchase 20% of own debenture for cancellation at Rs.200 each. Record necessary entries for the same.

Answer

Journal Entries

(In lakhs)

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2003 Apr 1	Own Debentures A/c Dr		440	
	To Bank A/c			440
	(Being purchased 2,20,000 own debentures for cancellation at ₹ 200 each)			
	10% Debenture A/c Dr		440	
	To Own Debenture A/c			440
	(Being debentures cancelled)			

Accountancy Part 2

Working Note

Debentures to be redeemed = 20% of 11,00,000 = $\frac{20}{100} \times 11,00,000 = 2,20,000$

$2,20,000 \times 200 = 44,00,00,00$ debentures

4. Record necessary journal entries in the books of the Company in following case for redemption of 1,000, 12% Debentures of Rs.10 each issued at par:

(a) Debentures redeemed at par by conversion into 12% Preference Shares of Rs.100 each,

(b) Debentures redeemed at a premium of 10% by conversion into Equity Share issued at par,

(c) Debentures redeemed at a premium of 10% by conversion into Equity Shares issued at a premium of 25%.

Answer (a)

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	12% Debentures A/c Dr To Debenture Holders A/c (Being 1000, 12% debentures redeemed at par)		10,000	10,000
(ii)	Debenture Holders A/c Dr To 12% Preference Share Capital A/c (Being 100, 12% preference shares issued in conversion of 1,000 debentures)		10,000	10,000

Working Note Number of Preference Shares to be issued = $\frac{10,000}{100}$

= 100 Preference Shares

(b)

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	12% Debentures A/c Dr Premium on Redemption of Debenture A/c Dr To Debenture Holders A/c (Being 1000 12% debentures redeemed at 10% premium)		10,000 1,000	11,000
(ii)	Debenture Holders A/c Dr To Equity Share Capital A/c (Being equity shares issued at par in conversion of 1,000 debentures)		11,000	11,000

Accountancy Part 2

(c)

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	12% Debentures A/c Dr		10,000	
	Premium on Redemption of Debenture A/c Dr		1,000	
	To Debenture Holders A/c			11,000
	(Being 1000, 12% debentures redeemed at 10% premium)			
(ii)	Debenture Holders A/c Dr		11,000	
	To Equity Share Capital A/c			8,800
	To Securities Premium A/c			2,200
	(Being 880 equity shares issued at 25% premium in conversion of 1,000 debentures)			

Working Note

(1) Let Equity Share be @ ₹ 10 each

(2) Number of Equity Shares to be issued = $\frac{11,000}{12.50} = 880$ Equity Shares

(3) Premium on Equity Share = 25% of 10 = $\frac{25}{100} \times 10 = 2.50$

5. On 31.1.2005 Janta Ltd. converted its Rs.88,00,000, 6% debentures into equity shares of Rs.20 each at a premium of Rs.2 per share. Record necessary journal entries in the books of the company for redemption of debentures.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2005 Jan 31	6% Debentures A/c Dr		88,00,000	
	To Debenture Holders A/c			88,00,000
	(Being amount due to debenture holders for conversion on redemption)			
	Debenture Holders A/c Dr		88,00,000	
	To Equity Shares Capital A/c			80,00,000
	To Securities Premium A/c			8,00,000
	(Being 40,00,00 equity shares issued at premium ₹ 2 per share in conversion of debenture)			

Accountancy Part 2

Working Note

$$\begin{aligned}\text{Number of Equity Shares to be issued} &= \frac{88,00,000}{22} \\ &= 4,00,000 \text{ Equity Shares}\end{aligned}$$

6. Anirudh Ltd. has 4,000, 8% debentures of Rs.100 each due for redemption on March 31, 2005. The company has a debenture redemption reserve of Rs.1,50,000 on that date. Assuming that no interest is due record the necessary journal entries at the time of redemption of debentures.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2005 Mar 31	Profit and Loss A/c Dr To Debenture Redemption Reserve A/c (Being profit transferred to debenture redemption reserve as per SEBI guidelines)		50,000	50,000
	8% Debenture A/c Dr To Debenture Holders A/c (Being amount due for 4,000 debentures of ₹ 100 each redeemed)		4,00,000	4,00,000
	Debenture Holders A/c Dr To Bank A/c (Being amount due on redemption paid)		4,00,000	4,00,000
	Debenture Redemption Reserve A/c Dr To General Reserve A/c (Being debenture redemption reserve transferred to general reserve account)		2,00,000	2,00,000

Working Note

Debenture for Rs.4,00,000 were to be redeemed. As per SEBI guidelines, 50% debenture redemption reserve is to be maintained. For Rs.14,00,000 it comes to Rs.2,00,000. Debenture redemption reserve already in books of account was Rs.1,50,000. Hence, entry for balance Rs. 50,000 was passed in this solution.

SHORT ANSWER TYPE S

1. What is meant by a Debenture?

Answer Debenture The word 'Debenture' has been derived from a Latin word 'debere' which means to borrow.

Debenture is a written instrument acknowledging a debt under the common seal of the company. It contains a contract for repayment of principal after a specified period or at intervals or at the option of the company and for payment of interest at a fixed rate payable usually either half-yearly or yearly on fixed dates.

According, to Section 2(12) of The Companies Act, 1956 'Debenture' includes Debenture Stock, Bonds and any other securities of a company whether constituting a charge on the assets of the company or not.

2. What does a Bearer Debenture mean?

Answer Bearer debentures are the debentures which can be transferred by way of delivery and the company does not keep any record of the debenture holders.

Interest on debentures is paid to a person who produces the interest coupon attached to such debentures.

