

**Q. 2. Esteem Ltd. made the following issue of debentures in May 2012:**

- (i) 2000, 11% debenture of ₹ 100 each was issued to a creditor who supplied a machine for ₹ 1,80,000.**
- (ii) 3000, 11% debentures of ₹ 100 each at a premium of 5%.**
- (iii) 1000, 11% debentures of ₹ 100 each to the Bankers as collateral security for a loan of ₹ 70,000.**

**Pass journal entries to record the above transactions in the Books of Esteem Ltd.**

***[June 2013, 4 Marks]***



Ans.

In the books of Esteem Ltd.  
Journal Entries

Particulars		Debit (₹)	Credit (₹)
Vendor A/c			
Discount on Issue of Debentures A/c	Dr.	1,80,000	
To 11% Debentures A/c	Dr.	20,000	
(Being issue of 2000 Debentures of ₹100 each at discount @ 10% to settle the machine vendor)			2,00,000
Bank A/c			
To 11% debentures A/c	Dr.	3,15,000	
To Securities Premium A/c			3,00,000
(Being issue of 3000 debentures of ₹100 each at premium of 5%)			15,000
Debenture Suspense A/c			
To 11% Debentures A/c	Dr.	1,00,000	
(Being issue of 1000 debentures of ₹100 each issued as collateral security to banker)			1,00,000
OR			
Alternatively, issue of debentures as collateral security may be done without passing any journal entry. In such case, a note has to be written along with the secured loan, mentioning the existence of the debentures.			

## Bank Loan raised

**Q. 8.** On January 1, 2004 Vardhaman Ltd. allotted 20,000, 9% Debentures of ₹ 100 each at par, the total amount having been received along with applications.

- (1) On 1st Feb., 2005 the Company purchased in the open market 2,000 of its own debentures @ ₹ 102 each and cancelled them immediately.
- (2) On 1st January, 2008 the Company redeemed at par debentures for ₹ 3,00,000 by draw of a lot.
- (3) On 1st June, 2010 the Company purchased debentures of the face value of ₹ 2,00,000 for ₹ 1,97,800 in the open market, held them as investments for one year and then cancelled them.



- (4) Finally, as per resolution of the Board of Directors, the remaining debentures were redeemed at a premium of 3% on 1st Feb., 2014 when Securities Premium Account in the company's ledger showed a balance of ₹ 50,000.

Pass journal entries for the above mentioned transactions ignoring debentures redemption reserve, debenture-interest and interest on own debentures.  
[June 2014, 10 Marks]

Ans.

In the books of Vardhman Ltd.

**Journal Entries**

Date	Particulars	Debit (₹)	Credit (₹)
01.01.2004	Bank A/c Dr. To Debenture Application and Allotment A/c (Being amount received on issue of ₹ 20,000, 9% debentures @ ₹ 100 each).	20,00,000	20,00,000
01.01.2004	Debenture Application and Allotment A/c Dr. To 9% Debentures A/c (Being Allotment of 20,000, 9% Debentures ₹ 100 each)	20,00,000	20,00,000
01.02.2005	Investment in Own 9% Debenture A/c Dr. To Bank A/c (Being, own debenture purchased)	2,04,000	2,04,000
01.02.2005	9% Debenture A/c Dr. Loss on Cancellation A/c Dr. To Investment in Own 9% Debenture A/c (Being own debenture cancelled)	2,00,000 4,000	2,04,000
01.01.2008	9% Debenture A/c Dr. To Debenture Redemption A/c (Being, Amount due on redemption of debentures of ₹ 3,00,000)	3,00,000	3,00,000
01.01.2008	Debenture Redemption A/c Dr. To Bank A/c (Being, Amount paid on redemption of debentures of ₹ 3,00,000)	3,00,000	3,00,000
01.06.2010	Investment in Own 9% Debenture A/c Dr. To Bank A/c (Being, own debenture purchased, of the face value of ₹ 2,00,000 for ₹ 1,97,800)	1,97,800	1,97,800
01.06.2010	9% Debentures A/c Dr. To Investment in Own 9% Debenture A/c To Profit on Cancellation of own Debenture A/c (Being cancellation of own debenture)	2,00,000	1,97,800 2,200

