PART – 2
CHAPTER 02
ISSUE AND REDEMPTION OF DEBENTURES

Question 1:
What is meant by a Debenture?

ANSWER:
Debenture is derived from the Latin word ‘debere’ the meaning of which is to borrow. The issuance of the debenture is made in the form of the certificate which is under the seal of the company containing the contract for the repayment of of the principal amount to the certificate holder after the specified fixed amount of time. The interest of the same is to be paid in the regular intervals which is generally half year. Debentures are issued by any company to attain the long-term borrowings.

Question 2:
What does a Bearer Debenture mean?

ANSWER:
The Bearer Debenture is type of the debenture in which the company does not maintain the records of the debenture holders and thus the debentures are transferable in nature. The interest on such debentures is paid to the person who is able to produce the interest coupons with the specified bank.

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

ANSWER:
There are some cases in which the financial institutions may ask for more security than merely the primary security and hence the company may have to issue debentures as the additional security. In the cases when the company makes the default in the repayment of the principal amount and the or the interest on the loan and hence the lenders have all the rights recover this due from the sale of the primary security and when the principal security is inefficient to repay the amount, the debentures may be used for the purpose of the repayment.

Question 4:
What is meant by 'Issue of debentures for Consideration other than Cash'?

ANSWER:
The issue of the debentures for consideration other than cash is referred to as the issuance of the debentures instead of the cash in return of the purchase of the asset. This is beneficial at the part of the company as any loan which is raised for the purpose of repayment will also invite the repayment of the interest on such loan. On the part of the receiver, he/she becomes entitled to any interest on the debentures if the payment of the debentures is not made on time.

Question 5:
What is meant by 'Issue of debenture at discount and redeemable at premium?

ANSWER:
When the issuance of the debentures is made below its par value (or the face value), but they are redeemed at a price which is higher than its par value, the issue of such debenture is termed as issue of debenture at discount and redeemable at premium. The difference between the price of the redemption and the price of the issue is regarded as the loss on the issue of debenture.
Example:
A 10% debenture of Rs 1,000 is issued at 5% discount and is redeemed at 10% premium.

Bank A/c	Dr.	950	
Discount on Issue of Debenture A/c	Dr.	50	
Loss on Issue of Debenture A/c	Dr.	100	
To Debenture A/c			1,000
To Debenture Redemption Premium A/c			100
(Debenture issued)			

Total loss = Payment made at redemption – Amount received on issue of debenture
1,100 – 950 = Rs 150

Question 6:
What is ‘Capital Reserve’?

ANSWER:
Capital Reserve is referred to as the reserve which is created out of the profits of the capital nature. These are the profits which are made with the activities of the business which are not operational in nature. These reserves are utilized in order to meet the future capital losses which he business may incur. The Capital Reserve can be generated out of the following activities:
i. Profit on redemption of debentures.
ii. Premium on issue of debentures.
iii. Premium on issue of shares
iv. Profit on sale of fixed assets.
v. Profit prior to incorporation, etc
vi. Profit on reissue of forfeited shares.

Question 7:
What is meant by an ‘Irredeemable Debenture’?

ANSWER:
The ‘Irredeemable Debentures’ considered to be those debentures which are not repayable and non redeemable during the life of the company are those debentures that are not repayable or redeemable by a company. These are only repayable when the company is to wind up and shut down its operations. These are also known as Perpetual Debentures, which means the debentures having the indefinite life.

Question 8:
What is a ‘Convertible Debenture’?

ANSWER:
The convertible debentures are considered to be those debentures which can be converted into the equity shares after the particular period of the time. They are of two types:
i. **Fully Convertible Debentures**: These are the types of the debentures which can be converted into the equity shares in the worth amount of the equivalent amount of the debentures.
ii. **Partly Convertible Debentures**: These are the types of the debentures whose conversion to the equity share is done in the partial manner as the partial amount is only converted.

Question 9:
What is meant by ‘Mortgaged Debentures’?

ANSWER:
The mortgaged Debentures are considered to be those debentures which are secured against the asset or the assets of any company. When the debentures are secured against the particular asset, than it is regarded as the fixed charge, while on the other hand if the debenture is secured against all the assets than it is considered to be the floating charge.

Question 10:
What is discount on issue of debentures?

ANSWER:
The discount on the issue of the debenture is referred to as the issuance of the debenture at the price which is lower than its face value. The difference between the price of the issue of the debenture and the face value of the debenture is a capital loss for the company.

Question 11:
What is meant by 'Premium on Redemption of Debentures'?

ANSWER:
The Premium on the Redemption of the Debentures is referred to as the situation in which the redemption of the debenture occurs at the more price than the face value of the debenture. Thus, the price which is the difference between the redeemed price of the debenture and the face value of the debenture is considered to be the Premium. This hence is the capital loss for the company. This is shown on the Notes of Accounts under the sub heading of the Other Long-Term Liabilities.

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

ANSWER:

Basis of Comparisons	**Debentures**	**Shares**
1. Meaning	The debentures are the part of loan and therefore the debenture holders are considered to be the creditors of the company.	Shares are the part of the capital and hence the shareholders are the owners of the company.
2. Voting Rights	The debenture holders do not have the voting rights and the control over the affairs of the company..	The shareholders have the authority to control the affairs of the company and they can directly vote in the maters of the company.

Question 13:
Name the head under which 'discount on issue of debentures' appears in the Balance Sheet of a company.

ANSWER:
The Discount on Issue of Debentures is regarded as a the capital loss for the business and hence as per the Companies Act it is shown into the Notes of Accounts:

1. It is shown in the Other Current Assets when the amount is written off within the 12 months of the specified date of the Balance Sheet.

2. When the amount will be written off after the period of the 12 months, than the Balance Sheet will record it in the Other Non Current Assets.

Question 14:
What is meant by redemption of debentures?

ANSWER:
The redemption of debenture refers to the repayment of the debentures by the company to its shareholders. In the other words the discharge of the liabilities by the repayment of the amount which is due to the debenture holders on the basis of the conditions made during the time of the issue of the debentures. The debentures may be redeemed at the par, premium or discount.

Question 15:
Can the company purchase its own debentures?

ANSWER:

The company can purchase its debentures only if it is authorized to do so under the Articles of Association. The company purchases the debentures of its own for the following purposes:

1. To make the immediate cancellation of the liability of the debenture if the rate of the interest is higher than the market rate of the interest.
2. In order to make the investment so that the debentures can be sold at the higher price in the future to thereby earn profit for the company.

Question 16:
What is meant by redemption of debentures by conversion?

ANSWER:

The redemption of the debenture by conversion refers to the conversion of the debentures into the shares after the specified period of time by the debenture holder. The companies are required to maintain the Debenture Redemption Reserve in such cases because they are not required to pay any funds for the redemption of the debentures.

Question 17:
How would you deal with ‘Premium on Redemption of Debentures’?

ANSWER:
The premium on the redemption of the debenture is referred to the redemption of the debenture happens at the price which is more than it face value. The difference between the amount of the redemption and the face value of the debentures is considered to be the capital loss for the company and is further written in the Notes to Account under the sub heading of the Other Long Term Liabilities, the final balance of which is gone to the Non-Current Liabilities in the Equity and the Liabilities side of the balance sheet.

Question 18:
What is meant by 'Redemption out of Capital?

ANSWER: In the cases when the debentures are redeemed out of amount of the capital and further, no amount o profit is utilized for the purpose of redemption, than it is said to be the redemption made out of the capital. In such cases the ompany is not required to transfer the profits made out f the redemption to the Debenture Redemption Reserve.

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

ANSWER:
As per the Company's Act, in the case the companies must be authorized by the Article of Association to make the purchase of its own debentures in order for it to do so. The

purpose of such purchase of the debenture by the company is as follows:

1. To make the immediate cancellation of the liability of the debenture liability, if the rate of interest on the debenture is higher than the market rate.
2. The company may purchase its own debenture for the purpose of investment so that it can sell them in the future when its prices rise.

Question 20:

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

ANSWER:

The Debenture Redemption Reserve (DRR) is shown as the Notes to Accounts of the Reserves and Surplus. The final balance is derived by the addition of the Debenture Redemption Reserve shown under the sub-heading of Shareholder's Funds in the Equities and the Liabilities side of the Balance Sheet of the company.

Question 21:

Explain the different types of debentures?

ANSWER:

The various different types of debentures are as follows:

1. **On the basis of Security**
    a. ***Secured Debentures***- These are the mortgaged debentures who are secured against the asset of the company to the financial institutions who provide the loan for the same. The secured debentures are considered to be the asset for any company. In the case

when the company may fail to repay the principal amount of the loan or is unable to repay the interest, then in such case the banks may recover their amount with such debentures.

b. ***Unsecured Debentures***- The debentures which are unsecured are considered to be the unsecured creditors as they do not entail any security.

2. **On the basis of Tenure**

a. ***Redeemable Debenture***- The debentures which are repayable after the particular specified time at the par or premium either in the installment or at par.

b. ***Irredeemable Debenture***- The debentures which are irredeemable cannot made to be repaid before the expiry of the life of the company. Hence these debentures are redeemable only after the winding of the company.

3. **On the basis of Mode of Redemption**

a. ***Convertible Debentures***- Convertible Debentures are those debentures that can be converted into equity shares after a specified period of time. These are of following two types:

i. *Fully Convertible Debentures*: There is no requirement to maintain the Debenture Redemption Reserve in this case as the entire amount of the convertible debentures is converted into the equity shares .

ii. *Partly Convertible Debentures*: These are considered to be types of shares in which the co0nverison of the debentures into the equity shares is done in the partial manner and the requirement o maintain the Debenture Redemption Reserve is required only in the case of the non-convertible part of the debentures.

b. ***Non-Convertible Debenture***- These are the debentures which cannot at all be converted into shares. These require the maintenance of the Debenture Redemption Reserve.

4. **On the basis of Coupon Rate**

a. ***Zero Coupon Rate***- The zero coupon debentures are the types of debentures which do not contain any specific rate of interest and which are not issued on discount. The amount of interest is calculated by the difference of the face value with the price of the issue of debentures. The excess of such amount is known as the amount of interest. b. ***Specific Rate***- The debentures which carry a specific rate of interest either fixed or floating is referred to be the debentures issued at specific rate.

