

**CBSE Test Paper 03**  
**Ch-8 Accounting for Debenture**

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1. A debenture of Rs. 100 is issued at Rs. 110. It is an example of
  - a. Debenture issued at par
  - b. Debenture issued at discount
  - c. None of these
  - d. Debenture issued at premium
2. Discount on issue of debentures account is a \_\_\_\_\_.
  - a. Share Capital
  - b. Fictitious Asset
  - c. Current Asset
  - d. Fixed Asset
3. A Debenture is an acknowledgment of debt and a contract for the repayment of the principal amount with \_\_\_\_\_.
  - a. Interest
  - b. Dividend
  - c. Premium
  - d. Profit
4. Vinod Limited offered 20,000 debentures @ 100 each at a premium of 10%. The issue was oversubscribed by 3 times. Company made full allotment to 4,000 applicants and pro-rata allotment to the applicants of 36,000 debentures and remaining applications rejected. How much amount is to be refunded by the company?
  - a. 22,00,000
  - b. 20,00,000
  - c. 44,00,000
  - d. 18,00,000
5. Debentures which are not repayable during the lifetime of the company are called.....
  - a. Perpetual or Irredeemable Debentures
  - b. Convertible Debentures
  - c. Redeemable Debentures
  - d. Non-convertible Debentures

6. 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.
7. What is meant by issue of debentures for consideration other than cash?
8. Explain the concept of Collateral Security.
9. State the meaning of Redemption of Debentures Out of Capital.
10. 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.
11. Krishna Ltd. had outstanding 20,000, 9% debentures of Rs.100 each on 1st April, 2014. These debentures were redeemable at a premium of 10% in two equal installments starting from 31<sup>st</sup> March 2018. The company had a balance of Rs. 4,00,000 in Debenture Redemption Reserve on 31<sup>st</sup> March 2017.  
Pass necessary journal entries for redemption of debentures in the books of Krishna Ltd. for the year ended 31<sup>st</sup> March 2018.
12. On 2nd March, 2016 L and B Ltd issued 635, 9% debentures of Rs. 500 each. Pass necessary journal entries for the issue of debentures in the following situations
  - i. When debentures were issued at 5% discount, redeemable at 10% premium.
  - ii. When debentures were issued at 12% premium, redeemable at 6% premium.
13. 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.15,00,000

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.

14. Bharat Ltd had an authorised capital of Rs.20,00,000 divided into 2,00,000 equity

shares of Rs.10 each. The company issued 1,00,000 shares and the dividend paid per share was Rs.2 of the year ended 31st March, 2008. The management of the company decided to export its products to the neighbouring countries Nepal, Bhutan, Sri Lanka, and Bangladesh. To meet the requirement of additional funds, the financial manager of the company put up the following three alternatives before its Board of Directors

- i. Issue 54,000 equity shares.
- ii. Obtain a loan from Import and Export Bank of India. The loan was available at 12% per annum interest.
- iii. To issue 9% debentures at a discount of 10%.

After comparing the available alternatives the company decided on 1st April, 2008 to issue 6,000 9% debentures of Rs.100 each at a discount of 10%. These debentures were redeemable in four instalments starting from the end of third year.

The amount of debentures to be redeemed at the end of third, fourth, fifth and sixth year was as follows

Year	Amount (Rs)
III	1,00,000
IV	1,00,000
V	2,00,000
VI	2,00,000

Prepare 9% debentures account for the years 2008-09 to 2014-15.

15. Abha Ltd. has 5,000 10% Debentures of Rs.20 each due for redemption on 30th Sept. 2015. Debenture Redemption Reserve has a balance of Rs.20,000 on that date. Record the necessary entries at the time of redemption of debentures.

