

PART – 2
CHAPTER 02
ISSUE AND REDEMPTION OF DEBENTURES

Short Answer Questions

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 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

$$1,100 - 950 = \text{Rs } 150$$

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 the 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 a '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, then it is regarded as the fixed charge, while on the other hand if the debenture is secured against all the assets then 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 debentures are 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 matters of the company.

Question 13:

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 14:

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 15:

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 16:

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 its 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 Accounts 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 17:

What is meant by redemption of debentures by ‘Purchase in 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.

Long Answer Questions

Question 1:

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 be 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 conversion of the debentures into the equity shares is done in the partial manner and the requirement to 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 2:

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 in 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 3:

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

ANSWER:

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 <i>Secured:</i> Loan (Secured by issue of 9% Debentures of Rs 4,00,000 as Collateral Security) 9% Debentures (Issued as 4,00,000 Collateral Security to Bank against loan) <div style="text-align: right;">(4,00,000)</div> <i>Less:</i> Debenture Suspense Account <hr/>	 - <hr/> 3,00,000
2	Cash and Cash Equivalents Cash at Bank	3,00,000

Question 4:

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 Dr.

A/c

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 5:

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 6:

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 7:

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. $0.31411 \times 5,00,000$) 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 8:

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
 To Bank A/c

Dr.

(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 9:

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)

Numerical Questions

Question 1:

G.Ltd. a listed company 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% Dr. Debenture		11,25,00,000	

	each on 75,00,000 debentures)			
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Question 2:

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

Record necessary entries in the books of the company.

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 Dr. Application A/c		50,000	

To 6% Debenture A/c (Application money on 2,000 debentures transferred to 6% Debentures Account)			50,000
6% Debenture Dr. Allotment A/c 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 Dr. and Final Call A/c 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
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Question 3:

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

Rs 10 on Application.

Rs 20 along with premium on allotment and balance on First and Final call. The debentures were fully subscribed and all money was duly received.

Record necessary Journal entries. Also show how the amount will appear in the balance sheet.

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 Dr. Application A/c To 10% Debenture A/c (Application money @ Rs 10 each transferred to 10% Debenture Account)	1,00,000	1,00,000
10% Debenture Dr. Allotment A/c 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 Dr. and Final Call A/c 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 4:

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

ANSWER:

Books of A. Ltd.

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. Discount on Dr. Issue of Debenture A/c 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%)			
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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 Dr. Application A/c Dr. Discount on issue of Debentures A/c 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 5:

A. Ltd. issued 4,000, 9% Debentures of Rs 100 each on the following terms:

Rs 20 on Application.

Rs 20 on Allotment.

Rs 30 on First call; and

Rs 30 on Final call.

The public applied for 4,800 Debentures. Applications for 3,600 Debentures were accepted in full. Applications for 800 Debentures were allotted 400 Debentures and applications for 400 Debentures were rejected. All money called and duly received. Record necessary journal entries.

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 Dr. Application A/c		96,000	

<p>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)</p>			<p>80,000 8,000 8,000</p>
<p>9% Debenture Allotment A/c Dr. To 9% Debenture A/c (9% Debenture Allotment due on 4,000 Debentures @ Rs 20 each)</p>		<p>80,000</p>	<p>80,000</p>
<p>Bank A/c Dr. To 9% Debenture Allotment A/c (9% Debenture Allotment money received)</p>		<p>72,000</p>	<p>72,000</p>

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

Question 6:

T. Ltd. offered 2,00,000, 8% Debenture of Rs 500 each on June 30, 2014 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 (₹)	Credit Amount (₹)
2014				
Jun. 30	Bank A/c Dr.		6,00,00,000	
	To 8% Debenture Application A/c			6,00,00,000
	(8% Debenture application money received for 3,00,000 debentures @ ₹200 each)			
Jun.30	8% Debenture Application A/c Dr.		6,00,00,000	