3. State the meaning of 'Debentures issued as a Collateral Security'.

Answer Collateral security is given in addition to the primary security to the loan provider. In case when a company takes some loan it may issue debentures for additional security besides the primary security to that particular bank or financial institution.

Here it is to be remember that issue of debenture in ordinary course is different from issue of debenture as collateral security, in ordinary course debenture holders are entitled to get interest at an specified coupon rate where as in case of debenture issued as collateral security the holder of these debenture is not entitled to any such interest.

But in case of any default in payment of principle or interest of loan it may recover its amount from the issue of such debenture in the secondary market. Here it should be remembered that first of all the primary security will be sold after that debenture as collateral security will be used.

4. What is meant by Issue of debentures for consideration other than Cash'?

Answer When a company purchase some assets it is supposed to pay the purchase consideration in cash but sometimes due to lack of sufficient fund, company may issue debenture for the payment of such purchase consideration. This is known as issue of debenture for consideration other than cash.

The issue of debenture for consideration other than cash serves the purpose of both the vendor as well as of the purchaser (company). From the purchaser's point of view, purchasing an asset against the issue of debentures requires no additional cost for raising loans or arranging funds immediately.

On the other hand, the vendor gets interest on the amount of debentures received. In this case, payment is deferred by issue of debentures and interest is paid for time lag. Here it should be remembered that such debentures may be issued at par, premium or discount to the vendor.

5. What is meant by 'Issue of debentures at discount and redeemable at premium'?

Answer As per the prevailing market circumstances sometimes company has to manage funds by issuing debenture below its par value and to attract the investor when these are redeemed at price higher than its par value, then it is termed as issue of debenture at discount and redeemable at premium.

The difference between the issue price and the redemption price is treated as loss on issue of debenture and posted in assets side of the company as miscellaneous expenditure. To have a better understanding about the issue we may take an example as follows

Example: A 10% debenture of ₹ 100 each is issued at 5% discount and is redeemed at 5% premium. The following Journal Entry will be passed for that

Journal Entry

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr		95	
	Discount on Issue of Debenture A/c Dr		5	
	Loss on Issue of Debenture A/c Dr		5	
	To Debentures A/c			100
	To Premium on Redemption of Debenture A/c			5
	(Being 10% debenture are issued at 5% discount and redeemable at 5% premium)			

6. What is 'Capital Reserve'?

Answer Capital Reserve is a reserve that is created out of capital profits. Capital profits are those profits arising out of those activity which are not part of the business operations e.g., premium on issue of share and debentures, profits of sale of fixed asset, profit on redemption on debenture and profit on reissue of forfeited share and so on.

A capital reserve can be utilised for meeting the future capital losses. Here it is to be remembered that capital reserve cannot be used for distributing dividend to the share holders but bonus shares can be issued out of the capital reserve.

7 What is meant by a 'Irredeemable Debenture'?

Answer Irredeemable Debentures are those debentures which may not be redeemed during the life of a Company. They can only be paid off in the event of winding up of the Company. The holder of such debenture will enjoy interest on these debentures throughout the life of the company. Now-a-days no company issue irredeemable debentures.

8. What is a 'Convertible Debenture'?

Answer Convertible Debentures are those debentures which are convertible in equity shares after some specified time generally mentioned at the time of issue of such debentures. These convertible debentures are divided into two categories
(i) **Partly Convertible Debenture**: In this type of debenture only a part of such debenture is convertible in equity shares which is mentioned at the time of issue.
(ii) **Fully Convertible Debenture** :These are fully convertible into equity shares. It means in case of fully convertible debenture the whole amount of such debenture, is convertible in equity share after the period mentioned in the prospectus.

9. What is meant by 'Mortgaged Debentures'?

Answer Debentures which are secured against asset/s of a company known as Mortgaged Debenture. Mortgage Debentures are of two types first fixed charge mortgage debenture and second floating charge mortgage debentures.

When debentures are secured against a particular asset, then they are called fixed charge whereas, if the debentures are secured against all the assets of a company, then it is called floating charge. Mortgage debentures can only be sold by the holder when company fails to pay its loan or interest there on.

10. What is discount on issue of debentures?

Answer Debenture is said to have been issued at discount where an applicant is required to pay a total sum less than the face value of the debenture. The excess of the face value over the issue price is regarded as the discount. When debentures are issued at a discount, cash account is debited with net sum received, the discount on debentures account is debited with the amount of discount allowed and the debentures account is credited with the full nominal value of the debentures.

Here it is worth mentioning that there is no legal restriction on the companies for issuing debentures at discount. Maximum limit for discount on debentures is also not prescribed by the Companies Act. However, this Act requires that the amount of discount must be shown on the assets side of the Balance Sheet till written off under the head “Miscellaneous Expenditure.”

11. What is meant by ‘Premium on Redemption of Debentures’?

Answer When the debentures are redeemed at a price more than its face value or the par value, then it is said that the debentures are redeemed at premium. The difference between the redeemed price and the par value is regarded as a capital loss and this loss is written off till the redemption of the debentures.

The Premium on Redemption of Debenture is shown on the Liabilities side of the Balance Sheet under the head of “Current Liabilities and Provisions” debentures are redeemed. –

12. How debentures are different from shares? Give two points.

Answer Nature: A share is a part of the capital of the company and a debenture is a part of loan of the company.

Dividend or Interest :Dividend on shares is paid only when there are profits in the company on the other hand debenture interest has to be paid, if the company does not have profit or even suffer a loss.

Ownership Equity share holders are the owners of the company on the other hand debenture holders are the creditors of the company.

