

Accounting for Debentures

- | | |
|--|--|
| 1. Introduction | 8. Interest on Debentures |
| 2. Important Points Relating to Debentures | 9. For Redemption of Debentures |
| 3. Types of Debenture | 10. Accounting Effects at the Time of Issue of Redeemable Debentures |
| 4. Procedure for Issue of Debentures | 11. Sources of Finance for the Redemption of Debentures |
| 5. Accounting Effects for Issue of Debentures | 12. Methods of Redemption of Debentures |
| 6. Issue of Debentures for Consideration Other Than Cash | 13. Difference Between Shares and Debentures |
| 7. Issue of Debentures as Collateral Security | — Exercise |

1. Introduction

Normally the company issues share capital for the requirement of long term funds. Sometimes, in addition to share capital, if company requires more fund then these fund can be met by loan or borrowed amount. Financially sound companies get long term loan from bank or financial institutions. Mostly instead of borrowing such loan from financial institutions or in addition to borrowing such loan for large investments, company can raise funds from public by issue of securities. Such a security is popularly known as **Debenture or Bond**.

Companies carrying on business have the inherent power or authority to borrow money. Based on this inherent power, companies borrow long term funds from the public. Against the money so borrowed or investment, the company issues a document or certificate acknowledging its debt to the investor. Such a certificate is known as debenture.

Those who get the debentures by giving money to the company or have purchased from the market are known as holder of the debenture or debentureholder. Debentureholder is not considered as the owner of the company.

Debenture is a document that confirms the debt of the company and its acknowledgement of the debt. It is issued under the common seal of the company. Company has to pay interest at a specified rate and on specified time on the amount invested by debentureholders in the company in accordance with the agreed terms, it is an expense for the company and is income for debentureholder. The company repays the money borrowed against a debenture at a future date as per the terms of issue of debentures to the holders of the debentures.

A certificate which is issued to debentureholder by company contains Name of debentureholder, Number of debenture, Amount per debenture, Serial number of debentures, Rate of interest payable, Time for payment of interest and also shows when the debenture money will be paid at a future date.

In present scenario, a debenture certificate is issued to debentureholders in dematerialisation form instead of physical copy. It means, purchase of debentures is directly credited to demat account of debentureholders. By allotment letter company informs the debentureholders about how many debentures are allotted to them, its number and amount and also conditions for debentures.

2. Important Points Relating to Debenture

- (1) Debenture is a document relating to the money lent or given as a loan to the company. It means debenture is a document that confirms the debt of the company.
- (2) Debenture is a security that bears a fixed rate of interest on which the interest is payable on a predetermined date. Company has to pay the interest on the debentures even if it has earned profit or not earned a profit.
- (3) Interest on debentures is payable at a fixed rate and so debentures are known by that rate. e.g. If interest is payable at the rate 8 % p.a. on debentures then it is known as or written as 8 % debentures.
- (4) When debentures are issued for a fixed term, the money borrowed against such debentures is repaid at the end of a fixed term in accordance with the agreed terms.
- (5) As per Companies Act, 2013, no company is allowed to issue debentures having a maturity date of more than 10 years from the date of issue. However, a company engaged in infrastructure projects can issue debentures for more than 10 years but not exceeding 30 years.
- (6) Debentures can be issued with or without charge on the assets of the company. Charge on the assets means mortgage or hypothecation.
- (7) Usually, debentures are listed on the stock exchange after the issue thereof and purchase or sales of debentures are traded at the stock exchanges. The market value of such debentures could be more or less than the price of the issue.
- (8) If the terms of the issue of debentures so provide, the debentures can be converted into shares.
- (9) Debentures are shown as long term borrowings under the heading 'Non-current Liabilities' on 'Equity and Liabilities' side in the balance sheet.
- (10) Debentureholders do not have any voting right in any matter of the company.
- (11) Debentures can not be forfeited if any debentureholder does not pay any amount on debentures.
- (12) In the event of the liquidation of a company, the debentureholders are repaid their money before the payment to equity shareholders.

3. Types of Debenture

Classification of debentures is made as under :

(A) On the Basis of Security :

- (i) **Secured or Mortgage Debenture** : When this type of debentures are issued, some or all of the assets of the company are given as security. In other words, a charge is created on the assets of the company. Such a charge could be of two types : Fixed charge, in this, only some assets of company are given as security and floating charge, in which usually all the assets of company are given as security. If the company is unable to repay the debentures on the due date then the debentureholders are repaid the amount from the money realised on the sale of mortgaged assets.

First Mortgage Debentures are those that have a first claim on the assets charged.

Second Mortgage Debentures are those having a second claim (after first mortgage debentures) on the assets charged.

- (ii) **Unsecured or Simple or Naked Debenture** : Such debentures are issued without giving any security or creating any charge on the assets of the company. From the investor's viewpoints, such debentures are risky. So, such type of debentures are not very common. The holders of such debentures are treated as unsecured creditors at the time of liquidation of the company.
- (B) **As per Negotiability and Procedure for Redemption** :
 - (i) **Registered Debenture** : The company maintains a register of debentureholders. The register contains the name, address and other particulars related to debentureholders. The transfer of such debentures requires the execution of a proper transfer deed to give entry in company's register. Principal amount and interest on such a debenture is paid to the person whose name appears in the company's register.
 - (ii) **Bearer Debenture** : There is no need for any procedure for the transfer of such debentures with the company. The purchaser has to make a payment to the seller of the debentures and take the delivery of the debentures. Thus, bearer debentures are like currency notes and can be transferred by mere delivery. The person who possesses such debentures enjoys all the rights thereof. The interest coupons are attached with debentures certificate for periodic interest payments on such debentures and such coupons are like cheques or orders for payment of interest which can be encashed by debentureholder through the prescribed bank by the company on due dates for the payment of the interest.
- (C) **As per Conditions of Redemptions** :
 - (i) **Redeemable Debenture** : The debentures which are issued with a condition that the amount of debentures can be repaid after a certain period are known as redeemable debentures. This amount will be repaid in lump sum or by installments. The period of redemption is stated in the Debenture or Trust deed.
 - (ii) **Perpetual or Irredeemable Debenture** : Irredeemable debentures are those debentures which are not repayable by the company during its life time. Generally, these type of debentures are repayable only at the time of liquidation of the company.
- (D) **On the Basis of Conditions for Convertibility** :
 - (i) **Convertible Debenture** : Convertible debentures are those debentures which are convertible into equity shares or other securities at a stated rate of exchange either at the option of debentureholders or at the option of the company after a specified period.
When only a part of the amount of debenture is convertible into shares, such debentures are called 'Partly Convertible Debentures'. When the full amount of debenture is convertible into shares, such debentures are called 'Fully Convertible Debentures'.
Convertible debentures are very popular in present time, as they provide liquidity, safety, capital appreciation and assured return to the investors.
 - (ii) **Non-convertible Debenture** : Such debentures cannot be converted into shares or any other securities.

4. Procedure for Issue of Debentures

- (i) When company has decided to issue debentures, a resolution is passed at the meeting of Board of Directors of the company. The resolution should state the number of debentures,

amount per debenture and also total amount of debenture issued, rate of interest thereon, date of redemption and other terms related to the issue of the debentures.

- (ii) Companies Act and provisions of SEBI should be consider at the time of issue of debenture. A company should issue a prospectus or a statement in lieu of the prospectus with proper information inviting the public to subscribe for debentures.
- (iii) The procedure for the issue of debentures is very much similar to that of the issue of shares. Company has to prepare a separate application form for the public to subscribe for debentures.
- (iv) Allotment of debentures should be equal the numbers of issued debentures against the number of debentures application received. For this, company has to open seperate bank account in any scheduled bank.
- (v) As per rule of Companies Act, 2013, minimum subscription should be 90 % of the issued amount.
- (vi) Full amount of debentures may be called by the company on application or may be called in installments.
- (vii) When debentures are issued to the public subscription, then money received on this has to be kept in a scheduled bank in a separate account. So, money received on application at the time of debentures subscription has to be kept directly in a separate bank account like subscription of shares. After subscription or issue is closed, allotment letter is sent to applicants to whom debentures were allotted and debenture application money is refunded to those applicants to whom debentures were not allotted.
- (viii) Debentures may be issued either at par, at a premium or at a discount. Shares can not be issued at discount except sweat equity share but debentures can be issued at a discount. The rate of premium or discount is to be decided by the directors.

5. Accounting Effects for Issue of Debentures

Procedure, Transactions and Name of accounts for issue of debentures are the same as share capital transactions. Such as, Debenture Application Account, Debenture Allotment Account, Debenture Calls Account etc.

Debenture percentage is always mentioned before the word debenture.

Following accounting entries will be passed in the books of company on the issue of debentures under different circumstances.

(A) Issue of Debentures at Par :

● When the full amount of the debentures is called up at a time :

- (i) Bank A/c ...Dr
To % debentures application and allotment A/c
- (ii) % debenture application and allotment A/c ...Dr
To % debentures A/c

For example, a company issued 8000, 9 % debentures of ₹ 100 each. The full amount on debenture was called up on application, it was received.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr To 9 % debenture application and allotment A/c [Being application money fully received on 8000 debentures at ₹ 100 per debenture.]		8,00,000	8,00,000

(ii)	9 % debenture application and allotment A/c Dr To 9 % debentures A/c [Being application money transfer to debentures A/c.]		8,00,000	8,00,000
------	--	--	----------	----------

Note : When the full amount of the debentures is called up at the time of application then that amount will be credited to 'Debenture Application and Allotment A/c'.

● **When the amount of debentures is called up in installments :**

Following entries will be passed on the issue of debentures (Here, assume that the debentures carry 9 % interest).

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	On receipt of application money, Bank A/c ... Dr To 9 % debenture application A/c [Being application money received.]		.....	.....
(ii)	On transfer of application money to debenture account it means allotment of debentures, 9 % debenture application A/c ... Dr To 9 % debenture A/c [Being allotment of debentures.]		.....	.....
(iii)	On refund of money to applicants of rejected applications, 9 % debenture application A/c ... Dr To Bank A/c [Being application money returned to applicants on rejected applications.]		.....	.....
(iv)	On the transfer of surplus application money on partially accepted application, 9 % debenture application A/c ... Dr To 9 % debenture allotment A/c [Being excess application money transfer to allotment account.]		.....	.....
(v)	When allotment money due, 9 % debenture allotment A/c ... Dr To 9 % debenture A/c [Being allotment money due.]		.....	.....
(vi)	On receipt of allotment money, Bank A/c ... Dr To 9 % debenture allotment A/c [Being allotment money received.]		.....	.....

(vii)	When amount due on call, 9 % debenture call A/c ... Dr To 9 % debenture A/c [Being respective call amount due on debentures.]		.....	.....
(viii)	On receipt of call money, Bank A/c ... Dr To 9 % debenture call A/c [Being money received on calls on debentures.]		.....	.....

Let us understand the above journal entries with the help of following illustration :

Illustration 1 : Ashok Mills Limited issued 8000 debentures of ₹ 100 each for public subscription. Interest is to be paid at the rate 8 % p.a. on debentures. The amount were called up per debenture as under :

With application ₹ 30

On allotment ₹ 40

On call ₹ 30

Application were received by company of 10,000 debentures. After allotment of 8000 debentures, rejected excess applications of debentures and refunded the money to applicants. All the amounts due on allotment and call were duly received.

Write journal entries in the books of the company.

Ans. :

Journal Entries in the Books of Ashok Mills Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To 8 % debenture application A/c [Being receipt of applicaiton money on 10,000 debentures at ₹ 30 per debenture.]		3,00,000	3,00,000
2	8 % debenture application A/c Dr To 8 % debenture A/c To Bank A/c [Being transfer money to debenture account on the allotment of 8000 debentures and refund money on rejected 2000 debentures.]		3,00,000	2,40,000 60,000
3	8 % debenture allotment A/c Dr To 8 % debenture A/c [Being allotment money due on 8000 debentures at ₹ 40 per debenture.]		3,20,000	3,20,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
4	Bank A/c Dr To 8 % debenture allotment A/c [Being receipt of full amount of allotment money.]		3,20,000	3,20,000
5	8 % debenture call A/c Dr To 8 % debenture A/c [Being call money due on 8000 debentures at ₹ 30 per debenture.]		2,40,000	2,40,000
6	Bank A/c Dr To 8 % debenture call A/c [Being receipt of full amount on call money on debentures.]		2,40,000	2,40,000
	Total		17,20,000	17,20,000

(B) Issue of Debentures at Premium :

When the debentures are issued at more than their face value, they are said to have been issued at premium. For example, if a debenture of ₹ 100 is issued at ₹ 130, then it is called, this debenture issued at premium of ₹ 30.