5. **On the basis of Registration**

a. ***Registered Debenture***- During the process of issuing debentures the company maintains the record of the name, address and other details of the debenture holder in the Register of the Debenture Holders of the company. b. ***Bearer Debentures***- In the case when the company does not maintain the records of the debentures holders and thus such debentures are transferable in nature. The debentures issued in such cases are known as the Bearer Debenture. The interest in this case is paid to those who hold the coupons of interest which are attached to a specific bank.

Question 22:
Distinguish between a debenture and a share. Why is debenture known as loan capital? Explain.

ANSWER:

Basis of Difference	**Shares**	**Debenture**
1. Owner or Creditor	The share holders are considered to be the owners and thus they form the part of the capital.	The debenture holder is considered to be the creditors and hence they form the part of the loan for the company.
2. Voting Rights	The share holders have the rights of voting and thus they exercise the control over the affairs of the company.	The debenture holders do not have the rights of voting and thus do not have the control over the affairs of the company.
3. Returns	The share holders receive the returns in the form of dividend.	The debenture holders receive the return is the form of the interest.
4. Rate of Return	The rate of rate in the dividend is not fixed and hence it varies from year to year.	The rate of the interest is fixed in the debentures and hence they remain

		same for every year.
5. Obligations of Return	Dividend is considered to be the appropriation of profit. The dividends are not to be required to pay if the company does not earn profit and is incurring loss.	The interest in the case of debentures is charged against the profit, the interest is thus payable to the debenture holders even in the case when the company does not earn profits.
6. Repayment of Amount	The repayment of the amount of share is not returned during the life time of the company	The amount of the debenture is returned as per the terms and conditions of the issue.
7. 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.
8. Conversion	The shares are unconvertible in nature and hence they cannot be converted into debentures.	The debentures can be converted into the shares.

9. Risk	Shares are considered to be more risky than debentures as these are unsecured.	The debentures are secured when they are secured against the assets.
10. Repayment Priority	The payment is made to shareholders after the settlement of all the external liabilities which includes the debenture holders.	The payment to the debenture holders is made on the priority basis and hence their payment is settled before the share holders.

Question 23:
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:
The meaning of the term collateral security implies the additional security in the addition of primary security. In certain situations or circumstances, the company may issue the issue the debentures as the additional security when the loan is taken from the financial institutions. Further, the lender who receives debenture as the security is not liable to pay the interest on them to the debenture holders. In any case when the company makes the fault at the part of the payment of the principal amount to such financial institution, the institution is empowered to recover the

amount from the primary security made before it. If the recovery from the primary security is not sufficient enough, the institution is empowered to recover the amount from the debentures as the additional security made before it.

Accounting Treatment

There are two manners in which the recording of this can be made:

1. ***No Entry***

The no entry in the journal entry is made because no liability has been created. However as per the Revised Schedule-VI of the Companies Act, the issuance of the debentures as the collateral security is shown as Long term borrowings under the Non- Current liability on the Equity and Liabilities side of the Balance Sheet. Further, the loan so taken is mentioned in the Notes to Accounts of Long-Term Borrowings, and furthermore in the Cash and the Cash Equivalents the amount of loan which is received (in the case if it is in cash) is mentioned.

Example- Suppose Good Bus Ltd. issued 4,000 9% Debentures of Rs 100 each as collateral security to NBP bank for a loan of Rs 3,00,000.

Good Bus Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	3,00,000

3. Current Liabilities		
Total		**3,00,000**
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	2	3,00,000
Total		**3,00,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long-Term Borrowings** Loan (Secured by issue of 9% Debentures of Rs 4,00,000 as Collateral Security)	3,00,000
2	**Cash and Cash Equivalents** Cash at Bank	3,00,000

2. ***By Making Entry***

The journal entry for the issuance of the debentures as the collateral security can be made.

During the time of Issue of Debentures as Collateral Security

Debenture Suspense A/c Dr.

To Debenture A/c

(Debentures issued as collateral security)

As per the Revised Schedule VI of the Companies Act, Debentures which are issued as the collateral security shall be shown as the Long-Term Borrowings of the company under the heading of the Non-Current Liabilities of the Equity and Liabilities side of the Balance Sheet of Company. This method is distinct from the first method as in this method the debenture suspense account is maintained which is deducted from the account of the Debentures in the Notes to Accounts of the Long Term Borrowings.

Good Bus Ltd.
Balance Sheet

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

NOTES TO ACCOUNTS

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

Question 24:

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

ANSWER:
In the case of the issuance of the debentures at the price below its face value, the debentures are said to e issued in the discount. The amount of discount is derived from the difference of the price of the issue and the face value of the debentures. This hence is considered to be the Capital Loss fo the company. This is shown in the Notes to Accounts as per the Revised Schedule VI of the Companies Act.

1. When the amount is to be written off within the 12 months from the date of the Balance Sheet, it is shown under the Other Current Assets.

2. When the amount is to be written off after the period of the 12 months from the date of the balance sheet, than the amount is shown under the Other Non-current Assets.

Accounting Treatment

For example, if a company has issued 10% debentures of Rs 6,00,000 at 5% discount redeemable annually by Rs 2,00,000 each year. The total amount of discount on Rs 6,00,000 debentures @ 5% is Rs 30,000, i.e. (6,00,000 × 5/100 = Rs 30,000). The accounting treatment for discount on issue of debentures(if it is to be written-off in 5 years) is:

Year 1: Amount to be written-off each year
= 30,000 × 15=6,00030,000 × 15=6,000 - Shown in ***Statement of Profit and Loss***
Amount to be written-off in the next year = 6,000 - Shown as *Other Current Asset* under ***Current Assets***

Remaining Amount to be written-off after next year
= 30,000 − 6,000 − 6,000= 18,00030,000 - 6,000 - 6,000= 1 8,000 - Shown as *Other Non-Current Asset* under ***Non-Current Assets***

Statement of Profit and Loss *for year ended...*			
S. No.	**Particulars**	**Note No.**	**Amount**
I	Revenue from Operations		
II	Other Income		
III	Total Revenue (I + II)		
IV	Expenses:		
	Amortisation Expenses (Discount on issue of debentures written-off)		6,000

Extract of Balance Sheet *as on March 31, 2013*		
Particulars	**Note No.**	**Amount (Rs)**
II. Assets		
1. Non-Current Assets		
(e) Other Non-Current Assets	1	18,000
2. Current Assets		
(f) Other Current Assets	2	6,000

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Other Non-Current Assets**	
	Discount of Issue of Debentures	18,000
2	**Other Current Assets**	
	Discount of Issue of Debentures	6,000

Year 2
Amount to be written-off
= 30,000 × 15=6,00030,000 × 15=6,000 - Shown
in ***Statement of Profit and Loss***
Amount to be written-off in the next year = 6,000 - Shown
as *Other Current Asset* under ***Current Assets***
Remaining Amount to be written-off after next year
= 18,000 − 6,000 = 12,00018,000 - 6,000 = 12,000 - Shown
as *Other Non-Current Asset* under ***Non-Current Assets***

At the end of Year 5, the amount of discount on issue of debentures will be completely written off.

Question 25:
Explain the different terms for the issue of debentures with reference to their redemption.

ANSWER:

The redemption of the debentures can give rise to the following six situations:

1. Issue at Par, Redeemable at Par.
2. Issue at Premium, Redeemable at Par.
3. Issue at Discount, Redeemable at Par.
4. Issue at Par, Redeemable at Premium.
5. Issue at Premium, Redeemable at Premium.
6. Issue at Discount Redeemable at Premium.

1. **Issue at Par and Redeemable at Par-** In this case the redemption of the debentures are done in the face value of the debentures. The following journal entry is passed for the same:

Bank A/c	Dr. (with the amount received)
To Debenture Application A/c (Debenture Application money received)	(with the face value)
Debenture Application A/c	Dr.
To Debenture A/c (Application money transferred to Debenture Account)	

2. **Issue at Premium and Redeemable at Par-** In this case the debentures are issued at premium and are redeemable at par. The amount of premium is considered to be the gain for

the company and thus it is credited in the journal entry which is as follows:

Bank A/c Dr.
To Debenture Application A/c
(Debenture Application money received)

Debenture Application A/c Dr.
To Debenture A/c
To Securities Premium A/c
(Debentures issued at premium and redeemable at par)

3. **Issue at Discount and Redeemable at Par-** In this case the issuance of the debentures are made at discount and they are redeemable at par. The discount is considered to be the loss for the company and hence it is debited in the Journal Entry for this entry which is as follows:

Bank A/c Dr.
To Debenture Application A/c
(Debenture Application money received)

Debenture Application A/c Dr.
Discount on Issue of Debenture A/c Dr.
To Debenture A/c
(Debentures issued at discount and redeemable at par)

4. **Issue at Par and Redeemable at Premium**- In this case the issuance of the debentures is done at par and they are redeemable at premium. In this case the company does not incur any loss during the time of the issue of the debentures, but it faces the loss during the time of the redemption of the debenture. Thus, the following journal entry is to be passed in such case:

Bank A/c	Dr.
To Debenture Application A/c	
(Debenture Application money received)	

Debenture Application A/c	Dr.
Loss on Issue of Debenture A/c	Dr. (with the amount of premium on redemption)
To Debenture A/c	(with the face value of the debentures)
To Premium on Redemption of Debenture A/c	(with the amount of premium on redemption)
(Debentures issued at par and redeemable at premium)	

5. **Issued at Premium and Redemption at Premium**- In this case the debentures are issued and redeemable at premium. The following journal entry is passed in this case:

Bank A/c	Dr.
To Debenture Application A/c	

(Debenture Application money received)

Debenture Application A/c	Dr.	
Loss on Issue of Debenture A/c	Dr.	(with the amount of premium on redemption)
To Debenture A/c		(with the face value of the debentures)
To Securities Premium A/c		(with the amount of premium on issue)
To Premium on Redemption of Debenture A/c		(with the amount of premium on redemption)
(Debentures issued at premium and redeemable at premium)		

6. **Issue of Discount and Redemption at Premium-** In this case the debentures are issued at discount and redeemable at premium. In the effect of such case, the following journal entry has to be passed:

Bank A/c Dr.
To Debenture Application A/c
(Debenture Application money received)

Debenture Application A/c	Dr.
Loss on Issue of Debenture A/c	Dr. (with the amount of discount on issue *plus* amount of premium on redemption)
To Debenture A/c	(with the face value of the debentures)
To Premium on Redemption of Debenture A/c	(with the amount of premium on redemption)
(Debentures issued at discount and redeemable at premium)	

Question 26:
Differentiate between redemption of debentures out of capital and out of profits.

