

## Chapter - 8

### Important Questions Part-1

### Accounting For Debentures

**Illustration 1 :** Raj Ltd. Issued 2,000 12% Debentures of Rs.100 each at par payable Rs.25 Application, Rs.50 on Allotment and the balance on first and final call. In all 3,000 application were received.

Allotment was made to 2,000 applicant other were rejected. Give Journal entries.

**Solution:**

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c    Dr.		75,000	
	To Debentures Application A/c			75,000
	(Being the application money received on 3,000 Debentures at Rs. 25 per Debentures)			
	Debentures Application Account    Dr.		75,000	
	To 12% Debentures Account			50,000
	To Bank A/c			25,000
	(Being the transfer of applicant money on 2,000 Debentures of 12% Debentures A/c)			
	Debentures allotment Account    Dr.		1,00,000	
	To 12% Debentures Account			1,00,000
	(Being the amount due on 2,000 Debentures at Rs. 50 per Debentures)			
	Bank A/c    Dr.		1,00,000	

	To Debentures Allotment A/c			1,00,000
	(Being the receipt of Rs. 50 on 2,000 Debentures)			
	Debentures First & Final Call A/c    dr.		50,000	
	To 12% Debentures Account			50,000
	(Being the amount due on 2,000 Debentures at Rs. 25 per Debentures)			
	Bank A/c    Dr.		50,000	
	To Debentures First & Final Call A/c			50,000
	(Being the receipt of RS. 25 on 2,000 Debentures)			

**Illustration 2 :** Z Ltd. Invited application for 5,000, 8% Debentures of Rs.100 each at a premium of 2%, Rs.40 were payable on Application and balance on allotment. Applications were received for 4,800 shares and accepted in full. All money duly received. Journalise the transactions.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c		1,92,000	
	To Debentures Application A/c			1,92,000
	(Being the application money Received on 4800 Debentures @ Rs. 40 per Debentures)			
	Debentures application A/c    Dr.		1,92,000	
	To Debentures A/c			1,92,000
	(Being the transfer of application Money to 8% debentures account)			
	Debentures Allotment A/c		2,97,600	

	To 8% Debentures A/c			2,88,000
	To Security Premium Reserve A/c			9600
	(Being the allotment money due on 4,800 debentures @ Rs. 60 and premium of Rs. 2 Share)			
	Bank A/c Dr.		2,97,600	
	To Debentures Allotment A/c Dr.			2,97,600
	(Being the application Money received)			

**Illustration 3 :** Ganga Ltd. issued 2,000 12% debentures of Rs.100 each at a premium of 10% payable Rs.25 on application; Rs.40 (including premium) payable on allotment and balance on First and Final Call. In all 3,500 application were received 500 application were rejected and allotment was made to applicants to 3,000 debentures on Pro-rata basis. The excess money was adjusted on allotment. Give journal entries.

**Solution :**

### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr.		87,500	
	To 12% Debentures Application A/c			87,500
	(Being the application money received on 3,500 Debentures @ Rs. 25 per Debentures)			
	12 % Debentures Application A/c Dr.		87,500	
	To 12% Debentures A/c			50,000
	To Bank Account			12,500
	To Debentures Allotment A/c			25,000
	(Being the transfer of application money			

	to Debentures A/c and refund made on rejected Application)			
	12% Debentures Allotment A/c Dr.		80,000	
	To 12% Debentures Account			60,000
	To Security Premium A/c			20,000
	(Being the allotment money due on 2,000 Debentures @ Rs. 30 and premium of Rs. 10)			
	Bank A/c Dr.		55,000	
	To 12% Debentures Allotment A/c			55,000
	(Being the Allotment money Received Rs. 80,000 – Rs. 25000)			
	12% Debentures First & Final Call A/c Dr.		90,000	
	To 12% Debentures Account			90,000
	(Being the call money due on, 2000 debentures @ Rs. 45)			
	Bank A/c Dr.		90,000	
	To 12% Debentures First & call A/c			90,000
	(Being the call money received)			

**Illustration 4 :** A company purchased assets of book value of Rs.99,000 from Girish. It was agreed that Purchase consideration be paid by issuing 11% Debentures of Rs.100 each. Assume Debentures have been issued (i) at par (ii) at a premium of 10% Give journal entries in the books of company.

### Solution

#### Journal

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Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(i)	Sundry Assets A/c Dr.		99,000	
	To Girish			99,000
	(Assets Purchased From Girish)			
(ii)	Debentures are issued at par			
	Girish Dr.		99,000	
	To 11% Debentures A/c			99,000
	(For the issue of Debentures at par)			
	Debentures are issued at premium :			
(iii)	Girish Dr.		99,000	
	To 11% Debentures A/c			99,000
	To Security Premium Reserve A/c			9,000
	For Issue of 900 Debentures of Rs. 100 each at 9,000 10% Premium)			

### When Purchases consideration is more than net value of assets

**Illustration 5 :** A Company issued debentures of Rs.100 each at par for the purchases of the following assets and liabilities from Gupta Bros. at purchase consideration of Rs.5,00,000

Plant -	Rs.3,50,000	Stock	Rs.4,50,000
Land and Building	Rs.6,00,000	Sundry Creditors	Rs.1,00,000

Pass necessary Journal Entries.

### Solution

#### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
(i)	Plant A/c Dr.		3,50,000	

	Land and Building A/c dr.		6,00,000	
	Stock A/c Dr.		4,50,000	
	Good will A/c Dr.		2,00,000	
	To Sundry Creditors A/c			1,00,000
	To Gupta Bros.			15,00,000
	(Being the purchase of business)			
	Gupta Bros. Dr.		15,00,00	
	To Debentures A/c			15,00,000
	(Being issue of 15,000 shares of Rs. 100 each as payment of business price)			

**Calculation :** Goodwill = Purchases consideration + liabilities – assets = Rs.15,00,000 + Rs.1,00,000 – Rs.14,00,000 = Rs.2,00,000

### When Purchases consideration is less than net value of assets

**Illustration 6 :** Zee Ltd. Took over the following assets and liabilities of business of Usha Ltd.  
Assets : Machinery-Rs.1,00,000, Furniture Rs.1,80,000 Stock Rs.20,000 Liabilities-Creditors Rs.80,000

The purchases price was agreed at Rs.1,08,000. This is to settle by issue of 12%

Debentures at premium of 20% pass necessary Journal entries.