As per Companies Act, 2013, premium amount on debentures is transferred to 'Securities Premium Reserve Account'.

Like share premium, debenture premium is also a capital profit and hence the same can not be used for distribution of dividend but can be used for writing off capital expenses or loss like discount on issue of debentures, premium on redemption of debentures, preliminary expenses, goodwill, patent etc.

"Securities Premium Reserve A/c" is shown on the equity and liabilities side of the balance sheet under the head "Reserve and Surplus".

● When the full amount of the debentures is called up at a time :

For example, a company issued 6000 10 % debentures of ₹ 100 each at a 'premium of ₹ 20 per debenture. The full amount of the debenture was called up on application on all the debentures and the same was received. The journal entry in the books of the company will be as under :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr To 10 % debenture application and allotment A/c [Being receipt of application money on 6000 debentures at ₹ 120 per debenture.]		7,20,000	7,20,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(ii)	10 % debenture application and allotment A/c Dr To 10 % debenture A/c To Securities premium reserve A/c [Being application money transfer to debenture account and premium account.]		7,20,000	6,00,000 1,20,000

- **When the amount of the debentures is called up in installments :**

Illustration 2 : Gujarat Limited issued 5000; 10 % debentures of ₹ 200 each at premium of 20 %. On which the amount per debenture was called up as under :

₹ 60 on application

₹ 100 on allotment (including premium)

₹ 80 on final call

Applications were received for a total of 8000 debentures, from this excess applications were rejected and refunded the money received thereon. All the amounts due on allotment and call were duly received. Pass journal entries in the books of the company.

Ans. :

Journal of Gujarat Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To 10 % debenture application A/c [Being application money received on 8000 debentures at ₹ 60 per debenture.]		4,80,000	4,80,000
2	10 % debenture application A/c Dr To 10 % debenture A/c To Bank A/c [Being money on 5000 allotted debentures transfer to debenture account and money on 3000 rejected debentures refunded to applicants.]		4,80,000	3,00,000 1,80,000
3	10 % debenture allotment A/c Dr To 10 % debenture A/c To Securities premium reserve A/c [Being amount due on allotment including premium ₹ 100 per debenture.]		5,00,000	3,00,000 2,00,000
4	Bank A/c Dr To 10 % debenture allotment A/c [Being receipt of full amount of allotment money due.]		5,00,000	5,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
5	10 % debenture final call A/c Dr To 10 % debenture A/c [Being amount due on final call at ₹ 80 per debenture.]		4,00,000	4,00,000
6	Bank A/c Dr To 10 % debenture final call A/c [Being full amount received on final call.]		4,00,000	4,00,000
	Total		27,60,000	27,60,000

(C) Issue of Debentures at Discount :

When the company issues debentures at a price which is less than their face value or nominal value, the debentures are said to have been issued at a discount. For example, a debenture of ₹ 100 face value is issued at ₹ 90, here ₹ 10 would be discount.

Amount of discount on debentures is debited to '**Discount on Debentures A/c**'.

- There is no restriction in the companies act as regards the maximum discount which can be given on the issue of the debentures. If there is no restriction in the Articles of Association of the company, debentures can be issued at a discount.

If there is no clarification, discount on debenture is recorded at the time of debenture allotment entry.

- Amount of debenture discount or loss on issue of debenture is shown in the balance sheet as per Accounting Standard 26. Debenture discount amount is shown under different heads, which depends on terms of debentures. Let us understand this by an illustration.

Example : Amount of discount on debenture is ₹ 2,40,000, it is to be written off in 6 years.

Here, ₹ 2,40,000 ÷ 6 years = ₹ 40,000 for each year.

₹ 40,000 debited to current year statement of profit and loss.

Remaining amount of ₹ 2,00,000 is shown under the head 'Non-current Assets' and sub head 'Other non-current Assets' in the balance sheet.

Note : How to show amount of discount on debentures in the balance sheet is not in syllabus (This type of questions are not to be asked in the exam).

- For writing off discount on issue of debentures :**

Discount or loss on issue of debentures is a capital loss. It should be written off as early as possible but within the lifetime of the debentures. e.g. If debenture issued at discount with a condition that debentures are redeemed after 6 years, then the period of writing off total amount of discount, should not be more than 6 years. Usually this amount is written off against securities premium reserve account or statement of profit or loss. For this, following journal entries is to be passed :

	Securities premium reserve A/c ...Dr		.....
	or Statement of profit or loss A/c ...Dr		.....
	To Discount on debentures or			
	Loss on issue of debentures A/c			.....

● **When the full amount of the debentures is called up at a time :**

For example, a company issued 2000, 8 % debentures of ₹ 100 each at a price of ₹ 80 per debenture, on which the full amount was called up and the same was received.

The journal entry in the books of the company will be as under :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr To Debenture application and allotment A/c [Being application money received on 2000 debentures at ₹ 80 per debenture.]		1,60,000	1,60,000
(ii)	Debenture application and allotment A/c Dr Discount on debenture A/c Dr To 8 % debentures A/c [Being issue of 2000, 8 % debentures of ₹ 100 each at a discount of ₹ 20 per debenture.]		1,60,000 40,000	2,00,000

● **When the amount of the debentures is called up in installments :**

Illustration 3 : Rajkot Oil Limited issued 8000 10 % debentures of ₹ 100 each at a price of ₹ 90 per debenture. The amount per debenture was payable as under :

₹ 30 with application

₹ 40 on allotment (after discount)

₹ 20 on call

The company received application of 8000 debentures. The company received the full money called on allotment. Except on 300 debentures, the company received full amount 'due on call'.

Pass necessary journal entries in the books of company.

Ans. :

Journal Entries in Books of Rajkot Oil Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To 10 % debenture application A/c [Being allotment money received on 8000 debentures at ₹ 30 per debenture.]		2,40,000	2,40,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	10 % debenture application A/c Dr To 10 % debenture A/c [Being application money transfer to debenture amount.]		2,40,000	2,40,000
3	10 % debenture allotment A/c Dr Discount on debentures A/c Dr To 10 % debenture A/c [Being allotment money due at ₹ 40 per debenture, after a discount of ₹ 10.]		3,20,000 80,000	4,00,000
4	Bank A/c Dr To 10 % debenture allotment A/c [Being receipt of full amount of allotment money due.]		3,20,000	3,20,000
5	10 % debenture final call A/c Dr To 10 % debenture A/c [Being final call amount due on 8000 debentures at ₹ 20 per debenture.]		1,60,000	1,60,000
6	Bank A/c Dr Call-in-arrears on debenture A/c Dr To 10 % debenture call A/c [Being call money received on 7700 debentures and call money not received on 300 debentures.]		1,54,000 6000	1,60,000
	Total		15,20,000	15,20,000

Illustration 4 : Punjab Limited issued 25,000, 11 % debentures of ₹ 100 each, the money per debenture was payable as under :

₹ 30 on application; ₹ 35 on allotment and ₹ 35 on first and final call.

All the debentures were applied. Jogindar, the holder of 800 debentures paid the entire amount on his holding on allotment. Where, Harjitsinh, the holder of 200 debentures failed to pay the allotment and call amount.

All the amount on allotment and call were duly received on all remaining debentures.

Pass necessary journal entries for the above transactions in the books of company.

Ans. :

Journal Entries in the Book of Punjab Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To 11 % debenture application A/c [Being application money received on 25,000 debentures at ₹ 30 per debenture.]		7,50,000	7,50,000
2	11 % debenture application A/c Dr To 11 % debenture A/c [Being application money on debenture transfer to debenture account.]		7,50,000	7,50,000
3	11 % debenture allotment A/c Dr To 11 % debenture A/c [Being allotment amount due on debenture at ₹ 35 per debenture.]		8,75,000	8,75,000
4	Bank A/c Dr Calls-in-arrears on debenture A/c Dr To 11 % debenture allotment A/c To Calls-in-advance A/c [Being allotment money received on 24,800 debentures and call amount received in advance on 800 debentures at ₹ 35 per debenture.]		8,96,000 7000	8,75,000 28,000
5	11 % debenture first and final call A/c Dr To 11 % debenture A/c [Being call amount due on debentures at ₹ 35 per debenture.]		8,75,000	8,75,000
6	Bank A/c Dr Call-in-arrears on debentures A/c Dr Call-in advance on debentures A/c Dr To 11 % debenture first and final call A/c [Being balance amount received on final call after deducting calls-in-advance on 800 debentures and also amount not paid on 200 debentures on final call.]		8,40,000 7000 28,000	8,75,000
	Total		50,28,000	50,28,000

Illustration 5 : Mohan Krishna Limited issued 80,000, 10 % debentures at the face value of ₹ 500 each at a premium of 10 %. Amount was payable as under :

₹ 250 on application (including premium) and balance amount on allotment.

These debentures are redeemable after 8 years. Applications are received by company for 1,00,000 debentures and the allotment of 80,000 debentures is made on pro-rata basis.

Excess amount on application is credited to allotment account. Amount due on allotments is fully received. Pass journal entries on the issue of debentures in the books of company.

Ans. :

Journal Entries in the Books of Mohan Krishna Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To 10 % debenture application A/c [Being amount received on applications for 1,00,000 debentures at ₹ 250 per debenture.]		2,50,00,000	2,50,00,000
2	10 % debenture application A/c Dr To 10 % debenture A/c (80,000 debentures × ₹ 200) To Securities premium reserve A/c (80,000 debentures × ₹ 50) To 10 % debenture allotment A/c (20,000 debentures × ₹ 250) [Being money on debenture application transfer to debenture A/c and premium A/c, money on excess application transfer to debenture allotment A/c.]		2,50,00,000	1,60,00,000 40,00,000 50,00,000
3	10 % debenture allotment A/c Dr To 10 % debenture A/c [Being allotment money due on 80,000 debentures at ₹ 300 per debenture.]		2,40,00,000	2,40,00,000
4	Bank A/c Dr To 10 % debenture allotment A/c [Being allotment money received.]		1,90,00,000	1,90,00,000
	Total		9,30,00,000	9,30,00,000

Illustration 6 : Kaveesh Limited issued 20,000, 8 % debentures of ₹ 100 each at a premium of ₹ 30 per debenture. The full amount was payable on application. Applications were received by company for 24,000 debentures. Applications for 4000 debentures were rejected and amount thereon was refunded to the applicants. Debentures were allotted to the remaining applications.

Pass necessary journal entries for the above transactions in the books of Kaveesh Limited.

Ans. :

Note : When company called up full amount of debentures at the time of application then, this amount is to be credited to 'Debenture Application and Allotment Account' instead of 'Debenture Application Account'.

Journal of Kaveesh Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To 8 % debenture application and allotment A/c [Being receipt of application money on 24,000 debentures at ₹ 130 per debenture.]		31,20,000	31,20,000
2	8 % debenture application and allotment A/c Dr To 8 % debenture A/c (20,000 debentures × ₹ 100) To Securities premium reserve A/c (20,000 debentures × ₹ 30) To Bank A/c (4000 debentures × ₹ 130) [Being on 20,000 debentures, ₹ 100 per debenture transfer to debenture A/c and ₹ 30 per debenture transfer to premium A/c. Amount refunded on non-allotted 4000 debentures at ₹ 130 per debenture.]		31,20,000	20,00,000 6,00,000 5,20,000

Illustration 7 : Ankush Limited of Amreli issued 5000, 9 % debentures of ₹ 100 each at a discount of 10 % as on 1-4-2017. The money were payable on debenture as follows :

₹ 25 on application;

₹ 25 on allotment and the balance amount on final call.

Applications were received for 5000 debentures and the allotment was made. All the money due on debentures were duly received. Expenses on issue of debentures amounted to ₹ 16,000. Directors decided to write off $\frac{1}{5}$ th amount of "Expenses on Issue A/c" and "Discount on Debentures A/c" from statement of profit and loss each year.