Date	Particulars	Debit (₹)	Credit (₹)
01.06.2010	Profit on cancellation of Own Debenture A/c Dr. To Capital Reserve A/c (Being, transfer of profit on cancellation of own debentures to capital reserves)	2,200	2,200
01.2.2014	9% Debenture A/c Premium on Redemption A/c To Debenture Redemption A/c (Being the amount due on redemption of 9% Debenture at a premium of 3%)	Dr. 13,00,000 Dr. 39,000	13,39,000
01.2.2014	Debenture Redemption A/c To Bank A/c (Being, Payment on redemption of debentures)	Dr. 13,39,000	13,39,000
01.2.2014	Securities Premium A/c To Premium on Redemption A/c (Being, utilisation of a part of Securities Premium A/c to write off premium paid on redemption of debentures)	Dr. 39,000	39,000



Q. 14. Mogari Limited has 10% Redeemable Preference share capital of ₹30,00,000 consisting of ₹10 shares fully paid up. The company wants to redeem these shares at 25% premium. The ledger accounts show the following balances:

Securities premium ₹1,00,000;

General Reserve ₹13,00,000; and

Profit & Loss Account (Cr.) ₹7,00,000

In order to facilitate the redemption of preference shares, the company decided the following:

1. 1,20,000 Equity shares of ₹10 each were issued at 50% premium.
2. 10,000, 12% Debenture of ₹100 each were issued at par.
3. Investments of book value ₹5,00,000 were sold at ₹5,60,000.

Pass the necessary journal entries to record above transactions and redemption of preference shares. [Dec. 2014, 8 Marks]

Ans.

In the books of Mogari Ltd.

**Journal Entries**

Particulars	Debit (₹)	Credit (₹)
Bank A/c Dr.	28,00,000	
To Equity Share Application A/c		18,00,000
To Debenture A/c		10,00,000
(Application money received on 120,000 equity shares @ ₹15 per share and on 10,000 debentures @ ₹10 each)		



Q. 15. On 1st January 2009, Richa Limited issued 10,000, 15 year Debentures of ₹100 each bearing interest at 12% per annum. One of the conditions of issue was that the debentures could be redeemed by giving six months notice at any time after 5 years, at a premium of 10% either by payment in cash or by allotment of preference shares and/or other debentures according to the option of debenture holders on 1st April, 2014 either by payment in cash or by allotment of 8% Preference Shares of ₹100 each at ₹125 per share or by allotment of 13% Second Debentures of ₹100 each at ₹96 per debenture. Holders of 4,000 debentures accepted the offer of the Preference Share and Holders of 4,800 debentures accepted the offer of the 13% Second Debentures and the rest demanded cash. Redemption of debentures was completed on 1st October, 2014. Give Journal entries to record the transactions, relating to redemption.

*[June 2015, 10 Marks]*



Ans.

**In the books of Richa Ltd.**  
**Journal Entries**

Date	Particulars	Debit (₹)	Credit (₹)
01.10.2014	6% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holders A/c (Amount due for redemption of 1,000 6% Debentures at a premium of 4%)	10,00,000 1,00,000	11,00,000
01.10.2014	Debenture holders A/c Dr. To 8% Preference Share Capital A/c To Securities Premium A/c (Conversion of amount payable on 4,000 12% Debentures into 3,520 8% Preference Shares of 100 each at a premium of 25%.)	4,40,000	3,52,000 88,000
01.10.2014	Debenture holders A/c Dr. Discount on Issue of Debentures A/c Dr. To 7% Second Debentures A/c (Conversion of amount payable on 4800 12% Debentures into 5500 13% Second Debentures at a discount of 4%.)	5,28,000 22,000	5,50,000
01.10.2014	Debenture holders A/c Dr. To Bank A/c (Holders of 1200 12% Debentures paid off in cash)	1,32,000	1,32,000
01.10.2014	Securities Premium A/c Dr. Profit & Loss A/c Dr. To Premium on Redemption of Debentures A/c To Discount on Issue of Debentures A/c (Premium on Redemption of Debentures and Discount on issue of Debentures written off).	88,000 34,000	1,00,000 22,000

**Working Notes:**(1) No. of 8% Preference Shares issued =  $(4,000 \times 110)/125 = 3,520$  Shares.(2) No. of 13% Second Debentures Issued =  $(4,800 \times 110)/96 = 5,500$  New Debentures.



