

Accounting for Debentures

PART 1

Objective Questions

• Multiple Choice Questions

1. Which document is prepared by the company with trustees to protect the interest of debentureholders before they are offered for public subscription?

- (a) Memorandum of association (b) Debenture trust deed
(c) Articles of association (d) Prospectus

Ans. (b) Debenture trust deed

2. Name the sub-head under which the 'premium on redemption of debentures' appears in the balance sheet?

- (a) Shareholders' fund (b) Non-current liabilities (c) Long-term borrowings (d) None of these

Ans. (c) The 'premium on redemption of debentures' appears under the head 'non-current liabilities' and sub-head 'long-term borrowings'.

3. Firewall agreed to pay purchase consideration of ₹1,30,000 by issuing fully paid up debentures of ₹ 100 at ₹ 120. How many debentures will be issued?

- (a) 1,083 (b) 1,084 (c) Can't be determined (d) None of these

Ans. (a) Number of Debentures issued = $\frac{1,30,000}{120} = 1,083$

4. A company 'Vansh Ltd' has purchased an asset costing ₹ 22,00,000. Vendor issued 10% debentures of ₹ 100 each at 10% premium as consideration against asset purchased. Calculate number of debentures to be issued.

- (a) 26,000 debentures (b) 24,000 debentures
(c) 20,000 debentures (d) 22,000 debentures

Ans. (c) Number of Debentures Issued = $\frac{22,00,000}{110(100+10)} = 20,000$ debentures

5. During the year 2019-20, Network 10 Ltd. issued 12% debentures of ₹ 100 each as per the details given. A machine was purchased for ₹ 2,18,500. The vendor was paid by the issue of 1,900 debentures at a premium of 15%, to be redeemed at par. The entry for the payment will be

- (a) Machinery A/c Dr 2,18,500
To Vendor's A/c 2,18,500
(b) Vendor's A/c Dr 2,18,500
To 12% Debentures A/c 1,90,000
To Securities Premium Reserve A/c 28,500
(c) Vendor A/c Dr 2,18,500
To Machinery A/c 2,18,500

(d) 12% Debentures A/c	Dr	1,90,000	
Securities Premium Reserve A/c	Dr	28,500	
To Vendor's A/c			2,18,500

Ans. (b) Vendor's A/c	Dr	2,18,500	
To 12% Debentures A/c		1,90,000	
To Securities Premium Reserve A/c		28,500	

6. A company purchased building for ₹ 3,60,000 and issued debentures as a payment in debentures at 20% premium. Journal entry will be

(a) Building A/c	Dr	3,60,000	
To Debentures A/c		3,00,000	
To Calls-in-arrear A/c		60,000	
(b) Debentures A/c	Dr	3,60,000	
To Building A/c		3,00,000	
To Security Premium A/c		60,000	
(c) Building A/c	Dr	3,60,000	
To Debentures A/c		3,00,000	
To Security Premium A/c		60,000	
(d) Building A/c	Dr	3,60,000	
To Debentures A/c		60,000	
To Security Premium A/c		3,00,000	

Ans. (c) No. of Debentures = $\frac{\text{Purchase Consideration}}{\text{Face Value} + \text{Premium}}$

$$= \frac{3,60,000}{100 + 20} = 3,000 \text{ Debentures}$$

7. The following journal entry is appeared in Chanda Ltd.

Bank A/c	Dr	2,00,000	
Loss on Issue of Debentures A/c	Dr	1,00,000	
To 12% Debentures			2,50,000
To Premium on Redemption			50,000

Debentures are issued at a discount of

(a) 5%	(b) 10%	(c) 15%	(d) 20%
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Ans. (d) $\frac{1,00,000 - 50,000}{2,50,000} = 20\%$

8. When debentures are issued at a discount but are redeemable at a premium, which of the following account will be credited at the time of issue?

- (a) Discount on issue of debenture account
- (b) Loss on issue of debenture account
- (c) Premium on redemption of debenture account
- (d) Security premium account

Ans. (c) Premium on redemption of debentures account will be credited with the same amount that will be paid at the time of redemption.

9. Which of the following statements is/are correct?

- (i) Interest on debentures is calculated at the fixed percentage on the issue price.
- (ii) Debenture is the evidence of company's borrowings.

Alternatives

- (a) Only (i)
- (b) Only (ii)
- (c) Both (a) and (b)
- (d) None of these

Ans. (b) Interest on debentures is calculated at the fixed percentage on the face value, not on the issue price.

- 10.** Name the account to which the amount of premium received on the issue of debentures will be credited?
 (a) Premium on redemption of debentures account (b) Security premium reserve account
 (c) % debentures account (d) None of these

Ans. (b) Security premium reserve account

- 11.** Which of the following alternatives are available for the company at the time of oversubscription?
 (i) Pro-rata (ii) Rejection of excess application

Alternatives

- (a) Only (i) (b) Only (ii) (c) Both (a) and (b) (d) None of these

Ans. (c) Both (a) and (b)

- 12.** When the full amount is received at the time of issue of debentures in one instalment, then account is credited by bank account.

- (a) debenture application and allotment account
 (b) debenture account
 (c) debenture allotment account
 (d) None of the above

Ans. (a) debenture application and allotment account

- 13.** Match the following.