Write journal entries for first year only from the above transactions in the books of company.

Ans. :

Journal Entries in the Books of Ankush Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To 9 % debenture application A/c [Being application money received on 5000 debentures at ₹ 25 per debenture.]		1,25,000	1,25,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	9 % debenture application A/c Dr To 9 % debenture A/c [Being application amount on allotted debentures transfer to debenture account.]		1,25,000	1,25,000
3	9 % debenture allotment A/c Dr (5000 debentures × ₹ 25) Discount on debentures A/c Dr (5000 debentures × ₹ 10) To 9 % debenture A/c (5000 debentures × ₹ 35) [Being amount due on allotment (after discount) of ₹ 25 per debenture.]		1,25,000 50,000	1,75,000
4	Bank A/c Dr To 9 % debenture allotment A/c [Being receipt of full amount on allotment.]		1,25,000	1,25,000
5	9 % debenture final call A/c Dr To 9 % debenture A/c [Being amount due on final call at ₹ 40 per debenture.]		2,00,000	2,00,000
6	Bank A/c Dr To 9 % debenture final call A/c [Being receipt of full amount on final call.]		2,00,000	2,00,000
7	Expenses on issue A/c Dr To Bank A/c [Being expenses paid on issue of debentures.]		16,000	16,000
8	Statement of profit and loss A/c Dr To Discount on debenture A/c ($\frac{1}{5}$ th of 50,000) To Expenses on issue of debentures A/c ($\frac{1}{5}$ th of 16,000) [Being $\frac{1}{5}$ th of 'Discount on Debenture' and $\frac{1}{5}$ th of "Expenses on Issue" written off by transfer to statement of profit and loss for the current year.]		13,200	10,000 3200
	Total		9,79,200	9,79,200

6. Issue of Debentures for Consideration Other than Cash

Like shares, debentures are also sometimes issued for consideration other than cash. For example, the issue of debentures to vendor against the purchase of assets like land-building, plant and machinery etc. Similarly issue of debentures to vendor's against purchase consideration at the time of purchase of business. Debentures can be issued to vendors at par, at a premium or at a discount.

Following entries will be passed for this purpose :

(1)	At the time of purchase of any business,			
	(i) Sundry assets A/c ...Dr (Business assets taken over)		.....
	To Sundry liabilities A/c (Business liabilities taken over)			.....
	To Vendor's A/c (Purchase consideration)			.....
	[Being business assets and liabilities taken over on purchase of business.]			
(2)	(ii) Vendor's A/c ...Dr		.....
	To Debentures' A/c			.....
	[Being issue of debentures by the company for purchase consideration.]			
	When any asset is purchased then,			
	(i) On purchase of asset,			
	Asset A/c ...Dr		.....
	To Vendor's A/c			.....
	[Being purchase of asset.]			
	(ii) Vendor's A/c ...Dr		.....
	To Debenture A/c			.....
	[Being issue of debentures to vendor for asset.]			

Illustration 8 : Mansi Limited purchased machinery worth ₹ 6,00,000 from Suman Manufacturing Ltd. on 1-12-2017. ₹ 2,00,000 were paid immediately and the balance was paid by issue of ₹ 3,70,000 11 % debentures in Mansi Limited. Pass the necessary journal entries in the books of Mansi Limited. If the balance will be paid by issue of ₹ 4,20,000, 11 % debentures by Mansi Limited, then how to write journal entry for this ?

Ans. :

Journal Entries in the Book of Mansi Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2017 Dec. 1	Machinery A/c Dr To Suman Manufacturing Ltd. A/c [Being purchase machinery from Suman Manuf. Ltd.]		6,00,000	6,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
Dec. 1	Suman Manuf. Ltd. A/c Dr To Bank A/c [Being ₹ 2,00,000 paid immediately against purchase of machinery.]		2,00,000	2,00,000
Dec. 1	Suman Manuf. Ltd. A/c Dr To 11 % debentures A/c To Securities premium reserve A/c [Being issue of debentures of ₹ 3,70,000 against balance amount of ₹ 4,00,000. So, difference amount transfer to premium account.]		4,00,000	3,70,000 30,000

If Mansi Ltd. issued 11 % debentures of ₹ 4,20,000 for the balance amount, then only last entry will be changed in the above illustration.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2017 Dec. 1	Suman Manuf. Ltd. A/c Dr Discount on debenture A/c Dr To 11 % debenture A/c [Being issue of debentures of ₹ 4,20,000 against balance amount of ₹ 4,00,000.]		4,00,000 20,000	4,20,000

Illustration 9 : Nitin Metals Limited purchased assets worth ₹ 8,80,000 and also took over the liabilities (creditors) of ₹ 1,60,000 of Patel Traders. Decided to pay for a purchase consideration of ₹ 7,68,000. Nitin Metals Ltd. paid the purchase consideration by issuing 12 % debentures of ₹ 100 each at a premium of 20 %.

Pass journal entries in the books of company.

Ans. : Necessary working :

Purchase consideration = ₹ 7,68,000 it is given.

Net assets = Total assets – Liabilities
= ₹ 8,80,000 – ₹ 1,60,000
= ₹ 7,20,000

Purchase consideration – Net assets = Goodwill

₹ 7,68,000 – ₹ 7,20,000 = ₹ 48,000 (Goodwill)

Here, purchase consideration of ₹ 7,68,000 is paid by issuing 12 % debentures of ₹ 100 each at a premium of 20 %. Number of debentures is not given.

Number of debentures = $\frac{\text{Purchase consideration}}{\text{Amount per debenture}} = \frac{7,68,000}{120 (100 + 20)}$
= 6400 debenture

Journal Entries in the Books of Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	<div style="display: flex; justify-content: space-between;"> <div>Sundry assets A/c</div> <div>Dr</div> </div> <div style="display: flex; justify-content: space-between;"> <div>Goodwill A/c</div> <div>Dr</div> </div> <div style="display: flex; justify-content: space-between;"> <div>To Liabilities (creditors) A/c</div> <div></div> </div> <div style="display: flex; justify-content: space-between;"> <div>To Patel Traders A/c</div> <div></div> </div> <div>[Being purchase of assets and liabilities of Patel Traders.]</div>		<div>8,80,000</div> <div>48,000</div>	<div>1,60,000</div> <div>7,68,000</div>
2	<div style="display: flex; justify-content: space-between;"> <div>Patel Traders A/c</div> <div>Dr</div> </div> <div style="display: flex; justify-content: space-between;"> <div>To 12 % debenture A/c</div> <div></div> </div> <div style="display: flex; justify-content: space-between;"> <div>(6400 debentures × ₹ 100)</div> <div></div> </div> <div style="display: flex; justify-content: space-between;"> <div>To Securities premium reserve A/c</div> <div></div> </div> <div style="display: flex; justify-content: space-between;"> <div>(6400 debentures × ₹ 20)</div> <div></div> </div> <div>[Being issue of 6400 debentures at 20 % premium for purchase consideration.]</div>		<div>7,68,000</div>	<div>6,40,000</div> <div>1,28,000</div>

7. Issue of Debentures as Collateral Security

When a company takes a loan from a bank or from some other party, the company may have to issue debentures as a subsidiary or secondary security in addition to the principal security. The debenture so issued are known as debentures issued as collateral security.

If the company repays its dues to the bank in right time, the bank will return the debentures to the company and the debentures received this way are cancelled by the company.

However, if the company fails to repay the amount of loan or interest on this in proper time then, the lender will first realise its debt from the principal security. But if the full amount of debt is not realised from the principal security then lender may claim all the rights of a debentureholder on the debentures received as a secondary security. It means lender can recover balance amount from the sale of debentures.

There are two methods of dealing with such issued debentures in the books of account :

- (1) Debentures given to a bank as security are only for the safety of the loan. No entry is passed for the issue of debentures in the books of accounts. Entry is passed only for bank loan. On the equity and liabilities side of the balance-sheet, it is shown under "Long term Borrowings" under the main heading "Non-current Liabilities". It is shown in illustration 10.
- (2) In this method, the entry for issuing debentures as collateral security is recorded in the books of company. This entry will be as under :

	<div style="display: flex; justify-content: space-between;"> <div>Debenture suspense A/c</div> <div>Dr</div> </div> <div style="display: flex; justify-content: space-between;"> <div>To debentures A/c</div> <div></div> </div> <div>[Being issue of debentures as collateral security against loan.]</div>		<div>.....</div>	<div>.....</div>
--	--	--	------------------	------------------

In the balance sheet, debentures suspense A/c will be shown as a deduction from the debentures account on the equity and liabilities side. As and when the loan is repaid by the company then, bank will return all the debentures to the company and this debentures will be cancelled by the company. Entry passed above is reversed.

Illustration 10 : A company had ₹ 14,00,000 issued 11 % debentures as on 1st April, 2017. During the year company took a loan of ₹ 3,00,000 from the bank as on 15 July, 2017. Against this, company issued new 11 % debentures of ₹ 2,00,000 as collateral security.

Pass necessary journal entries under both the methods from the above transactions in the books of the company. Show the details about debentures and bank loan in the company's balance sheet as at 31st March, 2018.

Ans. : (As per first method)

Journal Entry in the Books of Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
20-7-2017	Bank A/c Dr To Bank loan A/c [Being loan taken from the bank.]		3,00,000	3,00,000

In this method, no entry is passed for the issue of debentures as security against loan.

Balance Sheet as on 31st March, 2018

Particulars	Note No.	31st March 2018	31st March 2017
(I) Equity and liabilities :			
Shareholders' funds :			
Non-current liabilities :			
Long-term borrowings :			
11 % debentures (Above this debentures of ₹ 2,00,000 issued as collateral security)		14,00,000	
Bank loan (Debentures of ₹ 2,00,000 as collateral security)		3,00,000	

(As per second method)

Journal of Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Bank loan A/c [Being loan obtain from the bank.]		3,00,000	3,00,000
2	Debenture suspense A/c Dr To 11 % debenture A/c [Being issue 11 % debentures of ₹ 2,00,000 as collateral security against a loan from the bank.]		2,00,000	2,00,000

Balance Sheet as on 31st March, 2018

Particulars	Note No.	31st March 2018	31st March 2017
(I) Equity and liabilities :			
Shareholders' funds :			
Non-current liabilities :			
Long-term borrowings :			
11 % debentures 14,00,000		14,00,000	
11 % debentures issued as collateral security 2,00,000			
Less : Debenture suspense A/c 2,00,000		—	
Bank loan (On collateral security of debentures ₹ 2,00,000)		3,00,000	

8. Interest on Debenture

Interest on debentures is usually paid half-yearly. Interest on debentures is recorded in statement of profit and loss. This interest is expense against profit. Interest on debentures has to be paid regularly even if the company suffers a loss or does not earn a profit. The rate of interest payable on debentures is prefixed on debentures. For example, 9 % debentures. Here, interest is to be calculated at the rate of 9 % on debentures.

As per Income Tax Act, a company is required to deduct income tax at the prescribed rate from the gross amount of debenture interest before any amount is paid to the debentureholders. This tax amount is to be deposited with the income tax department on behalf of the debentureholders. It's called as TDS means Tax Deducted at Source.

While preparing the final accounts for an accounting period, provision or effects must be made for any accrued interest on debentures due to variation of the dates.

Methods of accrued interest :

(1) **Interest Accrued and Due** : If a company pays interest on debentures half-yearly on 30th June and 31st December, while preparing the balance sheet on 31st March, 2018, if the interest for the period ending 31st December, 2017 remains unpaid, it will be called "Interest accrued and due".

(2) **Interest Accrued but Not Due** : As per above (1), the interest on debentures for the period from 1st January, 2018 to 31st March, 2018 will be called "Interest accrued but not due".

Illustration 11 : Sinoy Limited issued 15,000, 11 % debentures of ₹ 100 each as on 1st April, 2017.

Interest on these debentures is paid on 30th September and 31st March.

Pass journal entries of the above transactions for the year ended on 31st March, 2018. Assuming income tax rate is 20 % on the amount of interest.