**Q. 21. The following balances were shown in the Balance Sheet of Anukula Limited as at 31st March, 2013:**

	₹
8,00,000 Equity Shares of ₹ 10 each fully paid up	80,00,000
50,000, 8% Preference Shares of ₹ 100 each ₹ 80 paid up	40,00,000
Capital Reserve	35,00,000



General Reserve	80,00,000
Securities Premium	70,00,000
Profit & Loss Account	52,00,000
12% Debentures	10,00,000
Non-Current Investment at cost	65,00,000
Cash and Bank	92,00,000

**Additional Information:**

- (i) The company passed a resolution to buy-back 20% of its equity capital @ ₹35 per share. For this purpose, it sold its investments of ₹30 lakhs for ₹28 lakhs.
- (ii) The company redeemed the preference shares at a premium of 25%.
- (iii) Included in its investments were 'Investments in own debentures' costing ₹10 lakhs (face value ₹11.50 lakhs). These debentures were cancelled.

You are required to pass necessary journal entries in the books of the company for above.

[June 2016, 10 Marks]

Ans.

In the books of Anukula Ltd.

**Journal Entries**

(₹ in Lakhs)

Particulars	Debit (₹)	Credit (₹)
Bank A/c Dr.	28	
Profit and Loss A/c Dr.	2	
To Investment A/c		30
(Being investment sold for the purpose of buy-back of Equity Shares)		
Preference Share Final Call A/c Dr.	10	
To 8% Preference Share Capital A/c		10
(Being final call money due)		
Bank A/c Dr.	10	
To Preference Share Final Call A/c		10
(Being call money received)		
8% Preference Share Capital A/c Dr.	50	
Premium on Redemption of Preference Shares A/c Dr.	12.50	
To Preference Shareholders A/c		62.50
(Being redemption of preference share capital at premium of 25%.)		



Particulars	Debit (₹)	Credit (₹)
Preference Shareholders A/c Dr. To Bank A/c (Being payment made to preference shareholders)	62.50	62.50
General Reserve A/c Dr. To Capital Redemption Reserve A/c (Being creation of capital redemption reserve for nominal value of shares bought back and preference shares redeemed)	66	66
Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Equity Shares Buy-back A/c (Being the amount due on buy-back of equity shares)	16 40	56
Equity Shares Buy-back A/c Dr. To Bank A/c (Being payment made for buy-back of equity shares)	56	56
12% Debentures A/c Dr. To Own Debentures A/c To Capital Reserve Ac (Profit on cancellation) (Being own debentures cancelled at profit)	11.50	10 1.50
Securities Premium A/c Dr. To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted through securities premium)	12.50	12.50







Dr. **DEBENTURES REDEMPTION SINKING FUND ACCOUNT** Cr.

Particulars	Amount (₹)	Particulars	Amount (₹)
To 9% Stock A/c (Loss)	6,400	By Balance b/d	14,98,000
To General Reserve A/c (Balancing Figure)	16,93,200	By Profit & Loss A/c	56,800
		By Interest on Sinking Fund A/c	1,42,800
		By Own Debentures A/c	2,000
	16,99,600		16,99,600

**Working Notes:**

(i) Amount of 9% Stock as on 1st April, 2015:

Sinking Fund Balance as on 1st April, 2015	₹ 14,98,000
Less: Own debentures	₹ (1,98,000)
	₹ 13,00,000

(ii) Sales value of 9% Stock =  $(₹ 13,20,000 / ₹ 100) \times ₹ 98 = ₹ 12,93,600$

Loss on 9% Stock =  $13,00,000 - 12,93,600 = ₹ 6,400$

(iii) Interest credited to Sinking Fund =  $(₹ 13,20,000 \times 9\%) + (₹ 2,00,000 \times 12\%) = ₹ 1,42,800$