Column I	Column II
A. Received oversubscription	(i) Debenture suspense account
B. Debentures issued to promoters	(ii) Rejection of excess application
C. Issue debentures as collateral security	(iii) Goodwill

Codes

- | | | |
|-----------|-------|-------|
| A | B | C |
| (a) (i) | (ii) | (iii) |
| (b) (ii) | (iii) | (i) |
| (c) (ii) | (i) | (iii) |
| (d) (iii) | (ii) | (i) |

Ans. (b) (ii) (iii) (i)

- 14.** Beta Ltd. issued 10,000, 9% debentures of ₹100 each as a collateral security for a loan of ₹ 6,00,000 taken from the Varsha Bank. Choose the correct journal entry

- | | | | |
|-----------------------------|----|-----------|-----------|
| (a) Bank A/c | Dr | 10,00,000 | |
| To 9% Debentures A/c | | | 10,00,000 |
| (b) 9% Debentures A/c | Dr | 10,00,000 | |
| To Bank A/c | | | 10,00,000 |
| (c) 9% Debentures A/c | Dr | 10,00,000 | |
| To Debentures Suspense A/c | | | 10,00,000 |
| (d) Debentures Suspense A/c | Dr | 10,00,000 | |
| To 9% Debentures A/c | | | 10,00,000 |

Ans. (d) Debentures Suspense A/c Dr 10,00,000
 To 9% Debentures A/c 10,00,000

- 15.** Loss on issue of debentures would be written-off out of
 (i) securities premium reserve (ii) capital reserve
 (iii) profit and loss account

Alternatives

- (a) Only (i) (b) (i) and (ii) (c) (ii) and (iii) (d) (i), (ii) and (iii)

Ans. (d) (i), (ii) and (iii)

• Assertion-Reasoning MCQs

Direction (Q. Nos. 1 to 4) There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
- (b) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of Assertion (A)
- (c) Assertion (A) is true, but Reason (R) is false
- (d) Assertion (A) is false but Reason (R) is true

1. Assertion (A) Shares and debentures are not alike.

Reason (R) Debentureholders are owners and shareholders are creditors of the company.

Ans. (c) Shares and debentures are different from each other. Debentureholders are creditors and shareholders are owners of the company.

2. Assertion (A) Debentures is an instrument acknowledging a debt.

Reason (R) It is the denomination of loan.

Ans. (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A).

3. Assertion (A) Debentures being borrowings of the company are shown on asset side of the balance sheet.

Reason (R) Debentures may be either non-current liability or current liability.

Ans. (d) Debentures being borrowings of the company are shown on equity and liability side of the balance sheet.

4. Assertion (A) A company can issue debentures for raising long-term borrowings.

Reason (R) The power to issue debentures must be mentioned in articles of association.

Ans. (c) The power to issue debentures must be mentioned in memorandum of association.

• Case Based MCQs

1. Direction Read the following case study and answer the question no. (i) to (iv) on the basis of the same.

'Golden Blankets Ltd' are the manufacturers of woollen 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, 10% debentures of ₹10 each and 2000, 8% debentures of ₹100 each to the vendor of the machinery purchased for ₹ 7,00,000.

- (i) Debentures issued to vendor of machinery, would be classified as
 - (a) issue of debentures in cash
 - (b) issue of debentures for consideration other than cash
 - (c) issue of debentures as collateral security
 - (d) None of the above

Ans. (b) issue of debentures for consideration other than cash

(ii) How many debentures are issued in total?

- (a) 50,000
- (b) 20,000
- (c) 70,000
- (d) 52,000

Ans. (d) 10% debentures = 50,000

8% debentures = 2,000

Total number of debentures issued = 52,000

(iii) How many debentures should be issued, if 8% debentures of ₹ 100 each are issued at 20% discount amounting to ₹ 2,00,000?

- (a) 2,500
- (b) 1,000
- (c) 1,500
- (d) 2,000

Ans. (a) Number of debentures issued = $2,00,000/80 = 2,500$

(iv) Total interest payable by the company will amount to

- (a) ₹ 52,000
- (b) ₹ 5,200
- (c) ₹ 66,000
- (d) ₹ 16,000

Ans. (c) 50,000, 10% debenture @ ₹ 10

= $5,00,000 \times 10/100 = ₹ 50,000$

2,000, 8% debenture @ ₹ 100 each

= $2,00,000 \times 8/100 = ₹ 16,000$

Total interest = $50,000 + 16,000 = ₹ 66,000$

2. Moonlight India Ltd. is to produce and distribute green energy in the backward areas of India. It has also taken up a project of giving vocational training to the girls belonging to the backward areas of Rajasthan. To meet the requirements of funds to serve the purpose, company issued 40,000 debentures of ₹ 100 each at a premium of ₹ 25, payable as follows

₹ 20 per share on application

₹ 45 per share on allotment
(including premium of ₹ 15)

₹ 60 per share on first and final call (including premium of ₹ 10)

The issue was oversubscribed by 20,000 debentures.

Applicants of 16,000 were allotted only 2,000 debentures and applicants of 2,000 debentures were sent letter of regret. Excess amount received at the time of application was to be adjusted only against allotment and payments exceeding the amount due in the allotment were to be refunded. All the money due on allotment and calls was duly received.