Ans. :

Journal Entries in the Book of Sinoy Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2017	Bank A/c Dr To Debentures' application and allotment A/c [Being application money received on 15,000 debentures at ₹ 100 per debenture.]		15,00,000	15,00,000
1-4-2017	Debenture application and allotment A/c Dr To 11 % debenture A/c [Being debenture application money transfer to debenture account.]		15,00,000	15,00,000
30-9-2017	Interest on debenture A/c Dr To Debentureholders A/c To TDS payable A/c [Being interest due on 30st September on 11 % debentures and income tax deducted at source.]		82,500	66,000 16,500
30-9-2017	Debentureholders A/c Dr To Bank A/c [Being payment of interest.]		66,000	66,000
30-9-2017	TDS payable A/c Dr To Bank A/c [Being TDS deposited in income tax department.]		16,500	16,500
31-3-2018	Interest on debenture A/c Dr To Debentureholders A/c To TDS payable A/c [Being interest due on 31st March on 11 % debentures and income tax deducted at source.]		82,500	66,000 16,500
31-3-2018	Debentureholders A/c Dr To Bank A/c [Being payment of interest.]		66,000	66,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2018	TDS payable A/c Dr To Bank A/c [Being TDS deposited in income tax department.]		16,500	16,500
31-3-2018	Statement of profit and loss A/c Dr To Interest on debentures A/c [Being amount of interest for the full year transfer to statement of profit and loss.] (82,500 + 82,500)		1,65,000	1,65,000
	Total		34,95,000	34,95,000

9. For Redemption of Debentures

Following entries are passed for the redemption of debentures :

(i)	At the time of redemption of debentures, the debenture account should be closed and transferred to the debentureholder's account, Debenture A/c ...Dr To Debentureholders A/c		.....	.....
(ii)	To repay money to the debentureholders, Debentureholders A/c ...Dr To Bank A/c		.....	.....

10. Accounting Effects at the Time of Issue of Redeemable Debentures

Debentures are issued at par, at a premium or at a discount, but when debentures are to be redeemed to the debentureholders then it is redeemed at par or at a premium only. Debentures can not be redeemed at a discount.

● **When debentures are to be redeemed at par**, at that situation no other journal entry for additional effect is given at the time of issue of debentures. This point can be learnt by following table.

Situation (Condition)	Entry at the time of Issue	Entry at the time of Redemption	Entry at the time of debentureholders are paid
(1) When debentures are issued at par and redeemable at par	(i) Bank A/c ...Dr To debenture application and allotment A/c (ii) Debenture application and allotment A/c...Dr To debenture A/c	Debenture A/c ...Dr To Debentureholders A/c	Debentureholders A/c ...Dr To bank A/c

Situation (Condition)	Entry at the time of Issue	Entry at the time of Redemption	Entry at the time of debentureholders are paid
(2) When debentures are issued at premium and redeemable at par	(i) Bank A/c ...Dr To Debenture application and allotment A/c (ii) Debenture application and allotment A/c...Dr To Debenture A/c To Security pre. reserve A/c	Debenture A/c ...Dr To Debentureholders A/c	Debentureholders A/c ...Dr To Bank A/c
(3) When debentures are issued at discount and redeemable at par	(i) Bank A/c ...Dr To Debenture application and allotment A/c (ii) Debenture application and allotment A/c...Dr Discount on debenture A/c ...Dr To Debenture A/c	Debenture A/c ...Dr To Debentureholders A/c	Debentureholders A/c ...Dr To Bank A/c

- **When debentures are issued at par or at a premium or at a discount and are redeemable at a premium then,**

Premium payable at the time of redemption of debentures is a loss for the company. Hence, that amount is debited to 'Loss on Issue of Debentures Account'. Such premium payable at a future date is a liability to the company. So, this amount of premium is credited to '**Premium on redemption of debentures account.**'

Here, students should keep in mind that the premium called or received at the time of issue of debentures and transferred to 'securities premium reserve account' is a gain or profit for the company. Whereas, premium payable on redemption of debentures which is transferred to 'premium on redemption of debentures account' is a liability to the company. When debentures are redeemable at a premium, then following entries will be written under different situation.

- (1) **When debentures are issued at par and are redeemable at a premium,**

- (i) **At the time of issue of debentures :**

(a) Bank A/c ...Dr To Debenture application and allotment A/c	(At face value of debentures) (At face value of debentures)
(b) Debenture application and allotment A/c ...Dr Loss on issue of debentures A/c ...Dr To Debentures A/c To Premium on redemption of debentures A/c	(At face value of debentures) (Premium amount to be paid at the time of redemption) (At face value of debentures) (Premium amount to be paid at the time of redemption of debentures)

(ii) At the time of redemption :

Debenture A/c ...Dr	(At face value of debentures)
Premium on redemption of debentures A/c ...Dr	(Premium amount to be paid at redemption)
To Debentureholders A/c	(Total payable amount)

(iii) When amount paid to debentureholders :

Debentureholders A/c ...Dr	(Total payable amount)
To Bank A/c	

(2) When debentures are issued at a premium and are redeemable at a premium,

(i) At the time of issue of debentures :

(a) Bank A/c ...Dr	(Face value + premium amount)
To Debentures' application and allotment A/c	
(b) Debenture application and allotment A/c...Dr	(Face value + premium amount)
Loss on issue of debentures A/c...Dr	(Premium amount to be paid at the time of redemption of debentures)
To Debenture A/c	(Face value of debentures)
To Securities premium reserve A/c	(Premium received at the time of issue of debentures)
To Premium on redemption of debenture A/c	(Premium amount to be paid at the time of redemption of debentures)

Journal entries at the time of redemption of debentures and payment to debentureholders will be passed as above point 1(ii) and 1(iii).

(3) When debentures are issued at discount and are redeemable at premium,

(i) At the time of issue of debentures :

(a) Bank A/c ...Dr	(Face value less amount of discount)
To debentures application and allotment A/c	
(b) Debentures application and allotment A/c ...Dr	(Face value less amount of discount)
Discount on debentures A/c ...Dr	(Discount at the time of issue)
Loss on issue of debentures A/c ...Dr	(Premium amount to be paid at the time of redemption of debentures)
To debentures A/c	(Face value of debentures)
To premium on redemption of debentures A/c	(Premium amount to be paid at the time of redemption of debentures)

Journal entries at the time of redemption of debentures and payment to debentureholders will be passed as above point 1(ii) and 1(iii).

● **Position in the balance-sheet of company :**

From the amount of discount on debentures account and from the amount of loss on issue of debentures account, some amount is written off every year as per terms of debentures against statement of profit and loss or securities premium reserve account.

Statement of profit and loss A/c	Dr	.....
or securities premium reserve A/c	Dr	.....
To discount on debentures A/c			.....
To loss on issue of debentures A/c			.....

The balances of both the accounts namely, discount on debenture account and loss on issue of debenture account are shown as "Other non-current assets" on the assets side of the balance sheet in every year.

"Premium on redemption of debentures A/c" is a personal account and shows a credit balance. It is a liability of the company. It appears under the head "Non-current liabilities" under sub-head "Other long term liabilities" on the equity and liability side of the balance sheet each year, until the debentures are repaid.

When debentures are redeemed then premium on redemption of debentures account is debited and debentureholders account is credited. So, this account is closed off.

Illustration 12 : Write the journal entries only for the issue of debentures from the following transaction (without narration).

- (1) Issued 5000, 10 % debentures of ₹ 100 each at par, redeemable also at par.
- (2) Issued 5000, 10 % debentures of ₹ 100 each at a discount of 5 %, redeemable at par.
- (3) Issued 5000, 10 % debentures of ₹ 100 each at a premium of 8 %, redeemable at par.

Ans. :

Journal of Company

- (1) Debentures issued price of ₹ 100 each, redeemable at ₹ 100 each.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr To Debenture application and allotment A/c (5000 debentures × ₹ 100)		5,00,000	5,00,000
(ii)	Debenture application and allotment A/c Dr To 10 % Debenture A/c (5000 debentures × ₹ 100)		5,00,000	5,00,000

- (2) Debentures issued price of ₹ 95 each, redeemable at ₹ 100 each.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr To Debenture application and allotment A/c (5000 debenture × ₹ 95)		4,75,000	4,75,000
(ii)	Debenture application and allotment A/c Dr Discount on debenture A/c Dr (5000 debenture × ₹ 5 discount A/c) To 10 % debenture A/c		4,75,000 25,000	5,00,000

(3) Debentures issued price of ₹ 108 each, redeemable at ₹ 100 each.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr To Debenture application and allotment A/c (5000 debenture × ₹ 108)		5,40,000	5,40,000
(ii)	Debenture application and allotment A/c Dr To 10 % debenture A/c To Security premium reserve A/c (5000 Debenture × ₹ 8)		5,40,000	5,00,000 40,000

In the above three situations the journal entries for redemption of debentures and payment to debentureholders will be passed same as under.

● **At the time of redemption of debentures :**

	10 % debentures A/c Dr To Debentureholders A/c		5,00,000	5,00,000
--	---	--	----------	----------

● **On payment to debentureholders :**

	Debentureholders A/c Dr To Bank A/c		5,00,000	5,00,000
--	--	--	----------	----------

● **Debentures were issued at par and redeemed at a premium :**

Illustration 13 : On 1-8-2017 Namaskar Limited issued 8000, 9 % debentures of ₹ 100 each at par.

These debentures are to be redeemed on 31-7-2022 at ₹ 120 per debenture.

Pass the necessary journal entries in the books of the company for the issue and redemption of debentures (without narration).

Ans. :

Journal of Namaskar Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-8-2017	Bank A/c (8000 debentures × ₹ 100) Dr To Debentures' application and allotment A/c		8,00,000	8,00,000
1-8-2017	Debenture application and allotment A/c Dr (8000 debentures × ₹ 100) Loss on issue of debentures A/c Dr (8000 Debentures × ₹ 20) To 9 % debentures A/c (8000 debentures × ₹ 100) To Premium on redemption of debentures A/c (8000 Debentures × ₹ 20)		8,00,000 1,60,000	8,00,000 1,60,000
31-7-2022	9 % debentures A/c Dr Premium on redemption of debentures A/c Dr To Debentureholders A/c		8,00,000 1,60,000	9,60,000
31-7-2022	Debentureholders A/c Dr To Bank A/c		9,60,000	9,60,000

● **Debentures issued at a discount and redeemed at a premium :**

Illustration 14 : On 1-4-2017 Prathana Limited issued 6000, 11 % debentures of ₹ 100 each at a discount of 5 %. All the debentures are to be redeemed after 6 years as on 31-3-2023 at a premium of 10 %. Pass the necessary journal entries in the books of the company. (Without narration).

Ans. :

Journal of Prathana Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2017	Bank A/c Dr To debenture application and allotment A/c (6000 Debentures × ₹ 95)		5,70,000	5,70,000
1-4-2017	Debenture application and allotment A/c Dr Discount on debentures A/c Dr (6000 debentures × ₹ 5) Loss on issue of debentures A/c Dr (6000 debentures × ₹ 10) To 11 % debentures A/c (6000 debentures × ₹ 100) To Premium on redemption of debentures A/c (6000 debentures × ₹ 10)		5,70,000 30,000 60,000	6,00,000 60,000
31-3-2023	11 % debentures A/c Dr Premium on redemption of debentures A/c Dr To Debentureholders A/c		6,00,000 60,000	6,60,000
31-3-2023	Debentureholders A/c Dr To Bank A/c (6000 debentures × ₹ 110)		6,60,000	6,60,000

● **Debentures are issued at premium and are redeemable at a premium :**

Illustration 15 : On 1-6-2017 Vandana Limited issued 10,000, 8 % debentures of ₹ 200 each at a premium of 5 %. The debentures are redeemed on 31-5-2022 at ₹ 220 per debenture. Write the necessary journal entries in the books of company (without narration).

