
CBSE Test Paper 04
Ch-8 Accounting for Debenture

1. Non-Convertible Debentures ----
 - a. Cannot apply for interest
 - b. Cannot not be issued
 - c. Cannot be converted into shares
 - d. Cannot be redeemed
2. When debentures are issued at a discount, should be written off the discount
 - a. In the year of the issue of debentures
 - b. In the year of redemption of debentures
 - c. During the life of the debentures
 - d. Within 5 years of the issue of debentures
3. Debenture Allotment Account is a.....
 - a. None of these
 - b. Personal Account
 - c. Nominal Account
 - d. Real Account
4. Formula for calculation of no. of debentures issued_____.
 - a. $\frac{\text{Purchase consideration}}{\text{Issue price of debentures}}$
 - b. $\frac{\text{Cash consideration}}{\text{Issue price of shares}}$
 - c. $\frac{\text{Cash consideration}}{\text{Issue price of debentures}}$
 - d. $\frac{\text{Purchase consideration}}{\text{Issue price of shares}}$
5. Debenture Application Account is a.....
 - a. None of these
 - b. Personal Account
 - c. Nominal Account
 - d. Real Account
6. State the meaning of Redemption of Debentures Out of Profits.
7. Why would an investor prefer to invest partly in Shares and partly in Debentures at a company?

8. X Ltd. invited applications for issuing 1,000, 9% debentures of Rs.100 each at a discount of 6%. Applications for 1,200 debentures were received. Pro-rata allotment was made to all the applicants.
Pass necessary journal entries for the issue of debentures assuming that the whole amount was payable with application.
9. What is the Meaning of Debenture?
10. Give the meaning of a bond.
11. Y Ltd. purchased Machinery Rs. 55,000 from Z Ltd. 10% was paid by Y Ltd. by accepting a Bill of Exchange in favour of Z Ltd. and the balance was paid by issue of 9% Debentures of Rs. 100 each at par, redeemable after five years.
Pass necessary Journal entries in the books of Y Ltd.
12. 'Good Blankets Ltd' are the manufacturers of woolen blankets. Blankets of the company are exported to many countries. The company decided to distribute blankets free of cost to five villages of Kashmir Valley destroyed by the recent floods. It also decided to employ 100 young persons from these villages in their newly established factory at Solan in Himachal Pradesh. To meet the requirements of funds for starting its new factory, the company issued 50,000 equity shares of Rs.10 each and 2,000, 8% debentures of Rs.100 each to the vendors of machinery purchased for Rs.7,00,000.
Pass necessary journal entries for the above transactions in the books of the company. Also identify anyone value which the company wants to communicate to the society.
13. 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.

The assets and liabilities consisted of the following:

Plant and Machinery	4,00,000
Building	6,00,000
Stock	5,00,000
Debtors	3,00,000

Creditors	2,00,000
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Record necessary journal entries in the books of Raghav Limited.

14. Pass necessary journal entries for the issue and redemption of debentures in the following cases 20,000, 12% debentures of Rs. 50 each were issued and to be redeemed as follows
 - i. Issued at par and redeemed at a premium of 10%.
 - ii. Issued at a premium of 10% and redeemable at a premium of 20%.
 - iii. Issued at par and 50% of the redemption to be made in cash.
15. SSS Ltd. issued 25,000, 10% debentures of 100 each. Give journal entries and the Balance Sheet in each of the following cases when :
 - i. The debentures were issued at a premium of 20%
 - ii. The debentures were issued as a collateral security to bank against a loan of Rs.20,00,000.
 - iii. The debentures were issued to a supplier of machinery costing Rs.28,00,000 as his full and final payment.

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Answer

1. c. Cannot be converted into shares

Explanation: Nonconvertible debentures are those which cannot be converted into shares. These debentures are entitled for interest and can be redeemed normally at the time of maturity.

2. c. During the life of the debentures

Explanation: During the life of the debentures

3. b. Personal Account

Explanation: Debenture Allotment Account is a personal account. It is a Representative Personal Account.

4. a. $\frac{\text{Purchase consideration}}{\text{Issue price of debentures}}$

Explanation: Following formula is used to calculate the no. of debentures to be issued: $\frac{\text{Purchase consideration}}{\text{Issue price of debentures}}$ Purchase consideration means amount to be paid to vendor.

5. b. Personal Account, **Explanation:** Debenture Application Account is a personal account. It is Representative Personal Account.

6. It means that as per SEBI guidelines an amount equal to 50 per cent of the debentures issued should be transferred from profit & loss appropriation account to belly opened account called debentures redemption reserve account before the redemption starts. Redemption of Debentures Out of Profits means the amount equal to the amount utilised for repayment to debenture holders is transferred from Surplus, i.e., Balance in Statement of Profit and Loss to Debenture Redemption Reserve. Thus, a part of the profits of the company is withheld from distribution to shareholders.