		To 8% Debenture A/c			3,00,00,000
		To 8% Debenture Allotment A/c			2,00,00,000
		To Securities Premium A/c			1,00,00,000
	(8% Debenture Application money of 2,00,000 debentures @ ₹200 each including ₹50 premium transferred to Debenture Account and rest of the amount adjusted on allotment)				
	8% Debenture Allotment A/c	Dr.		7,00,00,000	
		To 8% Debenture A/c			7,00,00,000
	(8% Debenture allotment on 2,00,000 debentures @ ₹350 due)				
	Bank A/c	Dr.		5,00,00,000	
		To 8% Debenture Allotment A/c			5,00,00,000
	(8% Debenture Allotment money received)				

Question 7:

X.Ltd. invited applications 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, applications for 5,000 debentures were allotted 40% of received application, and the remaining applications were rejected. The surplus money on partially allotted applications is utilised towards allotment. All the sums due are duly received. Record necessary journal entries regarding issue of debentures.

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.	2,70,000	
To 14% Debenture A/c		2,00,000
To 14% Debenture Allotment A/c		60,000
To Bank		10,000
(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)		
14% Debenture Allotment A/c Dr.	6,00,000	
To 14% Debenture A/c		6,00,000
(14% Debenture Allotment money due on 10,000 debentures @ Rs 60 each)		

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

Question 8:

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

ANSWER:

Books of R. Ltd.

Journal

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

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

Question 9:

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

ANSWER:

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 10:

B.Ltd. purchased assets of the book value of Rs 4,00,000 and took over the liability of Rs 50,000 from Mohan Bros. It was agreed that the purchase consideration, settled at Rs,3,80,000, be paid by issuing debentures of Rs 100 each.

What Journal entries will be made in the following three cases, if debentures are issued: (a) at par; (b) at 10% discount; (c) at premium of 10%? It was agreed that any fraction of debentures be paid in cash.

(Note: Goodwill Rs. 30,000)

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

Case (c)

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

Question 11:

X.Ltd. purchased a Machinery from Y. Ltd. at 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 12:

X.Ltd. issued 15,000, 10% debentures of Rs 100 each. Give journal entries and present it in 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.	14,25,000	
Discount on Issue of	Dr.	75,000	
Debentures A/c			
To 10% Debentures			15,00,000
(Issued 15,000 10%			
Debenture of Rs 100 each at			
5% discount)			

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

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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

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

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

1. Shareholders' Fund		
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	

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

(iv)

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

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 13:

Journalise 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
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			Amount Rs	Amount Rs
(i)	Bank A/c Dr. Discount on Issue Dr. of Debenture A/c 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 Dr. Debenture A/c 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 Dr. Debenture A/c 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)			
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Question 14:

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

Record journal entries for issue of debentures.

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
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Mar ch 201 0	50,00,00, 000	5	$5,00,00,000 \times \frac{5}{18} = 1,38,88,889$
Mar ch 201 1	50,00,00, 000	5	$5,00,00,000 \times \frac{5}{18} = 1,38,88,889$
Mar ch 201 2	30,00,00, 000	3	$5,00,00,000 \times \frac{3}{18} = 83,33,333$ $5,00,00,000 \times \frac{3}{18} = 83,33,333$
Mar ch 201 3	30,00,00, 000	3	
Mar ch 201 4	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.

Dat e	Particul ars	J. F.	Amount Rs	Dat e	Particul ars	J. F.	Amount Rs
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2009 April 01	Debenture		5,00,00,000	2010 March 31	Profit and Loss Balance c/d	1,38,88,889 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 Balance c/d	1,38,88,889 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 Balance c/d	83,33,333 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 Balance c/d		83,33,333
			1,38,88,889				55,55,556
							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 15:

A listed 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.		10,00,000	
	Loss on Issue of Debenture A/c Dr.		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 Dr. Application & Allotment A/c Discount on Issue of Dr. Debenture A/c To Debentures A/c (Debenture Allotment made due)		9,00,000		
			1,00,000		
				10,00,000	

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

(v)	12% Debenture Dr.	30,000	30,000
	Suspense A/c 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)		

b) Repayment of Debentures

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

	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 Dr. A/c 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 Dr. A/c To Debenture Suspense A/c (Debenture and debenture Suspense Account closed)		30,000	30,000

Question 16:

A listed company issued debentures of the face value of Rs 5,00,000 at a discount of 6% on April 01, 2014. These debentures are redeemable by annual drawings of Rs,1,00,000 made on March 31 each year starting from March 31, 2016.