Ans. :

Journal of Vandana Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-6-2017	Bank A/c Dr To Debentures' application and allotment A/c (10,000 debenture × ₹ 210)		21,00,000	21,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-6-2017	Debenture application and allotment A/c Dr Loss on issue of debentures A/c Dr (10,000 debentures × ₹ 20) To 8 % debentures A/c (10,000 Debentures × ₹ 200) To Securities premium reserve A/c (10,000 Debentures × ₹ 10) To Premium on redemption of debentures A/c (10,000 Debentures × ₹ 20)		21,00,000 2,00,000	20,00,000 1,00,000 2,00,000
31-5-2022	8 % debentures A/c Dr Premium on redemption of debentures A/c Dr To Debentureholders A/c (10,000 Debentures × ₹ 220)		20,00,000 2,00,000	22,00,000
31-5-2022	Debentureholders A/c Dr To Bank A/c (10,000 Debentures × ₹ 220)		22,00,000	22,00,000

Illustration 16 : On 1-7-2017 Natasha Cosmetics Limited issued 50,000 8 % debentures of ₹ 1000 each, are to be redeemed after 8 years at a premium of 10 %. As per conditions in prospectus the amount is payable on application ₹ 400 per debenture and balance amount at the time of allotment. Write the necessary journal entries for the issue of debentures in the books of the company.

Ans. :

Journal of Natasha Cosmetics Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To 8 % debenture application A/c [Being application money received on 50,000 debentures at ₹ 400 per debenture.]		2,00,00,000	2,00,00,000
2	8 % debenture application A/c Dr To 8 % debenture A/c [Being application money on allotted 50,000 debentures transfer to debentures A/c.]		2,00,00,000	2,00,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
3	8 % debenture allotment A/c Dr Loss on issue of debentures A/c Dr To 8 % debenture A/c To Premium on redemption of debentures A/c [Being amount called on 50,000 debentures at ₹ 600 per debenture and debentures to be redeemed at 10 % premium.]		3,00,00,000 50,00,000	3,00,00,000 50,00,000
4	Bank A/c Dr To 8 % debenture allotment A/c [Being receipt of allotment money.]		3,00,00,000	3,00,00,000

Illustration 17 : Dixit Electric Limited issued 7000, 7 % debentures as on 1-1-2017 of ₹ 500 each at a discount of 6 %. All the debentures are redeemable at a premium of 5 % after six years. The amount was payable as follows :

On application ₹ 300 per debenture; On allotment balance amount per debenture.

Pass the necessary journal entries for issue of debentures in the books of company.

Ans. :

Journal of Dixit Electrical Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1 (1-1-2017)	Bank A/c Dr To 7 % debentures' application A/c [Being application money received on 7000 debentures at ₹ 300 per debenture.]		21,00,000	21,00,000
2 (1-1-2017)	7 % debenture application A/c Dr To 7 % debenture A/c [Being application money transfer to debenture A/c.]		21,00,000	21,00,000
3	7 % debenture allotment A/c Dr Discount on debentures A/c Dr Loss on issue of debentures A/c Dr To 7 % debenture A/c To Premium on redemption of debentures A/c [Being ₹ 170 called after discount on allotment of debenture, discount amount became ₹ 30 (500 × 6 %) and premium on redemption of debenture became ₹ 25 (500 × 5 %) per debenture.]		11,90,000 2,10,000 1,75,000	14,00,000 1,75,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
4	Bank A/c To 7 % debenture allotment A/c [Being receipt of allotment money.]		11,90,000	11,90,000

11. Provision of finance for the Redemption of Debentures

Debentures are the liabilities of the company. The repayment of debentures to the debentureholders is made by the company in accordance with the terms and conditions, as stated in the prospectus at the time of issue of debentures. When debentures are to be redeemed after a fixed period, the company is aware about the time and amount of money required for such redemption.

In this reference, there are some new provisions under Companies Act, 2013. Earlier before this act, there was a system for arrangement of Debenture Redemption Fund and Debenture Redemption Fund Investment by the company. To increase the effectiveness of this system, there are new provisions introduced under section 71(4) of the Companies Act, 2013 along with Rule 18(7)(C) of the companies (share capital and debentures) Rules, 2014. Explanation is given according to this provisions.

Amount required for the redemption of debentures may be managed by a company from the following sources :

- (1) Redemption of debentures from the fresh issue of shares and debentures
- (2) Redemption of debentures out of capital
- (3) Redemption of debentures out of profit

(1) Redemption of Debentures from the Proceeds of Fresh Issue of Shares and

Debentures : When a company is in need of additional funds for the redemption of debentures, it may decide to issue new equity shares, preference shares or debentures. The proceeds of the fresh issue of share capital and debentures are utilised for redeeming the old debentures. In such type of redemption, the financial position of the company is not adversely affected.

(2) **Redemption of Debentures out of Capital** : When no profits are set aside for redemption of debentures it is called redemption out of capital. But according to section 71(4) of the Companies Act, 2013 and as per SEBI - Securities and Exchange Board of India guidelines requiring creation of **Debenture Redemption Reserve Account** equivalent to at least 25 % of the total face value of issued debentures before redemption commences. This amount is transferred from **Surplus in Statement of Profit and Loss**. So, full amount for redemption of debentures is not purely out of capital, but balance amount payable from capital of company after compliance of the above provisions.

(3) **Redemption of Debentures out of Profits** : Redemption out of profits means provision for an amount equal to debentures issued is transferred from surplus in statement of profit and loss by the company. This provision is to be executed before redemption commences.

For this, company has to create one new 'Debenture Redemption Reserve Account'. In which required full amount for redemption of debentures is transferred from surplus in statement of profit and loss to Debenture Redemption Reserve Account.

Due to this effect, company reduces the amount of profits available for dividend and it is used for redemption of debentures. This amount is not available for payment of dividend. Thus, existing liquid resources of the company are not affected by the redemption of debentures.

● **SEBI guidelines for redemption of debentures :**

- (1) The creation of debenture redemption reserve is obligatory only for non-convertible debentures and non-convertible portion of partly convertible debentures.
- (2) A company shall create Debenture Redemption Reserve equivalent to at least 25 % of the amount of debentures issued **before starting the redemption of debentures.**

Following categories of companies are exempted from creating 'Debenture Redemption Reserve' :

- (1) All India Financial Institutions (AIFIs) regulated by Reserve Bank of India.
 - (2) Other financial institutions regulated by Reserve Bank of India.
 - (3) Banking companies for both public as well as privately placed debentures.
 - (4) Housing finance companies registered with the National Housing Bank.
- (Note : This is given only for information to the students, not expected in the exam.)

- Balance of Debenture Redemption Reserve is shown on the 'Equity and Liabilities' part of the balance sheet under the head 'Reserve and Surplus'.

When all the debentures have been redeemed, then Debenture Redemption Reserve Account is closed by transferring the amount to 'General Reserve Account'.

	Debenture redemption reserve A/c Dr		.....
	To General reserve A/c			.....

● **For Debentures Redemption Investment :**

As per Rule 18(7)(C) of the companies (share capital and debentures) Rules 2014, company required to deposit or invest, a sum which shall not be less than 15 % of the total face value of the debentures to be redeemed at the end of the year. i.e. during the year ending on 31st March, on or before 30th April i.e. at the beginning of the year. This investment is called '**Debenture Redemption Investment Account.**'

The amount so deposited or invested can be utilized only for the purpose of repayment of debentures maturing during the year.

The amount should be invested in the specified securities which are mentioned in the companies act for the redemption of debentures. The amount invested or deposited shall not be used for any purpose other than for redemption of debentures.

Securities specified for investment :

- (1) In deposit with any scheduled bank, free from any charge
- (2) In unencumbered securities of the central government or any state government
- (3) In unencumbered securities mentioned in sub-clauses (a) to (d) and (ee) of section 20 of Indian Trust Act, 1882.
- (4) In unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of Indian Trust Act, 1882.

12. Methods of Redemption of Debentures

The methods of redemption of debentures are as under :

- (1) Lump-sum payment at the end of fixed period
- (2) Payment in installments by drawing of lots

- (3) By purchase of own debentures in the open market
- (4) By conversion into shares

To understand above all methods by different illustrations :

(1) Lump-sum Payment at the End of Fixed Period :

Under this method, the company redeems whole of its debentures in one lump-sum at the expiry of a specified period or earlier at the option of the company.

Such redemption may be made at par or at premium, according to the terms of issue. Here, debentures are to be redeemed according to provisions of Companies Act and also as per SEBI guidelines.

The journal entries in this method are as follows :

(I)	At the beginning of financial year (Upto 30th April) : (Note : The year in which debentures are redeemed.) On making investment at 15 % of the face value of debentures to be redeemed, Debenture redemption investment A/c ... Dr To Bank A/c			
(II)	At the time of redemption : (i) When debentures are to be sold, Bank A/c ... Dr To Debenture redemption investment A/c			
(ii)	On transfer of profits from surplus in statement of profit and loss at the rate of 25 % of the face value of debentures issued : Surplus in statement of profit and loss A/c ...Dr To Debenture redemption reserve A/c			
(III)	On redemption of debentures : (i) Debenture A/c ... Dr To Debentureholders A/c (ii) Debentureholders A/c ... Dr To Bank A/c			
(IV)	When all the debentures are redeemed then, Debenture redemption reserve A/c ... Dr To General reserve A/c			

● **When the provision of money for the redemption of debentures is out of capital :**

Illustration 18 : Shailja Limited issued 12,000, 8 % debentures of ₹ 100 each at a premium of 5 % on 1st April, 2011, redeemable on March 31, 2017. The issue was fully subscribed. The board of directors decided to transfer the required amount to Debenture Redemption Reserve as on March 31, 2017 and debentures to be redeemed out of capital. They also decided to invest required amount into Debenture Redemption Investment on 30th April, 2016.

Investments were sold on the date of redemption of debentures and required amount for redemption of debentures were paid to debentureholders.

Pass necessary journal entries for issue and redemption of debentures in the books of company and also prepare debenture redemption investment A/c and debenture redemption reserve A/c.

Ans. :

Journal of Shailja Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-11	Bank A/c Dr To 8 % debenture application and allotment A/c [Being application money received on 12,000 debentures at ₹ 105 per debenture.]		12,60,000	12,60,000
1-4-11	8 % debentures application and allotment A/c Dr To 8 % debenture A/c To Securities premium reserve A/c [Being application money transfer to debenture A/c and premium A/c.]		12,60,000	12,00,000 60,000
30-4-16	Debenture redemption investment A/c Dr To Bank A/c [Being investment made 15 % of the face value (12,00,000) of debentures.]		1,80,000	1,80,000
31-3-17	Bank A/c Dr To Debentures redemption investment A/c [Being investment for the redemption of debentures is sold.]		1,80,000	1,80,000
31-3-17	Surplus in statement of profit and loss A/c Dr To Debenture redemption reserve A/c [Being transfer of profits equal to 25 % of the nominal value of debentures issued to debenture redemption reserve account.] (12,00,000 × 25 %)		3,00,000	3,00,000
31-3-17	8 % debenture A/c Dr To Debentureholders A/c [Being amount due on redemption of debentures.]		12,00,000	12,00,000
31-3-17	Debentureholders A/c Dr To Bank A/c [Being due amount paid to debentureholders.]		12,00,000	12,00,000
31-3-17	Debenture redemption reserve A/c Dr To General reserve A/c [Being after redemption of all the debentures, amount of debenture redemption reserve A/c transfer to general reserve A/c.]		3,00,000	3,00,000
	Total		58,80,000	58,80,000

Note : Interest on investments and its effect is not calculated because rate of interest on debenture redemption investments is not given.

Dr Debenture Redemption Investment A/c				Cr			
Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
30-4-16	To Bank A/c		1,80,000	31-3-17	By Bank A/c		1,80,000
			1,80,000				1,80,000

Dr Debenture Redemption Reserve A/c				Cr			
Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
31-3-17	To General reserve A/c		3,00,000	31-3-17	By Surplus in statement of profit & loss		3,00,000
			3,00,000				3,00,000

Illustration 19 : Nirja Limited issued ₹ 7,00,000, 9 % debentures of ₹ 100 each on April 1, 2013 at a premium of 5 %, which redeemable at a premium of 10 % on 31st March, 2018. According to provisions of Companies Act, the required investment was made in 8 % government securities on April 30 of the financial year in which redemption is due. Debentures were redeemed on the due date. Pass journal entries at the time of issue and redemption of debentures in the books of company. Also prepare debenture redemption investments account and debenture redemption reserve A/c.