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

8. **Books Of X Ltd.**

JOURNAL

Date	Particulars		L.F	Amt (Dr)	Amt (Cr)
	Bank A/c (1200 × 96)	Dr		1,12,800	
	To Debenture Application and Allotment A/c (Being the application money received)				1,12,800
	Debenture Application and Allotment A/c	Dr		1,12,800	
	Discount on Issue of Debenture A/c (1000 × 6)	Dr		6,000	
	To 9% Debentures A/c (1000 × 100)				1,00,000
	To Bank A/c				18,800
	(Being the application money transferred to debentures account and excess refunded)				

Working Notes : 1. Discount on Issue of Debentures = Rs.6,000;

2. Amount Refunded=Rs.18,800 3. If amount towards debentures is received in lump sum, 'Debenture Application and Allotment Account ' is used. 4. Debentures are said to be issued at discount when the issue price is less than its nominal (face) value.

9. 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". A Debenture is a certificate. A Debenture is a long-term Debt Instrument issued for the purpose of raising funds.
10. Bond is a written and signed promise to pay a certain sum of money on a certain date, but it does not carry a pre-determined rate of interest.
11. This question is of the topic 'Issue of Debentures for consideration other than cash' in which some some or full payment is made to the creditor in terms of issuing debentures and not by cash.

In the Books of Y Ltd.

Journal

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
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	Machinery A/c	Dr.		55,000	
	To Z Ltd. (Being the machinery purchased)				55,000
	Z Ltd.	Dr.		5,500	
	To Bills payable A/c (Being the part payment of machinery purchased made in cash)				5,500
	Z Ltd.	Dr.		49,500	
	To 9% Debentures A/c (Being the balance payment made by the issue of 495, 9% debentures at par)				49,500

12.

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Date	Particulars		L.F.	Amt (Dr)	Amt (Cr)
	Machinery A/c	Dr		7,00,000	
	To Vendor Co. A/c				7,00,000
	(Being machinery purchased for Rs. 7,00,000)				
	Vendor Co. A/c	Dr		7,00,000	
	To Equity Share Capital A/c (50,000 x10)				5,00,000
	To 8% Debentures A/c (2,000 x 100)				2,00,000
	(Being purchase consideration discharged partly by issue of equity shares and 8% debentures)				

The Value which the company wants to communicate to the society is social responsibility, helping the needy people, sympathy for poor. Notes :

- When Purchase Consideration is given or discharged by issue of shares and debentures, it is said purchase of asset other than cash.
- Interest on debentures are generally paid half yearly and after deducting T.D.S.

13.

Books of Raghav Ltd.

Journal

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
	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 (Balancing Fig.)			...	1,00,000
	(Being assets and liabilities taken over from the vendor company)		
	Krishna Traders a/c	Dr.		15,00,000	...
	To Bank A/c			...	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)		

Note : If Net Assets are more than Purchase Consideration, the excess of Net Assets acquired over Purchase Consideration is credited to capital Reserve Account. No. Of Debentures Issued = $12,00,000/100 = 12,000$

14.

JOURNAL

Date	Particulars	L.F.	Amt	Amt (Cr)
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				(Dr)	
(i)	At the Time of Issue				
	Bank A/c (20,000 × 50)	Dr		10,00,000	
	To Debenture Application and Allotment A/c				10,00,000
	(Being Application money received)				
	Debenture Application and Allotment A/c	Dr		10,00,000	
	Loss on Issue of Debentures A/c (20,000 × 5)	Dr		10,00,00	
	To 12% Debentures A/c (20,000 × 50)				10,00,000
	To Premium on Redemption of Debentures A/c (20,000 × 5)				1,00,000
	(Being application money transferred to 12% debentures account)				
	At the Time of Redemption				
	12% Debentures A/c (20,000 × 50)	Dr		10,00,000	
	Premium on Redemption of Debentures A/c (20,000 × 5)	Dr		1,00,000	
	To Debentureholders' A/c				11,00,000
	(Being debentures due for redemption)				
	Debentureholders' A/c	Dr		11,00,000	
	To Bank A/c				11,00,000
	(Being amount paid to debentureholders)				
(ii)	At the Time of Issue				
	Bank A/c (20,000 × 55)	Dr		11,00,000	
	To Debenture Application and Allotment A/c				11,00,000
	(Being application money received)				
	Debenture Application and Allotment A/c	Dr		11,00,000	