13. Name the head under which ‘Discount on Issue of Debentures’ appears in the Balance Sheet of a company.

Answer As we know that Discount on Issue of debentures is a capital loss and it will be written off out of the profit of coming years, Therefore, it is shown on the

Assets side of the Balance Sheet under the heading of “Miscellaneous Expenditures” until it is written off.

14. What is meant by redemption of debentures ?

Answer The term redemption implies the discharge of an obligation arising out of the contractual obligations created through the debenture Trust Deed. In other words, discharge of the liability on account of debentures is called redemption of debenture.

The redemption of debentures is made by the company in accordance with the terms and conditions of issue. Debentures may be redeemable at par, premium or discount, but in present scenario redemption of debentures at par and at premium is most popular. The redemption can be done out of profits or from the fresh issue of debentures or shares.

Redemption of debentures may be done by the following methods

- (i) By paying after stipulated period
- (ii) By annual drawing
- (iii) By conversion into shares or new debentures
- (iv) By purchasing own debentures in the open market
- (v) At the option of the company

15. Can the company purchase its own debentures?

Answer Yes, a company, if authorised by its Articles of Association, can purchase its own debentures in the open market. The main purposes of such purchase may be as follows

- (i) A company may purchase its own debenture for immediate cancellation for reducing the debenture liability especially in case when the interest rate on its debenture is higher than the market rate of interest.
- (ii) A company may also purchase its own debentures with the motive of investment and sell them at higher price in future and thereby earn profit.

16. What is meant by redemption of debentures by conversion?

Answer Debentures are usually redeemed in cash but sometimes privilege is given to the debenture holders to exchange their debentures either for shares or for new debentures of the company. The redemption of debentures by means of shares or new debentures is known as redemption by conversion and the debentures which carry such a right is called convertible debentures.

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17. How would you deal with 'Premium on Redemption of Debentures'?

Answer When the debentures are redeemed at a price more than its face value or the par value, then it is said that the debentures are redeemed at premium. The difference between the redeemed price and the par value is regarded as a capital loss and this loss is written off till the redemption of the debentures.

The Premium on Redemption of Debenture is shown on the Liabilities side of the Balance Sheet under the head of Current Liabilities and Provisions until debentures are redeemed.

Accounting Treatment for Premium on Redemption on Debentures

At the Time of the Issue of Debenture

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank/Debenture Allotment A/c Dr			
	Loss on Issue of Debenture A/c Dr			
	To Debenture A/c			
	To Premium on Redemption of Debenture A/c			
	(Being debenture are issued with the term of redemption at premium)			

For Loss Written off

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Profit and Loss A/c Dr			
	To Loss on Issue of Debenture A/c			
	To Debenture A/c			
	(Being loss on issue of debenture written off)			

At the time of Redemption of Debentures

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Debenture A/c Dr			
	Premium on Redemption A/c Dr			
	To Debenture Holders A/c			
	(Being amount of debentures due to debenture holders)			

18. What is meant by 'Redemption out of Capital'?

Answer: When debentures are redeemed out of current resources, the working capital of the company are reduced to that extent, and therefore, it is called redemption out of capital.

In other words when debentures are redeemed out of capital and no profits are utilised for redemption, then such redemption is termed as redemption out of capital.

A company cannot redeem its debentures purely out of capital. At least 50% of debentures issued must be redeemed out of profits by creating a 'Debenture Redemption Reserve' and the balance of debentures issued may be redeemed out of profits or out of capital.

According to the Companies Act, 1956 when debentures are to be redeemed an adequate amount of profits is required to be transferred to 'Debenture Redemption Reserve' every year before the redemption begins. It is to be noted that the Companies Act, 1956 does not spell out at to what is the adequate amount.

For this one can refer to SEBI Guidelines which stipulates that an amount equal to 50% of the issue of the debentures should be transferred to 'Debenture Redemption Reserve' before the redemption begins.

There are exceptions in the following cases

- (i) Infrastructure companies (i.e., those companies that are engaged in the business of developing, maintaining and operating infrastructure facilities)
- (ii) A company that issues debentures with a maturity up to 18 months.
- (iii) In case of Convertible debentures and convertible portion of partly convertible debentures

19. What is meant by redemption of debentures by 'Purchase in the Open Market'?

Answer: A company, if authorised by its Articles of Association, can redeem its own debentures by purchasing them in the open market. This is advantageous for several reasons

- (I) It would be saving the amount of interest on debentures purchased and cancelled.
- (ii) Sometimes the own debentures are being sold at a discount. It would enable the

company to save money equal to the amount of discount i.e., profit on redemption of debentures.

(iii) Debentures so purchased may be kept alive as investment. In need of fund, they can again be sold off in the market.

Objectives There may be the following objectives for purchasing own debentures in the open market

- (i) For immediate cancellation of debentures.
- (ii) For investment in the own debentures.

20. Under which head is the 'Debenture Redemption Reserve' shown in the Balance Sheet.

Answer The Debenture Redemption Reserve is shown on the Liabilities side of the Balance Sheet under the head Reserve and Surplus.

LONG ANSWER TYPE S

1. What is meant by a debenture? Explain the different types of debentures?

Answer Debenture: The word 'Debenture' has been derived from a Latin word 'Debere' which means to borrow. Debenture is a written instrument acknowledging a debt under the common seal of the company. It contains a contract for repayment of principal after a specified period or at intervals or at the option of the company and for payment of interest at a fixed rate payable usually either half-yearly or yearly on fixed dates.

According to Section 2(12) of The Companies Act, 1956 'Debenture' includes Debenture Stock, Bonds and any other securities of a company whether constituting a charge on the assets of the company or not. There are various types of Debentures.