**Solution :**

### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Machine A/c Dr.		1,00,000	
	Furniture A/c Dr.		1,80,000	
	Stock A/c Dr.		20,000	

	To Creditors A/c			80,000
	To Capital Reserve A/c (B/F)			1,12,000
	To Usha Co. Ltd.			1,08,000
	(Being the purchases of Business)			
	Usha Co. Ltd		1,08,000	
	To 12% Debentures A/c			90,000
	To Security Premium A/c			18,000
	(Being issue of 900 Dentures of Rs. 100 each at premium of 20%)			

Calculations Net assets = Total assets-liabilities = Rs.3,00,000 – Rs.80,000 = Rs.2,20,000  
 Capital reserve = Net assets – Purchases consideration = Rs.2,20,000 – Rs.1,08,000 = Rs.1,12,000

**Illustration 7 :** Kirloskar Multimedia Ltd. Purchased machinery costing L16,72,000.

It was agreed that the purchase consideration be paid by issuing 13% Debentures of Rs.100 each. Assume debentures are issued (i) at par, (ii) at a premium of 10% and (iii) at a discount of 5%. Give necessary journal entries.

### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Machinery A/c Dr.		16,72,000	
	To Vendor			16,72,000
	(Machinery purchased from vendor)			
(i)	Vendor Dr.		16,72,000	
	To 13% Debentures			16,72,000
	(16,720 13% debentures of Rs. 100 each issued at par)			
(ii)	Vendor Dr.		16,72,000	

	To 13% Debentures			15,20,000
	To Securities Premium Reserve A/c			1,52,000
	(15,200 13% debentures of Rs. 100 each Issued at a premium of Rs. 10%)			
(iii)	Vendor Dr.		16,72,000	
	Discount on issue of debentures A/c Dr.		88,000	
	To 13% debentures A/c			17,60,000
	To 13% debentures of Rs. 1,00 each issued at a discount of 5%)			

**Illustration 8 :** X Ltd. Had Rs.12,00,000, 11% Debentures outstanding on 1st April, 2012. During the year, it took a loan of Rs.4 Lakh from Canara Bank for which company deposited debentures of Rs. Lakh as collateral security.

Pass journal entries and show how these transactions will appear in Balance Sheet of the company.

#### **FIRST METHOD. NO ENTRY IS PASSED FOR DEBENTURES**

##### **Journal**

Date	Particulars	LF.	Debit (Rs.)	Credit (Rs.)
2012 1st April	Bank A/c Dr. To Canara Bank's loan A/c		4,00,000	
	(Loan taken from bank against collateral security of debentures worth L5 Lakhs)			4,00,000

##### **Balance Sheet of X Ltd.**

**As at 1<sup>st</sup> April, 2012**

Particulars	Notes No.	(Rs.)
Equity And Liabilities		



3. Non-Current Liabilities		
(a) Long-term Borrowing	1	16,00,000
Notes to Balance Sheet		

Note No. 1	(Rs.)
Long-Term Borrowings:	
11% Debentures	12,00,000
Bank Loan (Against Collateral Security of Debentures Rs. 5,00,000)	4,00,000
	16,00,000

**Second Method. Entry for issue of Debentures is passed.**

### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr.		4,00,000	
	To Canara Bank's Loan A/c			4,00,000
	(Loan Taken from bank)			
	Debentures Suspense A/c Dr.		5,00,000	
	To 11% Debentures A/c			5,00,000
	(Issue of Rs. 5,00,000 Debentures issued as collateral Securities)			

Presentation of Debentures and Bank Loan will remain same as explained Balance Sheet Under 1<sup>st</sup> Method, however, presentation of information in note will differ.

### Balance Sheet of X Ltd.

**As at 31<sup>st</sup> March, 2012 (ASSUMED)**

Particulars	Notes No.	(Rs.)
1. Equity and Liabilities		
2. Non-Current Liabilities		
3. Long-term Borrowings	1	16,00,000

## Ind Method

### Notes to Balance Sheet

	(Rs.)	(Rs.)
Note No. 1		
Other Long-term Borrowings:		
11% Debentures (12,00,000 + 5,00,000)	17,00,000	
Less: Debentures Suspense A/c	5,00,000	12,00,000
Bank Loan (Against Collateral Security of Debentures Rs. 5,00,000)		4,00,000
		16,00,000

**Illustration 9 :** On 1st April, 2012 A Ltd. took a loan of Rs.5,00,000 from the State Bank of India for which the company issued 8% Debentures of Rs.6,00,000 as collateral security. Record the issue of debentures in the books of the Co. and also show how the debentures and bank loan will appear in the Balance Sheet of the company.

### Solution :

### Journal

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr.		5,00,000	
	To Bank's loan A/c			5,00,000
	(Loan Taken from bank)			

	Debentures Suspense A/c Dr.		6,00,000	
	To 8% Debentures A/c			6,00,000
	(Issue of Rs. 6,00,000 Debentures as collateral Securities)			

**Balance Sheet of A Ltd.**  
**As at 1st April, 2012**

Particulars	Notes no.	Figures as at the end of current accounting period	Figure as at the end of previous accounting period
1. Equity and Liabilities			
(1) Shareholders Funds			
(2) Share Application Money Pending Allotment			
(3) Non-Current Liabilities	1	5,00,000	
Total		5,00,000	

	(Rs.)	(Rs.)
Note No. 1		
Other Long term Borrowings :		
8% Debentures	6,00,000	
Less : Debentures Suspense A/c	(6,00,000)	Nil
Bank Loan		5,00,000
		5,00,000

**Illustration 10 :** ABC Ltd had Rs.15,00,000, 10% Debentures outstanding as on April, 2012. On 1st Sept. 2012 Company took a loan of Rs.5,00,000 from the Punjab National Bank for which

the company placed with the bank, 10% Debentures for Rs.7,00,000 as collateral Security. Pass journal entries, if any. Also show how the debentures and Bank Loan will appear in the company's Balance Sheet as on 31st March, 2013.