Give journal entries for issue of debuntures, writing-off discount and regarding redemption of debentures.

ANSWER:

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
2014 April 1	Bank A/c Dr. To Debenture Application and Allotment A/c (Debenture application money received)	4,70,000	4,70,000
April 1	Debenture Application and Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To Debentures A/c (Issue of Debentures at 6% discount)	4,70,000 30,000	5,00,000
2015 March 31	Statement of Profit and Loss Dr. To Discount on Issue of Debentures A/c (Discount on issue of debentures written off)	30,000	30,000
April 30	Debenture Redemption Investment A/c ⁽¹⁾ Dr. To Bank A/c (Investment made @ 15% of the face value of debentures to be redeemed i.e., 15% of first instalment of ₹1,00,000)	15,000	15,000
2016 March 31	Debentures A/c Dr. To Debentureholder's A/c (Amount due on redemption)	1,00,000	1,00,000
March 31	Debentureholder's A/c Dr. To Bank A/c (Payment of amount due to debentureholders)	1,00,000	1,00,000
2017 March 31	Debentures A/c Dr. To Debentureholder's A/c (Amount due on redemption)	1,00,000	1,00,000
March 31	Debentureholder's A/c Dr. To Bank A/c (Payment of amount due to debentureholders)	1,00,000	1,00,000

2018				
March 31	Debentures A/c To Debentureholder's A/c (Amount due on redemption)	Dr.	1,00,000	1,00,000
March 31	Debentureholder's A/c To Bank A/c (Payment of amount due to debentureholders)	Dr.	1,00,000	1,00,000
2019				
March 31	Debentures A/c To Debentureholder's A/c (Amount due on redemption)	Dr.	1,00,000	1,00,000
March 31	Debentureholder's A/c To Bank A/c (Payment of amount due to debentureholders)	Dr.	1,00,000	1,00,000
2020				
March 31	Bank A/c To Debenture Redemption Investment A/c (Investment encashed)	Dr.	15,000	15,000
March 31	Debentures A/c To Debentureholder's A/c (Amount due on redemption)	Dr.	1,00,000	1,00,000
March 31	Debentureholder's A/c To Bank A/c (Payment of amount due to debentureholders)	Dr.	1,00,000	1,00,000

Question 17:

B.Ltd. a listed company 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. Give Journal entries for issues and redemption of debentures.

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 \times Months)	Amount written off
2011 Apr- Dec 2012	4,00,000	5	9	45	6000

Jan - Ma r Ap r- De c 20 13	4,00,000	5	3	15	2000
Jan - Ma r Ap r- De c 20 14	3,20,000	4	9	36	4800
Jan - Ma r Ap r- De c 20 14	3,20,000	4	3	12	1600
Jan - Ma r Ap r- De c 20 14	2,40,000	3	9	27	3600
Jan - Ma r Ap r- De c 20 15	2,40,000	3	3	9	1200
Jan - Ma r Ap r- De c 20 15	1,60,000	2	9	18	2400

Jan - Ma r Ap r- De c 20 16 Jan - De c	1,60,000	2	3	6	800
	80,000	1	9	9	1200
	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. To Bank A/c (Interest paid)		5,400	5,400
	Debenture Interest A/c Dr. To Income Tax Payable A/c		6,000	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.	5,400		
To Bank A/c (Interest paid)			5,400
Income Tax Payable A/c Dr.	1,200		
To Bank A/c (Tax deducted at source on interest paid)			1,200
Profit and Loss A/c Dr.	1,200		
To Debenture Interest A/c (Debenture interest transferred to Profit and Loss Account)			1,200

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

Question 18:

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. Loss on Issue on Debentures A/c Dr. To 12% Debenture A/c To Premium on Redemption of Debentures A/c (Debenture issued at discount and redeemable at Premium)		95,000 15,000	 1,00,000 10,000
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. To Bank A/c (Interest paid to Debenture Holders)	5,400		5,400
2015 Mar. 31	Debenture Interest A/c Dr. To Income Tax Payable A/c To Debenture Holders A/c (Amount of interest on 12% Debentures Rs 1,00,000 due for 6 months and 10% tax deducted at source)	6,000		600 5,400