ANSWER:
Redemption of Debentures Out of Capital

- The redemption of the debentures out of capital is the case in which the redemption of the debentures happens out of the capital and there is no utilisation of profit for the process of redemption. Hence the company is not required to maintain the Debenture Redemption Reserve and no profits are required to be transferred to DRR.

- As per the guideline laid down by Securities and Exchange Board of India (SEBI) and the Section 117C of Company Act of 1956, the creation of DRR is mandatory (DRR). Hence it is impossible for the company to redeem the debentures purely out of the capital as it causes the reduction in the value of the assets. Following is the list of the companies who are exempted to maintain and create DRR:

1. Infrastructure companies (i.e. those companies that are engaged in the business of developing, maintaining and operating infrastructure facilities)

2. All those companies which can issue debentures with a maturity up to 18 months

Redemption of Debenture Out of Profits

- In this case the redemption of the debentures happens out of the profit and not from the capital of the company. Thus before the redemption of the debentures, the profits are transferred to the Debenture Redemption Reserve from the Profit and Loss Appropriation Account.
- As per the guidelines established by the Securities Exchange Board of India (SEBI), DRR is to be created mandatorily and the amount which is equal to 50% of the debentures issued must be transferred to it before the redemption of the debentures. The profits are thus transferred to the DRR before the redemption in this

manner which reduces the amount of the profit. Thus in this method, the profit or the loss is transferred to the DRR account from the Statement of the Profit or Loss. The working of this is shown in the Notes to Accounts of the Reserves and Surplus. The final balance is shown in the sub heading of the 'Reserves and Surplus' which is under the main heading of the Shareholder's Funds on the Equity and Liabilities side of the Balance Sheet of the company. At the last when all of the debentures are redeemed, the DRR account is supposed to be closed by transferring the amount to the General Reserve.

Question 27:
Explain the guidelines of SEBI for creating Debenture Redemption Reserve.

ANSWER:
The following are the main points of SEBI's guidelines for creation of Debenture Redemption Reserve (DRR).
1. All those companies which have a maturity date of more than 18 months are required to maintain the Debenture Redemption Reserve.
2. An amount which is equal to the 50% of the amount of the debenture issued must be transferred to DRR mandatorily before the process of the redemption of the debentures begins.
3. The creation of the DRR is only applied to the debentures which are non-convertible in nature and for the parties which are non convertible for the Partly Convertible Debentures.

4. The withdrawals from the Debenture Redemption Reserve can be made only after when the 10% of the debentures are redeemed.
5. 50% of the debentures which are issued shall be redeemed out of the profits which have to be transferred to the DRR. The remaining 50% of the debentures which are issued can be redeemed either from the capital or from the profits. Thus the redemption of the debentures cannot be done purely out of the capital.
6. The following companies are exempted to maintain the DRR :

- The Infrastructure companies (i.e. those companies which are engaged in the business of maintaining and operating the infrastructure facilities)
- A Company that issues debentures with a maturity up to 18 months.

Question 28:
Describe the steps for creating Sinking Fund for redemption of debentures.

ANSWER:
The steps involved in the creation of the Sinking Fund for the redemption of the debentures are mentioned with the help of the example which is given below:
A Company issued 10% Debentures of Rs 5,00,000 for 3 years. The investment is expected to earn 6% p.a. The Sinking Fund table shows that 0.31411 invested annually at 6% amount to Rs 1 in 3 years.

Step 1: The amount of the installment is to be calculated every year for the investment with the help of the Sinking Fund table. Like in the example Rs 1,57,055 (i.e. 0.31411 × 5,00,000) is required every year.
Step 2: The amount of installment which is calculated in the above mentioned step is transferred to the Debenture Redemption Fund (Sinking Fund) by debiting from Profit and Loss Appropriation Account.
Step 3: In the first year, the above installment is invested to yield amount required for redemption of debenture by debiting Debenture Redemption Fund Investment Account.
Step 4: The interest on investment is received on half yearly or annual basis. In the example, the interest of Rs 9,423 is

received on annual basis.
Step 5: The total amount of investment, i.e. interest plus instalment is invested in the subsequent year. In the example, Rs 1,66,478 (i.e. Rs 1,57,055 + Rs 9,423) is invested in the next year.
Step 6: Repeat the Step 2, 3, 4 for each subsequent years up to the end of the life of the debenture. In the year of redemption, the instalment (i.e. the last instalment) will be debited to the Profit and Loss Appropriation Account but will not be invested.
Step 7: In the year of redemption, the investment is sold off.
Step 8: The profit (loss) on the sale of the investment is transferred by debiting (crediting) Debenture Redemption Fund Investment Account to the Debenture Redemption Fund Account.
Step 9: The payment to the debenture holder is made.

Step 10: The balance of Debenture Redemption Fund Account *if any*, is transferred to the General Reserve.

Question 29:
Can a company purchase its own debentures in the open market? Explain.

ANSWER:
The companies are allowed to purchase their own debentures if it authorized by its Article of Association. The purpose for which the companies buy their own debentures are as follows:
1. For making the immediate cancellation of debenture as a liability. This is done in the case if the rate of interest rate on debenture is higher than the rate of interest of the market.
2. Companies can also purchase their own debentures in order to make the investments which they could sell later at the price which is higher to earn the profit.
3. Companies may purchase their own debentures at the discount or at the premium for the purpose of cancellation.

1. **If Debentures are purchased at Discount for Cancellation**
When the company purchases its own debentures at discount for cancellation, then the following Journal entries are recorded.

Own Debentures A/c	Dr.
To Bank A/c	

(Own debentures purchased)

Debentures A/c	Dr. (with the face value)
To Own Debentures A/c	(with the amount paid)
To Profit on Cancellation of Own Debentures A/c	(with the difference between the face value and amount paid)

(Own debentures cancelled)

Profit on Cancellation of Own Debentures A/c Dr.
To Capital Reserve A/c
(Profit on Cancellation of Own Debentures transferred to Capital Reserve)

2. **If Debentures are Purchased at Premium for Cancellation**

Own Debentures A/c Dr.
To Bank A/c
(Own debentures purchased)

Debentures A/c	Dr. (with the face value)
Loss on Redemption of Debentures A/c	(with the difference between Amount paid and face value)
To Own Debentures A/c	

(Own Debentures cancelled)

Question 30:
What is meant by conversion of debentures? Describe the method of such a conversion.

ANSWER:
The conversion of the debentures is referred to the process of conversion of the debentures into shares after the expiry of the debenture after the specified period of time. The companies are not required to pay the funds for the process of redemption and hence there is no need to maintain the Debenture Redemption Reserve. The new shares that can be issued at par, premium or at the discount.

Accounting Treatment
1. For amount due to debenture holders

Debenture A/c Dr.
To Debenture holders A/c

(Debentures redeemed)

2. For discharging liability to the debenture holders

Debenture holders A/c Dr.
To Shares/Debentures (New) A/c
(Debenture holder amount discharged)

Question 31:
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:

Book of G. Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To 6% Debenture Application A/c (Application money @ Rs 15 each received for 75,00,000 debentures)		11,25,00,000	11,25,00,000
	6% Debenture Dr.		11,25,00,000	

	Application A/c To 6% Debenture A/c (Application money of 75,00,000 debentures transferred to 6% Debentures Account)			11,25,00,000
	6% Debenture Allotment A/c Dr. To 6% Debenture A/c (Allotment money @ Rs 35 each due for 75,00,000 debentures)		26,25,00,000	26,25,00,000
	Bank A/c Dr. To 6% Debenture Allotment A/c (Allotment money received @ Rs 35		26,25,00,000	26,25,00,000

	each on 75,00,000 debentures)			

Question 32:
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.

ANSWER:

Books of Y Ltd. Journal				
Date	**Particulars**	**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
	Bank A/c Dr. To 6% Debentures Application A/c (Application money @ Rs 25 each received for 2,000 6% Debentures)		50,000	 50,000
	6% Debenture Application A/c Dr.		50,000	

	To 6% Debenture A/c (Application money on 2,000 debentures transferred to 6% Debentures Account)			50,000
	6% Debenture Allotment A/c Dr. To 6% Debenture A/c (Debenture Allotment money @ Rs 50 each due on 2,000 6% Debentures)		1,00,000	1,00,000
	Bank A/c Dr. To 6% Debenture Allotment A/c (Allotment money for 2,000 6% Debentures received)		1,00,000	1,00,000
	6% Debenture First and Final Call A/c Dr. To 6% Debenture A/c (Debenture First and Final Call @ 25 each due on 2,000 6% Debentures)		50,000	50,000
	Bank A/c Dr.		50,000	

	To 6% Debenture First and Final Call A/c (First and Final Call for 2,000 6% Debentures received)			50,000

Question 33:

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.