(i) **From Security Point of View** : From security point of view debentures can be classified into two broad categories naked or simple debentures and Mortgaged debentures.

(a) **Naked or Simple Debentures** : Naked or Simple Debentures are those debentures which do not carry any security in respect of repayment of interest or the principal. The general solvency of the company is the only security for the holders of simple debentures.

(b) **Mortgaged Debentures** : Mortgaged Debentures are the debentures which are secured by a charge on the asset or properties of the company. The debenture holders have the right to recover their principal amount as well as unpaid interest out of the assets mortgaged by the company.

In case of mortgage debentures, a company may prefer to appoint trustees who will hold the property given by way of security in trust for the benefits of debentures holders.

(ii) **From Permanence Point of View** the debentures may be Redeemable or Irredeemable debentures.

(a) **Redeemable Debentures** Redeemable debentures provide for the payment of principal amount on the expiry of certain period. Redeemable debentures can be reissued even after they have been redeemed until they have been cancelled.

(b) **Irredeemable Debentures** Irredeemable Debentures are retained as a part of the permanent capital structure during the life time of the company. Such debt becomes due for payment only when the company goes into liquidation or when the payment of interest is not made regularly.

The company has the option of cancelling its liability to the debenture holders at any time by giving due notice to them.

(iii) **From Priority Point of View** :From this point of view the debentures may be First and Second debentures.

(a) **First Debentures** :First Debentures are those debentures which are paid first before any payment is made to another type of debentures.

(b) **Second Debentures**: Second Debentures are those debentures which are paid after making the payment of first debentures.

(iv) **From Recording Point of View** :From recording point of view debentures can be classified into two categories bearer and registered debentures.

(a) **Bearer Debentures** :Bearer Debentures are transferable per bearer without endorsement and they are just like bearer cheques or government currency notes. They are treated as negotiable instrument and transferable by mere delivery. It is not necessary that transfer of such debentures should be registered with the company. The interest is paid to the holder irrespective of identity.

(b) **Registered Debentures**: Registered debentures are made out in the name of a particular person who is registered by the company as a holder and are transferable in the same way as shares.

The payment of interest and repayment of capital is made to those whose name are registered with the company and duly entered in the register of debenture holders.

(v) **From Conversion Point of View**: From conversion point of view debentures may be convertible or non-convertible.

(a) **Convertible Debentures** :Convertible debenture holders are given an option to

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convert them into equity or preference shares at a stated rate of exchange after a certain period. Convertible debentures are very popular these days with the companies as it provides them a major source of permanent working capital. It also provides safety, liquidity, capital appreciation and assured return to the investors.

(b) **Non-Convertible Debentures:** Non-convertible debentures are not convertible into equity or preference shares afterwards.

2. Distinguish between a debenture and a share. Why debenture is known as loan capital? Explain.

Answer The following are the difference between Shares and Debentures

Basis of Difference	Shares	Debentures
Nature	Share holders are the owners of the company.	Debenture holders are Creditors of the company.
Voting Rights	Share holders have the voting rights.	Debenture holders do not have any voting rights.
Returns	Share holders are entitled for returns in the form of dividend, which may vary from year to year.	Debenture holders are entitled for returns in the form of interest, which is fixed.
Conversion	Shares cannot be converted into debentures.	Debentures can be converted into shares.
Obligations of Return	Dividend is appropriation of profit. Dividend will not be paid if losses are incurred by the company.	Interest is charged against profit, interest is payable even if there is no profit.
Risk	Investment in Shares is unsecured.	If debentures are secured against asset, they are less risky as the risk involved is secured against the assets.
Issue	The issue of shares at discount need adherence to the restrictions imposed by the Section 79 of the Company Act.	There are no such restrictions for issuing debentures on discount.
Payment at Liquidation	Payment to the share holders is made after settlement of all external liabilities, i.e., after debenture holders.	Payment to the debenture holders is made before the share holders.

3. Describe the meaning of 'Debenture Issued as Collateral Securities'. What accounting treatment is given to the issue of debentures in the books of accounts?

Answer When a company takes a loan, it has to give some security, it may do so by giving debentures to the party from whom loan is taken. If on the due date principal is paid back by the Company and interest is also paid, the loan-giver will

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return the debentures to the Company and then they will be cancelled by the Company,

If the Company makes a default, the bank may either keep the debenture and become debenture-holder or sell them and realise money. This type of issue by the Company is called Issue of Debenture as Collateral Security.

When debentures are issued by the company, they are not really alive and no accounting entry is made in the books of the Company for it. Only a note is given in the balance sheet for it as under

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Loan (Secured by the issued of Debentures of ₹ As Collateral Security)			
Debentures (In addition to these debentures, debentures of ₹ has been issued as Collateral Security)			

If an accounting record for these debentures is to be made Debentures Suspense A/c is debited and debentures A/c credited, debentures are shown in the liability side and balance of debentures Suspense A/c is shown in the assets side of the Balance Sheet. When debt is paid off by the Company, Debentures A/c is debited and Debentures Suspense A/c is credited.

4. How is 'Discount on Issue of Debentures' treated in the books of accounts? How will you deal with the 'Discount on issue of debentures' when the debentures are to be redeemed in instalments?

Answer When the debentures are issued at a price below its par value or face value, then it is said that the debentures are issued at discount. The difference between the issue price and the face value of the debenture is regarded as a capital loss. This loss is written off every year till the debentures are redeemed.

The loss on the issue of debenture is shown on the Assets side of the Balance Sheet under the heading of Miscellaneous Expenditures.

