

CBSE Test Paper 02
Ch-8 Accounting for Debenture

1. The amount of discount which is unamortized or cannot be written off, is shown in the balance sheet under the -----
 - a. Other Non-current Liabilities
 - b. Reserve and Surplus
 - c. Short term provisions
 - d. Other Non-current Assets
2. While passing the entry for refund of money if the applications are rejected. Which account should be credited
 - a. Debenture Application A/c
 - b. Debenture Allotment A/c
 - c. Securities Premium A/c
 - d. Bank A/c
3. Vinod Limited invited applications for 2,000, 11% Debentures @ 100 each. The issue was oversubscribed by 5 times. What is this situation called?
 - A. Pro-rata Allotment
 - B. Under Subscription
 - C. Full Subscription
 - D. Over Subscription
4. Vinod Limited issued 6000, 10% debentures of Rs.100 each to the bank as collateral security against a loan of Rs.5,00,000 taken from the bank. Record the issue of debentures in the books of the company.

a.

Debentures Suspense A/c Dr	100000
To Debenture A/c	100000

b.

Debentures Suspense A/c Dr	6,00,000
To Debenture A/c	6,00,000

c.

Debentures Suspense A/c Dr	60000
To Debenture A/c	60000

d.

Debentures Suspense A/c Dr	500000
To Debenture A/c	500000

5. When a company issue some debentures for a longer period with the charge of some assets they are called _____
- Secured Debentures
 - Unsecured Debentures
 - Un-registered Debentures
 - Are not treated as Debentures
6. Name the account to which debentures issued as collateral security will be debited.
7. What is meant by Issue of Debentures as Purchase Consideration?
8. Name the account to which the 'balance of debenture redemption reserve' is transferred after all the debentures have been redeemed.
9. LCM Ltd., purchased for cancellation its own 10, 00,000, 9% debenture of Rs.500 each of Rs.480 each. Record necessary Journal entries.
10. What is meant by debenture?
11. BG Ltd. issued 2,000, 12% debentures of ₹100 each on 1st April, 2012. The issue was fully subscribed. According to the terms of issue, interest on the debentures is payable half-yearly on 30th September and 31st March and the 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 and Loss.
12. Journalise the following transactions for the issue of debentures in each of the following alternatives cases :
- 10 debentures issued at Rs.100 each, repayable at Rs.100 each.
 - 10 debentures issued at Rs.95 each, repayable at Rs.100 each.
 - 10 debentures issued at Rs.105 each, repayable at Rs.100 each.
 - 10 debentures issued at Rs.100 each, repayable at Rs.105 each.

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- v. 10 debentures issued at Rs. 95 each, Repayable at Rs. 105 each.
13. X Ltd had Rs. 8,00,000, 9% debentures due to be redeemed out of profits on 1st October 2009 at a premium of 5%. The company had a debenture redemption reserve of Rs. 4,14,000. Pass necessary journal entries at the time of redemption.
14. Vivek Transport Ltd. has 5,000; 10% Debentures of Rs. 20 each due for redemption on 30th Sept. 2015. Debentures Redemption Reserve has a balance of Rs. 80,000 on that date. Record the necessary entries at the time of redemption of debentures.
15. Pass the necessary Journal entries for issue and redemption of Debentures in the following cases:
- 10,000 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, and the balance to be redeemed at a premium of 20% through the issue of fresh debentures.

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Answer

1. d. Other Non-current Assets, **Explanation:** The amount of discount which is unamortized or not written off yet is shown in the balance sheet under the heading Non-current Assets and subheading other non-current assets.
2. d. Bank A/c, **Explanation:** When a company reject excess debenture applications received and paid back their money, in such a case bank account should be credited with the amount to be refunded to the applicants.
3. d. Over Subscription, **Explanation:** When a company receives more applications for the debentures than the actual debentures offered for the subscription, it is known as over subscription.

4. b.

Debentures Suspense A/c Dr	6,00,000	6,00,000
To Debenture A/c		

Explanation: Debenture Suspense account is an adjustment account which is prepared at the time of issue of debentures as collateral security. In this case, debentures act as a security for taking a loan from the lender. Following entry will take place to record the bank loan taken against collateral security:

Debentures Suspense A/c Dr To Debentures A/c	6,00,000	6,00,000
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5. a. Secured Debentures, **Explanation:** When a company issue some debentures with the charge of some assets they are called secured debentures. Such debentures are shown in the balance sheet under the heading of Long Term Borrowings.
6. Debenture Suspense Account is an adjustment account which is prepared at the time of issue of debenture as collateral security to record the collateral issue.
7. The issue of Debentures is very similar to the issue of shares by a company. When the company purchases some assets (including services) and, instead of making payment to the vendor in cash, issues its fully paid debentures, it is known as an issue of

debentures for consideration other than cash. Such an issue for debentures can be at par, or for a discount or at a premium.