Ans. :

Journal of Nirja Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-13	Bank A/c Dr To 9 % debenture application and allotment A/c [Being application money received on 7000 debentures at ₹ 105 per debenture.]		7,35,000	7,35,000
1-4-13	9 % debenture application and allotment A/c Dr Loss on issue of debentures A/c Dr To 9 % debenture A/c To Securities premium reserve A/c To Premium on redemption of debentures A/c [Being transfer to debentures account and securities premium account from application money and also to give an effect of premium on redemption of debentures account.]		7,35,000 70,000	7,00,000 35,000 70,000
30-4-17	Debenture redemption investment A/c Dr To Bank A/c [Being investment made in 8 % government securities at the rate of 15 % of the face value of debentures (7,00,000 × 15 %).]		1,05,000	1,05,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-18	Bank A/c Dr To Debentures redemption investment A/c To Interest earned A/c [Being investment for debenture redemption is sold and on this interest received for 11 months.]		1,12,700	1,05,000 7700
31-3-18	Surplus in statement of profit and loss A/c Dr To Debenture redemption reserve A/c [Being 25 % of total face value of debentures transfer to debenture redemption reserve A/c (7,00,000 × 25 %).]		1,75,000	1,75,000
31-3-18	9 % debentures A/c Dr Debenture on redemption of debentures A/c Dr To Debentureholders A/c [Being amount due for redemption of debentures.]		7,00,000 70,000	7,70,000
31-3-18	Debentureholders A/c Dr To Bank A/c [Being payment of amount due to debentureholders.]		7,70,000	7,70,000
31-3-18	Debenture redemption reserve A/c Dr To General reserve A/c [Being transfer amount of debenture redemption reserve to general reserve account after the redemption of the debentures.]		1,75,000	1,75,000
31-3-18	Interest earned A/c Dr To Statement of profit and loss A/c [Being interest transfer to statement of profit and loss.]		7700	7700

Dr				Cr			
Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
30-4-17	To Bank A/c		1,05,000	31-3-18	By Bank A/c		1,05,000
			1,05,000				1,05,000

Dr				Debenture Redemption Reserve A/c				Cr
Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)	
31-3-18	To General reserve A/c		1,75,000	31-3-18	By Surplus in statement of profit and loss A/c		1,75,000	
			1,75,000				1,75,000	

Note : (1) As per section 17(4) with Rule 18(7) a banking company is not required to create Debenture Redemption Reserve.

(2) As per new guidelines, infrastructure companies are also required to create debenture redemption reserve at 25 % of the nominal value of debentures. (Not expected in the exam)

● **When the provision of money for the redemption of debentures is out of profit :**

Illustration 20 : Pragna Limited redeemed 7 % debentures of ₹ 34,00,000 (face value) at a premium of 8 % as on 31-3-2018. For this, provision for money was made out of profit of the company. The company invested the required amount as on 30th April, 2017.

Pass journal entries for the redemption of debentures in the book of company with the assumptions that its full provisions of Companies Act. Also prepare Debenture Redemption Investment A/c and Debenture Redemption Reserve A/c.

Ans. :

Journal of the Pragna Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
30-4-17	Debenture redemption investment A/c Dr To Bank A/c [Being investment made at 15 % on ₹ 34,00,000, before redemption of debentures.]		5,10,000	5,10,000
31-3-18	Bank A/c Dr To Debenture redemption investment A/c [Being investment encashed for redemption of debentures.]		5,10,000	5,10,000
31-3-18	Surplus in statement of profit and loss A/c Dr To Debenture redemption reserve A/c [Being amount to create debenture redemption reserve A/c from profits, amount equal to the nominal value of redeemable debentures.]		34,00,000	34,00,000
31-3-18	7 % debentures A/c Dr Premium on redemption of debentures A/c Dr To Debentureholders A/c [Being amount due on redemption of debentures with premium.]		34,00,000 2,72,000	36,72,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-18	Debentureholders A/c Dr To Bank A/c [Being payment of amount due to debentureholders.]		36,72,000	36,72,000
31-3-18	Debenture redemption reserve A/c Dr To General reserve A/c [Being transfer of balance of debenture redemption reserve A/c to general reserve A/c on the redemption of all the debentures.]		34,00,000	34,00,000

Debenture Redemption Investment A/c

Dr

Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
30-4-17	To bank A/c		5,10,000	31-3-18	By bank A/c		5,10,000
			5,10,000				5,10,000

Debenture Redemption Reserve A/c

Dr

Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
31-3-18	To general reserve A/c		34,00,000	31-3-18	To surplus in statement of profit and loss A/c		34,00,000
			34,00,000				34,00,000

Illustration 21 : Morbi Tiles Limited had issued 8 % debentures of ₹ 16,00,000, which are due to be redeemed out of profits on 1-11-2017 at a premium of 5 %. The company had a Debenture Redemption Reserve of ₹ 5,60,000. It was decided to invest the required amount in proper time in Debenture Redemption Investment.

Pass necessary journal entries for the redemption of debentures in the books of company and also prepare debenture redemption reserve A/c and debenture redemption investment A/c.

Ans. :

Journal Entries in the Books of Morbi Tiles Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-17	Surplus in statement of profit and loss A/c Dr To Debenture redemption reserve A/c [Being necessary amount out of profit transfer to debenture redemption reserve A/c. (Working note no. 1)]		10,40,000	10,40,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
30-4-17	Debenture redemption investment A/c Dr To Bank A/c [Being investment made at 15 % on ₹ 16,00,000 i.e. total face value of the redeemable debentures.]		2,40,000	2,40,000
1-11-17	Bank A/c Dr To Debenture redemption investment A/c [Being amount received on investment for the redemption of debentures.]		2,40,000	2,40,000
1-11-17	8 % debentures A/c Dr Premium on redemption of debentures A/c Dr To Debentureholders A/c [Being amount due on redemption of debentures.]		16,00,000 80,000	16,80,000
1-11-17	Debentureholders A/c Dr To Bank A/c [Being payment of amount due to debentureholders.]		16,80,000	16,80,000
1-11-17	Debenture redemption reserve A/c Dr To General reserve A/c [Being transfer amount of debenture redemption reverse account to general reserve account on the redemption of all the debentures.]		16,00,000	16,00,000

Debenture Redemption Reserve A/c

Dr				Cr			
Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
1-11-17	To General reserve A/c		16,00,000	1-4-16	By Balance b/d		5,60,000
				31-3-17	By Surplus in statement of profit and loss A/c		10,40,000
			16,00,000				16,00,000

Debenture Redemption Investment A/c

Dr				Cr			
Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
30-4-17	To Bank A/c		2,40,000	1-11-17	By Bank A/c		2,40,000
			2,40,000				2,40,000

Working note no. 1 : Here, required amount for the redemption of debentures is allocated out of company's profit.

Total face value = ₹ 16,00,000

	₹
Required amount to create debenture redemption reserve A/c (100 %)	16,00,000
Less : Balance of debenture redemption reserve A/c, was in books of company	<u>5,60,000</u>
Balance amount transfer from surplus in statement of profit and loss	10,40,000

Note : (1) When debentures are redeemable at the end of the financial year then, at the end of the year amount transferred to debenture redemption reserve A/c is from surplus in statement of profit and loss of the respective year.

(2) If payment of redemption of debentures is to be done from capital then, an amount transferred from surplus in statement of profit and loss to debenture redemption reserve A/c is 25 % of total face value or nominal value of redemption of debentures.

(3) If payment of redemption of debentures is to be done from profit then, an amount transferred from surplus in statement of profit and loss to Debenture Redemption Reserve A/c is 100 % of total face value or nominal value of redemption of debentures.

(4) When debentures are redeemable during any time in between the financial year then, required amount is to be transferred from surplus in statement of profit and loss of the previous year to Debenture Redemption Reserve A/c. The amount to be transferred to Debenture Redemption Reserve Account has to be calculated as per note. no. 2 and no. 3.

(5) Required amount for Debenture Redemption Reserve can be transferred from surplus in statement of profit and loss of the current financial year or previous financial year by the company but before starting the redemption of debentures.

(6) If there is no clarification regarding required amount of redemption of debentures which is out of capital or out of profit then, calculate with the assumption that company has paid out of capital.

(2) Redemption of Debentures in Installments by Drawing of Lots : (Only theoretical)

According to this method, the debentures are redeemed by the company in annual installments. For example, if total debentures of ₹ 25,00,000 then from this ₹ 5,00,000 may be redeemed every year. The serial number of debentures which should be redeemed each year are selected by lottery. This procedure is known as "drawings by lots". Debentures are redeemed at par or at a premium, according to the terms of issue. Required amount is transferred to debenture redemption reserve account for redemption of debentures. For this, necessary rules are depicted earlier.

(3) Redemption of Debentures by the Purchase of Own Debentures in the Open Market :

According to the Companies Act, if authorised by company's articles of association, a company can purchase the own debentures in the open market. i.e. from recognised stock exchange instead of to redeem the debentures. This procedure is usually adopted by the company only when its debentures are quoted at a less price or at a discount on the stock exchange as compare to face value of debenture or amount of redemption of debenture.

After purchasing the debentures from the open market, the company may use either of the following two options :

- (1) Company may immediately cancel the debentures purchased, after passing the resolution by Board of Directors.
- (2) Company may not cancel the debentures but may keep with them. Company can issue them in future. When the company purchases own debentures in the market then, that debentures shall be treated as an '**Investment in the Own Debentures**' by the company.

(1) When own debentures are purchased for immediate cancellation :

In this situation, the following entries will be passed in the books of company :

- **When debentures are purchased at less price as compare to face value of the debentures :**

For example, if a company purchased its own 700 debentures of ₹ 100 each at ₹ 97 in the open market and immediately cancel them after purchase.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Own debentures A/c Dr To Bank A/c [Being 700 debentures purchased in the open market at ₹ 97 per debenture.]		67,900	67,900
	Debenture A/c Dr To Own debentures A/c To Profit on redemption of debentures A/c [Being cancellation of own purchased debentures.]		70,000	67,900 2100

- Profit on redemption of debenture is a capital profit. This capital profit should be used to write off any capital loss in the company. e.g. discount on issue of debentures, premium on redemption of debentures etc.
- This capital profit if it is not used to write off any capital loss or if it is not used fully then, the balance will be transferred to capital reserve. The entry will be as under :

Profit on redemption of debentures A/c Dr	.....
To Capital reserve A/c	.....
To Capital loss A/c (if any)	.....

- **When debentures are purchased at more price as compared to face value of the debentures :**

For example, if a company purchases its own 8000 debentures of ₹ 100 each at ₹ 104 in the open market and immediately cancels them after purchase then its accounting effects are shown here under :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Own debentures A/c Dr To Bank A/c [Being purchased 8000 debentures from the market at ₹ 104 per debenture.]		8,32,000	8,32,000
	Debenture A/c Dr Loss on redemption of debentures A/c Dr To Own debentures A/c [Being cancellation of own purchased debentures.]		8,00,000 32,000	8,32,000

- ❑ 'Loss on Redemption of Debentures A/c' is a capital loss. This capital loss is written off against capital profit or in the absence of capital profit is written off from statement of profit and loss :

Capital profit (if any) A/c	Dr	.....
or Statement of profit and loss A/c	Dr	.....
To loss on redemption of debentures A/c			.....

Note : When the company purchases own debentures in the open market and cancels this debentures then, as per the discussion in the earlier points, the required amount should be transferred to Debentures Redemption Reserve A/c and also to make debentures redemption investment according to provisions of Companies Act and SEBI guidelines.

If there is no clarification about this matter in an example or question, then give the effect for the given transaction with the assumption that company has made both these provisions.

(2) When the company purchases own debentures in the open market and these debentures are kept as 'Investment' :

Own debentures are purchased by the company from the open market and kept as investment instead of cancellation of these debentures. When a company has surplus funds, instead of investing these funds in the securities of other companies or any other securities, it buys its own debentures as investment. Due to this following are the advantages :

- Sometimes, the own debentures are available in the open market at discount i.e. at less than the face value.
- Company has not to pay interest on own purchased debentures. Because company itself became a debentureholder.
- Such debentures are kept alive and can again be sold off in the market.

Accounting effects :

For example, if a company purchases ₹ 80,000 of its own debentures at ₹ 76,000 from open market and kept this debentures as investment then, the entry will be :

Investment in own debentures A/c	Dr	76,000	
To Bank A/c			76,000

Here, investment will be shown at the same price i.e. price for the purchase of debentures. Profit or loss on the purchase is not recorded.