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**Answer**

1. d. Debenture issued at premium, **Explanation:** When a company issue its debentures at a price more than its actual price, it is known as debentures issued at premium.
2. b. Fictitious Asset, **Explanation:** Discount on issue of debentures is treated as a fictitious asset and should be written off against the Statement of Profit and Loss. As it shows Debit Balance.
3. a. Interest, **Explanation:** A Debenture is an acknowledgment of debt and a contract for the repayment of principal amount with interest. Interest paid on debentures is a fixed charge and will be paid whether firm is in profit or loss.
4. c. 44,00,000, **Explanation:** Company has refunded Rs.44,00,000. Excess money received from all the applicants will be refunded.
5. a. Perpetual or Irredeemable Debentures, **Explanation:** Debentures which are not repayable during the lifetime of the company are called Perpetual debentures or irredeemable debentures. These debentures can be redeemed only at the time of liquidation

6. **JOURNAL**

Date	Particulars	Dr. Rs.	Cr. Rs.
i	Building A/c Dr.	1,10,000	
	To Vendors A/c		1,10,000
	(Being purchasing of building on credit)		
ii	Vendors A/c Dr.	1,10,000	
	To 12% Debentures A/c		1,00,000
	To Securities Premium A/c		10,000
	(Being issue of 12% debentures at 10% premium)		

7. When a company does not have sufficient Cash to acquire the fixed Assets for the business in such a case a company may offer and allot its debentures to the outsiders in lieu of cash. For example, Machinery is purchased and debentures are issued to Vendor instead of paying cash.
8. Collateral is a property or other asset that a borrower offers as a way for a lender to secure the loan. "Collateral security" means additional security issued by the company 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 that is to guarantee a borrower's performance on a debt obligation.
9. When debentures are redeemed without adequate profits being transferred to Debenture Redemption Reserve (DRR), at the time of redemption of debentures, such redemption said to be out of capital. However, in view of the legal provisions with regard to the creation of DRR, the redemption of debentures purely out of capital is not possible. In this case, the basic entries for the redemption of debentures are passed.

10.

### JOURNAL

Date	Particulars	Dr. Rs.	Cr. Rs.
i	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)		
ii	Debentures Holders A/c Dr.	2,20,00,000	
	To Share Capital A/c		1,37,50,000
	To Securities Premium Reserve 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)		
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11. **Journal Entries**

Date	Particulars		Dr.(Rs.)	Cr. (Rs.)
2017 Mar 31	Surplus i.e. balance in Statement of P/L	Dr.	1,00,000	
	To Debenture Redemption Reserve A/c			1,00,000
	(being transferred to Debenture Redemption Reserve)			
2017* April.30	Debenture Redemption Investments A/c	Dr.	1,50,000	
	To Bank A/c			1,50,000
	(being Debenture Redemption Investments)			
2018 Mar.31	Bank A/c	Dr.	1,50,000	
	To Debenture Redemption Investments A/c			1,50,000
	(being Investments sold)			
"	9% Debentures A/c	Dr.	10,00,000	
	Premium on redemption of Debentures A/c	Dr.	1,00,000	
	To Debenture holders A/c			
	(being Debentures due)			
"	Debenture holders A/c	Dr.	11,00,000	
	To Bank A/c			11,00,000
	(Being Debentures redeemed)			
	Debenture Redemption Reserve A/c	Dr.	2,50,000	

	To General Reserve A/c			2,50,000
	(Being transferred to general reserve)			

12.

## JOURNAL

Date	Particulars	L.F.	Amt (Dr)	Amt (Cr)
(i)	Bank A/c (635 × 475)	Dr	3,01,625	
	To Debenture Application and Allotment A/c			3,01,625
	(Being application money received on 635 9% Debentures of Rs. 475 each)			
	Debenture Application and Allotment A/c	Dr	3,01,625	
	Loss on Issue of Debentures A/c (31,750 + 15,875)	Dr	47,625	
	To 9% Debentures A/c (635 × 500)			3,17,500
	To Premium on Redemption A/c (635 × 50)			31,750
	(Being the issue of 635 debentures at 5% discount, redeemable at 10% premium)			
(ii)	Bank A/c (635 × 560)	Dr	3,55,600	
	To Debenture Application and Allotment A/c			3,55,600
	(Being application money received on 635 debentures of Rs. 560 each)			
	Debenture Application and Allotment A/c	Dr	3,55,600	
	Loss on Issue of Debentures A/c (635 × 30)	Dr	19,050	
	To 9% Debentures A/c (635 × 500)			3,17,500
	To Securities Premium Reserve A/c (635 × 60)			38,100
	To Premium on Redemption A/c (635 × 30)			19,050

(Being the issue of 635 debentures at 12% premium and redeemable at 6% premium)				
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**Notes :**

- When Debentures are redeemed at Premium, Loss on issue of debenture is debited at the time of issue due to Prudence Concept. This concept requires to provide all possible losses and expenses.
- Loss on issue of Debenture is written off from Securities Premium reserve or from statement of profit and loss.
- Premium on redemption of debenture account is debited at the time of redemption of debentures.