8. The balance of debenture redemption reserve is transferred to **general reserve** after the redemption of debentures.

9. **JOURNAL**

Date	Particulars	Dr. Rs.	Cr. Rs.
i	Own Debentures A/c Dr.	48,00,00,000	
	To Bank A/c		48,00,00,000
	(Being purchase of its own debentures at Rs.480 each from open market.)		
ii	9% Debentures A/c Dr.	50,00,00,000	
	To own Debentures A/c		48,00,00,000
	To Gain on cancellation of own Debentures A/c		2,00,00,000
	(Being own debentures cancelled with 9% debentures.)		
iii	Gain on cancellation of own Debentures A/c Dr.	2,00,00,000	
	To Capital Reserve A/c		2,00,00,000
	(Being gain on cancellation of own Debentures transferred to capital reserve.)		

10. Debenture is a type of debt instrument which are issued under common seal of the company and containing a contract for the repayment of the principal sum i.e., redemption at a specified date with a fixed rate interest every year.

11. **Journal**

30.09.2012	Interest On debenture A/c	12000	
	To TDS Payable A/c		1200
	To Debenture Holder's A/c		10800

	(Being Interest Due on Debenture)		
	Debenture Holder's A/c	10,800	
	TDS Payable A/c	1200	
	To Bank A/c		12,000
	(Being paid to debenture holder.)		
31.03.2013	Interest On debenture A/c	12000	
	To TDS Payable A/c		10800
	To Debenture Holder's A/c		1200
	(Being Interest Due on Debenture)		
	Debenture Holder's A/c	10,800	
	TDS Payable A/c	1200	
	To Bank A/c		12000
	(Being paid to debenture holder.)		
31.03.2013	Statement Of Profit and Loss A/c	24,000	
	To Interest On Debenture A/c		24,000
	(Being interest on debenture transfer.)		

12.

Date	Particulars		L.F.	Debit Amt.	Credit Amt.
(a)	Bank A/c	Dr.		1,000	...
	To Debentures Application a/c (100*10)				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 (10*95)	Dr.		950	...
	Discount on issue of Debentures (10*5)	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 (10*105)	Dr.		1,050	...
	To Debentures a/c (10*100)				1000
	To Securities premium a/c (10*5)				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 (10*100)	Dr.		1,000	...
	Loss on issue of debentures a/c (10*5)	Dr.		50	...

	To Debentures a/c (10*100)				1,000
	To premium on redemption of Debentures a/c (10*5)				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 (10*95)	Dr.		950	...
	Loss on issue of Debentures a/c (10*5 + 10*5)	Dr.		100	...
	To Debentures a/c (10*100)				1000
	To Premium on redemption of Debentures a/c (10*5)				50
	(Being 10 Debentures of Rs. 100 each issued of 5% but repayable at a premium of 5%)				...

Note :

1. Premium Payable at the time of Redemption of Debenture is a Loss for the company and provided in the books of account following the Principle of Prudence.
2. Premium received by the company at the time of issue of Debenture is a Capital Receipt and is credited to Security Premium Reserve account.
3. Loss on Issue of Debenture is written off from Securities Premium Reserve or from Statement of Profit and Loss.

13.

JOURNAL

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
01.04.2009	Debenture Redemption Investment A/c.....Dr.		1,20,000	

	To Bank A/c			1,20,000
	(Being D.R.I. created 15% of 8,00,000.)			
01.10.2009	Statement of Profit and Loss A/c.....Dr.		3,86,000	
	To Debenture Redemption Reserve A/c			3,86,000
	(Being amount of Debenture redemption reserve created 25% of 8,00,000 less 4,14,000.)			
01.10.2009	Bank A/c....Dr.		1,20,000	
	To Debenture Redemption Investment A/c			1,20,000
	(Being D.R.I. sold.)			
01.10.2009	9% Debenture A/c.....Dr.		8,00,000	
	Premium on redemption of Debenture A/c....Dr.		40,000	
	To Debenture Holder's A/c			8,40,000
	(Being amount due to debenture holder at premium of 5%.)			
01.10.2009	Debenture Holder's A/c....Dr.		8,40,000	
	To Bank A/c			8,40,000
	(Being Amount Paid to debenture holder.)			
01.10.2009	Debenture Redemption Reserve A/c....Dr.		8,00,000	
	To General Reserve A/c			8,00,000
	(Being amount of D.R.R. transfer to General Reserve.)			