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 19:

Jay Kay Ltd. an 'other listed company' issued 60,000 12% debentures of Rs. 100 each at par redeemable at the end of 5 years at a premium of 20%. On this date, there existed a balance of Rs. 5,00,000 in securities premium reserve account. The company created the required amount of debenture redemption reserve in 3 equal instalments on March 31, 2017, 2018 and 2019. It invested in specified securities (DRI) the required amount on April, 01 of the financial year. Debentures were duly redeemed on the record necessary journal entries for :

- (i) Issue of debentures**
- (ii) Writing off loss on issue of debentures.**
- (iii) Interest and debentures for 2015-16 assuring if is paid annually & tax deducted at service is 10%.**
- (iv) Regarding redemption of debentures.**

ANSWER:

In the books of Jay kay limited				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	Bank A/c ...Dr.		60,00,000	
	To Debenture application and allotment A/c			60,00,000
	(Being debenture money received)			
2.	Debenture application A/c ...Dr.		60,00,000	
	Loss on issue on debenture A/c		12,00,000	
	To 12% Debenture A/c			60,00,000
	To Premium on redemption A/c			12,00,000
	(Being amount transfer to Debenture A/c)			
3.	Securities premium A/c ...Dr.		5,00,000	
	Statement of Profit and Loss A/c		7,00,000	
	To Loss on issue of debenture A/c			12,00,000
	(Being loss charged to securities premium and statement of profit and loss)			
4.	Debenture Interest A/c ...Dr.		7,20,000	
	To Debenture holder A/c			6,48,000
	To Tax deducted at Source			72,000
	(Being Debenture interest due)			
5.	Tax deducted at Source A/c ...Dr.		72,000	
	To Bank A/c			72,000
	(Being T.D.S. deposited)			
6.	Debenture holder A/c ...Dr.		6,48,000	
	To Bank A/c			6,48,000
	(Being net interest paid to holder)			
7.	12% Debenture A/c ...Dr.		60,00,000	

	Premium on redemption A/c ...Dr.		12,00,000	
	To Debenture holder A/c			72,00,000
	(Being amount paid to debenture holder)			
8.	Debenture holder A/c ...Dr.		72,00,000	
	To Bank A/c			72,00,000
	(Being amount paid to debenture holder)			

Question 20:

Madhur Ltd., has outstanding 9% debentures of Rs. 50,00,000 redeemable at par on January 01, 2020. Debenture Redemption Reserve of Rs. 2,00,000 on March 31, 2018 and balance of required amount of DRR was created on March 31, 2019. The company invested in specified securities (DRI) the required amount on April 01, 2019. Debentures were redeemed on the due date. Record necessary journal entries in the books of the company and also prepare the ledger accounts (ignore interest).

ANSWER:

In the books of Madhur limited				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
1.	9% Debenture A/c ...Dr.		5,00,000	
	To Debenture holder A/c			5,00,000
	(Being amount transfer to Debenture holder)			
2.	Debenture holder A/c ...Dr.		5,00,000	
	To Bank A/c			5,00,000
	(Being amount paid to debenture holder)			

9% Debenture A/c					
Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
	Debenture holder	5,00,000		By Balance b/d	5,00,000
		5,00,000			5,00,000

Debenture holder A/c					
Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
Date of red.	To Bank	5,00,000	Date of red.	By 9% Debenture	5,00,000
		5,00,000			5,00,000

Question 21:

MK Ltd. has outstanding Rs. 30,000 11% debentures of Rs. 100 each redeemable at 10% premium as follows :

March 31, 2018 - 10,000 debentures

March 31, 2019 - 12,000 debentures

March 31, 2020 - Remaining debentures

Pass necessary journal entries in the books of the company.