ANSWER:

Books of A. Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To 10% Debentures Application A/c (Application money received for 10,000, 10% Debenture Application @ Rs 10 each)		1,00,000	 1,00,000

	10% Debentures Application A/c Dr. To 10% Debenture A/c (Application money @ Rs 10 each transferred to 10% Debenture Account)		1,00,000	1,00,000
	10% Debenture Allotment A/c Dr. To 10% Debentures A/c To Securities Premium A/c (Allotment due @ Rs 25 each including premium Rs 5 on 10,000, 10% Debentures)		2,50,000	2,00,000 50,000
	Bank A/c Dr. To 10% Debenture Allotment A/c (Allotment money received on allotment @ Rs 25 each for 10,000 10% Debentures)		2,50,000	2,50,000
	10% Debenture First and Final Call A/c Dr. To 10% Debenture A/c (First and Final Call @ Rs 70 each on 10,000		7,00,000	7,00,000

	10% Debentures due)			
	Bank A/c Dr. To 10% Debenture First and Final Call A/c (Debenture First and Final Call received @ Rs 70 each for 10,000 10% Debentures)		7,00,000	7,00,000

Question 34:
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:

Books of A. Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. Discount on Issue of Debenture A/c Dr. To 9% Debenture A/c		41,40,00,000 3,60,00,000	 45,00,00,000

	(Money received for 90,00,000 9% Debentures @ Rs 50 each at discount of 8%)			

***Alternative Method*:**

	Bank A/c Dr. To 9% Debentures Application A/c (Debenture Application money received @ Rs 46 each on 90,00,000 9% Debentures)		41,40,00,000	 41,40,00,000
	9% Debentures Application A/c Dr. Discount on issue of Debentures A/c Dr. To 9% Debenture A/c (9% Debentures application money transferred to 9% Debenture Account)		41,40,00,000 3,60,00,000	 4,50,00,000

Question 35:
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 Debentures and applications for 400 Debentures were rejected.

ANSWER:

Books of A Ltd.

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To 9% Debenture Application A/c (9% Debenture Application money received on 4,800 Debentures @ 20 each)		96,000	 96,000
	9% Debenture Application A/c Dr.		96,000	

	To 9% Debenture A/c To 9% Debenture Allotment A/c To Bank A/c (9% Debenture Application money of 4000 debentures transferred to Debentures Account, 400 debentures rejected returned and remaining amount adjusted on allotment)			80,000 8,000 8,000
	9% Debenture Allotment A/c Dr. To 9% Debenture A/c (9% Debenture Allotment due on 4,000 Debentures @ Rs 20 each)		80,000	 80,000
	Bank A/c Dr. To 9% Debenture Allotment A/c (9% Debenture Allotment money received)		72,000	 72,000

	9% Debenture First Call A/c Dr. To 9% Debenture A/c (9% Debenture First Call due on 4000 debentures @ Rs 30 each)		1,20,000	1,20,000
	Bank A/c Dr. To Debenture First Call A/c (9% Debenture first call received for 4000 debentures @ Rs 30 each)		1,20,000	1,20,000
	9% Debenture Final Call A/c Dr. To 9% Debenture A/c (9% Debenture Final Call due on 4000 debentures @ Rs 30 each)		1,20,000	1,20,000
	Bank A/c Dr. To 9% Debenture Final Call A/c (9% Debenture Final Call received on 4000 debentures		1,20,000	1,20,000

	@ Rs 30 each)			

Question 36:
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:

Books of T. Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To 8% Debenture Application A/c (8% Debenture application money received for 3,00,000 debentures @ Rs 200 each)		6,00,00,000	6,00,00,000

	8% Debenture Application A/c Dr. To 8% Debenture A/c To 8% Debenture Allotment A/c To Securities Premium A/c (8% Debenture Application money of 2,00,000 debentures @ Rs 200 each including Rs 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
	8% Debenture Allotment A/c Dr. To 8% Debenture A/c (8% Debenture allotment on 2,00,000 debentures @ Rs 350 due)	7,00,00,000	 7,00,00,000

	Bank A/c Dr. To 8% Debenture Allotment A/c (8% Debenture Allotment money received)		5,00,00,000	5,00,00,000

Question 37:

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.

ANSWER:

Books of X. Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To 14% Debenture Application A/c		2,70,000	2,70,000

	(14% Debenture application money for 13,500 debentures @ 20 each received)			
	14% Debenture Application A/c Dr. To 14% Debenture A/c To 14% Debenture Allotment A/c To Bank (14% Debenture Application money of 10,000 @ Rs 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
	14% Debenture Allotment A/c Dr. To 14% Debenture A/c (14% Debenture Allotment money due on 10,000 debentures @ Rs 60 each)		6,00,000	 6,00,000

	Bank A/c Dr. To 14% Debenture Allotment A/c (14% Debenture Allotment money received)		5,40,000	5,40,000
	14% Debenture First and Final Call A/c Dr. To 14% Debenture A/c (14% Debenture First and Final Call money due on 10,000 debentures @ 20 each)		2,00,000	2,00,000
	Bank A/c Dr. To 14% Debenture First and Final Call A/c (14% Debenture First and Final Call money received on 10,000 debentures @ Rs 20 each)		2,00,000	2,00,000

Question 38:

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:

Books of R. Ltd.

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr.		37,20,00,000	
	To 10% Debenture Application & Allotment A/c			37,20,00,000
	(Debenture Application and Allotment money received for 20,00,000 10% Debentures @ Rs 200 each)			
	10% Debenture Application and Allotment A/c Dr.		37,20,00,000	
	Loss on Issue of Debenture A/c Dr.		3,20,00,000	
	Discount on Issue of Debentures A/c Dr.		2,80,00,000	

	To 10% Debenture A/c To Premium on Redemption of Debentures A/c (Allotment of 20,00,000 debenture @ Rs 200 each at 7% discount with the term of 8% premium on redemption)			40,00,00,000 3,20,00,000

Question 39:
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:

Books of M. Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Sundry Assets Dr. To Sundry Liabilities A/c		9,00,00,000	 70,00,000

	To S Ltd. (Assets and liabilities of S. Ltd. taken over)			8,30,00,000
	S. Ltd. Dr. To 8% Debenture A/c (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

Question 40:
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.

ANSWER:
Case (a)

Book of B. Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Mohan Bros. (Assets and liabilities of Mohan Bros. taken over)		4,00,000 30,000	 50,000 3,80,000
	Mohan Bros. Dr. To Debenture A/c (3,800 debentures of 100 each issued to Mohan Bros. in consideration of assets and liabilities)		3,80,000	 3,80,000

Case (b)

	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Mohan Bros. (Assets and liabilities of Mohan Bros. taken over)		4,00,000 30,000	 50,000 3,80,000

	Mohan Bros. Dr. Discount on Issue of Debenture A/c Dr. To Debenture A/c To Bank A/c (Issued 4,222 debentures of Rs 100 each at 10% discount and balance paid in cash)		3,80,000 42,222	 4,22,200 22

Case (c)

	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Mohan Bros. (Assets and liabilities of Mohan Bros. taken over)		4,00,000 30,000	 50,000 3,80,000
	Mohan Bros Dr. To Debentures A/c To Securities Premium A/c To Bank A/c (Issued of 3,454 debentures at 10% premium and balance paid in cash)		3,80,000	 3,45,400 34,540 60

Question 41:

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.

ANSWER:

Books of X. Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Machinery A/c Dr. To Y (Machinery purchased from Y)		4,40,000	 4,40,000
	Y Dr. To 12% Debentures A/c To Securities Premium A/c (Allotted 4,000 debentures of Rs 100 each at a premium of Rs 10 per debenture in consideration of Machinery purchased)		4,40,000	 4,00,000 40,000

Question 42:

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)

Books of X. Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To 10% Debentures A/c To Securities Premium A/c (Issued 15,000, 10% debentures of Rs 100 each at 10% premium)		16,50,000	 15,00,000 1,50,000

X Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Reserves and Surplus	1	1,50,000
2. Non-Current Liabilities		
a. Long-Term Borrowings	2	15,00,000
3. Current Liabilities		
Total		**16,50,000**
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	3	16,50,000
Total		**16,50,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Reserves and Surplus**	
	Securities Premium	1,50,000
2	**Long-Term Borrowings**	
	10% Debentures (Secured)	15,00,000
3	**Cash and Cash Equivalents**	
	Cash at Bank	16,50,000

(ii)

	Bank A/c Dr. Discount on Issue of Debentures A/c Dr. To 10% Debentures (Issued 15,000 10% Debenture of Rs 100 each at 5% discount)		14,25,000 75,000	 15,00,000

X Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholder's Funds		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	15,00,000
3. Current Liabilities		
Total		**15,00,000**
II. Assets		
1. Non-Current Assets		
a. Other Non-Current Assets	2	75,000
2. Current Assets		
a. Cash and Cash Equivalents	3	14,25,000
Total		**15,00,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long-Term Borrowings**	
	10% Debentures (Secured)	15,00,000
2	**Other Non-Current Assets**	
	Discount on Issue of Debentures	75,000
3	**Cash and Cash Equivalents**	
	Cash at Bank	14,25,000

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

X Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	12,00,000
3. Current Liabilities		
Total		**12,00,000**
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	2	12,00,000
Total		**12,00,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long-Term Borrowings**	
	Bank Loan (Secured against issue Debentures of Rs 12,00,000)	12,00,000
2	**Cash and Cash Equivalents**	
	Cash at Bank	12,00,000

Alternative Method

	Debenture Suspense A/c Dr.		15,00,000	
	To 10% Debentures A/c			15,00,000
	(Issued 15,000 10% Debentures of Rs 100 each as collateral security to bank against a loan of Rs 12,00,000)			

X Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		

1. Shareholders' Fund 2. Non-Current Liabilities a. Long-Term Borrowings 3. Current Liabilities	1	12,00,000
Total		**12,00,000**
II. Assets 1. Non-Current Assets 2. Current Assets a. Cash and Cash Equivalents	2	12,00,000
Total		**12,00,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long Term Borrowings**	

	Secured:		
	Bank Loan		12,00,000
	10 % Debentures (Secured against issue of Debentures of Rs 12,00,000)	15,00,000	
	Less: Debenture Suspense Account	15,00,000	-
			12,00,000
2	**Cash and Cash Equivalents**		
	Cash at Bank		12,00,000

(iv)

	Machinery A/c Dr. To Vendor A/c (Machinery purchased from vendor)		13,50,000	13,50,000
	Vendor A/c Dr. Discount on Issue of Debentures A/c Dr. To 10% Debenture A/c (15,000 10% Debentures @ Rs 100 each issued at 10% discount to the vendor in consideration of Machinery of Rs 13,50,000)		13,50,000 1,50,000	15,00,000

X Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non-Current Liabilities		
a. Long Term Borrowings	1	15,00,000
3. Current Liabilities		
Total		**15,00,000**
II. Assets		
1. Non-Current Assets		
a. Fixed Assets		
i. Tangible Assets	2	13,50,000
b. Other Non-Current Assets	3	1,50,000
2. Current Assets		

Total		**15,00,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long Term Borrowings** 10% Debentures (Secured)	15,00,000
2	**Tangible Assets** Plant and Machinery	13,50,000
3	**Other Non-Current Assets** Discount on Issue of Debentures	1,50,000

Question 43:
Journalize the following:
(i) A debenture issued at Rs 95, repayable at Rs 100
(ii) A debenture issued at Rs 95, repayable at Rs 105 and
(iii) A debenture issued at Rs 100, repayable at Rs 105.
The face value of debenture in each of the above cases is Rs 100.