(i) Amount refunded to debentureholders will be

- (a) ₹ 2,60,000 (b) ₹ 2,50,000 (c) ₹ 2,30,000 (d) ₹ 2,00,000

Ans. (c) Excess money received on application not adjusted in any call will be refunded

Excess money received $(20,000 \times 20) = ₹ 4,00,000$

Adjusted on allotment $(2,000 \times 45 + 4,000 \times 20) = ₹ 1,70,000$

Therefore, total amount refunded is $(4,00,000 - 1,70,000) = ₹ 2,30,000$

(ii) What amount will be received on allotment?

- (a) ₹ 16,30,000 (b) ₹ 16,00,000 (c) ₹ 18,00,000 (d) ₹ 18,30,000

Ans. (a) Allotment money due $(40,000 \times 45) = 18,00,000$

(-) Excess money adjusted $= (1,70,000)$

Amount received $= 16,30,000$

(iii) What pro-rata allotment is made in this case other than the one already mentioned?

- (a) 44,000 : 40,000 (b) 42,000 : 38,000 (c) 60,000 : 40,000 (d) 42,000 : 36,000

Ans. (b) Out of 60,000 applications, applicants of 16,000 debentures were allotted 2,000 debentures and applications of 2,000 debentures were rejected. So pro-rata will be made to the remaining shareholders, i.e. 42,000 debenture applications were allotted 38,000 debentures.

(iv) Amount of security premium transferred to balance sheet will be

- (a) ₹ 6,00,000 (b) ₹ 10,00,000 (c) ₹ 4,00,000 (d) ₹ 14,00,000

Ans. (b) At the time of allotment $(40,000 \times 15) = 6,00,000$

(+) At the time of call $(40,000 \times 10) = 4,00,000$

Total security premium received $= ₹ 10,00,000$

PART 2

Subjective Questions

• Short Answer (SA) Type Questions

1. How is 'discount on issue of debentures' treated in the books of accounts?

(NCERT)

Ans. Discount on issue of debentures is a capital loss and the amount of discount is debited to a separate account named discount on issue of debentures account. Since discount on issue of debentures is a loss for the company, it should be written-off as early as possible but within the life time of the company.

Following entry is passed for writing of discount on debentures

Securities Premium Reserve/Statement of Profit and Loss	Dr
To Discount on Issue of Debentures A/c	

2. What is meant by issue of debentures for consideration other than cash? How are these debentures disclosed in the balance sheet?

(NCERT)

Ans. When debentures are issued to vendors against purchase of assets or against purchase of business, it is termed as issue of debentures for consideration other than cash. In this case, consideration for issue of debenture is not cash but the assets or business.

Disclosure in the Balance Sheet Debentures issued for consideration other than cash appear under the head 'non-current liabilities' and sub-head 'long-term borrowings' in the balance sheet.

3. Nav Lakshmi Ltd invited applications for issuing 3,000, 12% debentures of ₹ 100 each at a premium of ₹ 50 per debenture. The full amount was payable on application. Applications were received for 4,000 debentures. Applications for 1,000 debentures were rejected and application money was refunded. Debentures were allotted to the remaining applicants. Pass necessary journal entries for the above transactions in the books of Nav Lakshmi Ltd. (All India 2012)

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bank A/c (4,000 × 150) Dr To Debenture Application and Allotment A/c (Being application money received on 4,000 debentures)		6,00,000	6,00,000
	Debenture Application and Allotment A/c Dr To 12% Debentures A/c (3,000 × 100) To Securities Premium Reserve A/c (3,000 × 50) To Bank A/c (1,000 × 150) (Being application money transferred to 12% debentures account and excess money refunded)		6,00,000	3,00,000 1,50,000 1,50,000

4. X Ltd. invited applications for issuing 500, 12% debentures of ₹ 100 each at a discount of 5%. These debentures were redeemable after three years at par. Applications for 600 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. (All India 2017)

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bank A/c (600 × 95) Dr To Debenture Application and Allotment A/c (Being the application money received)		57,000	57,000
	Debenture Application and Allotment A/c Dr Discount on Issue of Debenture A/c (500 × 5) Dr To 12% Debentures A/c (500 × 100) To Bank A/c (Being the application money transferred to debentures account and excess refunded)		57,000 2,500	50,000 9,500

5. S Ltd, bought the business of R Ltd on 1st April, 2020 consisting of sundry assets of ₹ 11,20,000 and creditors of ₹ 2,00,000. ₹ 2,00,000 was paid in cash on 3rd April, 2020 and for the balance, 6% debentures were issued at a premium of 20% on 5th April, 2020. Pass necessary journal entries in the books of S Ltd for the above mentioned transactions.

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020 Apr 1	Sundry Assets A/c Dr To Creditors A/c To R Ltd (Being assets purchased)		11,20,000	2,00,000 9,20,000
Apr 3	R Ltd Dr To Cash A/c (Being cash paid)		2,00,000	2,00,000
Apr 5	R Ltd Dr To 6% Debentures A/c (6,000 × 100) To Securities Premium Reserve A/c (6,000 × 20) (Being debentures issued to R Ltd)		7,20,000	6,00,000 1,20,000

Working Note Number of Debentures Issued = $\frac{\text{Amount due to R Ltd.}}{\text{Issue Price per Debenture}} = \frac{7,20,000}{120} = 6,000$ debentures

6. Deepak Ltd. company purchased furniture ₹ 2,20,000 from M/s Furniture Mart. 50% of the amount was paid to Furniture Mart by accepting a bill of exchange and for the balance the company issued 9% debentures of ₹ 100 each at a premium of 10% in favour of Furniture Mart. Pass necessary journal entries in the books of Deepak Ltd company for above transactions.