**Q. 24.** The following is summarized balance Sheet of JEEL Ltd. as on 31st March, 2017:

Equity & liabilities	₹	Assets	₹
<b>Share Capital:</b>		<b>Fixed Assets 15,00,000</b>	
Equity Shares of ₹10 each fully paid up	15,00,000	Less: Depreciation (1,25,000)	13,75,000
9% Redeemable Pref. Shares of ₹100 each fully paid up	10,00,000	Investments	25,00,000
(Issued 2 months back for the purposes of buy back)		Cash at Bank	20,00,000
<b>Reserve &amp; Surplus:</b>			
Capital Reserve	5,000		
Revenue Reserve	20,00,000		
Securities Premium	2,50,000		
Profit & Loss Account	9,00,000		
<b>Secured Loans:</b>			
10% Debentures	2,00,000		
<b>Current Liabilities and provisions</b>			
	20,000		
	58,75,000		58,75,000



- (i) The company passed a resolution to buy back 20% of its equity capital @ ₹15 per share. For this purpose, it sold its investments of ₹30 lakhs for ₹25 lakhs.
- (ii) The company redeemed the preference share at a premium of 10% on 1st April, 2017.
- (iii) Included in its investments were investments in own debentures costing ₹1,50,000 (face value ₹1,65,000). These debentures were cancelled on 1st April, 2017.

You are required to pass necessary journal entries on 01.04.2017.

[June 2017, 10 Marks]

Ans.

In the books of JEEL Ltd.

Journal Entries

Particulars		Debit (₹)	Credit (₹)
Bank A/c	Dr.	25,00,000	
Profit and Loss A/c	Dr.	5,00,000	
To Investment A/c			30,00,000
(Being investment sold for the purpose of buy-back of Equity Shares)			
Preference Share Capital A/c	Dr.	10,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	1,00,000	
To Preference Shareholders A/c			1,00,000
(Being redemption of preference share capital at premium of 10%.)			
Preference Shareholders A/c	Dr.	11,00,000	
To Bank A/c			11,00,000
(Being payment made to preference shareholders)			
Revenue Reserve A/c	Dr.	10,00,000	
To Capital Redemption Reserve A/c			10,00,000
(Being creation of capital redemption reserve for nominal value of shares bought back and preference shares redeemed)			
Equity Share Capital A/c	Dr.	3,00,000	
Securities Premium A/c	Dr.	1,50,000	
To Equity Shares Buy-back A/c			4,50,000
(Being the amount due on buy-back of equity shares)			
Equity Shares Buy-back A/c	Dr.	4,50,000	
To Bank A/c			4,50,000
(Being payment made for buy-back of equity shares)			



1.66

# SECTION A : CORPORATE ACCOUNTING

10% Debentures A/c	Dr.	1,65,000	
To Own Debentures A/c			1,50,000
To Capital Reserve A/c (Profit on cancellation)			15,000
(Being own debentures cancelled at profit)			
Securities Premium A/c	Dr.	1,00,000	
To Premium on Redemption of Preference Shares A/c		*	1,00,000
(Being premium on redemption of preference shares adjusted through securities premium)			



**Q. 28. SAKET Ltd. recently made a public issue in respect of which the following information is available:**

- ◆ No. of partly convertible debentures issued 1,00,000; face value and issue price of ₹ 100 per debenture.
- ◆ Convertible portion per debenture; 80%, date of conversion-on expiry of 7 months from the date of closing of issue.
- ◆ Date of closure of subscription list 01.06.2016, date of allotment: 01.07.2016, rate of interest on debentures; 10% p.a. payable from the date of allotment. Value of equity share for the purpose of conversion ₹ 40 (Face value ₹ 10).
- ◆ Underwriting commission 3%.
- ◆ No. of debentures applied for 75000.
- ◆ Interest payable on debentures—half yearly on 30.09.2016 and 31.03.2017.

**You are required to pass necessary journal entries as on 31st March, 2017.**

**[Dec. 2017, 7 Marks]**



Ans.