ANSWER:

S.No.	Particulars	L.F.	Debit	Credit

			Amount Rs	Amount Rs
(i)	Bank A/c Dr. Discount on Issue of Debenture A/c Dr. To Debenture A/c (Debenture of Rs 100 issued at Rs 5 discount with the term repayable at Rs 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 (Debenture of Rs 100 issued at a discount of Rs 5 and with the term repayable at Rs 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 Debenture A/c		100 5	 100 5

	(Debenture of Rs 100 issued with the term repayable at Rs 105)			

Question 44:
A.Ltd. issued 50,00,000, 8% Debenture of Rs 100 at a discount of 6% on April 01, 2009 redeemable at premium of 4% by draw of lots as under:
20,00,000 Debentures on March, 2011
10,00,000 Debentures on March, 2013
20,00,000 Debentures on March, 2014
Compute the amount of discount to be written-off in each year till debentures are paid. Also prepare discount/loss on issue of debenture account.

ANSWER:

Loss on issue of debenture = 6% (discount on issue) + 4% (premium on redemption) = 10%

$$= 50,00,000 \times 100 \times \frac{10}{100} = 5,00,00,000$$

At the end of	Debenture Outstanding	Ratio	Loss to be written off every year

March 2010	50,00,00,000	5	$5,00,00,000 \times \frac{5}{18} = 1,38,88,889$
March 2011	50,00,00,000	5	$5,00,00,000 \times \frac{5}{18} = 1,38,88,889$
March 2012	30,00,00,000	3	$5,00,00,000 \times \frac{3}{18} = 83,33,333$
March 2013	30,00,00,000	3	$5,00,00,000 \times \frac{3}{18} = 83,33,333$
March 2014	20,00,00,000	2	$5,00,00,000 \times \frac{2}{18} = 55,55,556$
		18	Rs 5,00,00,000

Loss on Issue of Debenture Account

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**

2009 April 01	Debenture		5,00,00,000	2010 March 31	Profit and Loss		1,38,88,889
					Balance c/d		3,61,11,111
			5,00,00,000				5,00,00,000
2010 April 01	Balance b/d		3,61,11,111	2011 March 31	Profit and Loss		1,38,88,889
					Balance c/d		2,22,22,222
			3,61,11,111				3,61,11,111
2011 April 01	Balance b/d		2,22,22,222	2012 March 31	Profit and Loss		83,33,333
					Balance c/d		1,38,88,889
			2,22,22,222				2,22,22,222

2012 April 01	Balance b/d		1,38,88,889	2013 March 31	Profit and Loss		83,33,333
					Balance c/d		55,55,556
			1,38,88,889				1,38,88,889
2013 April 01	Balance b/d		55,55,556	2014 March 31	Profit and Loss		55,55,556
			55,55,556				55,55,556

Question 45:

A company issues the following debentures:

(i) 10,000, 12% debentures of Rs 100 each at par but redeemable at premium of 5% after 5 years;

(ii) 10,000, 12% debentures of Rs 100 each at a discount of 10% but redeemable at par after 5 years;

(iii) 5,000, 12% debentures of Rs 1,000 each at a premium of 5% but redeemable at par after 5 years;

(iv) 1,000, 12% debentures of Rs 100 each issued to a supplier of machinery costing Rs 95,000. The debentures are repayable after 5 years; and
(v) 300, 12% debentures of Rs 100 each as a collateral security to a bank which has advanced a loan of Rs 25,000 to the company for a period of 5 years.
Pass the journal entries to record the: (a) issue of debentures; and (b) repayment of debentures after the given period.

ANSWER:

In the books of ………….

Journal

a) Issue of Debentures

S. No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(i)	Bank A/c Dr. To 12% Debenture Application A/c (Debenture Application money of 10,000 12% debentures @ 100 each received)		10,00,000	10,00,000
	12% Debenture Application A/c Dr. Loss on Issue of Debenture A/c Dr.		10,00,000 50,000	

	To 12% Debenture A/c To Premium on Redemption of Debenture A/c (Debenture Application money of 10,000 12% debentures @ Rs 100 each transferred to 12% Debentures Account and the Debentures are issued with term of repayable at 5% premium)			10,00,000 50,000
(ii)	Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture Application money received excluding discount on issue)		9,00,000	 9,00,000
	12% Debenture Application & Allotment A/c Dr. Discount on Issue of Debenture A/c Dr. To Debentures A/c (Debenture Allotment made due)		9,00,000 1,00,000	 10,00,000

(iii)	Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture Application money received)		52,50,000	52,50,000
	Debenture Application and Allotment A/c Dr. To Debenture A/c To Security Premium A/c (Allotment of debenture at premium)		52,50,000	50,00,000 2,50,000
(iv)	Machinery A/c Dr. To Vender A/c (Machinery purchased from supplier)		95,000	95,000
	Vender A/c Dr. Discount on Issue of Debenture Dr. To 12% Debenture A/c (Debenture issue at discount to vender of machinery)		95,000 5,000	1,00,000

(v)	12% Debenture Suspense A/c Dr. To Debenture A/c (300, 12% Debentures of Rs 100 each issued as collateral security to the bank against a loan of Rs 25,000)		30,000	30,000

b) Repayment of Debentures

S.No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(i)	12% Debentures A/c Dr. Premium on Redemption of Debenture A/c Dr. To Debenture Holders A/c (Amount due on redemption of debentures)		10,00,000 50,000	10,50,000
	Debenture Holders A/c Dr.		10,50,000	

	To Bank A/c (Payment made to Debenture Holders)			10,50,000
(ii)	12% Debenture A/c To Debenture Holders A/c (Amount due on redemption of debentures)	Dr.	10,00,000	10,00,000
	Debenture Holders A/c To Bank A/c (Payment made to Debenture Holders)	Dr.	10,00,000	10,00,000
(iii)	12% Debenture A/c To Debenture Holders A/c (Amount due on redemption of debentures)	Dr.	50,00,000	50,00,000
	Debenture Holders A/c To Bank A/c	Dr.	50,00,000	50,00,000

	(Payment made to Debenture Holders)			
(iv)	12% Debenture A/c Dr. To Vender A/c (Amount due to vender)		1,00,000	 1,00,000
	Vender A/c Dr. To Bank (Payment made to vender)		1,00,000	 1,00,000
(v)	12% Debenture A/c Dr. To Debenture Suspense A/c (Debenture and debenture Suspense Account closed)		30,000	 30,000

Question 46:

A company issued debentures of the face value of Rs 5,00,000 at a discount of 6% on April 01, 2012. These debentures are redeemable by annual drawings of Rs,1,00,000 made on March 31 each year. The directors decided to write off discount based on the debentures outstanding each year.

Calculate the amount of discount to be written-off each year. Give journal entries also.

ANSWER:

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2012 Apr 1	Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture Application money received)		4,70,000	4,70,000
Apr 1	Debenture Application and Allotment A/c Dr. Discount on Issue of Debenture A/c Dr. To Debentures A/c (Debenture Application money transferred to Debenture Account)		4,70,000 30,000	5,00,000

Assuming that the amount of discount on issue of debentures is to be written off in 5 years.

Year	Debenture outstanding	Ratio	Amount written off
2012	5,00,000	5	10,000
2013	4,00,000	4	8,000
2014	3,00,000	3	6,000
2015	2,00,000	2	4,000
2016	1,00,000	1	2,000
		15	30,000

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2013 Mar 31	Profit and Loss A/c Dr.		10,000	
	To Discount on Issue of Debentures A/c			10,000
	(Discount on issue of debentures written off)			
2014 Mar 31	Profit and Loss A/c Dr.		8,000	
	To Discount on Issue of Debentures A/c			8,000

	(Discount on issue of debentures written off)			
2015 Mar 31	Profit and Loss A/c Dr. To Discount on Issue of Debenture A/c (Discount on issue of debentures written off)		6,000	6,000
2016 Mar 31	Profit and Loss A/c Dr. To Discount on issue of Debentures A/c (Discount on issue of debenture written off)		4,000	4,000
2017 Mar 31	Profit and Loss A/c Dr. To Discount on Issue of Debenture A/c (Discount on issue of debenture written off)		2,000	2,000

Question 47:

A company issued 10% Debentures of the face value of Rs,1,20,000 at a discount of 6% on April 01, 2011. The debentures are payable by annual drawings of Rs 40,000 commencing from the end of third year.
How will you deal with discount on debentures?
Show the discount on debentures account in the company ledger for the period of duration of debentures. Assume accounts are closed on March 31 every year.