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Furniture A/c Dr To M/s Furniture Mart (Being furniture purchased)		2,20,000	2,20,000
	M/s Furniture Mart Dr To Bills Payable A/c (Being bills payable accepted in part payment)		1,10,000	1,10,000
	M/s Furniture Mart Dr To 9% Debentures A/c (1,000 × 100) To Securities Premium Reserve A/c (1,000 × 10) (Being debentures issued to Furniture Mart in part payment)		1,10,000	1,00,000 10,000

Working Note

Number of Debentures Issued = $\frac{\text{Amount due to M/s Furniture Mart}}{\text{Issue Price per Debenture}} = \frac{1,10,000}{110} = 1,000$ debentures

7. Fill in the blanks in the following case

(All India (C) 2016)

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	..... Dr To (Being application money received on 2,000, 12% debentures of ₹ 100 each issued at a premium of 10% and redeemable at a premium of 10%)		....	....
	..... Dr Dr To To To ..... (.....)		.... ....	.... .... ....

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bank A/c (2,000 × 110) Dr To Debenture Application and Allotment A/c (Being application money received on 2,000, 12% debentures of ₹ 100 each issued at a premium of 10% and redeemable at a premium of 10%)		2,20,000	2,20,000
	Debenture Application and Allotment A/c Dr Loss on Issue of Debentures A/c (2,000 × 10) Dr To 12% Debentures A/c (2,000 × 100) To Securities Premium Reserve A/c (2,000 × 10) To Premium on Redemption of Debentures A/c (2,000 × 10) (Being amount received on issue of 12% debentures adjusted)		2,20,000 20,000	2,00,000 20,000 20,000

8. Hero Ltd. purchased plant and machinery for ₹ 18,00,000 from Pearl Machines Ltd. payable ₹ 3,00,000 by drawing a promissory note and the balance by issue of 9% debentures of ₹ 100 each at a premium of 20%. Pass the necessary journal entries in the books of Hero Ltd. for the above transactions. (CBSE 2020)

Ans.

**In the Books of Hero Ltd
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Plant and Machinery A/c To Pearl Machines Ltd (Being plant and machinery purchased)	Dr	18,00,000	18,00,000
	Pearl Machines Ltd A/c To Bills Payable A/c (Being consideration partly paid by issuing promissory note)	Dr	3,00,000	3,00,000
	Pearl Machines Ltd A/c To 9% Debenture A/c (12,500 × 100) To Security Premium Reserve A/c (12,500 × 20) (Being 12,500 debentures of ₹ 100 each issued to Hero Ltd at premium of 20%)	Dr	15,00,000	12,50,000 2,50,000

Working Note

$$\text{Number of Debentures Issued} = \frac{15,00,000}{100 + 20} = 12,500 \text{ debentures}$$

9. BGP Ltd. invited applications for issuing 15,000, 11% debentures of ₹ 100 each at a premium of ₹ 50 per debenture. The full amount was payable on application. Applications were received for 25,000 debentures. Applications for 5,000 debentures were rejected and the application money was refunded. Debentures were allotted to the remaining applicants on pro-rata basis. Pass the necessary journal entries for the above transactions in the books of BGP Ltd. (CBSE 2020)

Ans.

**In the Books of BGP Ltd
JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bank A/c [25,000 × (100 + 50)] To 11% Debenture Application and Allotment A/c (Being application money received for 25,000 debentures)	Dr	37,50,000	37,50,000
	Debenture Application and Allotment A/c To 11% Debentures A/c (15,000 × 100) To Security Premium Reserve A/c (15,000 × 50) To Bank A/c (Being debenture application money adjusted and balance refunded)	Dr	37,50,000	15,00,000 7,50,000 15,00,000

10. (i) Ram Ltd issued 25,000, 8% debentures of ₹ 100 each, payable on application and redeemable at par at any time after 6 years. Record necessary entries for issue of debentures in the books of Ram Ltd.
(ii) Bhim Ltd issued 20,000, 9% debentures of ₹ 50 each at a discount of 8% redeemable at par at any time after 9 years. Record necessary entries in the books of Bhim Ltd.

Ans. (i)

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bank A/c (25,000 × 100) To Debenture Application and Allotment A/c (Being the application money received @ ₹ 100 on 25,000 debentures)	Dr	25,00,000	25,00,000
	Debenture Application and Allotment A/c To 8% Debentures A/c (Being the application money transferred to 8% debentures account)	Dr	25,00,000	25,00,000

(ii)

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bank A/c (20,000 × 46) Dr To Debenture Application and Allotment A/c (Being the application money received on 20,000, 9% debentures)		9,20,000	9,20,000
	Debenture Application and Allotment A/c (20,000 × 46) Dr		9,20,000	
	Discount on Issue of Debentures A/c (20,000 × 4) Dr To 9% Debentures A/c (Being the transfer of application money to debentures account and recording of discount on issue of debentures)		80,000	10,00,000

- 11.** On 1st April, 2019, Bright Ltd issued, 4,00,000, 6% Debentures of ₹ 100 each at a discount of 5%, redeemable after three years. The amount per debenture was payable as follows

On Application — ₹ 80 per debenture; On Allotment — Balance

The debentures were fully subscribed and all money was duly received.

Pass necessary journal entries for issues of debentures.

(CBSE 2020)

Ans.