**In the books of SAKET Ltd.**  
**Journal Entries**

Date	Particulars	Debit (₹)	Credit (₹)
01.06.2016	Bank A/c Dr. To Debenture Application A/c (Being Application money received on 75,000 debentures @ ₹100 each)	75,00,000	75,00,000
01.07.2016	Debenture Application A/c Underwriters A/c To 10% Debentures A/c (Being allotment of 75,000 debentures to applicants and 25,000 debentures to underwriters)	Dr. 75,00,000 Dr. 25,00,000	1,00,00,000
01.07.2016	Underwriting Commission A/c To Underwriters A/c (Being commission payable to underwriters on 1,00,000 debentures of ₹100 each @3%)	Dr. 3,00,000	3,00,000
01.07.2016	Bank A/c To Underwriters A/c (Being amount received from underwriters on settlement of account)	Dr. 22,00,000	22,00,000
30.09.2016	Debentures Interest A/c To Bank A/c (Being interest paid on debentures for 3 months from 01.07.16 to 30.09.16 on ₹1,00,00,000 @ 10% p.a.)	Dr. 2,50,000	2,50,000
31.12.2016	10% Debentures A/c To Equity Share Capital A/c To is securities Premium A/c (Being conversion of 80% of debentures into shares @ ₹40 per share with face value of ₹10 each)	Dr. 80,00,000	20,00,000 60,00,000
31.03.2017	Debenture Interest A/c To Bank A/c (Being interest paid on debentures for the half year)	Dr. 3,00,000	3,00,000
31.03.2017	Profit & loss A/c To Debenture interest A/c (Being debentures interest for the year charged to profit & loss A/c)	Dr. 5,50,000	5,50,000

**Working Note:**

Calculation of Debenture of Interest for the half year ended 31st March, 2017



1.72

SECTION A : CORPORATE ACCOUNTING

**Particulars**

On ₹ 20,00,000 for 6 months @ 10%

On ₹ 80,00,000 for 3 months @ 10%

**Total**

₹

1,00,000

2,00,000

**3,00,000**



Q. 30. On 01.01.2017 Jay Ltd. had 2,000, 12% Debentures of ₹ 100 each. On 01.05.2017 the company purchased 400 own Debentures at ₹ 97 cum-interest in the open market. Interest on debentures is payable on 30th June and 31st December each year.

Required: Give the necessary journal entries assuming that the own Debentures purchased were retained as investments till 31.12.2017, on which date they were cancelled.

Assume that the company follows English Calendar Year.

[June 2018, 6 Mark]

Ans.

In the books of JAY Ltd.

Journal Entries

Date	Particulars	Debit (₹)	Credit (₹)
01.05.2017	Own Debentures A/c Dr. Interest on Own Debenture A/c Dr. To Bank A/c (Being the purchase of 400 debentures @ ₹ 97 cum-interest)	37,200 1,600	38,800
30.06.2017	Debentures Interest A/c Dr. To Interest on Own Debentures A/c To Bank A/c (Being the interest paid/credited on ₹ 2,00,000 debentures held by outsiders and by the company own debentures for 2 months)	12,000	2,400 9,600
31.12.2017	Debentures Interest A/c Dr. To Bank A/c To Interest on Own Debentures A/c (Being the interest paid/credited on ₹ 1,60,000 debentures held by outsiders and ₹ 40,000 own debentures for six months)	12,000	9,600 2,400



MOD. 1 : ACCOUNTING OF SHARES AND DEBENTURES

1.75

Date	Particulars	Debit (₹)	Credit (₹)
31.12.2017	Profit and Loss A/c Dr. To Debenture Interest A/c (Being the transfer of debenture interest to P&L A/c)	24,000	24,000
31.12.2017	Interest on Own Debentures A/c Dr. To Profit & Loss A/c (Being the transfer of interest on own debentures to P&L A/c)	3,200	3,200
31.12.2017	12% Debentures A/c Dr. To Own Debentures A/c To Capital Reserve A/c (Being the cancellation of 400 own debentures)	40,000	37,200 2,800
31.12.2017	Profit & Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being the transfer of an amount equivalent to the cash sum applied in redeeming the debentures)	37,200	37,200