Accounting Treatment for Discount on Issue of Debentures:
At the time of issue of debentures at discount

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Accounting Treatment for Discount on Issue of Debentures

At the time of issue of debentures at discount

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Debenture Allotment A/c Dr			
	Discount on Issue of Debenture A/c Dr			
	To Debentures A/c			
	(Being debentures issued at discount)			

At the time of writing off the discount on issue of debentures at the end of each year

At the time of writing off the discount on issue of debentures at the end of each year

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Profit and Loss A/c Dr			
	To Discount on Issue of Debenture A/c			
	(Being discount on issue of debentures written off)			

(i) Fixed Instalment Method/Equal Instalment Method : This method is used when debentures are redeemable in lump sum after a specified period of time. In this case an equal amount of discount (loss) is written off in equal instalments over the life of the debenture. The formula for calculating amount of discount written off every year is given below

Amount of instalment

$$= \frac{\text{Total Amount of Discount / Loss}}{\text{Number of year after which Debenture are redeemed}}$$

(ii) Fluctuating Instalment Method/Variable Instalment Method/ Proportion Method: When debentures are repaid by annual drawings or in instalments, the discount should be written-off in the ratio of debentures outstanding as at the end of each accounting year. The amount of discount, under this method, goes on reducing every year and so this method may also be known as Reducing Instalment Method. –

e.g., if a company has issued 10% debentures of Rs. 12,00,000 at 5% discount redeemable annually by Rs. 2,40,000 each year. The total amount of discount on Rs.12,00,000 debentures @ 5% is Rs. 60,000, i.e., $(12,00,000 \times 5/100 = \text{Rs. } 60,000)$

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60,000). The amount of discount to be written off every year is calculated as

Year	Amount of Debenture Used up During the Year	Ratio	Amount of Discount to be Written off each Year
First Year	12,00,000	5	$60,000 \times 5/15 = 20,000$
Second Year	9,60,000	4	$60,000 \times 4/15 = 16,000$
Third Year	7,20,000	3	$60,000 \times 3/15 = 12,000$
Fourth Year	4,80,000	2	$60,000 \times 2/15 = 8,000$
Fifth Year	2,40,000	1	$60,000 \times 1/15 = 4,000$
		15	

Total amount of Discount on 12,00,000 debentures @ 5% pa is ₹ 60,000.

Hence, the amount of the total discount of ₹ 60,000 will be written off in the ratio of 5 : 4 : 3 : 2 : 1 i.e., ₹ 20,000, ₹ 16,000, ₹ 12,000, ₹ 8,000 and 4,000 respectively.

5. Explain the different terms for the issue of debentures with reference to their redemption.

Answer Debentures can be issued at par, at premium and at discount in the same way they can be redeemed at par and at premium. Debentures can never be redeemed at discount. The following are the six situations under which debentures can be issued to their redemption.

(i) **Issue at Par and Redeemable at Par:** When the debentures are issued and are redeemed at their face value, then the following Journal entry is passed.

(i) **Issue at Par and Redeemable at Par** When the debentures are issued and are redeemed at their face value, then the following Journal entry is passed.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	debenture Application A/c Dr To Debentures A/c (Being debentures application money transferred to debentures account)			

(ii) **Issue at Premium and Redeemable at Par** When the debentures are issued at premium and redeemable at par, then the following Journal entry is passed. As premium is a gain for a company so it is credited in the Journal entry.

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Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	Debenture Application A/c Dr To Debentures A/c To Security Premium A/c (Being debentures issues at premium and redeemable at par)			

(iv) Issue at Discount and Redeemable at Par When the debentures are issued at discount and redeemable at par, then the following Journal entry is passed. As discount is a loss for a company so it is debited in the Journal entry.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	Debenture Application A/c Dr Discount on issue of Debenture A/c To Debenture A/c (Being debentures issues at discount and redeemable at par)			

(v) Issue at Premium and Redeemable at Premium When debentures are issued at par and redeemable at premium, then the following Journal entry is passed. In such case, the company did not suffer any loss at the time of issue but there will be loss at the time of redemption.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	Debenture Application A/c Dr Loss on Issue of Debenture A/c To Debenture A/c To Premium on Redemption of Debenture A/c (Being debentures issues at par and redeemable at premium)			

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(vi) Issue at Discount and Redemption at Premium When the debentures are issued at discount and redeemable at premium, then the following Journal entry is passed.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	Debenture Application A/c Dr Loss on Issue of Debenture A/c Dr To Debenture A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (Being debentures issues at premium and redeemable at premium)			

6. Differentiate between redemption of debentures out of capital and out of profits.

Answer Debentures can be redeemed out of capital and out of profits. The following are the difference between these two methods.

Redemption of Debentures Out of Capital: This is the situation where debentures are redeemed out of capital and no profits are utilised for redemption of the debentures, such redemption is termed as redemption out of capital. In this situation, no profits are required to be transferred to the Debenture Redemption Reserve (DRR).

Here it is to be remembered that no company can redeem its debenture purely out of capital because as per the guideline laid down by Securities and Exchange Board of India (SEBI) and the Section 117C of Company Act of 1956, before starting any redemption process a company is required to create a DRR equal to 50% of the debentures issued).

Therefore, it is not possible to redeem debentures purely out of capital, as it reduces the value of assets. There are exceptions in the following case

- (i) Infrastructure companies (i.e., those companies that are engaged in the business of developing, maintaining and operating infrastructure facilities)
- (ii) A Company that issues debentures with a maturity up to 18 months.
- (iii) In case of convertible debentures and convertible portion of partly convertible debentures.