### Journal of ABC Ltd.

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2012 1 <sup>st</sup> Sept	Bank A/c Dr.		5,00,000	
	To Bank Loan A/c			5,00,000
	(Loan taken from bank of 5,00,000)			
	Debentures Suspense A/c Dr.		7,00,000	
	To 10% Debentures A/c			7,00,000
	(Issue of Debentures as Collateral Security)			

### Balance Sheet of ABC Ltd.

As at 31 march 2013 (Rs. In '000)

Particulars	Notes No.	2012-13	2011-12
1. EQUITY AND LIABILITIES			
(1) Shareholder's Funds			
(2) Non-Current Liabilities Long – Term Borrowing	1	2,000	1,500
(3) Current Liabilities			

### Notes to Accounts :

#### Note 1.

Particulars	As on 31.03.2012 (Rs.)	As on 31.03.2012 (Rs.)

Long term Borrowing		
(i) 10% Debentures 22,00,000		
Less : Debentures Suspense A/c (7,00,000)	15,00,000	15,00,000
(ii) Bank Loan	5,00,000	-
Total	20,00,000	15,00,000

Various cases for the issue of debentures from Redemption point of view.

Case No.	Condition Issue	Condition of Redemption
1.	Issued at Par	Redemption at par
2.	Issued at premium	Redemption at par
3.	Issued at par	Redemption at premium
4.	Issued at premium	Redemption at premium
5.	Issued at Discount	Redemption at par
6.	Issued at Discount	Redemption at premium

### 1. when Debentures are issued at par and redeemable at par

#### Journal

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr.			
	To % Debentures Application and Allotment A/c			
	(Being the application and Allotment A/c Dr.			
	Debentures Application and Allotment A/c Dr.			
	To % Debentures A/c			

	(Being the transfer of application money to % Debenture A/c)			

**Illustration 11 :** Larson and Turbo Ltd. Issued 50,000 8% debentures of Rs.100 each payable on. Application at par and redeemable at par any time after 7 years from the date of the issue. Record necessary entries for the issue of debentures in the book of Company.

Solution:

**In the books of Larson & Toubro Ltd.**

**Journal**

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c    Dr.		50,00,000	
	To % Debentures Application and Allotment A/c			50,00,000
	(Being the application money received)			
	Debentures Application and Allotment A/c Dr.		50,00,000	
	To 8% Debentures A/c			50,00,000
	(Being the transfer of application money to debenture account)			

**2. Debentures are issued at Premium Redeemable at par**

**Journal**

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c			
	To 9% Debentures Application and Allotment A/c			

	(Being the application money received)			
	Debentures Application and Allotment A/c Dr.			
	To % Debentures A/c			
	To Securities Premium Reserve A/c			
	(Being the debentures issued at premium and redeemable at par)			

**Illustration 12 :** Green Ltd. Issued Rs.80,000, 9% Debenture at a premium of 5% redeemable at par Give the necessary Journal entry

**Solution :**

### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr.		84,000	
	To 9% Debentures Application and Allotment A/c			84,000
	(Being the application money received)			
	9% Debentures Application and Allotment A/c Dr.		84,000	
	To 9% Debenture A/c			80,000
	To Securities Premium Reserve A/c			4,000
	(Being the debenture issued at premium and redeemable at par)			

### 3. When Debentures are issued at par redemption at premium

### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
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	Bank A/c Dr.			
	To % Debenture Application & Allotment A/c			
	(Being the application money Received)			
	% Debenture Application & Allotment A/c Dr.			
	Loss on issue of Debentures A/c Dr.			
	To % Debentures Account			
	To Premium on redemption of Debentures A/c			
	(Being the debentures issued at par and redeemable at premium)			

**Illustration 13 :** White Ltd. Issued Rs.60,000 Debenture at par and redeemable at 10% premium. Give the necessary Journal entry.

**Solution:**

### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c		60,000	
	To % Debenture Application and Allotment A/c			60,000
	(Being the application money received)			
	% Debenture Application and Allotment A/c Dr.		60,000	
	Loss on issue of Debentures A/c Dr.		6,000	
	To % Debentures A/c			60,000
	To Premium on Redemption of			



	Debentures A/c			6,000
	(Being the debentures issued at par and redeemable at premium)			

#### 4. When Debentures are issued at premium redeemable at premium

##### Journal

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
	Bank A/c			
	To % Debentures Application and Allotment A/c			
	(Being the application money receive)			
	% Debenture Application & Allotment A/c Dr.			
	Loss on issue of Debenture A/c			
	To % Debenture A/c			
	To Securities Premium Reserve A/c			
	To Premium on Redemption Reserve A/c			
	To Premium on Redemption of Debenture A/c			
	(Being the Debentures issued at premium and redeemable at premium)			

**Illustration 14 :** Gives Journal Entry assuming the face value of 10% debentures at Rs.100 issued at Rs.105 and repayable at Rs.110.

**Solution:**

##### Journal

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Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr.		105	
	To % Debentures Application and Allotment A/c			105
	(Being the application money received)			
	% Debenture application and Allotment A/c Dr.		105	
	Loss on Issue of Debentures A/c Dr.		10	
	To % Debentures A/c			100
	To Securities Premium Reserve A/c			5
	To Premium on Redemption of Debenture A/c			10
	(Being the debentures issued at 5% Premium and Redeemable at 10% premium)			

## 5. When Debentures are issued at Discount but Redeemable at par

### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c			
	To % Debentures Application and Allotment A/c			
	(Being the application money received)			
	% Debenture Application & Allotment A/c Dr.			
	Discount on Issue of Debenture A/c Dr.			

	To % Debentures A/c			
	(Being debenture issued at discount but redeemable at part)			

## 6. When Debentures are issued at discount and Redeemable at premium

### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c			
	To % Debenture Application % Allotment A/c			
	(Being the Application & allotment A/c Dr.			
	Discount on Issue of Debenture A/c Dr.			
	Loss on Issue of Debenture A/c Dr.			
	To % Debenture A/c			
	To Premium on Redemption of Debentures A/c			
	(Being the Debentures issued at discount and redeemable at premium)			

**Illustration 15 :** Claris Life Sciences Ltd. issued 5,000 14% Debentures of Rs. 100 each at a discount of 10%. Pass the necessary journal entries in the books of the company for the issue of debentures when debentures were to be:

(i) Redeemed at par.

(ii) Redeemed at a premium of 5%.

### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)

	Bank A/c Dr.		4,50,000	
	To Debenture Application and Allotment			4,50,000
	(Application money received on 5,000 debentures @ Rs. 90 each)			
(i)	Debentures Application and Allotment Dr.		4,50,000	
	Discount on issue of Debentures Dr.		50,000	
	To 14% Debentures			5,00,000
	(5,000 14% Debentures of Rs. 100 each issues at a discount of 10%)			
(ii)	Debentures Application and Allotment Dr.		4,50,000	
	Loss on issue of Debentures A/c Dr.		75,000	
	To 14% Debentures			5,00,000
	To Premium on redemption of Debentures			25,000
	(5,000, 14% Debentures of Rs. 100 each issues at a discount of 10% but redeemable at a Premium of 5%)			

**Illustration 16 :** ABC Company Ltd., had 6% debentures of Rs.1,00,000 on 1st January 2009 on which interest is paid on 3th June and 31st December. Pass necessary journal entries for the payment of interest for the year 2009, 10% tax is deducted at source from interest and remitted immediately. Books are closed on 31st December.

**Solution:**

**ABC Ltd.  
Journal**

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
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2009 June 30	Interest on Debenture A/c Dr.		3,000	
	To Debentures holder A/c			27,00
	To Income Tax Payable A/c			300
	(Half yearly debentures interest due and tax deducted at source)			
June 30	Debentures holder A/c Dr.		2,700	
	Income Tax Payable A/c Dr.		300	
	To Bank			3,000
	(Interest & Tax paid)			
Dec 31	Interest on Debentures A/c Dr.		3,000	
	To debentures holder A/c			2,700
	To Income Tax Payable			300
	(Half yearly debentures interest due and tax deducted at source)			
Dec 31	Debentures Holders A/c Dr.		2,700	
	Income Tax Payable Dr.		300	2,700
	To Bank A/c			3,000
	(Being Interest & Tax Paid)			
Dec 31	Statement of Profit and Loss Dr.		6,000	
	To Interest on Debentures A/c			6,000
	(Debentures Interest (3000+3000))			
	Transferred to Statement of Profit and loss)			

**Illustration 17 :** B.G. Ltd. issued 2,000, 12% debentures of L100 each on 1st April 2012. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half yearly on 30th September and 31st March and tax deducted at source is 10%.

Pass necessary journal entries related to the debenture interest for the half-yearly ending 31st March, 2013 and transfer of interest on debentures of the year to the Statement of Profit & Loss.

**Solution :**

**Books of B.G. Ltd.**

**Journal**

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
2013 March 31	Interest on Debentures A/c Dr.		12,000	
	To Debenture holder's A/c			10,800
	To income Tax Payable A/c /TDS from Debentures interest A/c			1,200
	(Half yearly interest due on debentures and tax deducted at sources)			
March 31	Debenture's A/c Dr.		10,800	
	To Bank A/c			10,800
	(Payment of Interest)			
March 31	Income Tax Payable / TDS from			
	Debentures Interest A/c Dr.		1,200	
	To bank A/c			1,200
	(TDS Deposited with income tax authorities)			
March 31	Statement of Profit & Loss		24,000	
	To interest on Debentures A/c			24,000
	(Interest transferred to Statement of P/L)			

**Question 1:** Fill in the missing figures in the following entries: -

**Journal**

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Case 1			
	Bank A/c		....	
	To Debentures Application & Allotment A/c			....
	(Being application money received)			
	Debentures Application & allotment A/c Dr.		40,000	
	Loss on issue of Debentures A/c Dr.		....	
	To 10% Debentures A/c			....
	To Premium on Redemption A/c			....
	(Being issue of 400, 10% Debentures of Rs. 100 each at par and redeemable at premium of 10%)			
	Case 2			
	Bank A/c		....	
	To Debentures Application & Allotment A/c			....
	(Being Application money Received)			
	Debentures application & Allotment A/c Dr.		....	
	Loss an issue of Debentures A/c dr.		....	
	To 12% Debentures A/c			....
	To Premium on Redemption of			

	Debentures A/c			....
	(Being 200, 12% Debentures issued at Rs. 90 repayable at Rs. 110)			
	Case 3			
	Bank A/c Dr.		....	
	To Debentures Application & Allotment A/c			....
	(Being Application money Received)			
	Debentures Application & Allotment A/c Dr.		....	
	Loss on issue of Debentures A/c		....	
	To 10% Debentures A/c			....
	To Securities Premium Resources A/c			....
	To Premium of Redemption of Debentures A/c			....
	(Being 100, 10% Debentures issued at Rs. 105 repayable Rs. 110)			



## **Important Questions Part-2**

### **Accounting for Debentures**

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#### **1. What is the Meaning of Debenture?**

**Ans:** A Debenture is a certificate or voucher acknowledging a debt. A Debenture is a long-term Debt Instrument issued for the purpose of raising funds.

According to Section 2 (12) of the Companies Act “Debenture” includes debenture stock, bonds and any other securities of a company, whether or not constituting a charge on the assets of the company.

#### **2. Explain the concept of Collateral Security.**

**Ans:** Collateral security" means additional security to the main obligation in a contract. A company may issue its debentures in addition to the Primary Security when it takes loan from bank or any financial institution. It is called ‘issue of debentures as collateral security’. The lender may take possession only if company is not able to repay the loan amount and the principal security is exhausted. In such a case company pays interest on loan, thus no interest will be paid on the debentures issued as collateral Security.

#### **3. What is meant by issue of debentures for consideration other than cash?**

**Ans.** When a company does not have sufficient Cash to acquire the fixed Assets for the business or Company is not able to meet its obligations, in such a case a company may offer and allot its debentures to the outsiders in lieu of cash. This is known as issue of debentures for consideration other than cash. For example Machinery is purchased and debentures are issued to Vendor instead of paying cash.

#### **4. Give the meaning of Convertible and Non convertible debentures.**

**Ans:** Convertible Debentures: Debentures which are convertible into Equity shares at the issuer's notice. After conversion of Debentures into Equity Shares the investors enjoy the same status as ordinary shareholders of the company. Such conversion should be approved by passing special resolution.

Non-Convertible Debentures: These are totally opposite to the convertible debentures. These debentures do not have the option of their conversion into the equity share.

#### **5. What does an irredeemable debenture mean?**

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**Ans.** Irredeemable Debentures: Debentures which do not have any fixed Period of redemption. These debentures are redeemable at the time of winding up and not redeemable during the life time of the company.