In the Books of Bright Ltd

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bank A/c (4,00,000 × 80) Dr To Debenture Application A/c (Being application money received)		3,20,00,000	3,20,00,000
	Debenture Application A/c Dr To 6% Debentures A/c (Being application money transferred to 6% debentures account)		3,20,00,000	3,20,00,000
	Debentures Allotment A/c Dr Discount on Issue of Debentures A/c (4,00,000 × 5) Dr To 6% Debentures A/c (4,00,000 × 20) (Being allotment money due)		60,00,000 20,00,000	80,00,000
	Bank A/c Dr To Debentures Allotment A/c (Being allotment money received)		60,00,000	60,00,000

- 12.** Pass the necessary journal entries for the issue of debentures for the following transactions

(i) Anand Ltd issued 800, 9% Debentures of ₹ 500 each at a premium of 20%, to the vendors for machinery purchased from them costing ₹ 4,80,000.

(ii) Dawar Ltd issued 5,000, 7% Debentures of ₹ 200 each at a premium of 5%, redeemable at a premium of 10%.

(CBSE 2020)

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
(i)	Machinery A/c Dr To Vendor (Being machinery purchased)		4,80,000	4,80,000
	Vendor Dr To 9% Debentures A/c To Security Premium Reserve A/c (Being 800 debentures issued at 20% premium to vendor)		4,80,000	4,00,000 80,000

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
(ii)	Bank A/c Dr To Debenture Application and Allotment A/c (Being debenture money received)		10,50,000	10,50,000
	Debenture Application and Allotment A/c Dr Loss on Issue of Debentures A/c Dr To 7% Debentures A/c To Security Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being debentures issued at premium and redeemable at premium)		10,50,000 1,00,000	10,00,000 50,000 1,00,000

- 13.** (i) Novelty Ltd issued 1,000, 8% Debentures of ₹ 100 each at a discount of 5%, redeemable at a premium of 10%.
- (ii) Disha Ltd took assets of ₹ 8,00,000 and liabilities of ₹ 3,00,000 from Kriti Ltd for a purchase consideration of ₹ 6,00,000. The payment was made by issue of 9% Debentures of ₹ 100 each at 20% premium.

Pass the necessary journal entries for the above transactions in the books of Disha Ltd. (CBSE 2020)

Ans. (i) **JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bank A/c Dr To Debenture Application and Allotment A/c (Being debenture money received)		95,000	95,000
	Debenture Application and Allotment A/c Dr Loss on Issue of Debentures A/c Dr To 8% Debentures A/c To Premium on Redemption of Debentures A/c (Being debentures issued at discount and redeemable at premium)		95,000 15,000	1,00,000 10,000

(ii) **In the Books of Disha Ltd**
JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Assets A/c Dr Goodwill A/c Dr To Liabilities A/c To Kriti Ltd (Being business purchased)		8,00,000 1,00,000	3,00,000 6,00,000
	Kriti Ltd Dr To 9% Debentures A/c To Securities Premium Reserve A/c (Being debentures issued in purchase consideration)		6,00,000	5,00,000 1,00,000

Working Note

$$\text{Number of Debentures Issued} = \frac{6,00,000}{120} = 5,000 \text{ debentures}$$

• Long Answer (LA) Type Questions

1. PQR Ltd issued 40,000, 9% debentures of ₹ 100 each at a discount of 4% on 1st April, 2019, payable ₹ 30 on application and the balance on allotment. The debentures are redeemable after 5 years. Give necessary journal entries and the balance sheet as at 31st March, 2020. Ignore interest.

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2019 Apr 1	Bank A/c (40,000 × 30) Dr To Debenture Application A/c (Being the application money on 40,000 debentures @ ₹ 30 received)		12,00,000	12,00,000
	Debenture Application A/c Dr To 9% Debentures A/c (Being the debenture application money transferred to debentures account)		12,00,000	12,00,000
	Debenture Allotment A/c (40,000 × 66) Dr Discount on Issue of Debentures A/c (40,000 × 4) Dr To 9% Debentures A/c (40,000 × 70) (Being the allotment money due on 40,000 debentures)		26,40,000 1,60,000	28,00,000
	Bank A/c Dr To Debenture Allotment A/c (Being the amount received on allotment)		26,40,000	26,40,000

Note The amount demanded on allotment is presumed as net of discount.

Balance Sheet as at 31st March, 2020

Particulars	Note No.	Amt (₹)
I. EQUITY AND LIABILITIES		
1. Non-current Liabilities		
Long-term Borrowings	1	40,00,000
Total		40,00,000
II. ASSETS		
1. Non-current Assets		
Other Non-current Assets	2	1,28,000
2. Current Assets		
(i) Cash and Cash Equivalents	3	38,40,000
(ii) Other Current Assets	4	32,000
Total		40,00,000

Notes to Accounts

Particulars	Amt (₹)
1. Long-term Borrowings	
40,000, 9% Debentures of ₹ 100 each	40,00,000
2. Other Non-current Assets	
Discount on Issue of Debentures (Unamortised)	1,28,000
3. Cash and Cash Equivalents	
Cash at Bank	38,40,000
4. Other Current Assets	
Discount on Issue of Debentures (Unamortised)	32,000
(To be written-off within 12 months from the date of balance sheet)	

Note Debentures are redeemable after 5 years. Since life of the loan is 5 years, it is assumed that 1/5th of discount on issue of debentures shall be amortised within 12 months from the date of balance sheet and remaining part, i.e. 4/5th after the 12 months from the date of balance sheet.