ANSWER:

In the books of……………
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2011 Apr. 01	Bank A/c Dr. To Debenture Application and Allotment A/c (Debentures Application Money received)		1,12,800	1,12,800
Apr. 01	Debentures Application and Allotment A/c Dr. Discount on issue of Debenture A/c Dr.		1,12,800 7,200	

	To 10% Debenture A/c (Debenture Application Money transferred to Debenture Account)			1,20,000
2012 Mar. 31	Profit and Loss A/c Dr. To Discount on Issue of Debentures A/c (Discount on issue of debenture written off)		1,800	1,800
2013 Mar. 31	Profit and Loss A/c Dr. To Discount on Issue of Debenture A/c (Discount on issue of debenture written off)		1,800	1,800
2014 Mar. 31	Profit and Loss A/c Dr. To Discount on Issue of Debenture A/c (Discount on issue of debenture written off)		1,800	1,800
2015				

Mar. 31	Profit and Loss A/c Dr. To Discount on Issue of Debentures A/c (Discount on issue of debenture written off)		1,200	1,200
2016 Mar. 31	Profit and Loss A/c Dr. To Discount on Issue of Debentures A/c (Discount on issue of debenture written off)		600	600

Discount on Issue of Debentures

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**
2011 Apr. 01	10% Debentures		7,200	2012 Mar. 31	Profit and Loss		1,800
					Balance c/d		5,400
			7,200				7,200

2012 Apr. 01	Balance b/d		5,400	2013 Mar. 31	Profit and Loss		1,800
					Balance c/d		3,600
			5,400				5,400
2013 Apr. 01	Balance b/d		3,600	2014 Mar. 31	Profit and Loss		1,800
					Balance c/d		1,800
			3,600				3,600
2014 Apr. 01	Balance b/d		1,800	2015 Mar. 31	Profit and Loss		1,200
					Balance c/d		600
			1,800				1,800
2015 Apr. 01	Balance b/d		600	2016 Mar 31	Profit and Loss		600
			600				600

i) Working Note:

Amount of Discount on Issue of Debenture

Year	Debenture Outstanding	Ratio	Amount written off every year
2011-12	1,20,000	3	1,800
2012-13	1,20,000	3	1,800
2013-14	1,20,000	3	1,800
2014-15	80,000	2	1,200
2015-16	40,000	1	600
		12	Rs 7,200

Question 48:
B.Ltd. issued debentures at 94% for Rs 4,00,000 on April 01, 2011 repayable by five equal drawings of Rs 80,000 each. The company prepares its final accounts on March 31* every year.
Indicate the amount of discount to be written-off every accounting year assuming that the company decides to write off the debentures discount during the life of debentures. (Amount to be written-off: 2011 Rs 6,000;

2012 Rs 6,800; 2013 Rs 5,200; 2014 Rs 3,600; 2015 Rs 2,000; 2016 Rs 400).
***It should be December 31**

ANSWER:
Amount of discount to written off every year
In 2011 = Rs 6,000
In 2012 = 2,000 + 4,800 = Rs 6,800
In 2013 = 1,600 + 3,600 = Rs 5,200
In 2014 = 1,200 + 2,400 = Rs 3,600
In 2015 = 800 + 1,200 = Rs 2,000
In 2016 = Rs 400

Working Notes

i) Amount of discount to be written off every year

Year	Debenture Outstanding	Ratio	Months	New Ratio (Ratio ×× Months)	Amount written off
2011 Apr-Dec 2012	4,00,000	5	9	45	6000

Jan-Mar	4,00,000	5	3	15	2000	
Apr-Dec 2013	3,20,000	4	9	36	4800	
Jan-Mar	3,20,000	4	3	12	1600	
Apr-Dec 2014	2,40,000	3	9	27	3600	
Jan-Mar	2,40,000	3	3	9	1200	
Apr-Dec 2015	1,60,000	2	9	18	2400	

Jan-Mar	1,60,000	2	3	6	800
Apr-Dec	80,000	1	9	9	1200
2016 Jan-Dec	80,000	1	3	3	400
				180	24,000

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
Dec 31	Debenture Holders A/c Dr.		5,400	
	To Bank A/c			5,400
	(Interest paid)			
	Debenture Interest A/c Dr.		6,000	
	To Income Tax Payable A/c			600

	To Debenture Holders A/c (Amount of interest due for 6 months and tax deducted at source)			5,400
	Debenture Holders A/c Dr. To Bank A/c (Interest paid)		5,400	5,400
	Income Tax Payable A/c Dr. To Bank A/c (Tax deducted at source on interest paid)		1,200	1,200
	Profit and Loss A/c Dr. To Debenture Interest A/c (Debenture interest transferred to Profit and Loss Account)		1,200	1,200

Note: In the question, the closing date of the accounting year is March 31, however, it should be December 31.

Question 49:

B. Ltd. issued 1,000, 12% debentures of Rs 100 each on April 01, 2014 at a discount of 5% redeemable at a premium of 10%.
Give journal entries relating to the issue of debentures and debentures interest for the period ending March 31, 2015 assuming that interest is paid half yearly on September 30 and March 31 and tax deducted at source is 10%.

ANSWER:

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2014 Apr. 01	Bank A/c Dr.		95,000	
	Loss on Issue on Debentures A/c Dr.		15,000	
	To 12% Debenture A/c			1,00,000
	To Premium on Redemption of Debentures A/c			10,000
	(Debenture issued at discount and redeemable at Premium)			
Sept. 30	Debenture Interest A/c Dr.		6,000	

	To Income Tax Payable A/c			600
	To Debenture Holders A/c			5,400
	(Amount of interest on 12% debentures Rs 1,00,000 due for 6 months and 10% tax deducted at source)			
Sept. 30	Debenture Holders A/c Dr.		5,400	
	To Bank A/c			5,400
	(Interest paid to Debenture Holders)			
2015 Mar. 31	Debenture Interest A/c Dr.		6,000	
	To Income Tax Payable A/c			600
	To Debenture Holders A/c			5,400
	(Amount of interest on 12% Debentures Rs 1,00,000 due for 6 months and 10% tax deducted at source)			

Mar. 31	Debenture Holders A/c Dr. To Bank A/c (Interest paid to Debenture Holders)			5,400 5,400
Mar. 31	Profit and Loss A/c Dr. To Debenture Interest A/c (Interest on debentures transferred to Profit and Loss Account)		12,000	12,000

Question 50:

What journal entries will be made in the following cases when company redeems debentures at the expiry of period by serving the notice: (a) when debentures were issued at par with a condition to redeem them at premium; (b) when debentures were issued at premium with a condition to redeem that at par; and (c) when debentures were issued at discount with a condition to redeem them at premium?

ANSWER:

S.No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs

(a)	Debenture A/c Dr. Premium on Redemption of Debenture A/c Dr. To Debenture Holders A/c (Amount due for redemption of Debentures)				
	Debenture Holders A/c Dr. To Bank A/c (Payment made to Debenture Holders)				
(b)	Debenture A/c Dr. To Debenture Holders A/c (Amount due for redemption of debentures that were issued at premium with term of redeemable at par)				
	Debenture Holders A/c Dr. To Bank A/c (Payment made to Debenture Holders)				

(c)	Debenture A/c Dr. Premium on Redemption of Debenture A/c Dr. To Debentures Holders A/c (Amount due for redemption on debentures that were issued at discount with the term of redeemable at premium)				
	Debenture Holders A/c Dr. To Bank A/c (Payment made to Debenture Holders)				

Question 51:

On January 01, 2012, X. Ltd. issues 5,000, 8% Debentures of Rs 100 each repayable at par at the end of three years. It has been decided to set up a cumulative sinking fund for the purpose of their redemption. The investments are expected to realise 4% net. The Sinking Fund Table shows that Rs 0.320348 amounts to one rupee @4% per annum in three years. On December 31, 2015 the balance at bank was Rs 2,42,360 and the

investments realised Rs 3,25,000. The debentures were paid off.
Give journal entries and show ledger account.
ANSWER:

Books of X. Ltd.
Journal

Date	**Particulars**	**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
2012 Jan. 1	Bank A/c Dr. To Debentures A/c (Issued 5,000 Debentures @ Rs 100 each)		5,00,000	5,00,000
Dec. 31	Profit and Loss Appropriation A/c Dr. To Cumulative Sinking Fund A/c (Annual Installment of Cumulative Sinking Fund debited to Profit and Loss Appropriation Account)		1,60,174	1,60,174
	Cumulative Sinking Fund Investment A/c Dr. To Bank A/c		1,60,174	1,60,174

	(Amount invested into Cumulative Sinking Fund)			
2013 Dec. 31	Bank A/c Dr. To Interest on Cumulative Sinking Fund Investment A/c (Interest received @ 4% on Cumulative Sinking Fund Investment)		6,407	6,407
	Interest on Cumulative Sinking Fund Investment A/c Dr. To Cumulative Sinking Fund A/c (Interest on Interest on Cumulative Sinking Fund Investment transferred to Cumulative Sinking Fund)		6,407	6,407
	Profit and Loss Appropriation A/c Dr. To Cumulative Sinking Fund A/c		1,60,174	1,60,174

	(Annual Installment of Cumulative Sinking Fund debited to Profit and Loss Appropriation account)			
	Cumulative Sinking Fund Investment A/c Dr. To Bank A/c (Amount invested in Cumulative Sinking Fund Investment)		1,66,581	1,66,581
2014 Dec. 31	Bank A/c Dr. To Interest on Cumulative Sinking Fund Investment A/c (Interest received @ 4% on Cumulative Sinking Fund Investment)		13,070	13,070
	Interest on Cumulative Sinking Fund Investment A/c Dr. To Cumulative Sinking Fund A/c		13,070	13,070

	(Interest on Cumulative Sinking Fund Investment transferred to Cumulative Sinking Fund Account)			
	Profit and Loss Appropriation A/c Dr. To Cumulative Sinking Fund A/c (Annual Installment of Cumulative Sinking Fund debited to Profit and Loss Appropriation Account)		1,60,174	1,60,174
	Bank A/c Dr. To Cumulative Sinking Fund Investment A/c (Cumulative Sinking Fund Investment sold)		3,25,000	3,25,000
	Cumulative Sinking Fund A/c Dr. To Cumulative Sinking Fund Investment A/c (Loss on sale of Cumulative Sinking Fund Investment transferred to		1,755	1,755

	Cumulative Sinking Fund Account)			
	Debenture A/c Dr. To Debenture Holders (Amount of debentures due to Debenture Holders)		5,00,000	5,00,000
	Debenture Holders Dr. To Bank A/c (Amount due for debentures paid to Debenture Holders)		5,00,000	5,00,000
	Cumulative Sinking Fund A/c Dr. To General Reserve A/c (Transfer of credit balance of Cumulative Sinking Fund Account to General Reserve Account)		4,89,245	4,89,245

8% Debentures Account

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**
2012				2012			

Dec 31	Balance c/d		5,00,000	Jan 1	Bank A/c		5,00,000
			5,00,000				5,00,000
2013				2013			
Dec 31	Balance c/d		5,00,000	Jan 1	Balance b/d		5,00,000
			5,00,000				5,00,000
2014				2014			
Dec 31	Debenture Holders		5,00,000	Jan 1	Balance c/d		5,00,000
			5,00,000				5,00,000