Redemption of Debenture Out of Profits: When debentures are redeemed out of profit then no capital is utilised for redemption. Before redeeming the debentures

profits are transferred to DRR from Profit and Loss Appropriation Account. The creation of DRR is mandatory as per the guidelines laid down by Securities and Exchange Board of India (SEBI).

SEBI mandates transferring amount equal to 50% of debentures issued to DRR before redeeming debentures. As transfer of amount (profits) to the DRR from Profit and Loss Appropriation Account reduces the amount of profit available for distribution of dividend, so this redemption process is known as redemption out of profit.

DRR is shown under the head of Reserves and Surpluses on the Liabilities side of the Balance Sheet. DRR account is closed by transferring it to General Reserve only when all the debentures are redeemed.

7. Explain the guidelines of SEBI for creating Debenture Redemption Reserve.

Answer Securities and Exchange Board of India (SEBI) have provided some guidelines for redemption of debentures. The focal points of these guidelines are *

- (i) Every company shall create Debenture Redemption Reserve in case of issue of debenture redeemable after a period of more than 18 months from the date of issue.
- (ii) The creation of Debenture Redemption Reserve is obligatory only for non-convertible debentures and non-convertible portion of partly convertible debentures.
- (iii) A company shall create Debenture Redemption Reserve equivalent to at least 50% of the amount of debenture issue before starting the redemption of debenture.
- (iv) Withdrawal from Debenture Redemption Reserve is permissible only after 10% of the debenture liability has already been reduced by the company.

SEBI guidelines would not apply under the following situations:

- (i) Infrastructure company (a company wholly engaged in the business of developing, maintaining and operating infrastructure facilities), and
- (ii) A company issuing debentures with a maturity period of not more than 18 months.

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.

9. Can a company purchase its own debentures in the open market? Explain.

Answer Yes, a company, if authorised by its Articles of Association, can purchase its own debentures in the open market. The main purposes of such purchase may be as follows

- (i) A company may purchase its own debenture for immediate cancellation for reducing the debenture liability especially in case when the interest rate on its debenture is higher than the market rate of interest.
- (ii) A company may also purchase its own debentures with the motive of investment and sell them at higher price in future and thereby earn profit.

When a company purchase its own debenture, in the open market it can happen in either of the two ways first debentures may be purchased at premium for cancellation and debenture may be purchase at discount for cancellation. The following will be the accounting treatment in both situation.

- (i) If Debentures are Purchased at Discount for Cancellation :When the company purchase its own debentures at discount for cancellation, then the following

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Journal entries are recorded.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Own Debentures A/c Dr To Bank A/c (Being own debentures purchased in the open market)			
	Debenture A/c Dr To Own Debentures A/c To Profit on Redemption of Debenture A/c (Being own debentures cancelled)			
	Profit on Cancellation of Own Debentures A/c Dr To Capital Reserve A/c (Being profit on cancellation of own debentures transferred to capital reserve account)			

(ii) If Debentures are Purchased at Premium for Cancellation

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Own Debentures A/c Dr To Bank A/c (Being own debentures purchased in the open market)			
	Debenture A/c Dr Loss on Redemption of Debenture A/c Dr To Own Debentures A/c (Being own debentures cancelled)			

10. What is meant by conversion of debentures? Describe the method of such a conversion.

Answer The debentures can also be redeemed by converting them into shares or new debentures. If debenture holders find that the offer is beneficial to them they may convert his/her debentures into shares or new debentures after the expiry of a specified period of time, then this whole process is known as redemption of debentures by conversion.

It is worth mentioning here that in such a case no Debenture Redemption Reserve is required because no funds are required for redemption.

If a debenture holder exercises the conversion option, then the issue price of shares must be equal to or less than the amount actually received from debentures. The

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accounting treatment in that case will be as follows:

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Debentures A/c Dr To Debenture Holders' A/c (Being debentures are redeemed)			
	Debenture Holders' A/c Dr To Share/Debentures (New) A/c (Being amount due to debenture holders is discharged)			

NUMERICAL PROBLEMS

1. G.Ltd. issued 75,00,000, 6% Debenture of Rs.50 each at par payable Rs.15 on application and Rs.35 on allotment, redeemable at par after 7 years from the date of issue of debenture. Record necessary entries in the books of Company.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr To 6% Debenture Application A/c (Being application money @ ₹ 15 each received for 75,00,000 debentures)		11,25,00,000	11,25,00,000
(ii)	6% Debenture Application A/c Dr To 6% Debenture A/c (Being application money of 75,00,000 debentures transferred to 6% debentures account)		11,25,00,000	11,25,00,000

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(iii)	6% Debenture Allotment A/c Dr To 6% Debenture A/c (Being allotment money @ ₹ 35 each due for 75,00,000 debentures)		26,25,00,000	26,25,00,000
(iv)	Bank A/c Dr To 6% Debenture Allotment A/c (Being allotment money received @ ₹ 35 each on 75,00,000 debentures)		26,25,00,000	26,25,00,000

Note The entries for issue of debentures are same as that of shares with only difference that 'capital' word is not used.