2. Arihant Ltd. secured a loan of ₹ 1,60,000 from Punjab National Bank issuing 2,000, 9% debentures of ₹ 100 each as collateral security. How will you show issue of debentures in the balance sheet

(i) without passing journal entry?

(ii) when journal entry is passed?

Ans. (i) **First Method** (When journal entry is not passed)

Balance Sheet (Extract)
as at...

Particulars	Note No.	Amt (₹)
I. EQUITY AND LIABILITIES		
1. Non-current Liabilities		
Long-term Borrowings	1	1,60,000
		1,60,000

Notes to Accounts

Particulars	Amt (₹)
1. Long-term Borrowings	
Punjab National Bank (Secured by issue of 2,000, 9% debentures of ₹ 100 each as collateral security)	1,60,000

(ii) **Second Method** (When journal entry is passed)

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Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Debiture Suspense A/c To 9% Debentures A/c (Being the issue of 2,000, 9% debentures of ₹ 100 each as collateral security for a loan from a bank as per board's resolution)	Dr	2,00,000	2,00,000

Balance Sheet (Extract)
as at...

Particulars	Note No.	Amt (₹)
I. EQUITY AND LIABILITIES		
1. Non-current Liabilities		
Long-term Borrowings	1	1,60,000
		1,60,000

Notes to Accounts

Particulars	Amt (₹)
1. Long-term Borrowings	
Loan from Punjab National Bank	1,60,000
2,000, 9% Debentures of Par Value of ₹ 100 each Issued as Collateral Security	2,00,000
(–) Debiture Suspense	(2,00,000)
	1,60,000

3. (i) Neeraj Ltd took over business of Ajay enterprises on 1st April, 2020. The details of the agreement regarding the assets and liabilities to be taken over are

Particulars	Book Value (₹)	Agreed Value (₹)
Building	20,00,000	35,00,000
Plant and Machinery	12,00,000	8,00,000
Stock	4,00,000	4,00,000
Trade Receivables	5,00,000	4,00,000
Creditors	2,00,000	3,00,000
Outstanding Expenses	50,000	1,00,000

It was decided to pay for purchase consideration as ₹ 7,00,000 through cheque and balance by issue of 2,00,000, 9% debentures of ₹ 20 each at a premium of 25%. Journalise.

- (ii) On 1st April, 2019 Z Ltd. issued 10,000, 8% debentures of ₹100 each at premium of 5%, to be redeemable at a premium of 10%, after 5 years. The entire amount was payable on application. The issue was oversubscribed to the extent of 10,000 debentures and the allotment was made proportionately to all the applicants. The securities premium amount has not been utilised for any other purpose during the year. Give journal entries for the issue of debentures and writing-off loss on issue of debentures.

Ans. (i)

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Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Building A/c Dr		35,00,000	
	Plant and Machinery A/c Dr		8,00,000	
	Stock A/c Dr		4,00,000	
	Trade Receivables A/c Dr		4,00,000	
	Goodwill A/c (Balancing figure) Dr		10,00,000	
	To Creditors A/c			3,00,000
	To Outstanding Expenses A/c			1,00,000
	To Ajay Enterprises A/c			57,00,000
	(Being assets and liabilities of business taken over, recorded at agreed value)			
	Ajay Enterprises A/c Dr		57,00,000	
	To Bank A/c			7,00,000
	To 9% Debentures A/c (2,00,000 × 20)			40,00,000
	To Securities Premium Reserve A/c (2,00,000 × 5)			10,00,000
	(Being purchase consideration paid to Ajay enterprises)			

(ii)

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2019 Apr 1	Bank A/c (20,000 × 105) Dr		21,00,000	
	To Debenture Application and Allotment A/c			21,00,000
	(Being application money received on 20,000, 8% debentures)			
Apr 1	Debenture Application and Allotment A/c Dr		21,00,000	
	Loss on Issue of Debentures A/c (10,000 × 10) Dr		1,00,000	
	To 8% Debentures A/c (10,000 × 100)			10,00,000
	To Securities Premium Reserve A/c (10,000 × 5)			50,000
	To Premium on Redemption of Debentures A/c (10,000 × 10)			1,00,000
	To Bank A/c			10,50,000
	(Being debentures allotted and the balance refunded)			

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020				
Mar 31	Securities Premium Reserve A/c	Dr	50,000	
	Statement of Profit and Loss A/c	Dr	50,000	
	To Loss on Issue of Debentures A/c			1,00,000
	(Being loss on issue of debentures written-off)			

4. (i) XYZ Ltd has 20,000, 9% debentures of ₹ 100 each outstanding in the books of accounts as on 31st March, 2020, to be redeemed on 31st March, 2025. Show how will you disclose debentures in the balance sheet.
- (ii) Nand Ram Ltd. issued 1,00,000, 8% debentures of ₹ 10 each at ₹ 12 on 1st April, 2020. The issue was fully subscribed. In terms of the issue of debentures, interest was payable at the end of the financial year.

Pass the journal entries for the above transactions.