**6. Distinguish between a Share and a debenture (any two).**

**Ans:**

Basis	Share	Debenture
Meaning	Share means share capital of the company. Share Capital is the Internal Liability of the firm.	Debenture means Loan or debt of the company. Debenture is the external liability of the firm
Status of Holder	Share Holders are treated as the owners of the company	Debenture Holders are the Creditors of the company
Dividend Vs Interest	Dividend is paid to the Shareholders. It is an appropriation of Profit	Interest is paid to the Debenture Holders at a fixed rate. It is charge against the profit

**7. Why would an investor prefer to invest partly in Shares and partly in Debentures at a company?**

**Ans.**

- i. Main purpose of investing in shares is to enjoy the firm's profit in the form of dividend.
- ii. The main purpose of investing in debentures is to ensure the regular interest and safety of investment.

**8. What is the nature of Interest on Debentures?**

**Ans.** Interest on debentures is a charge against the profits. It means that whether there is profit or loss it will be paid to the debenture holders.

**9. What is meant by Redemption of Debentures?**

**Ans.** Repayment of the amount borrowed by a company is called redemption of debentures.

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Debentures can be redeemed at Par or Premium. Students must remember that debentures are redeemed on the due date by paying the lump sum amount to the debenture holders or by paying in installments.

**10. Give two sources of finance for Redemption of Debentures.**

**Ans.**

- i. Out of profits
- ii. issue of fresh Share Capital and Debentures.

**11. Define Secured and Unsecured Debentures.**

**Ans. Secured or Mortgaged Debentures:** Debentures are secured by a charge on the fixed assets of the company. If the company fails on payment of the principal amount or interest amount, assets under charge are sold to repay the amount due to the debenture holders.

**Unsecured Debentures:** Debentures are called unsecured in the sense that if the company defaults on payment of the principal amount or interest, debenture holder has to be along with other unsecured creditors of the company. In simple words, these debentures are not secured by the charge of fixed assets.

**12. Give two reasons why a company buy its own debentures from open market.**

**Ans.**

1. To maintain the solvency ratio.
2. To utilize the surplus money or funds which are lying idle with the company.

**13. What is meant by Debenture Redemption Reserve?**

**Ans.** Debenture redemption reserve is a reserve representing retentions out of profit made for the purpose of redemption of debentures. Amount of DRR to be created: Section 117 (c) of the Indian Companies Act 1956 requires that, an adequate amount of profit should be transferred to DRR before redemption commences. However the adequate amount is not specified by the companies Act.

**14. What is meant by Redemption out of profit?**

**Ans.** Redemption out of profit means that adequate amount of profits are transferred to DRR A/c from Statement of P/L before the redemption of debenture commences. This reduce the amount available for dividends to shareholders.

**15. What Journal entry is recorded when a company purchases its own debentures from the open market?**

**Ans.** Following Journal entry is recorded in the books of accounts when a company purchases its own debentures from the open market:

Own Debentures A/c Dr.

To Bank A/c

(Being own debentures purchased)

**16. Distinguish between Shareholders and debenture holders.**

**Ans.** Distinction between Shareholders and Debenture holders

Basis	Shareholders	Debenture holders
Ownership	Shareholders are considered as the owners of the company	Debenture holders are considered as Creditors of the company
Participation in Management	They are entitled to take part in the management	They are not entitled to take part in the management
Share of Profit	They enjoy the share of profit as dividend	They get interest and are not entitled to share the profits
Risk Taker	Shareholders are the Risk Taker	Debenture holders are safe in comparison of shareholders (for secured debentures)
Voting Rights	They have right to vote	They don't have right to vote
Option of Convertibility	Shareholders can not convert their shares in debentures	Debenture holders can convert their debentures in Equity Shares

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**17. What is meant by issue of debentures as ‘Purchase Consideration’?**

**Ans.** When a company purchases some assets but do not make the payment in cash to vendor, instead of paying cash to vendor, company issues fully paid debentures for the same amount, is called debentures issued for purchase consideration.

## **Important Questions Part-3**

### **Accounting for Debenture**

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#### **1) What do you mean by Debentures?**

**Ans.** Debentures is an instrument of debt owned by a company as an acknowledgement of debt, such measurements are issued under the seal of company and duly signed by authorized signatory.

#### **2) Write any four types of debentures**

**Ans.**

- i. Redeemable debentures
- ii. Perpetual Debentures
- iii. Convertible debentures
- iv. Secured debentures

#### **3) What is debenture Trust Deed?**

**Ans.** Debenture trust deed is a document created by the company whereby trustee is appointed to protect the interest of debenture holders before they are offered for public subscription.

#### **4) What is meant by convertible debentures?**

**Ans.** Convertible debentures are those, the holders of which are given an option to exchanging the amount of their debentures with equity shares or other securities after a specified period.

#### **5) Why is premium on the issue of debentures considered as a capital profit?**

**Ans.** Premium on the issue of debentures is considered a capital profit because it is not an income arising from the normal course of business operations.

#### **6) Explain deep discount Bond**

**Ans.** When debentures are issued without interest rate and issue price is thereby discounted,

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the issue of debenture is said to have been made as deep discount bond.

**7) Differentiate between shareholders and debenture holder**

**Ans.**

<b>Difference</b>	<b>Share holder</b>	<b>Debenture holder</b>
1) Status	There are the owners of the company	They are the creditors of the company
2) Return	They are paid Dividend	They are paid interest
3) Security	Shares are not secured	Debentures are ordinarily secured

**8) What is the nature of interest on debentures?**

**Ans.** Interest on debentures is a charge against profits.

**9) State in brief, the SEBI Guidelines regarding Debenture Redemption Reserve**

**Ans.** At per SEBI Guidelines, an amount equal to 50% of the debenture issue must be transferred to DRR before the redemption begins. In other words, before redemption, at least an amount equal to 50% of the debenture issue must stand to the credit of DRR

**10) Name the head under which discount on issue of debentures appears in the Balance Sheet of "C" Company.**

**Ans.** Discount on issue of debentures will appear under the heading Miscellaneous Expenditure.

**11) What are the exceptions for creating debenture Redemption Reserve?**

**Ans.** (i) An infrastructure company, (ii) Debentures are issued for less than 18 months maturity period (iii) if debentures issued by private placement.