Investments in the own debentures will be shown normally as non-current assets on the assets side in the balance sheet as follows :

Balance Sheet of the Company

(II) Assets	(₹)
Non-current Assets :	
Own debentures (Face value ₹ 80,000)	76,000

Own debentures will be shown in the balance sheet as current or non-current assets depending on the time of cancellation.

Investment in own debentures used for debentures cancellation : When the company uses its investment in the own debentures for the cancellation of debentures in future then journal entries are to be passed as in following illustration :

For example, a company issued 9 % debentures of ₹ 1,60,000. The company purchased this debentures at ₹ 1,55,000 from the market for the investment.

The company has used this investment in the own debentures for the cancellation of issued debentures. Journal entries for cancellation of the debentures will be as under :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	9 % debentures A/c Dr To Investment in own debentures A/c To Profit on redemption of debentures A/c		1,60,000	1,55,000 5000
(ii)	Profit on redemption of debentures A/c Dr To Capital reserve A/c		5000	5000

When investment in own debentures may be sold by company in open market :

When investment is done in the own debentures by the company itself and these debentures may be sold by the company in the open market then profit or loss realised from it, is treated as revenue profit or revenue loss. Which is transferred to statement of profit and loss.

Effect in statement of profit and loss : Profit on sale of "Investment in own debentures" in the market is shown under "Other Income" in the statement of Profit and loss.

Illustration 22 : Poojan Motors Limited issued 4000, 8 % debentures of ₹ 250 each. The board of directors purchased 1500 own debentures from the market at a price of ₹ 225 each for investment purpose. After few months, company sold these purchased debentures at ₹ 270 per debenture in the market.

Record necessary entries from the above transactions.

Ans. :

Journal of Poojan Motors Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Debenture application and allotment A/c [Being application money received on 4000 debentures at ₹ 250 per debenture.]		10,00,000	10,00,000
2	Debenture application and allotment A/c Dr To 8 % debenture A/c [Being application money transferred to debenture A/c.]		10,00,000	10,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
3	Investments in own debentures A/c Dr To Bank A/c [Being purchase of 1500 debentures at ₹ 225 each from the market for investment.]		3,37,500	3,37,500
4	Bank A/c Dr To Investment in own debentures A/c To Profit on sale of investment A/c [Being investment in own debentures sold at ₹ 270 each.]		4,05,000	3,37,500 67,500
5	Profit on sale of investment A/c Dr To Statement of profit and loss A/c [Being profit on sale of investment, due to revenue profit transferred to statement of profit and loss.]		67,500	67,500

Note : The company is not required to create debenture redemption reserve and also there is no need to invest the 15 % amount because the debentures are purchased for investment and not for cancellation.

(4) Conversion of Debentures into Shares :

This is a method of redemption of debentures, where debentures can be redeemed by the issue of shares in lieu of debentures. As per the terms of the issue of debentures, a company can issue its equity or preference shares in lieu of debentures to the debentureholders.

When debentures are converted into shares, the following journal entries are passed :

(i)	Debenture A/c Dr To Debentureholders A/c		.....	.....
(ii)	Debentureholders A/c Dr To Equity share capital A/c or To Preference share capital A/c		.....	..... .....

Note : When debentures are converted into shares by the company then shares may be issued to debentureholders at par or at a premium. It means, when debentures are converted into shares then these shares may not be issued at a discount, otherwise it violates the provisions of Companies Act.

Illustration 23 : Prakhar Limited issued 8000; 7.5 % convertible debentures of ₹ 200 each at par as on April 1, 2014. As per the terms of issue of debentures, all the debentures will be converted into shares after 4 years and for this one equity share of ₹ 10 each will be issued at a premium of 25 % against each debenture.

As per the agreed terms, all the debentures are converted into shares as on April 1, 2018. Write necessary journal entries in the books of company.

Ans. : Calculation :

Total amount received on issue of debentures

$$8000 \text{ debentures} \times ₹ 200 = ₹ 16,00,000$$

Price of each equity share to be issued against debentures

$$= ₹ 10 \text{ original price} + ₹ 2.50 \text{ premium}$$

$$= ₹ 12.50$$

No. of equity share to be issued against debentures

$$= \frac{16,00,000}{12.50} = 1,28,000 \text{ shares}$$

Journal Entries in the Books of Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2014	Bank A/c Dr To Debentures application and allotment A/c [Being receipt of application money on 8000 debentures of ₹ 200 each.]		16,00,000	16,00,000
1-4-2014	Debentures application and allotment A/c Dr To 7.5 % debentures A/c [Being application money transfer to debenture A/c.]		16,00,000	16,00,000
1-4-2018	7.5 % debentures A/c Dr To Debentureholders A/c [Being 8000 debentures to be converted at face value into equity shares.]		16,00,000	16,00,000
1-4-2018	Debentureholders A/c Dr To Equity share capital A/c (1,28,000 shares × ₹ 10) To Securities premium reserve A/c (1,28,000 shares × ₹ 2.50) [Being 1,28,000 shares at ₹ 10 each at a premium of 25 % on it issued against 8000 debentures.]		16,00,000	12,80,000 3,20,000

● **Redemption of debentures by different considerations :**

A company normally redeemed its debentures by cash payment to the debentureholders at the time of redemption of debentures. However, sometimes, instead of paying cash for the redemption of debentures, the company might give consideration other than cash to debentureholders. For example, issue of new shares or new debentures as consideration to debentureholders. Thus, amount due on redemption of the debentures can be discharged by different considerations. For this, necessary terms should be mentioned at the time of issue of debentures.

Illustration 24 : On 1st January, 2014 R. K. P. Ltd. issued 30,000, 9 % debentures of ₹ 100 each. According to the terms of the issue of debentures, the debentures were to be redeemed at 5 % premium by giving 6 months notice at any time after 5 years. The redemption was to be made by cash or by issue of new shares or by issue of new debentures as per the option to be exercised by the debentureholders.

On 1st March, 2019 the company issued the required notice to the debentureholders for the redemption of the debentures. The company gave three options for the redemption of the debentures on 1st September, 2019 : (1) Redemption money will be paid in cash (2) Equity shares of ₹ 10 each will be issued at ₹ 12 per share (3) New 8 % debentures of ₹ 100 each will be issued at a price of ₹ 96 per debenture.

Holders of 9000 debentures accepted equity shares, holders of 12,000 debentures accepted the new 8 % debentures and the rest of debentureholders opted for cash as consideration.

With the assumption that company has fulfilled the provisions of Companies Act and SEBI guidelines, write the necessary journal entries to record the above transactions in the books of the company.

Ans. :

Journal Entries in the Books of R. K. P. Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-1-2014	Bank A/c Dr To Debentures application and allotment A/c [Being application money received on 30,000 debentures.]		30,00,000	30,00,000
1-1-2014	Debenture application and allotment A/c Dr Loss on issue of debentures A/c Dr To 9 % debentures A/c To Premium on redemption of debentures A/c [Being application money transfer to debentures A/c and premium to be paid on redemption of debentures.]		30,00,000 1,50,000	30,00,000 1,50,000
1-9-2019	9 % debenture A/c Dr Premium on redemption of debentures A/c Dr To Debentureholders A/c [Being amount due on 30,000 debentures with 5 % premium.]		30,00,000 1,50,000	31,50,000
1-9-2019	Debentureholders A/c Dr To Equity share capital A/c To Securities premium A/c [Being issue of 78,750 equity shares of ₹ 12 each to holders of 9000 debentures. (Note 1)]		9,45,000	7,87,500 1,57,500

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-9-2019	Debentureholders A/c Dr Discount on debentures A/c Dr To 8 % debentures A/c [Being issue of 13,125 new debentures of ₹ 96 each to holders of 12,000 debentures. (Note 2)]		12,60,000 52,500	13,12,500
1-9-2019	Debentureholders A/c Dr To Bank A/c [Being cash paid to holders of remaining 9000 debentures. (Note 3)]		9,45,000	9,45,000

Note : (1) The amount payable to holders of 9000 debentures at the time of redemption
 $= 9000 \times ₹ 105 = ₹ 9,45,000$. Against this equity shares are issued at ₹ 12 (₹ 10 + ₹ 2 premium) per share.

$$\text{No. of equity shares} = \frac{9,45,000}{12} = 78,750.$$

(2) The amount payable at the time of redemption to holders of 12,000 debentures.
 $= 12,000 \times ₹ 105 = ₹ 12,60,000$. Against this new 8 % debentures are issued at ₹ 96 (₹ 100 – ₹ 4 discount) per debenture.

$$\text{No. of new debentures} = \frac{12,60,000}{96} = 13,125.$$

(3) The amount payable at the time of redemption to holders of 9000 debentures in cash
 $= 9000 \times ₹ 105 = ₹ 9,45,000$.

13. Difference Between Share and Debenture

Point of Distinction	Shares	Debenture
(1) Type of capital	Share is a capital showing ownership and is called ownership security. A shareholder is considered as an owner of company.	Debenture is a borrowed capital. It is called creditorship security. The debentureholder is a creditor of the company.
(2) Certainty of return	No return will be available to the shareholder if the company does not make any profit. Moreover, even if the company makes a profit, dividend will be paid to the shareholders only if the board of directors recommend the dividend. Thus, there is no surety of the return.	Debentureholders are to be paid interest as per the terms of issue of the debentures irrespective of the fact whether the company makes a profit or loss.
(3) Charge or Security	Share being an ownership security, the company has not to offer any security against this.	Debenture being creditorship security, the company is generally required to create a fixed or floating charge on assets.

Point of Distinction	Shares	Debenture
(4) Rights	The shareholders have a right to take part in the administration of the company and have voting right.	Debentureholders do not have voting rights or the right to take part in the administration of the company.
(5) Restriction on issue at discount	Except SWEAT equity shares, Shares cannot be issued at discount. (As per companies act, 2013)	Debentures can be issued at a discount.
(6) Convertibility	Shares cannot be converted into debentures. So, this type of shares can not be issued.	Debentures can be converted into shares. So, this type of debentures can be issued.
(7) For redemption	A company is not required to return the share capital during its life time.	Generally, proceeds of debentures are to be repaid after a fixed period.
(8) At the time of liquidation	In case of liquidation or winding up of a company, the shareholders are paid any sum only if any amount is left after paying off all outside liabilities.	In case of liquidation of a company, the debentureholders are paid in priority to the shareholders.

EXERCISE

1. Select the correct option for each equation :

- (1) Debenture is for a company.
 - (a) capital
 - (b) receivable
 - (c) liability
 - (d) asset
- (2) Company gives on their debentures to debentureholders.
 - (a) dividend
 - (b) interest
 - (c) share in profit
 - (d) both interest and dividend
- (3) At what rate debentures would be issued at discount ?
 - (a) 10 %
 - (b) 5 %
 - (c) 20 %
 - (d) rates as decided by board of directors
- (4) The issued debentures by the company are shown under which head in the balance sheet ?
 - (a) Non-current liabilities
 - (b) Share capital and reserves
 - (c) Current liabilities
 - (d) Investments
- (5) The amount of premium received on issuing debentures at premium is transferred to which account ?
 - (a) Capital reserve A/c
 - (b) General reserve A/c
 - (c) Securities premium reserve A/c
 - (d) Statement of profit and loss A/c
- (6) The amount of premium received on issuing debentures at premium is
 - (a) revenue profit
 - (b) capital loss
 - (c) revenue loss
 - (d) capital profit

- (7) When full amount of the debenture is called on application by the company then, that amount is credited to which account ?
 (a) Debenture application A/c (b) Debenture application and allotment A/c
 (c) Debenture allotment A/c (d) Debentureholders A/c
- (8) Before the company decides to redeem the debentures out of capital, the company has to transfer % of total face value of issued debentures to debenture redemption reserve A/c.
 (a) 10 (b) 25
 (c) 100 (d) 15
- (9) Before the company decides to redeem the debentures out of profit, the company has to transfer % of total face value of issued debentures to debenture redemption reserve A/c.
 (a) 10 (b) 25
 (c) 100 (d) 15
- (10) As per companies rules 2014, the amount that is at least % of face value of the debentures to be redeemed by the end of financial year. i.e. 31st March, should be invested at the beginning of the year i.e. upto 30th April.
 (a) 25 (b) 15
 (c) 100 (d) 10

2. Give answer in two or three sentences :

- (1) What is debenture ?
- (2) Who is called debentureholder ?
- (3) According to Companies Act, 2013, for what duration can a company issue debentures ?
- (4) Under which head 'Securities premium reserve account' appears in the balance sheet ?
- (5) What is meant by debenture discount ?
- (6) Give the provision for writing off the amount of discount on debentures.
- (7) What is meant by 'Issue of debentures for consideration other than cash' ?
- (8) What is meant by 'Loss on issue of debentures' ?
- (9) What are the arrangements by the company to fulfil the required amount for the redemption of debentures.
- (10) Explain the methods of redemption of debentures.