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**2. Y.Ltd. issued 2,000, 6% Debentures of Rs.100 each payable as follows:
Rs.25 on application; Rs.50 on allotment and Rs.25 on First and Final call.**

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr To 6% Debentures Application A/c (Being application money @ ₹ 25 each received for 2,000 6% debentures)		50,000	50,000
(ii)	6% Debenture Application A/c Dr To 6% Debenture A/c (Being application money on 2,000 debentures transferred to 6% debentures account)		50,000	50,000
(iii)	6% Debenture Allotment A/c Dr To 6% Debenture A/c (Being debenture allotment money @ ₹ 50 each due on 2,000 6% debentures)		1,00,000	1,00,000
(iv)	Bank A/c Dr To 6% Debenture Allotment A/c (Being allotment money for 2,000 6% debentures received)		1,00,000	1,00,000
(v)	6% Debenture First and Final Call A/c Dr To 6% debenture A/c (Being debenture first and final call @ ₹ 25 each due on 2,000 6% debentures)		50,000	50,000
(vi)	Bank A/c Dr To 6% Debenture First and Final Call A/c (Being first and final call for 2,000 6% debentures received)		50,000	50,000

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3. A.Ltd. issued 10,000, 10% Debentures of Rs.100 each at a premium of 5% payable as follows:

Rs.10 on Application;

Rs.20 along with premium on allotment and balance on First and Final call.

Record necessary Journal Entries.

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr To 10% Debenture Application A/c (Being Application money received for 10,000, 10% debentures application @ ₹ 10 each)		1,00,000	1,00,000
(ii)	10% Debenture Application A/c Dr To 10% Debenture A/c (Being application money @ ₹ 10 each transferred to 10% debenture account)		1,00,000	1,00,000
(iii)	10% Debenture Allotment A/c Dr To 10% Debentures A/c To Securities Premium A/c (Being allotment due @ ₹ 25 each including premium ₹ 5 on 10,000, 10% debentures)		2,50,000	2,00,000 50,000
(iv)	Bank A/c Dr To 10% Debenture Allotment A/c (Being allotment money received on allotment @ ₹ 25 each for 10,000 10% debentures)		2,50,000	2,50,000
(v)	10% Debenture First and Final Call A/c Dr To 10% Debenture A/c (Being first and final call @ ₹ 70 each on 10,000 10% debentures due)		7,00,000	7,00,000
(vi)	Bank A/c Dr To 10% Debenture First and Final Call A/c (Being debenture first and final call received @ ₹ 70 each for 10,000 10% debentures)		7,00,000	7,00,000

4. A. Ltd. issued 90,00,000, 9% Debenture of Rs.50 each at a discount of 8%, redeemable at par any time after 9 years. Record necessary entries in the books of A. Ltd.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr To 9% Debenture Application A/c (Being debenture application money received @ ₹ 46 each on 90,00,000 9% debentures)		41,40,00,000	41,40,00,000
(ii)	9% Debentures Application A/c Dr Discount on Issue of Debentures A/c Dr To 9% Debenture A/c (Being 9% debentures application money transferred to 9% debenture account)		41,40,00,000 3,60,00,000	45,00,00,000

Note A single compound entry can also be passed with Bank and discount on issue of debenture debit and 9% debentures account credit

**5. A.Ltd. issued 4,000, 9% Debentures of Rs.100 each on the following terms:
Rs.20 on Application;
Rs.20 on Allotment;
Rs.30 on First call; and
Rs.30 on Final call.**

The public applied for 4,800 Debentures. Applications for 3,600 Debentures were accepted in full. Applications for 800 Debentures were allotted 400

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Debentures and applications for 400 Debentures were rejected.

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr To 9% Debenture Application A/c Being 9% debenture application money received on 4,800 debentures @ ₹ 20 each)		96,000	96,000
(ii)	9% Debenture Application A/c Dr To 9% Debenture A/c (4,000 × 20) To 9% Debenture Allotment A/c (400 × 20) To Bank A/c (400 × 20) (Being 9% debenture application money of 4000 debentures transferred to debentures account, 400 debentures rejected returned and remaining amount adjusted on allotment)		96,000	80,000 8,000 8,000
(iii)	9% Debenture Allotment A/c Dr To 9% Debenture A/c (Being 9% debenture allotment due on 4,000 debentures @ ₹ 20 each)		80,000	80,000
(iv)	Bank A/c (Working note) Dr To 9% Debenture Allotment A/c (Being 9% debenture allotment money received)		72,000	72,000
(v)	9% Debenture First Call A/c Dr To 9% Debenture A/c (Being 9% debenture first call due on 4,000 debenture @ ₹ 30 each)		1,20,000	1,20,000
(vi)	Bank A/c Dr To Debenture First Call A/c (Being 9% debenture first call received for 4,000 debentures @ ₹ 30 each)		1,20,000	1,20,000
(vii)	9% Debenture Final Call A/c Dr To 9% Debenture A/c (Being 9% debenture final call due on 4,000 debentures @ ₹ 30 each)		1,20,000	1,20,000
(vi)	Bank A/c Dr To 9% Debenture Final Call A/c (Being 9% debenture final call received on 4,000 debentures @ ₹ 30 each)		1,20,000	1,20,000

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Working Note

Amount due on allotment $4,000 \times 20$	= 80,000
(–) Amount received on application 400×20	= (8,000)
Net amount received on allotment	= <u>72,000</u>

6. T. Ltd. offered 2,00,000, 8% Debenture of Rs.500 each on June 30, 2002 at a premium of 10% payable as Rs.200 on application (including premium) and balance on allotment, redeemable at par after 8 years. But application are received for 3,00,000 debenture and the allotment is made on pro-rata basis. All the money due on application and allotment is received. Record necessary entries regarding issue of debenture.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr To 8% Debenture Application A/c (Being 8% debenture application money received for 3,00,000 debentures @ ₹ 200 each)		6,00,00,000	6,00,00,000
(ii)	8% Debenture Application A/c Dr To 8% Debenture A/c ($2,00,000 \times 150$) To 8% Debenture Allotment A/c ($1,00,000 \times 200$) To Securities Premium A/c ($2,00,000 \times 50$) (Being 8% debenture application money of 2,00,000 debentures @ ₹ 200 each including ₹ 50 premium transferred to debenture account and rest of the amount adjusted on allotment)		6,00,00,000	3,00,00,000 2,00,00,000 1,00,00,000
(iii)	8% Debenture Allotment A/c Dr To 8% Debenture A/c (Being 8% debenture allotment on 2,00,000 debentures @ ₹ 350 due)		7,00,00,000	7,00,00,000
(iv)	Bank A/c Dr To 8% Debenture Allotment A/c (Being 8% debenture allotment money received)		5,00,00,000	5,00,00,000