**12) What do you mean by debentures issued as collateral security?**

**Ans.** The issue of debentures as a collateral security means the issue of debentures as an additional security against the loan in addition to principal security that may be offered.

**13) A Ltd issued 5,000 13% debentures of Rs.100 each at par and raised a loan of Rs.80,000 from Bank. Collaterally secured by Rs. 100,000 13% debentures. How will You show the debenture in the Balance Sheet of the Company assuming that the company has recorded the issue of Debentures as collateral security in the books.**

**Ans.**Balance Sheet

<b>Liabilities</b>		<b>Assets</b>	
Secured Loans	Amount	Current Assets	Amount
13% Debentures 5,000 deb of Rs. 100 each at per	50,000	Bank A/c	50,000
Bank Loan (Secured by the issue of 1000, 13% deb of Rs. 100 each)	80,000		

**14) Ashoka Ltd. had Rs. 5, 00,000 12% debentures outstanding as on 1st Jan, 2003. During the year company took a loan of Rs. 3, 00,000 from Bank of Punjab for which the company placed with the bank debentures of Rs. 3, 60,000 as collateral security.**

**Ans.**Pass journal entries and also show how the debentures and bank loan will appear in the balance sheet.

	Bank a/c Dr.	3,00,000	
	To Bank loan a/c		3,00,000
	(Being loan taken from bank)		
	Debentures suspense a/c dr.	3,60,000	
	To 12% Debentures a/c		3,60,000
	(Being Debentures issued as		



	collateral security)		
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**15) XYZ Co. Ltd., issued 10000 10% debentures of Rs.100 each at a premium of Rs. 5 payable as follows On application Rs.40, on Allotment Rs.65 (including premium)**

**All the debentures were subscribed and money was received, pass necessary journal entries to record the issue of debentures**

### Journal Entries

(1)	Bank A/c Dr.	4,00,000	
	To 10% Debentures application		4,00,000
	(Being application Money received)		
(2)	10% Deb Application a/c Dr.	4,00,000	
	To 10% Debentures a/c		4,00,000
	(Being application money transferred debentures a/c)		
(3)	10% Deb allotment a/c Dr.	6,50,000	
	To Debentures a/c		6,00,000
	To S Premium a/c		50,000
	(Being Debentures allotment due)		
(4)	Bank A/c Dr.	6,50,000	
	To 10% Deb Allotment a/c		6,50,000
	(Being allotment money received)		

**16) Pass Journal Entries to record the Issue of Debentures**

**1) 5000 15% debenture of Rs.100 each issued at Discount of 5% and redeemable at premium at 5% after 5 years.**

2) 10000 15% debenture of Rs.100 each issued at a premium of 10% and redeemable at par after 6 years.

Ans:

### Journal Entries

(1)	Bank a/c Dr.	4,75,000	
	Loss on issue of Deb a/c	50,000	
	To 15% Debentures a/c		5,00,000
	To premium on redemption of Debentures		25,000
	(Being issue of debentures of at discount and redeemable at 5% premium)		
(2)	Bank a/c Dr.	11,00,000	
	To Debentures a/c		10,00,000
	To Premium a/c		1,00,000
	To Premium a/c (Being issue of debentures at premium and redeemable at par)		

17) Journalise the following transactions:90

- 10 debentures issued at Rs.100 repayable at Rs.100.
- 10 debentures issued at Rs.95, repayable at Rs.100
- 10 debentures issued at Rs.105, repayable at Rs.100
- 10 debentures issued at Rs.100, payable at Rs.105.
- 10 debentures issued at Rs. 95, Repayable at Rs. 105

Date	Particulars	L.F.	Debit Amt.	Credit Amt.

(a)	Bank A/c dr.		1,000	
	To Debentures Application a/c			1,000
	(Being Debentures application money received)			
	Debentures Application a/c Dr.		1,000	
	To Debentures a/c			1,000
	(Being 10 Debentures of Rs. 100 each issued at par redeemable at par)			
(b)	Bank A/c Dr.		950	
	To Debentures Application A/c			950
	(Being Debentures application money Received)			
	Debentures application a/c Dr.		950	
	Discount on issue of Debentures Dr.		50	
	To Debentures a/c			1,000
	(Being 10 debentures of Rs. 100 each issued at a discount of 5% and repayable at par.)			
(c)	Bank a/c dr.		1,050	
	To debentures Application a/c			1,050
	(Being Debentures application money received)			
	Debentures Application a/c Dr.		1,050	
	To Debentures a/c			1000
	To Securities premium a/c			50
	(Being 10 Debentures of Rs. 100 each issued at premium of 5% and			

	redeemable at par)			
(d)	Bank A/c Dr.		1,000	
	To Debentures Application a/c			1,000
	Being Debentures application money received)			
	Debentures application a/c Dr.		1,000	
	Loss on issue of debentures a/c Dr.		50	
	To Debentures a/c			1,000
	To premium on redemption of Debentures a/c			50
	(Being 10 Debentures of Rs. 100 each issued at par but repayable at a premium of 5%)			
(e)	Bank A/c Dr.		950	
	To Debentures application A/c			950
	(Being Debentures application money received)			
	Debentures Application A/c dr.		950	
	Loss on issue of Debentures a/c dr.		100	
	To Debentures a/c			1000
	To premium on redemption of Debentures a/c			50
	(Being 10 Debentures of Rs. 100 each issued of 5% but repayable at a premium of 5%)			

**18) A building has been purchased for Rs.1,10,000 from X Ltd., X Ltd., has been issued**

**12% debentures in Purchase Consideration at a Premium of 10% Journalise the above transaction.**

**Ans:** Journal entries

(1)	<b>Building a/c Dr.</b>	<b>1,10,000</b>	
	To vendors a/c		1,10,000
	(Being purchasing of building on credit) Dr.		
(2)	<b>Vendors a/c dr.</b>	<b>1,10,000</b>	
	To 12% debentures a/c		1,00,000
	To securities premium a/c		10,000
	(Being issue of 12% debentures at 10% premium)		

**19) Raghav Limited purchased a running business from Krishna traders for a sum of Rs. 15,00,000 payable Rs. 3,00,000 by cheque and for the balance issued 9% debentures of Rs. 100 each at par.**

**Ans.**The assets and liabilities consisted of the following:

<b>Plant and Machinery</b>	<b>4,00,000</b>
Building	6,00,000
Stock	5,00,000
Debtors	3,00,000
Creditors	2,00,000

Record necessary journal entries in the books of Raghav Limited.