3. Give answer of the following questions in detail :

- (1) Explain the types of debentures.
- (2) Explain the procedure for issue of debentures.
- (3) Write a note on 'Debentures issued at a premium'.
- (4) Write a note on 'Debentures issued at a discount'.
- (5) Explain the accounting treatment of debentures issued as collateral security.
- (6) Write a note on – 'Interest on debentures'.
- (7) Write a note on – 'Redemption of debentures by the purchase of own debentures in the open market'.
- (8) Distinguish between shares and debentures.

4. Sachin Marbel Limited issued 12,000 debentures of ₹ 100 each for public subscription. Interest is to be paid at the rate of 10 % p.a. The amount were called up per debenture as under :
- with application ₹ 30
 - on allotment ₹ 45
 - on call ₹ 25

Application were received by company of 15,000 debentures. After allotment of 12,000 debentures, rejected excess application of debentures and refunded the money to applicants. All the amounts due on allotment and call were duly received. Write journal entries in the books of the company.

5. Garvi Cotton Limited issued 6000; 10 % debentures of ₹ 500 each at a premium of 40 %. On which the amount per debenture was payable as under :
- with application ₹ 200
 - on allotment ₹ 300 (including premium)
 - on final call ₹ 200

Applications were received for a total of 9000 debentures, from this excess applications were rejected and refunded the money received thereon. All the amounts due on allotment and call were duly received. Pass journal entries in the books of the company.

6. Pasvadal Steel Limited issued 15,000, 9 % debentures of ₹ 100 each at a price of ₹ 80 per debenture. The amount per debenture was payable as under :
- ₹ 25 with application
 - ₹ 35 on allotment (after discount)
 - ₹ 20 on call

The company received application for 15,000 debentures and all are sanctioned. The company received the full money called on allotment and received full amount on call. Except call on 800 debentures. Pass necessary journal entries in the books of company.

7. Dynamic Limited of Ankleshwar issued 30,000, 12 % debentures of ₹ 100 each, on which the amount per debenture was payable as under :
- with application ₹ 35
 - on allotment ₹ 40
 - on first and final call ₹ 25

All the debentures were applied. Palak, the holder of 1000 debentures paid the entire amount on his holding on allotment. Where, Akash, the holder of 400 debentures failed to pay the allotment and call amount.

All the amount on allotment and call were duly received on all remaining debentures.

Pass necessary journal entries for the above transactions in the books of company.

8. Charmi Fashion Limited issued 1,20,000, 10 % debentures at the face value of ₹ 200 each at a premium of 10 %. Amount was payable as under :
- with application ₹ 100 (including premium) and balance amount on allotment.

These debentures are redeemable after 7 years.

Applications are received by company for 1,50,000 debentures and the allotment of 1,20,000 debentures is made on pro-rata basis.

Excess amount on application is credited to allotment account. Amount due on allotment is fully received. Pass journal entries on the issue of debentures in the books of company.

9. Janki Marbal Ltd. of Palanpur issued 50,000, 11 % Debentures of ₹ 100 each at a premium of ₹ 20 per debenture. The full amount was payable on application. Applications were received by company for 60,000 debentures. Application for 10,000 debentures were rejected and the amount thereon was refunded to the applicants. Debentures were allotted to the remaining applications. Pass necessary journal entries for the above transactions in the books of Janki Marbal Ltd.
10. Mansuri Limited of Dahod issued 8000, 10 % debentures of ₹ 100 each at a discount of 10 % as on 1-4-2017. The amount were payable as under :
- ₹ 30 with application;
₹ 35 on allotment and balance amount on final call.
- Company received application of 10,500 debentures, of which 8000 debentures are allotted. Amount was refunded to the applicants on rejected applications. All the moneys due on debentures were duly received.
- Expenses on issue of debentures amounted to ₹ 22,000. Directors decided to write off $\frac{1}{5}$ th amount of "Expenses on Issue A/c" and "Discount on debentures A/c" from statement of profit and loss each year.
- Write journal entries for first year only from the above transactions in the books of company.
11. Aadinath Limited purchased machinery worth ₹ 18,00,000 from Shikhar Machinery Ltd. on 10-9-2017. ₹ 3,00,000 were paid immediately and the balance was paid by issue of ₹ 15,80,000, 9 % debentures in Aadinath Limited. Pass necessary journal entries in the books of Aadinath Ltd. If for the balance amount Adinath Ltd. pays ₹ 14,10,000 by 9 % debentures, then how will they write journal entry.
12. Voltas Electric Limited purchased following assets and liabilities from Navrang Traders :
- | | | | |
|---------------|------------|-----------|------------|
| Land-Building | ₹ 8,00,000 | Stock | ₹ 2,25,000 |
| Machinery | ₹ 2,75,000 | Debtors | ₹ 80,000 |
| Furniture | ₹ 1,20,000 | Creditors | ₹ 80,000 |
- Decided to pay for a purchase consideration of ₹ 15,36,000. Voltas Electric Ltd. paid the purchase consideration by issuing 11 % debentures of ₹ 100 each at a premium of 20 %.
- Pass journal entries in the books of company.
13. A company had ₹ 21,00,000 issued 10.5 % debentures as on 1st April, 2017. During the year company took a loan of ₹ 5,50,000 from the bank as on 10th August, 2017. Against this company issued new 10.5 % debentures of ₹ 5,00,000 as collateral security.
- Pass necessary journal entries under following methods from the above transactions in the books of the company.
- If debentures are issued as collateral security : (1) is recorded in the books of company and (2) is not recorded in the books of company.
- Show the details about debentures and bank loan in the company's balance sheet as on 31st March, 2018.
14. Alibaba Limited issued 18,000, 12 % debentures at the face value of ₹ 100 as on 1st April, 2017. Interest on these debentures is paid on 30th September and 31st March.
- Pass journal entries of the above transactions for the year ended 31st March, 2018. Assuming income tax rate is 20 % for the calculation.

15. Write the journal entries only for the issue of debentures from the following transactions. (Without narration)
- (1) Issued 8500, 9.5 % debentures of ₹ 100 each at par, redeemable also at par.
 - (2) Issued 9500, 9.5 % debentures of ₹ 100 each at discount of 10 %, redeemable at par.
 - (3) Issued 8000, 10 % debentures of ₹ 200 each at a premium of 10 %, redeemable at par.
16. Satyam Limited issued 12,000, 8 % debentures of ₹ 100 each at par as on 1-7-2017. These debentures are to be redeemed on 30-6-2023 at ₹ 115 per debenture.
- Pass the necessary journal entries in the books of the company for issued and redemption of debentures (without narration).
17. On 1-4-2017 Shivam Limited issued 8000, 7.5 % debentures of ₹ 250 each at a discount of 5 %. All the debentures are to be redeemed after 5 years as on 31-3-2022 at a premium of 10 %. Write the necessary journal entries in the books of company (without narration).
18. On 1-7-2017 Sundaram Limited issued 14,000, 8 % debentures of ₹ 300 each at a premium of 5 %. These debentures are redeemed on 30-6-2023 at ₹ 330 per debenture.
- Write the necessary journal entries in the books of company (without narration).
19. On 1-7-2017 Paras Pharma Limited issued 20,000, 9 % debentures of ₹ 400 each, are to be redeemed after 7 years at a premium of 12 %. As per conditions in prospectus the amount is payable on application ₹ 125 per debenture and balance amount at the time of allotment.
- Pass the necessary journal entries for the issue of debentures in the books of the company.
20. Star Technology Limited issued 16,000, 8.5 % debentures of ₹ 100 each at a discount of 10 % as on 1-9-2017. All the debentures are redeemable at a premium of 8 % after 6 years. The amount was payable as follows :
- On application ₹ 60 per debenture;
on allotment balance amount per debenture.
- Pass the necessary journal entries for issue of debentures in the books of company.
21. Nupur Limited issued 16,000, 9 % debentures of ₹ 100 each at a premium of 10 % on 1st April, 2013, redeemable on 31st March, 2018. The issue was fully subscribed. The board of directors decided to transfer the required amount to Debenture Redemption Reserve as on 31st March, 2018 and debentures to be redeemed out of capital. They were also decided to invest required amount into Debenture Redemption Investment on 30th April, 2017.
- Investments were sold on the date of redemption of debentures and required amount for redemption of debentures were paid to debentureholders.
- Pass necessary journal entries for issue and redemption of debentures in the books of company and also prepare Debenture Redemption Investment A/c and Debenture Redemption Reserve A/c.
22. Hiteshi Limited issued 10,000, 11 % debentures of ₹ 200 each on April 1, 2014 at a premium of 6 %, which redeemable at a premium of 10 % on March 31, 2020.
- According to provisions of Companies Act, the required investment was made in 7 % Gujarat State Government unencumbered securities on April 30 of the financial year in which redemption is due. For the redemption of debentures, the provision for money is to be made out of capital. Debentures were redeemed on the due date.

Pass journal entries for issue and redemption of debentures. Also prepare Debenture Redemption Investment A/c and debenture redemption reserve A/c.

23. Parth Engineering Limited redeemed 9 % debentures at face value of ₹ 30,00,000 at a premium of 12 % as on 31-3-2018. For this, provision for money was made out of profit of the company. The company invested the required amount as on 30th April, 2017.

Pass journal entries for the redemption of debentures in the books of company with the assumption that company has fulfilled provisions of Companies Act. Also prepare Debenture Redemption Investment A/c and Debenture Redemption Reserve A/c.

24. Munj software Limited redeemed ₹ 24,00,000, 12 % debentures at a premium of 8 % out of profit on 1-10-2017. The company had a Debenture Redemption Reserve of ₹ 11,00,000. It was decided to invest the required amount in proper time in debenture redemption investment as per companies act.

Pass necessary journal entries for the redemption of debentures in the books of company.

25. A company purchased its own 1500 debentures of ₹ 100 each at ₹ 96 in the open market and immediately cancels them after purchase. Pass journal entries in the books of company.
26. A company purchased its own 6000 debentures of ₹ 400 each at ₹ 415 in the open market and immediately cancels them after purchase. Pass journal entries in the books of company.
27. Jaspreet Aperals Limited issued 6000, 12 % debentures of ₹ 300 each. The board of directors was purchased 2500 own debentures from the market at a price of ₹ 280 each for investment purpose. After few months, company sold these purchased debentures at ₹ 310 per debenture in the market.

Record necessary journal entries from the above transactions.

28. As on 1st April, 2014, Ravindra Copper Limited issued 12,000, 12.5 % convertible debentures of ₹ 400 each at par. As per the terms of issue of debentures, all the debentures will be converted into equity shares of ₹ 10 each at a premium of 50 % after 5 years.

On 1st April, 2019, debentures were converted into equity shares as per the agreed terms. Pass the necessary journal entries in the books of company.

29. On 1st January, 2014, Rajan Limited issued 8000, 11 % debentures of ₹ 100 each. According to terms of the issue of debentures, the debentures were to be redeemed at 6 % premium by giving 6 months notice at any time after 4 years. The redemption of debentures was to be made by cash or by preference shares or by new debentures as per the option to be exercised by the debentureholders.

On 1st March, 2018, the company issued the required notice to the debentureholders for the redemption of the debentures.

The company gave three option for the redemption of the debentures on 1st March, 2018.

- (1) Amount will be paid in cash.
- (2) 9 % preference shares of ₹ 100 each will be issued at ₹ 130 per share.
- (3) New 7 % debentures of ₹ 100 each will be issued at ₹ 96 each.

Holders of 3600 debentures accepted new debentures, holders of 3315 debentures accepted preference shares and rest opted for cash.

Write the necessary journal entries to record above transactions.