	Loss on Issue of Debentures A/c ($20,000 \times 10$)	Dr		2,00,000	
	To 12% Debentures A/c ($20,000 \times 50$)				10,00,000
	To Securities Premium Reserve A/c ($20,000 \times 5$)				1,00,000
	To Premium on Redemption of Debentures A/c ($20,000 \times 10$)				2,00,000
	(Being debentures issued at 10% premium and redeemable premium)				
	At the Time of Redemption				
	12% Debentures A/c ($20,000 \times 50$)	Dr		10,00,000	
	Premium on Redemption of Debentures A/c ($20,000 \times 10$)	Dr		2,00,000	
	To Debentureholders' A/c				12,00,000
	(Being debentures due for redemption)				
	Debentureholders' A/c	Dr		12,00,000	
	To Bank A/c				12,00,000
	(Being amount paid to debenture holders)				
(iii)	At the Time of Issue				
	Bank A/c ($20,000 \times 50$)	Dr		10,00,000	
	To Debenture Application and Allotment A/c				10,00,000
	(Being application money received)				
	Debenture Application and Allotment A/c	Dr.		10,00,000	
	To 12% Debentures A/c ($20,000 \times 50$)				10,00,000
	(Being debentures issued at par and 50% redeemable to 20% premium)				
	At the Time of Redemption				
	12% Debentures A/c ($10,000 \times 100$)	Dr		5,00,000	

	To Debentureholders' A/c				5,00,000
	(Being 50% of 12% debentures due for redemption)				
	Debentureholders' A/c	Dr		5,00,000	
	To Cash A/c				5,00,000
	(Being payment paid in cash)				

Notes : 1. If amount towards debentures is received in lump sum, ' Debenture Application and Allotment Account' is used. 2. Loss on issue of Debenture account is an expense account and Premium on Redemption of Debentures Account is a Liability Account. 3. Loss on issue of Debentures is written off from Securities Premium Reserve or from statement of Profit or Loss.

15.

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Date	Particulars		L.F.	Amt (Dr)	Amt (Cr)
	Bank A/c (25,000*120)	Dr		30,00,000	
	To Debenture Application and Allotment A/c (Being application money received)				30,00,000
	Debenture Application and Allotment A/c	Dr		30,00,000	
	To 10% Debentures A/c (25,000*100)				25,00,000
	To Securities Premium Reserve A/c (25,000*20) (Being application money transferred to 10% debentures account)				5,00,000

Balance Sheet
as at.....

	Particulars	Note No.	Amt (Rs)
I.	EQUITY AND LIABILITIES		
1	Shareholders' Funds		
	Reserve and Surplus	1	5,00,000
2	Non-current Liabilities		
	Long-term Borrowings	2	25,00,000
	Total		30,00,000
II.	ASSETS		
1	Current Assets		
	Cash and Cash Equivalents	3	30,00,000
	Total		30,00,000

Notes to Accounts

	Particulars	Amt (Rs)
1	Reserves and Surplus	
	Securities Premium Reserve	5,00,000
2	Non-current Liabilities	
	10% Debentures	25,00,000
3	Cash and Cash Equivalents	
	Cash at Bank	30,00,000

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Date	Particulars		L.F.	Amt (Dr)	Amt (Cr)
(i)	Bank A/c	Dr		20,00,000	
	To Bank loan A/c (Being bank loan taken)				20,00,000

(ii)	Debenture Suspense A/c	Dr		25,00,000	
	To 10% Debentures A/c (Being 25,000, 10% debentures of Rs.100 each issued as Collateral security)				25,00,000

Balance Sheet

As at

	Particulars	Amt (Rs)
1	EQUITY AND LIABILITIES	
	Non-current Liabilities	
	Long-term Borrowings	20,00,000

Notes to Accounts

	Particulars		Amt (Rs)
1	Long-term Borrowings		
	Loan from Bank		20,00,000
	25,000, 10% Debentures of Par Value of Rs.100 each Issued as Collateral Security	25,00,000	
	(-)Debenture Suspense	(25,00,000)	
			20,00,000

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Date	Particulars		L.F.	Amt (Dr)	Amt (Cr)
	Machinery A/c	Dr		28,00,000	
	To Vendor's A/c				28,00,000

	(Being machinery purchased)				
	Vendor's A/c	Dr		28,00,000	
	To 10% Debentures A/c (25,000*100)				25,00,000
	To Securities Premium Reserve A/c (Being 25,000, 10% debentures issued to the supplier of machinery at premium)				3,00,000

Balance Sheet

As at.....

	Particulars	Note No.	Amt (Rs)
I.	EQUITY AND LIABILITIES		
1	Shareholders' Funds		
	Reserves and Surplus	1	3,00,000
2	Non-current Liabilities		
	Long-term Borrowings	2	25,00,000
	Total		28,00,00
II.	ASSETS		
1.	Non-current Assets		
	Fixed Assets		
	Tangible Assets	3	28,00,000
	Total		28,00,000

Notes to Accounts

	Particulars	Amt (Rs)
1	Reserves and Surplus	

	Securities Premium Reserve	3,00,000
2	Long-term Borrowings	
	10% Debentures (25,000 debentures @ Rs.100)	25,00,000
3	Tangible Fixed Assets	
	Machinery	28,00,000

NOTES :

- Debentures issued as collateral security being for the loan of the company, debentures issued as collateral security are shown in the Note to Accounts in which loan is secured by debentures is shown.
- If the company fails to pay the loan along with interest with the time, the lender may recover the dues from the sale of primary security or by seeking redemption of collateral security.