ANSWER:

In the books of MK limited				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017				
Apr. 30	Debenture Redemption Investment A/c ...Dr.		1,50,000	
	To Bank A/c			1,50,000
	(Being amount invested)			
2018				
Mar. 31	11% Debenture A/c ...Dr.		10,00,000	

	Premium on redemption A/c ...Dr.	1,00,000	
	To Debenture holder		11,00,000
	(Being amount transferred to debenture holder)		
Mar. 31	Debenture holder A/c ...Dr.	11,00,000	
	To Bank A/c		11,00,000
	(Being amount paid to debenture holder)		
Apr. 30	Debenture Redemption Investment A/c ...Dr.	30,000	
	To Bank A/c		30,000
	(Being received amount invested)		
2019			
Mar. 31	11% Debenture A/c ...Dr.	12,00,000	
	Premium on redemption A/c ...Dr.	1,20,000	
	To Debenture holder A/c		13,20,000
	(Being amount transfer to debenture holder)		
Mar. 31	Debenture holder A/c ...Dr.	13,20,000	
	To Bank A/c		13,20,000
	(Being amount paid to debenture holder)		
Apr. 30	Bank A/c ...Dr.	60,000	
	To Debenture Redemption Investment		60,000
	(Being investment sold)		
2020			
Mar. 31	Bank A/c ...Dr.	1,20,000	
	To Debenture Redemption Investment		1,20,000
	(Being investment sold)		
Mar. 31	11% Debenture A/c ...Dr.	8,00,000	
	Premium on redemption	80,000	

	To Debenture holder A/c			8,80,000
	(Being amount transfer to debenture holder)			
Mar. 31	Debenture holder A/c ...Dr.		8,80,000	
	To Bank A/c			8,80,000
	(Being amount paid to debenture holder)			

Question 22:

X Ltd. had outstanding 20,000 12% debentures of Rs. 100 each redeemable on June 30, 2019. Record necessary journal entries at the time of redemption.

ANSWER:

Journey Entries				
Date	Particulars	LF	Dr. (Rs.)	Cr. (Rs.)
2019				
June 30	12% Debenture A/c ...Dr.		20,00,000	
	To Debenture holders A/c			20,00,000
	(Being the amount due on redemption of 20,000, 12% debentures of Rs. 100 each)			
June 30	Debenture holders A/c ...Dr.		20,00,000	
	To Bank A/c			20,00,000
	(Being the payment made to debenture holders for 20,000, 12% debentures of Rs. 100 each)			

Calculate the amount due on redemption

Outstanding debentures = 20,000

Redemption price = Rs. 100 per debenture

Total Amount due on redemption = Outstanding Debentures × Redemption price

= 20,000 × Rs. 100

= Rs. 20,00,000

Question 23:

XYZ Ltd. Issued 6,000, 12% Debentures of ? 50 each on April 1, 2014. Interest on these debenture is payable annually 31st March each year. The debentures are redeemable in four equal installments at end of third, fourth, fifth and sixth year. You are required to pass journal entries at the time of issue and redemption of debentures in the books of the company under following cases:

(i) Debentures are issued at par and redeemable at par.

(ii) Debentures are issued at a premium of 10% and redeemable at par.

(iii) Debentures are issued at a discount of 10% and redeemable at par.

(iv) Debenture are issued at par but redeemable at a premium of 10%.

(v) Debentures are issued at a premium of 10% and redeemable at premium of 10%.

(vi) Debenture are issued at a discount of 10% and redeemable at a premium of 10%.

ANSWER:

(i) Debentures are issued at par and redeemable at par.

In the books of XYZ Ltd.				
Journal Entries				
Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c ...Dr.		3,00,000	
	To Debenture application and allotment A/c			3,00,000
	(Being debenture amount received)			

2.	Debenture application and allotment A/c ...Dr.	3,00,000	
	To 12% Debenture A/c		3,00,000
	(Being amount transfer to debenture)		
3.	12% Debenture A/c ...Dr.	75,000	
	To Debenture holder A/c		75,000
	(Being amount transfer to debenture holder)		
4.	Debenture holder A/c ...Dr.	75,000	
	To Bank A/c		75,000
	(Being amount paid to debenture holder)		

(ii) Debentures are issued at a premium of 10% and redeemable at par.