13. **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	...
	Goodwill A/c (Note 1)	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.		15,00,000	...
	To Debentures A/c			...	15,00,000
	(Being issue of 15,000 shares of Rs. 100 each as payment of business price)			...	...

Note



1. Calculation of Goodwill = Purchases consideration + liabilities – assets =  
Rs.15,00,000 + Rs.1,00,000 – Rs.14,00,000 = Rs.2,00,000
2. No of Debentures issued = 15,00,000/100 = 15,000
3. When Purchases consideration is more than net value of assets acquired, the excess of Purchase Consideration over Net asset acquired is debited to Goodwill Account. But if Net assets are more than Purchase Consideration the excess is credited to Capital Reserve Account.

14. **9% Debentures A/c**

Date	Particulars	J/F	Amount (Rs)	Date	Particulars	J/F	Amount (Rs)
2009 31 Mar	To Balance c/d		6,00,000	2008 1 Apr	By Bank By Discount on issue of debentures		5,40,000 60,000
			<b>6,00,000</b> =====				<b>6,00,000</b> =====
2010 31 Mar	To Balance c/d		6,00,000	2009 1 Apr	By Balance b/d		6,00,000
			<b>6,00,000</b> =====				<b>6,00,000</b> =====
2011 31 Mar	To Bank To Balance c/d		1,00,000 5,00,000	2010 1 Apr	By Balance b/d		6,00,000
			<b>6,00,000</b> =====				<b>6,00,000</b> =====
2013 31 Mar	To Bank To Balance c/d		1,00,000 4,00,000	2012 1 Apr	By Balance b/d		5,00,000
			<b>5,00,000</b>				<b>5,00,000</b>

			=====				=====
2014 31 Mar	To Bank To Balance c/d		2,00,000 2,00,000	2013 1 Apr	By Balance b/d		4,00,000
			<b>4,00,000</b> =====				<b>4,00,000</b> =====
2015 31 Mar	To Bank		2,00,000	2014 1 Apr	By Balance b/d		2,00,000
			<b>2,00,000</b> =====				<b>2,00,000</b> =====

15.

**In the Books of Abha Ltd.**

**Journal**

Date	Particulars		L.F.	Debit(Rs.)	Credit(Rs.)
2014 March,31	Balance in Statement of Profit and Loss A/c	Dr.		5,000	...
	To Debentures Redemption Reserve A/c (W.N. 1)			...	5,000
	(Being the required amount transfer to D.R.R.)			...	...
2014 30th April	Debentures Redemption Investment A/c (1,00,000*15%)	Dr.		15,000	...
	To Bank A/c			...	15,000
	(Being investment made)			...	...
2015	Bank A/c	Dr.		15,000	...
	To Debentures Redemption			...	15,000

	Investment A/c				
	(Being Investment encashed)			...	...
30th Sept.	10% Debentures A/c	Dr.		1,00,000	...
	To Debenture holders A/c			...	1,00,000
	(Being the amount due to Debenture holders on redemption)			...	...
30th Sept.	Debentures holders A/c	Dr.		1,00,000	...
	To bank A/c			...	1,00,000
	(Being the amount due to Debenture holders paid)			...	...
30th Sept	Debenture Redemption Reserve A/c	Dr.		25,000	...
	To General Reserve A/c			...	25,000
	(Being the D.R.R. Transfer to General Reserve)		.	...	...

### Working Note :

#### 1. Calculation of Debenture Redemption Reserve

Reserve to be made (As per Provision) =  $1,00,000 \times 25\% = 25,000$

Reserve Already made = 20,000

Transfer to Debenture Redemption Reserve =  $25,000 - 20,000 = 5,000$