14.

In the Books of Vivek Transport Ltd.

Journal

Date	Particulars		L.F.	Debit(Rs.)	Credit(Rs.)
2015 30 Apr.	Debentures Redemption Investment A/c (1,00,000*15%)	Dr.		15,000	...
	To Bank A/c			...	15,000
	(Being investment made for Debentures redemption)			...	...
30 Sep.	Balance in Statement of Profit & loss A/c	Dr.		20,000	...
	To Debentures Redemption Reserve A/c			...	20,000
	(Being Debenture Redemption Reserve Created up to 100% of the amount of Debentures.)			...	...
30 Sep.	Bank A/c	Dr.		15,000	...
	To Debentures Redemption Investment A/c			...	15,000
	(Being investment encashed)			...	...
30 Sep.	10% Debentures A/c (5000*20)	Dr.		1,00,000	...
	To Debenture Holder A/c			...	1,00,000
	(Being amount due to Debentures holders on Redemption)			...	...
30 Sep.	Debenture Holders A/c	Dr.		1,00,000	...
	To Bank A/c			...	1,00,000

	(Being amount paid to Debentures holders)			...	...
30 Sep.	Debentures Redemption Reserve A/c (80,000+20,000)	Dr.		1,00,000	...
	To General Reserve A/c			...	1,00,000
	(Being Debenture Redemption Reserve Amount transferred is General Reserve)			...	...

Note : After redemption Debenture Redemption Reserve should be transferred to General Reserve Account. In the absence of the information regarding the date of investment in specified securities, it is presumed that investment in specified securities is made on April1, 2014.

15.

Journal

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
	For Issue of Debentures				
	Bank A/c To Debentures Application and Allotment A/c (Being the receipt of debenture application money)	Dr.		5,00,000	5,00,000
	Debenture Application and Allotment A/c Loss on Issue of Debentures A/c To 12% Debentures A/c To Premium on Redemption of Debentures A/c (Being the issue of 10,000 debentures at par redeemable at 10 % premium)	Dr. Dr.		5,00,000 50,000	5,00,000 50,000
	On Redemption of Debentures				
	12% Debentures A/c Premium on Redemption of Debentures A/c To Debenture holders' A/c	Dr.		5,00,000	5,50,000

	(Being the amount due to debenture holders on redemption)	Dr.		50,000	
	Debenture Holders' A/c To Bank A/c (Being the payment made to debenture holders)	Dr.		5,50,000	5,50,000
	On Issue of Debentures				
	Bank A/c To Debenture Application and Allotment A/c (Being the application money received)	Dr.		5,50,000	5,50,000
	Debenture Application and Allotment A/c Loss on Issue of Debentures A/c To 12% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being 10,000 debentures issued at a premium of 10% and redeemable at a premium of 20%)	Dr. Dr.		5,50,000 1,00,000	5,00,000 50,000 1,00,000
	Loss on Issue of Debentures A/c To 12% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being 10,000 debentures issued at a premium of 10% and redeemable at a premium of 20%)	Dr.		6,50,000	5,00,000 50,000 1,00,000
	On Redemption of Debentures				
	12% Debentures A/c Premium on Redemption of Debentures A/c To Debenture holder's A/c (Being the amount due to debenture holders on redemption)	Dr. Dr.		5,00,000 1,00,000	6,00,000
	Debenture holders A/c To Bank A/c (Being the payment made to debentures)	Dr.		6,00,000	6,00,000

	On Issue of Debentures				
	Bank A/c To Debenture Application and Allotment A/c (Being the debenture application money received)	Dr.		5,00,000	5,00,000
	Debenture Application and Allotment A/c Loss on Issue of Debentures A/c To 12% Debentures A/c To Premium on Redemption of Debentures A/c (Being 10,000 debentures issued at par, 50% of the redemption to be made in cash and balance to be redeemed at a premium of 20%)	Dr. Dr.		5,00,000 50,000	5,00,000 50,000
	On Redemption of Debentures				
	12% Debentures A/c Premium of Redemption of Debentures A/c To Debenture holders' A/c (Being the amount due to debenture holders on redemption)	Dr. Dr.		5,00,000 50,000	5,50,000
	Debenture holders' A/c To Bank A/c To Debentures (New) A/c (Being 50% of redemption made in cash and balance is redeemed at a premium of 20% by an issue of new debentures)	Dr.		5,50,000	2,50,000 3,00,000