In the books of XYZ Ltd. Journal Entries				
Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c ...Dr.		3,30,000	
	To Debenture application and allotment A/c			3,30,000
	(Being debenture amount received)			
2.	Debenture application and allotment A/c ...Dr.		3,30,000	
	To 12% Debenture A/c			3,00,000
	To Securities Premium A/c			30,000
	(Being amount transfer to debenture)			
3.	12% Debenture A/c ...Dr.		75,000	
	To Debenture holder A/c			75,000
	(Being amount transfer to debenture holder)			

4.	Debenture holder A/c ...Dr.		75,000	
	To Bank A/c			75,000
	(Being amount paid to debenture holder)			

(iii) Debentures are issued at a discount of 10% and redeemable at par.

In the books of XYZ Ltd. Journal Entries				
Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c ...Dr.		2,70,000	
	To Debenture application and allotment A/c			2,70,000
	(Being debenture amount received)			
2.	Debenture application and allotment A/c ...Dr.		2,70,000	
	Loss on issue of Debenture A/c ...Dr.		60,000	
	To 12% Debenture A/c			3,00,000
	To Premium on Redemption A/c			30,000
	(Being amount transfer to debenture)			
3.	12% Debenture A/c ...Dr.		75,000	
	Premium on Redemption A/c ...Dr.		7,500	
	To Debenture holder A/c			82,500
	(Being amount transfer to debenture holder)			
4.	Debenture holder A/c ...Dr.		82,500	
	To Bank A/c			82,500
	(Being amount paid to debenture holder)			

(iv) Debenture are issued at par but redeemable at a premium of 10%.

In the books of XYZ Ltd. Journal Entries				
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Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c ...Dr.		3,00,000	
	To Debenture application and allotment A/c			3,00,000
	(Being debenture amount received)			
2.	Debenture application and allotment A/c ...Dr.		3,00,000	
	Loss on issue of Debenture A/c ...Dr.		30,000	
	To 12% Debenture A/c			3,00,000
	To Premium on Redemption A/c			30,000
	(Being amount transfer to debenture)			
3.	12% Debenture A/c ...Dr.		75,000	
	Premium on Redemption A/c ...Dr.		7,500	
	To Debenture holder A/c			82,500
	(Being amount transfer to debenture holder)			
4.	Debenture holder A/c ...Dr.		82,500	
	To Bank A/c			82,500
	(Being amount paid to debenture holder)			

(v) Debentures are issued at a premium of 10% and redeemable at premium of 10%.

In the books of XYZ Ltd.				
Journal Entries				
Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c ...Dr.		3,30,000	
	To Debenture application and allotment A/c			3,30,000
	(Being debenture amount received)			
2.	Debenture application and allotment A/c ...Dr.		3,30,000	
	Loss on issue of Debenture A/c ...Dr.		30,000	

	To 12% Debenture A/c			3,00,000
	To Securities Premium A/c			30,000
	To Premium on Redemption A/c			30,000
	(Being amount transfer to debenture)			
3.	12% Debenture A/c ...Dr.		75,000	
	Premium on Redemption A/c ...Dr.		7,500	
	To Debenture holder A/c			82,500
	(Being amount transfer to debenture holder)			
4.	Debenture holder A/c ...Dr.		82,500	
	To Bank A/c			82,500
	(Being amount paid to debenture holder)			

(vi) Debenture are issued at a discount of 10% and redeemable at a premium of 10%.

In the books of XYZ Ltd.				
Journal Entries				
Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
1.	Bank A/c ...Dr.		2,70,000	
	To Debenture application and allotment A/c			2,70,000
	(Being debenture amount received)			
2.	Debenture application and allotment A/c ...Dr.		2,70,000	
	Discount on issue of Debenture A/c ...Dr.		30,000	
	To 12% Debenture A/c			3,00,000
	(Being amount transfer to debenture)			
3.	12% Debenture A/c ...Dr.		75,000	
	To Debenture holder A/c			75,000
	(Being amount transfer to debenture holder)			

4.	Debenture holder A/c ...Dr.		75,000	
	To Bank A/c			75,000
	(Being amount paid to debenture holder)			