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
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	Plant and Machinery a/c Dr.		4,00,000	
	Building A/c Dr.		6,00,000	
	Stock Dr.		5,00,000	
	Debtors A/c Dr.		3,00,000	
	To Creditor's a/c			2,00,000
	To Krishna Traders			15,00,000
	To Capital Reserve (Bal. Fig))			1,00,000
	(Being assets and liabilities taken over from the vendor company)			
	Krishna Traders a/c Dr.		15,00,000	
	To bank			3,00,000
	To 9% Debentures a/c			12,00,000
	(Being issue of 12,000 debentures of Rs. 100 each at par and rest paid by a cheque)			

**Ans.** A company, if authorised by its Articles of Association, can redeem its own debentures by purchasing them in the open market. This is called redemption of debentures by purchase in the open market. Debentures may be purchased at par or at a premium. But this procedure is usually adopted by the company only when its debentures are quoted at a discount in the open market.

**21) What do you mean by Redemption of debentures by purchase in the open market?**

**20) LCM Ltd., purchased for cancellation its own 10, 00,000, 9% debenture of Rs.500 each of Rs.480 each. Record necessary Journal entries.**

**Ans.**

### Journal Entries

(1)	Own Debentures a/c Dr.	480000000	

	To Bank A/c		480000000
	(Being purchased its own debentures at Rs. 480 each)		
(2)	9% Debentures a/c dr.	500000000	
	To own Debentures a/c		480000000
	To Profit on cancellation of Debentures.		2000000

**21) A company authorized its Rs.1, 10,000 debenture holders to convert them into preference shares. Pass the necessary journal entry if**

- 1. Debentures were converted into shares of Rs.100 at par**
- 2. Debentures were converted into shares of Rs.100 at a premium of 10%**

(a)	Debentures a/c Dr.	1,10,000	
	To Preference Share capital		1,10,000
(b)	Debentures a/c Dr.	1,10,000	
	To preference share capital a/c		1,00,000
	To securities premium a/c		10,000
	(Being debentures converted into preference shares issued at 10% premium)		

**22) White Ltd., issued 8,00,000 8% debentures of Rs.100 each redeemable at a premium of 10%. According to the terms of redemption, the company redeemed 25% of the above debentures by converting them into shares of 50 each issued at a premium of 60% pass Journal entry regarding redemption of debentures.**

**Ans.**

(1)	8% Debentures a/c Dr.	2,00,00,000	

	Premium on redemption of debentures a/c dr.	20,00,000	
	To Debenture holders a/c		2,20,00,000
	(Being 25% of debentures redeemed at a premium)		
(2)	Debentures holders A/c Dr.	2,20,00,000	
	To Share capital		1,37,50,000
	To securities premium a/c		82,50,000
	(Being issue of 2,75,000 shares of Rs. 50 each at a premium of 60% to the debentures holders on conversion of 2,00,000 debentures)		

**23). Journalise the following transactions in the books of Raja Ltd.,**

**1) 200 12% debentures of Rs.100 each issued at a discount of 10% were converted into 10% preference shares of Rs.100 each issued at a premium of 25%. The debentures were converted at the option of the debentures-holders before the date of redemption.**

**2) Issued 1000 12% debentures of Rs.100 each at a discount of 10% redeemable at a premium of 5%.**

**Ans.**

### Journal Entries

<b>(1)</b>	<b>12% Debentures a/c Dr.</b>		<b>20,000</b>	
	To discount on issue of debentures a/c			2,000
	To debentures holders a/c			18,000
	(Being the amount due to debentures holders on conversion of 200, 12%			



	debentures)			
(2)	Debentures holders a/c		18,000	
	To 10% preference share capital			14,400
	To securities premium			3,600
	(Being issue of 144, 12% preference shares of Rs. 100 each.)			
(3)	Bank A/c dr.		90,000	
	Loss on Issue of Deb a/c dr.		15,000	
	To 12% Debentures on redemption of deb a/c			100,000
	To Premium on redemption of deb a/c			5,000
	(Being issue of 1000, 12% debentures of Rs. 100 each at a discount of 10%, and redeemable at premium of 5%).			

**24) On January 1st, 2006 S Ltd issued 1,000 10% debentures of Rs. 500 each at par redeemable after 7 years. However the company gave an option to debenture holder to get debentures converted into equity shares of Rs. 100 each at a premium of Rs. 25 per share any time after the expiry of one year.**

**Ans.** Arvind the holder of 200 debentures informed on Jan, 2006 that he wanted to exercise the option of conversion of debentures into equity shares.

Pass necessary Journal entries to record the issue of debentures on Jan, 2004 and conversion of debentures on Jan, 2006.

### Journal of S Limited

Date	Particulars	L.F.	Debit	Credit
	Bank A/c Dr.		5,00,000	
	To Debentures A/c			5,00,000

	(Being Debentures money received)			
	10% Debenture a/c Dr.		1,00,000	
	To Debentures a/c			1,00,000
	(Being Amount due to debentures holders on redemption.)			
	Debentures holders a/c Dr.		1,00,000	
	To equity share capital A/c			80,000
	To securities premium a/c			20,000
	(Being payment made to debentures holders)			

**25) Animesh Ltd issued 1,000, 12 % Debenture of 100 each in the following manner:**

- i. For cash at par Rs. 50,000 nominal
- ii. For creditors of Rs. 45,000 against purchase of machinery Rs. 35,000 nominal
- iii. To SBI bank against a loan of Rs. 10,000 as collateral security Rs. 15,000 nominal

**Pass Journal entries.**

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Debentures application a/c Dr.		50,000	
	To 12% Debentures a/c			50,000
	(Being 12% Debentures issued at par)			
	Bank A/c		50,000	
	To Debentures application a/c			50,000
	(Being application money received on 500 debentures @ Rs. 100)			
	Machinery a/c Dr.		45,000	

	To Vendors a/c			45,000
	(Being machinery purchased)			
	Vendor a/c Dr.		45,000	
	To 12% Debentures a/c			35,000
	To Securities Premium a/c			10,000
	(Being Debentures issued to vendors at premium)			
	Bank a/c Dr.		10,000	
	To Bank Loan a/c			10,000
	(Being Loan borrowed)			
	Debentures suspense a/c		15,000	
	To 12% Debentures a/c			15,000
	(Being Debentures issued as collateral security)			

**26) Dipesh Ltd redeemed its 8,000, 11 % Debentures of Rs. 100 each in the following manner;**

- i. 4,000 debentures were purchased @ Rs. 95.
- ii. 3,000 debentures were purchased @ Rs. 93
- iii. 1,000 debentures were purchased @ Rs. 97.50.