7. X.Ltd. invites application for the issue of 10,000, 14% debentures of Rs.100 each payable as to Rs.20 on application, Rs.60 on allotment and the balance on call. The company receives applications for 13,500 debentures, out of which applications for 8,000 debentures are allotted in full, 5,000 only 40% and the remaining rejected. The surplus money on partially allotted applications is utilised towards allotment. All the sums due are duly received.

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr To 14% Debenture Application A/c (Being 14% debenture application money for 13,500 debentures @ ₹ 20 each received)		2,70,000	2,70,000
(ii)	14% Debenture Application A/c Dr To 14% Debenture A/c (10,000 × 20) To 14% Debenture Allotment A/c (3,000 × 20) To Bank A/c (500 × 20) (Being 14% debenture application money of 10,000 @ ₹ 20 each transferred to 14% debentures account and 500 debentures were rejected and returned and rest of the amount adjusted on allotment)		2,70,000	2,00,000 60,000 10,000
(iii)	14% Debenture Allotment A/c Dr To 14% Debenture A/c (Being 14% debenture allotment money due on 10,000 debentures @ ₹ 60 each)		6,00,000	6,00,000
(iv)	Bank A/c Dr To 14% Debenture Allotment A/c (Being 14% debenture allotment money received)		5,40,000	5,40,000
(v)	14% Debenture First and Final Call A/c Dr To 14% Debenture A/c (Being 14% debenture first and final call money due on 10,000 debentures @ 20 each)		2,00,000	2,00,000
(vi)	Bank A/c Dr To 14% Debenture First and Final Call A/c (Being 14% debenture first and final call money received on 10,000 debentures @ ₹ 20 each)		2,00,000	2,00,000

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8. R.Ltd. offered 20,00,000, 10% Debenture of Rs.200 each at a discount of 7% redeemable at premium of 8% after 9 years. Record necessary entries in the books of R. Ltd.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr To 10% Debenture Application and Allotment A/c (Being debenture application and allotment money received for 20,00,000, 10% debentures @ ₹ 200 each at 7% discount)		37,20,00,000	37,20,00,000
(ii)	10% Debenture Application and Allotment A/c Dr Loss on Issue of Debenture A/c Dr Discount on Issue of Debentures A/c Dr To 10% Debenture A/c To Premium on Redemption of Debentures A/c (Being Allotment of 20,00,000 debenture @ ₹ 200 each at 7% discount with the term of 8% premium on redemption)		37,20,00,000 3,20,00,000 2,80,00,000	40,00,00,000 3,20,00,000

9. M.Ltd. took over assets of Rs.9,00,00,000 and liabilities of Rs.70,00,000 of S.Ltd. and issued 8% Debenture of Rs.100 each. Record necessary entries in the books of M. Ltd.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Sundry Assets Dr To Sundry Liabilities A/c To S Ltd (Balance figure as Capital) (Being assets and liabilities of S Ltd taken over)		9,00,00,000	70,00,000 8,30,00,000
(ii)	S Ltd Dr To 8% Debenture A/c (Working Note) (Being 8,30,000 8% debentures @ 100 each issued to S Ltd in consideration of assets and liabilities)		8,30,00,000	8,30,00,000

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Working Note

Amount Payable to S, Ltd by M Ltd = ₹ 8,30,00,000

$$8\% \text{ Debentures of ₹ 100 each to be issued} = \frac{8,30,00,000}{100} \\ = 8,30,000 \text{ Debenture}$$

10. B.Ltd. purchased assets of the book value of Rs.4,00,000 and took over the liability of Rs.50,000 from Mohan Bros. It was agreed that the purchase consideration, settled at Rs,3,80,000, be paid by issuing debentures of Rs.100 each. What Journal entries will be made in the following three cases, if debentures are issued: (a) at par; (b) at discount; (c) at premium of 10%? It was agreed that any fraction of debentures be paid in cash.

(c)

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Sundry Assets A/c	Dr	4,00,000	
	Goodwill A/c	Dr	30,000	
	To Sundry Liabilities A/c			50,000
	To Mohan Bros			3,80,000
	(Being assets and liabilities of Mohan Bros. taken over)			
(ii)	Mohan Bros	Dr	3,80,000	
	To Debenture A/c			3,45,400
	To Securities Premium A/c			34,540
	To Bank A/c (Balance figure)			60
	(Being issued of 3,454 debentures at 10% premium and balance paid in cash)			

Working Note

Amount payable to Mohan Bros = ₹ 3,80,000

Number of debentures to be issued at premium of 10%

$$= \frac{3,80,000}{110} = 3,454 \text{ Debentures}$$

11. X.Ltd. purchased a Machinery from Y for an agreed purchase consideration of Rs.4,40,000 to be satisfied by the issue of 12% debentures of Rs.100 each at a premium of Rs.10 per debenture. Journalise the transactions.

Working Note Amount payable to Y = ₹ 4,40,000

$$\begin{aligned}\text{Number of debentures to be issued at 10\% premium} &= \frac{4,40,000}{110} \\ &= 4,000 \text{ Debentures}\end{aligned}$$