Ans. (i) In the balance sheet, they are shown as follows

Balance Sheet
as at 31st March, 2020 (Relevant part only)

Particulars	Note No.	Amt (₹)
I. EQUITY AND LIABILITIES		
1. Non-current Liabilities		
Long-term Borrowings	1	20,00,000
		20,00,000

Notes to Accounts

Particulars	Amt (₹)
1. Long-term Borrowings	
20,000, 9% Debentures of ₹ 100 each	20,00,000

(ii) **JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2020				
Apr 1	Bank A/c (1,00,000 × 12)	Dr	12,00,000	
	To Debenture Application and Allotment A/c			12,00,000
	(Being the application money received on 1,00,000, 8% debentures @ ₹ 12)			
	Debenture Application and Allotment A/c	Dr	12,00,000	
	To 8% Debentures A/c (1,00,000 × 10)			10,00,000
	To Securities Premium Reserve A/c (1,00,000 × 2)			2,00,000
	(Being application money transferred to debentures account)			
2021				
Mar 31	Debenture Interest A/c (10,00,000 × 8%)	Dr	80,000	
	To Debentureholders' A/c			80,000
	(Being the interest payable on 8% debentures provided)			
	Debentureholders' A/c	Dr	80,000	
	To Bank A/c			80,000
	(Being interest paid to debentureholders)			
	Statement of Profit and Loss A/c	Dr	80,000	
	To Debenture Interest A/c			80,000
	(Being the debenture interest transferred to statement of profit and loss account)			

5. On 1st June, 2013, Zee Ltd. issued 20,000, 10% debentures of ₹ 100 each at par redeemable after five years at a premium of 10%. It was decided to write-off loss on issue of debentures in five years equally beginning 31st March, 2014.

Pass the journal entries for issue of debentures and writing-off the loss and prepare loss on issue of debentures account till it is completely written-off.

Ans.

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2013 Jun 1	Bank A/c (20,000×100) Dr To Debentures Application and Allotment A/c (Being the subscription received for 20,000, 10% Debentures of ₹ 100 each)		20,00,000	20,00,000
	Debenture Application and Allotment A/c Dr Loss on Issue of Debentures A/c Dr To 10% Debentures A/c To Premium on Redemption of Debentures A/c (Being 20,000, 10% debentures issued)		20,00,000 2,00,000	20,00,000 2,00,000
2014 Mar 31	Statement of Profit and Loss A/c (Finance Cost) Dr To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written-off)		40,000	40,000
2015 Mar 31	Statement of Profit and Loss A/c (Finance Cost) Dr To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written-off)		40,000	40,000
2016 Mar 31	Statement of Profit and Loss A/c (Finance Cost) Dr To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written-off)		40,000	40,000
2017 Mar 31	Statement of Profit and Loss A/c (Finance Cost) Dr To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written-off)		40,000	40,000
2018 Mar 31	Statement of Profit and Loss A/c (Finance Cost) Dr To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written-off)		40,000	40,000

Dr Loss on Issue of Debentures Account Cr

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2013 Jun 1	To 10% Debentures A/c	2,00,000	2014 Mar 31	By Statement of Profit and Loss A/c (Finance cost)	40,000
				By Balance c/d	1,60,000
		2,00,000			2,00,000
2014 Apr 1	To Balance b/d	1,60,000	2015 Mar 31	By Statement of Profit and Loss A/c (Finance cost)	40,000
				By Balance c/d	1,20,000
		1,60,000			1,60,000

Date	Particulars	Amt (₹)	Date	Particulars	Amt (₹)
2015 Apr 1	To Balance b/d	1,20,000	2016 Mar 31	By Statement of Profit and Loss A/c (Finance cost)	40,000
				By Balance c/d	80,000
		1,20,000			1,20,000
2016 Apr 1	To Balance b/d	80,000	2017 Mar 31	By Statement of Profit and Loss A/c (Finance cost)	40,000
				By Balance c/d	40,000
		80,000			80,000
2017 Apr 1	To Balance b/d	40,000	2018 Mar 31	By Statement of Profit and Loss A/c (Finance cost)	40,000
		40,000			40,000

6. ABC Ltd. invited applications for 8,000 debentures of ₹ 100 each issued at a premium of 20%. Applications were received for 12,000 debentures and it was decided to deal with the same as follows

- To refuse allotment to applicants for 2,400 debentures.
- To give full allotment to applicants for 800 debentures.
- To allot the remaining debentures on pro-rata basis among other applicants.
- To utilise excess application money in part payment of allotment money.

Journalise the above transactions (including cash transactions) assuming that

- the full amount is payable along with the applications.
- the amount is payable in instalments—on applications ₹ 20, on allotment ₹ 50 (including premium) and the balance on the first and final call.

Ans. (i) If the Full Amount is Payable alongwith the Application

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bank A/c (12,000 × 120) Dr		14,40,000	
	To Debenture Application and Allotment A/c (Being the application money received)			14,40,000
	Debenture Application and Allotment A/c Dr		14,40,000	
	To Debentures A/c (8,000 × 100)			8,00,000
	To Securities Premium Reserve A/c (8,000 × 20)			1,60,000
	To Bank A/c			4,80,000
	(Being the application money adjusted and surplus refunded)			