**The expenses on purchase of own debentures amounted to Rs. 200.**

**The debentures were purchased for immediate cancellation. Pass journal entries.**

### Journal Entries

Date	Particulars	L.F.	Debit	Credit
	P/L appropriate a/c Dr.		4,00,000	
	To Debentures Redemption Reserve			

	a/c			4,00,000
	(Being Debentures redemption reserve created @ 50% of debentures)			
	Own Debentures a/c Dr.		7,56,700	
	To Bank a/c			7,56,700
	(Being own debentures purchased)			
	11% Debentures a/c Dr.		8,00,000	
	To own Debentures a/c			7,56,700
	To gain on cancellation of own Debentures a/c			43,300
	(Being own debentures canceled)			
	Gain on cancellation of own debentures a/c		43,300	
	To capital reserve a/c			43,300
	(Being Gain transferred to capital reserve)			
	DRR A/c Dr.		4,00,000	
	To General reserve a/c			4,00,000
	(Being DRR transferred to general Reserve)			

## **Important Questions Part-4**

### **Accounting for Debentures**

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#### **1. What is the Meaning of Debenture?**

**Ans:** A Debenture is a certificate or voucher acknowledging a debt. A Debenture is a long-term Debt Instrument issued for the purpose of raising funds.

According to Section 2 (12) of the Companies Act “Debenture” includes debenture stock, bonds and any other securities of a company, whether or not constituting a charge on the assets of the company.

#### **2. Explain the concept of Collateral Security.**

**Ans:** Collateral security" means additional security to the main obligation in a contract. A company may issue its debentures in addition to the Primary Security when it takes loan from bank or any financial institution. It is called ‘issue of debentures as collateral security’. The lender may take possession only if company is not able to repay the loan amount and the principal security is exhausted. In such a case company pays interest on loan, thus no interest will be paid on the debentures issued as collateral Security.

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**Ans.** When a company does not have sufficient Cash to acquire the fixed Assets for the business or Company is not able to meet its obligations, in such a case a company may offer and allot its debentures to the outsiders in lieu of cash. This is known as issue of debentures for consideration other than cash. For example Machinery is purchased and debentures are issued to Vendor instead of paying cash.

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**Ans:** Convertible Debentures: Debentures which are convertible into Equity shares at the issuer's notice. After conversion of Debentures into Equity Shares the investors enjoy the same status as ordinary shareholders of the company. Such conversion should be approved by passing special resolution.

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**Non-Convertible Debentures:** These are totally opposite to the convertible debentures. These debentures do not have the option of their conversion into the equity share.

**5. What does an irredeemable debenture mean?**

**Ans.** Irredeemable Debentures: Debentures which do not have any fixed Period of redemption. These debentures are redeemable at the time of winding up and not redeemable during the life time of the company.

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**Ans:**

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**Ans.**

- Main purpose of investing in shares is to enjoy the firm's profit in the form of dividend.
- The main purpose of investing in debentures is to ensure the regular interest and safety of investment.

**8. What is the nature of Interest on Debentures? [CBSE Sample Paper]**

**Ans.** Interest on debentures is a charge against the profits. It means that whether there is

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profit or loss it will be paid to the debenture holders.

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**Ans.**

- i. Out of profits
- ii. issue of fresh Share Capital and Debentures.

**11. Define Secured and Unsecured Debentures.**

**Ans.** Secured or Mortgaged Debentures : Debentures are secured by a charge on the fixed assets of the company. If the company fails on payment of the principal amount or interest amount, assets under charge are sold to repay the amount due to the debenture holders.

Unsecured Debentures : Debentures are called unsecured in the sense that if the company defaults on payment of the principal amount or interest, debenture holder has to be along with other unsecured creditors of the company. In simple words, these debentures are not secured by the charge of fixed assets.

**12. Give two reasons why a company buy its own debentures from open market.**

**Ans.**

1. To maintain the solvency ratio.
2. To utilize the surplus money or funds which are lying idle with the company.

**13. What is meant by Debenture Redemption Reserve?**

**Ans.** Debenture redemption reserve is a reserve representing retentions out of profit made for the purpose of redemption of debentures. Amount of DRR to be created : Section 117 (c) of the Indian Companies Act 1956 requires that, an adequate amount of profit should be

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transferred to DRR before redemption commences. However the adequate amount is not specified by the companies Act.

**14. What is meant by Redemption out of profit?**

**Ans.** Redemption out of profit means that adequate amount of profits are transferred to DRR A/c from Statement of P/L before the redemption of debenture commences. This reduce the amount available for dividends to shareholders.

**15. What Journal entry is recorded when a company purchases its own debentures from the open market?**

**Ans.** Following Journal entry is recorded in the books of accounts when a company purchases its own debentures from the open market:

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

**16. Distinguish between Shareholders and debenture holders.**

**Ans.** Distinction between Shareholders and Debenture holders

Basis	Shareholders	Debenture holders
Ownership	Shareholders are considered as the owners of the company	Debenture holders are considered as Creditors of the company
Participation in Management	They are entitled to take part in the management	They are not entitled to take part in the management
Share of Profit	They enjoy the share of profit as dividend	They get interest and are not entitled to share the profits
Risk Taker	Shareholders are the Risk Taker	Debenture holders are safe in comparison of shareholders (for secured debentures)
Voting Rights	They have right to vote	They don't have right to vote



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Option of Convertibility	Shareholders can not convert their shares in debentures	Debenture holders can convert their debentures in Equity Shares
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**17. What is meant by issue of debentures as ‘Purchase Consideration’?**

**Ans.** When a company purchases some assets but do not make the payment in cash to vendor, instead of paying cash to vendor, company issues fully paid debentures for the same amount, is called debentures issued for purchase consideration.