Cumulative Sinking Fund Account

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**
2012				2012			

Dec. 31	Balance c/d		1,60,174	Dec. 31	Profit and Loss Appropriation		1,60,174
			1,60,174				1,60,174
2013 Dec. 31	Balance c/d		3,26,755	2013 Jan. 1	Balance b/d		1,60,174
				Dec. 31	Profit and Loss Appropriation		1,60,174
					Interest on Cumulative Sinking Fund Investment		6,407
			3,26,755				3,26,755
2014 Dec. 31	Cumulative Sinking Fund		1,755	2014 Jan. 1	Balance b/d		3,26,755

	Investment A/c General Reserve		4,89,245	Dec. 31	Interest on Cumulative Sinking Fund Investment A/c Profit and Loss Appropriation A/c		13,071 1,60,174
			5,00,000				5,00,000

Cumulative Sinking Fund Investment Account

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**
2012 Dec 31	Bank		1,60,174	2012 Dec 31	Balance c/d		1,60,174
			1,60,174				1,60,174

2013				2013			
Jan 1	Balance b/d		1,60,174	Dec 31	Balance c/d		3,26,755
Dec 31	Bank		1,66,581				
			3,26,755				3,26,755
2014				2014			
Jan 1	Balance b/d		3,26,755	Dec 31	Bank		3,25,000
					Cumulative Sinking Fund		1,755
			3,26,755				3,26,755

Bank Account

Dr. **Cr.**

Date	Particulars	J. F.	Amount Rs	Date	Particulars	J. F.	Amount Rs
2014				2014			

Dec. 31	Debenture Redemption Fund		2,42,360	Dec. 31	Debenture Holders		5,00,000
	Investment		3,25,000		Balance c/d		67,360
			5,67,360				5,67,360
2015 Jan. 1	Balance b/d		67,360				

Question 52:
On April 01, 2014 a company issued 15% debentures of Rs 10,00,000 at par. The debentures were redeemable at par after three years from the date of Issue. A sinking fund was set up to raise funds for redemption of debentures. The amount for the purpose was invested in 6% Government securities of Rs 100 each available at par. The sinking fund table shows that if investments earn 6% per annum, to get Re.1 at the end of 3 years, one has to invest Rs 0.31411 every year together with interest that will be earned. On March 31, 2017, all the Government securities were sold at a total loss of Rs 6,000 and the debentures were redeemed at par. Prepare Debentures Account Sinking Fund Account, Sinking Fund Investment Account and Interest on

Sinking Fund Investment Company closes its books of accounts every year on March 31.
ANSWER:

Ledger

15% Debentures Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2015 Mar. 31	Balance c/d		10,00,000	2014 Apr. 1	Bank		10,00,000
			10,00,000				10,00,000
2016 Mar. 31	Balance c/d		10,00,000	2015 Apr. 1	Balance b/d		10,00,000
			10,00,000				10,00,000
2017				2016			

Mar. 31	Debentureholders		10,00,000	Apr. 1	Balance b/d		10,00,000
			10,00,000				10,00,000

Sinking Fund Account

Dr. **Cr.**

Date	**Particulars**	**J. F.**	**Amount Rs**	**Date**	**Particulars**	**J. F.**	**Amount Rs**
2015 Mar. 31	Balance c/d		3,14,110	2015 Mar. 31	Profit and Loss Appropriation		3,14,110
			3,14,110				3,14,110
2016 Mar. 31	Balance c/d		6,47,066	2015 Apr. 1	Balance b/d		3,14,110
				2016			

				Mar. 31	Profit and Loss Appropriation		3,14,110
				Mar. 31	Interest on Sinking Fund Investment		18,846
			6,47,066				6,47,066
2017				2016			
Mar. 31	Sinking Fund Investment		6,000	Apr. 1	Balance b/d		6,47,066
	General Reserve		9,94,000	2017			
				Mar. 31	Profit and Loss Appropriation		3,14,110
				Mar. 31	Interest on Sinking Fund Investment		38,824
			10,00,000				10,00,000

Sinking Fund Investment Account

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**
2015 Mar. 31	Bank		3,14,110	2015 Mar. 31	Balance c/d		3,14,110
			3,14,110				3,14,110
2015 Apr. 1	Balance b/d		3,14,110	2016 Mar. 31	Balance c/d		6,47,066
2016 Mar. 31	Bank		3,32,956				
			6,47,066				6,47,066
2016				2017			

Apr. 1	Balance b/d		6,47,066	Mar. 31	Bank		6,41,066
					Sinking Fund		6,000
			6,47,066				6,47,066

Interest on Sinking Fund Investment Account

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**
2016 Mar. 31	Sinking Fund		18,846	2016 Mar. 31	Bank		18,846
			18,846				18,846
2017 Mar. 31	Sinking Fund		38,824	2017 Mar. 31	Bank		38,824
			38,824				38,824

Question 53:

On April 01, 2016 the following balances appeared in the books of Z. Ltd.:

Particulars	Rs
6% Debentures	**1,00,000**
Debentures Redemption Reserve Fund	**80,000**
D.R. Reserve Fund Investments	**80,000**

The investments consisted of 4% Government securities of the face value of Rs 90,000.
The annual instalment was Rs 16,400. On March 31, 2017, the balance at Bank was Rs 26,000 (after receipt of interest on D.R.Reserve Fund Investment). Investments were realised at 92% and the Debentures were redeemed. The interest for the year had already been paid.
Show the ledger accounts affecting redemption.

ANSWER:

Book of Z. Ltd.
6% Debentures Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017 Mar. 31	Debenture Holders		1,00,000	2016 Apr. 1	Balance b/d		1,00,000
			1,00,000				1,00,000

Debentures Redemption Reserve Fund

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**
2017 Mar. 31	General Reserve		1,02,800	2016 Apr. 1	Balance b/d		80,000
				2017 Mar. 31	Interest on Debenture Redemption Reserve Fund Investment (4% of 90,000)		3,600
					Profit and Loss Appropriation		16,400
					Debentures Redemptio		2,800

					n Reserve Fund Investment		
			1,02,800				1,02,800

Debenture Redemption Reserve Fund Investment Account

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**
2016 Apr. 1	Balance b/d (face value Rs 90,000)		80,000	2017 Mar. 31	Bank (92% of 90,000)		82,800
	Debentures Redemption Reserve Fund		2,800				
			82,800				82,800

Question 54:

The following balances appeared in the books of A. Ltd. on April 01, 2017

	Rs
12% Debentures	**4,00,000**
Debentures Redemption Fund	**3,60,000**
Debentures Redemption Fund Investment	**3,60,000**
Securities Premium	**30,000**
Bank Balance	**1,00,000**

On April 01, 2017, the company redeemed all the debentures at 105 per cent out of funds raised by selling all the investments at Rs 3,48,000. Prepare the necessary ledger accounts.

ANSWER:

Books of A. Ltd.

12% Debentures Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017 Apr. 01	Debenture Holders		4,00,000	2017 Apr. 01	Balance b/d		4,00,000
			4,00,000				4,00,000

Debenture Redemption Fund Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			
Apr. 01	Debentures Redemption Fund Investment		12,000	Apr. 01	Balance b/d		3,60,000
	General Reserve		3,48,000				
			3,60,000				3,60,000

Debenture Redemption Fund Investment Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017				2017			

Apr. 01	Balance b/d		3,60,000	Apr. 01	Bank Debentures Redemption Fund (Loss)		3,48,000 12,000
			3,60,000				3,60,000

Cash Book (Bank Column)

Dr. **Cr.**

Date	Particulars	J. F.	Amount Rs	Date	Particulars	J. F.	Amount Rs
2017 Apr. 01	Balance b/d Debentures Redemption Fund Investment		1,00,000 3,48,000	2017 Apr. 01	Debenture Holders Balance c/d		4,20,000 28,000
			4,48,000				4,48,000

Securities Premium Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017 Apr. 01	Premium on Redemption of Debentures		20,000	2017 Apr. 01	Balance b/d		30,000
	Balance c/d		10,000				
			30,000				30,000

Debenture Holders Accounts

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017 Apr. 01	Bank		4,20,000	2017 Apr. 01	Debentures		4,00,000

					Premium on Redemption of Debentures		20,000
			4,20,000				4,20,000

Question 55:

The following balances appeared in the books of Z.Ltd. on April 01, 2016

	Rs
12% Debentures	**1,50,000**
Debentures Redemption Fund	**1,25,000**
Debentures Redemption Fund Investment	**1,25,000**
(Represented by Rs 1,47,500, 3% Govt. Securities)	**1,25,000**

The annual instalment added to the fund is Rs 20,575. On March 31, 2017, the bank balance after the receipt of interest on the investment was Rs 39,100. On that date, all the investments were sold at 83 per cent and the debentures were duly redeemed.

Show the necessary ledger accounts for the year 2016-17.

ANSWER:

Books of Z. Ltd.

Journal

12% Debentures Account

Dr. **Cr.**

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
2017 Mar. 31	Debenture Holders		1,50,000	2016 Apr. 01	Balance b/d		1,50,000
			1,50,000				1,50,000

Debenture Redemption Fund Account

Dr. **Cr.**

Date	Particulars	J. F.	Amount Rs	Date	Particulars	J. F.	Amount Rs
2017 Mar. 31	Debentures Redemption Fund		2,575	2016 Apr. 01	Balance b/d		1,25,000

Mar. 31	Investment General Reserve		1,47,425	2017			
				Mar. 31	Profit and Loss Appropriation		20,575
				Mar. 31	Interest on Debentures Redemption Fund Investment		4,425
			1,50,000				1,50,000

Debenture Redemption Fund Investment Account

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**
2016				2017			
Apr. 01	Balance b/d (Face value Rs 1,47,500)		1,25,000	Mar. 31	Bank		1,22,425

					Debentures Redemption Fund (Loss)		2,575
			1,25,000				1,25,000

Bank Account

Dr. **Cr.**

Date	**Particulars**	**J.F.**	**Amount Rs**	**Date**	**Particulars**	**J.F.**	**Amount Rs**
2016				2017			
Apr. 31	Balance b/d		39,100	Mar. 31	Debentureholders		1,50,000
2017 Mar. 31	Debentures Redemption Fund		1,22,425		Balance c/d		11,525
			1,61,525				1,61,525

Question 56:
What entries for the redemption of debentures will be done when : (a) debentures are redeemed by annual drawings out of profits; (b) debentures are redeemed by drawing a lot out of capital; and (c) debentures are redeemed by purchasing them in the open market when sinking fund for the redemption of debentures is not maintained − (i) when out of profit, and (ii) when out of capital?