(ii) If the Amount is Payable in Instalments

JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Bank A/c (12,000 × 20) Dr To Debenture Application A/c (Being the application money received)		2,40,000	2,40,000
	Debenture Application A/c Dr To Debentures A/c (8,000 × 20) To Debenture Allotment A/c To Bank A/c (2,400 × 20) (Being the application money adjusted and surplus refunded)		2,40,000	1,60,000 32,000 48,000
	Debenture Allotment A/c Dr To Debentures A/c (8,000 × 30) To Securities Premium Reserve A/c (8,000 × 20) (Being the allotment money due)		4,00,000	2,40,000 1,60,000
	Bank A/c Dr To Debenture Allotment A/c (Being the allotment money received)		3,66,000	3,66,000
	Debenture First and Final Call A/c Dr To Debentures A/c (8,000 × 50) (Being the call money due)		4,00,000	4,00,000
	Bank A/c Dr To Debenture First and Final Call A/c (Being the call money received)		4,00,000	4,00,000

Chapter Test

Multiple Choice Questions

- Excess value of net assets over purchase consideration at the time of purchase of business is
 - credited to the capital reserve account
 - debited to the goodwill account
 - credited to the general reserve account
 - credited to the vendor's account
- The following journal entry is appeared in Firefox Ltd.

Bank A/c	Dr	4,00,000	
Loss on Issue of Debenture A/c	Dr	1,00,000	
To 12% Debenture			5,00,000

 Debentures are issued at a discount of
 - 5%
 - 10%
 - 15%
 - 20%
- When debentures issued at a discount but are redeemable at a par, which of the following account will be debited at the time of issue?
 - Discount on issue of debenture account
 - Loss on issue of debenture account
 - Premium on redemption of debenture account
 - Security premium account
- Apex Ltd. agreed to pay ₹ 2,75,000 to Transco Ltd. by issuing fully paid debentures of ₹ 100 at 10% discount. It was agreed that any fraction of debentures will be paid in cash. How much amount is actually paid in cash?
 - ₹ 100
 - ₹ 75
 - ₹ 50
 - Can't be determined
- Which of the following statements is/are correct?
 - There is a restriction on issue of debentures at a discount.
 - Radhika Ltd. issued 10,000, 9% debentures of ₹ 100 each at ₹ 98. It is a case of issue of debentures at premium.

Alternatives

- Only (i)
- Only (ii)
- Both (a) and (b)
- None of these

Short Answer (SA) Type Questions

- Together Ltd. purchased assets of ₹ 16,80,000 and took over liabilities of ₹ 1,60,000 at an agreed value of ₹ 14,40,000. Together Ltd. issued debentures at 10% discount in full satisfaction of the purchase price. Give journal entries in the books of Together Ltd.
- Kati Ltd. issued 8,000, 9% debentures of ₹ 100 each at a discount of 10%. The full amount was payable on application. Applications were received for 9,000 debentures and allotment was made on pro-rata basis. Pass the necessary journal entries for the above transactions in the books of Kati Ltd.
- Rama Ltd. took over the following assets and liabilities of Krishna Ltd. on 1st April, 2019

	Amt (₹)
Land and Building	50,00,000
Furniture	10,00,000
Stock	5,00,000
Creditors	7,00,000

 The purchase consideration of ₹ 60,00,000 was paid by issuing 12% debentures of ₹ 100 each at a premium of 20%. Pass the necessary journal entries for the above in the books of Rama Ltd.
 - On 1st April, 2018, Sakshi Ltd. issued 1,000, 11% Debentures of ₹ 100 each at a discount of 6%, redeemable at a premium of 5% after three years. Pass the necessary journal entries for the issue of debentures in the books of Sakshi Ltd.
- Sahdev Ltd. issued ₹ 1,60,000, 9% debentures of ₹ 100 each, at a premium of 5% redeemable at par. Give journal entries.
 - On 2nd March, 2016, A and B issued 635, 9% debentures of ₹ 500 each. Pass necessary journal entry for the issue of debentures in the following situation.
When debentures were issued at 12% premium, redeemable at 6% premium.
- Nikhil and Ashwin Ltd. bought business of Agarwal Ltd. consisting sundry assets of ₹ 3,60,000, sundry creditors ₹ 1,00,000 for a consideration of ₹ 3,07,200. It issued 14% debentures of ₹ 100 each fully paid, at a discount of 4% in satisfaction of purchase consideration. Record necessary journal entries.

(ii) Fill in the blanks in the following case.

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Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Sundry Assets A/c	Dr	18,00,000	
	Dr	
	To Sundry Creditors A/c			2,00,000
	To .....			....
	(Being business of Rohit & Co. purchased for a consideration of ₹ 20,00,000)			
	.....	Dr	20,00,000	
	.....	Dr	....
	To 8% Debentures A/c			....
	(Being paid to Rohit & Co. by issue of, 8% debentures of ₹ 150 each at a discount of ₹ 50 per debenture)			

Long Answer (LA) Type Questions

- XYZ Industries Ltd. issued 2,000, 10% debentures of ₹ 100 each, at a premium of ₹ 10 per debenture payable as follows:
On application ₹ 50 ; on allotment ₹ 60. The debentures were fully subscribed and all money was duly received. Record the journal entries in the books of company. Show how the amounts will appear in the balance sheet.
- On 1st April, 2015, JK Ltd. issued 8,000, 9% debentures of ₹ 1,000 each at a discount of 6%, redeemable at a premium of 5% after 3 years. The company closes its book on 31st March every year. Interest on 9% debentures is payable on 30th September and 31st March every year.
Pass necessary journal entries for the issue of 9% debentures and debenture interest for the year ended 31st March, 2016.

Answers

Multiple Choice Questions

1. (a) 2. (d) 3. (a) 4. (c) 5. (d)