ANSWER:

S.No.	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
(a)	Profit and Loss Appropriation A/c Dr. To Debentures Redemption Reserve A/c (Profit transferred to Debentures Redemption Reserve)			
	Debenture A/c Dr. To Debenture Holders (Amount due of debentures to Debenture Holders)			

	Debenture Holders Dr. To Bank A/c (Amount of debentures paid to Debenture Holders)				
	Debentures Redemption Reserve A/c Dr. To General Reserve A/c (Amount of Debentures Redemption Reserve transferred to General Reserve)				
(b)	Debenture A/c Dr. To Debenture Holders A/c (Amount of debentures due to Debenture Holders)				
	Debenture Holders Dr. To Bank (Amount of debentures paid to Debenture Holders)				
(c) (i)	Profit and Loss Appropriation A/c Dr.				

	To Debenture Redemption Reserve A/c (Transfer of Profit to Debenture Redemption Reserve)			
	Own Debentures A/c Dr. To Bank A/c (Own debentures purchased from open market)			
	Debenture A/c Dr. To Own Debentures A/c (Own debentures cancelled)			
(ii)	Own Debenture A/c Dr. To Bank A/c (Own debentures purchased from open market)			
	Debenture A/c Dr. To Own Debenture A/c (Own debentures cancelled)			

Question 57:

A. Ltd. Company issued Rs,5,00,000 Debentures at a discount of 5% repayable at par by annual drawings of Rs.1,00,000.
Make the necessary ledger accounts in the books of the company for the first year.

ANSWER:

Books of A. Ltd.
Debenture Account

Dr. **Cr.**

Date	Particulars	J. F.	Amount Rs	Date	Particulars	J. F.	Amount Rs
	Bank (Redemption)		1,00,000		Bank		4,75,000
	Balance c/d		4,00,000		Discount on Issue of Debentures		25,000
			5,00,000				5,00,000

Discount on Issue of Debentures

Dr. **Cr.**

Date	Particulars	J. F.	Amount Rs	Date	Particulars	J. F.	Amount Rs

1st year	Debenture A/c		25,000	1st year	Profit and Loss Balance c/d		8,333 16,667
			25,000				25,000

Writing of Discount on Issue of Debenture

Year	Debenture Outstanding	Ratio	Amount written off
Year 1	5,00,000	5	8,333
Year 2	4,00,000	4	6,667
Year 3	3,00,000	3	5,000
Year 4	2,00,000	2	3,333
Year 5	1,00,000	1	1,667
		15	Rs 25,000

Question 58:
X.Ltd. issued 5,000, 15% debentures of Rs.100 each on April 01, 2013 at a discount of 10%, redeemable at a premium of 10% in equal annual drawings in 4 years out of capital.
Give journal entries both at the time of issue and redemption of debentures. (Ignore the treatment of loss on issue of debentures and interest.)

ANSWER:

Books of X. Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2013 Apr 1	Bank A/c Dr.		4,50,000	
	To Debenture Application and Allotment A/c			4,50,000
	(Application and allotment money received for 5,000 15% Debentures @ Rs 90 each)			
	Debenture Application and Allotment A/c Dr.		4,50,000	
	Loss on Issue of Debenture A/c Dr.		1,00,000	
	To 15% Debentures A/c			5,00,000
	To Premium on Issue of Debentures			50,000

	(5,000 15% Debentures @ Rs 100 each with the term of 10% discount on issue and repayable at 10% premium allotted)			
Mar 31	15% Debenture A/c Premium on Redemption of Debentures A/c To Debenture holders (1250 15% Debentures @ Rs100 each due for redemption at 10% premium)	Dr. Dr.	1,25,000 12,500	 1,37,500
	Debenture holders To Bank A/c (Amount paid to debenture holders)	Dr.	1,37,500	 1,37,500
2014 Mar 31	15% Debenture A/c Premium on Redemption of Debentures A/c To Debenture holders	Dr. Dr.	1,25,000 12,500	 1,37,500

	(1250 15% Debentures @ Rs100 each due for redemption at 10% premium)			
	Debenture holders Dr. To Bank A/c (Amount paid to debenture holders)		1,37,500	1,37,500
2015 Mar 31	15% Debenture A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders (1250 15% Debentures @ Rs100 each due for redemption at 10% premium)		1,25,000 12,500	1,37,500
	Debenture holders Dr. To Bank A/c (Amount paid to debenture holders)		1,37,500	1,37,500
2016 Mar 31	15% Debenture A/c Dr.		1,25,000	

	Premium on Redemption of Debentures A/c Dr. To Debenture holders (1250 15% Debentures @ Rs100 each due for redemption at 10% premium)		12,500	1,37,500
	Debenture holders Dr. To Bank A/c (Amount paid to debenture holders)		1,37,500	1,37,500

Question 59:
Z.Ltd. issued 2,000, 14% debentures of Rs.100 each on April 01, 2013 at a discount of 10%, redeemable at a premium of 10% in equal annual drawings in 4 years out of profits.
Give journal entries both at the time of issue and redemption of debentures. (Ignore the treatment of loss on issue of debentures and interest.)

ANSWER:

Books of Z. Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs

2013 Apr. 1	Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture Application and Allotment money received for 2,000 14% Debentures of Rs 100 at Rs 90 each)		1,80,000	 1,80,000
	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 14% Debentures A/c To Premium on Issue of Debentures A/c (2000 14% Debentures @ Rs 100 each allotted with the term of 10 % discount on issue and repayable at 10% premium)		1,80,000 40,000	 2,00,000 20,000
Mar. 31	Profit and Loss Appropriation A/c Dr.		2,00,000	

	To Debentures Redemption Reserve A/c (Profit transferred to Debentures Redemption Reserve)			2,00,000
	14% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture Holders A/c (Amount due for redemption of debentures)		50,000 5,000	 55,000
	Debenture Holders A/c Dr. To Bank A/c (Amount of 500 14% Debentures paid to Debenture Holders)		55,000	 55,000
2014 Mar. 31	14% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr.		50,000 5,000	

	To Debenture Holders A/c (Amount due for redemption of Debentures)			55,000
	Debenture Holders A/c Dr. To Bank A/c (Amount of 500 14% Debentures paid to Debenture Holders)		55,000	 55,000
2015 Mar. 31	14% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture Holders A/c (Amount due for redemption of debentures)		50,000 5,000	 55,000
	Debenture Holders A/c Dr. To Bank A/c (Amount of 500 14% Debentures paid to Debenture Holders)		55,000	 55,000

2016 Mar. 31	14% Debentures A/c Dr.		50,000	
	Premium on Redemption of Debentures A/c Dr.		5,000	
	To Debenture Holders A/c			55,000
	(Amount due for redemption of debentures)			
	Debenture Holders A/c Dr.		55,000	
	To Bank A/c			55,000
	(Amount of 500 14% Debentures paid to Debenture Holders)			

Question 60:

A.Ltd. purchased its own debentures of the face value of Rs.2,00,000 from the open market for immediate cancellation at Rs.92. Record the journal entries.

ANSWER:

In the books of A. Ltd.

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs

	Profit and Loss Appropriation A/c Dr. To Debentures Redemption Reserve A/c (Profit transferred to Debenture Redemption Reserve)		2,00,000	2,00,000
	Own Debentures A/c Dr. To Bank A/c (2,000 Own Debentures @ Rs 100 each at Rs 92 purchased)		1,84,000	1,84,000
	Debenture A/c Dr. To Own Debentures A/c To Profit on Cancellation of Debentures A/c (Debenture of Rs 2,00,000 cancelled)		2,00,000	1,84,000 16,000
	Profit on Cancellation of Debentures A/c Dr. To Capital Reserve A/c		16,000	16,000

	(Transfer of profit on redemption of debenture to Capital Reserve Account)			

Question 61:
X.Ltd. redeemed 1,000, 12% debentures of Rs.50 each by converting them into 15% New Debentures of Rs.100 each. Journalise.

ANSWER:

In the books of X. Ltd.

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	12% Debentures A/c Dr. To Debenture Holders (Amount of debentures due to Debenture Holders)		50,000	 50,000
	Debenture Holders Dr. To 15% Debentures A/c (15% Debentures issued to Debenture Holders in lieu of 1000 12% Debentures @ 100 each)		50,000	 50,000

Working Notes:-
Number of Debentures to be issued

Question 62:
On April 01, 2014, a company made an issue of 5,000, 8% debentures of Rs 100 each at Rs 94 per debentures. The terms of issue provided for the redemption of 1,000 debenture every year starting from March 31, 2016 either by purchase from open market or by converting them into Equity shares of Rs 10 each at a premium of Rs 2.50 per share. On March 31, 2016, the company redeemed 1,000 debentures by converting them into equity shares. Give the necessary journal entries.

ANSWER:
Journal Entries

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
2014 April 1	Bank A/c Dr.		4,70,000	
	To Debenture Application A/c			4,70,000
	(Being application money on 5000 debentures			

	received @ Rs.94 each)			
April 1	Debenture Application A/c Dr.		4,70,000	
	Discount on issue of debentures A/c Dr.		30,000	
	To 8% Debentures A/c			5,00,000
2016				
March 31	8% Debentures A/c Dr.		1,00,000	
	To Debenture holders' A/c			1,00,000
	(Being redemption of first 1000 debentures due)			
March 31	Debenture holders' A/c Dr.		1,00,000	
	To Share Capital A/c			80,000
	To Securities Premium Reserve A/c			20,000
	(Being 8000 shares issued against			

	conversion debentures.)				

No. of Shares Issued = Redeemable Value of Debentures Issue Price= 1,00,00012.5=8,000 shares at Rs 10 each