



CHAPTER - 07

ISSUE OF DEBENTURES

Meaning of Debenture: The term, 'debenture' has been derived from the Latin word "debre" which means "to borrow". Thus, it is a written document acknowledging a debt under the common seal of the company and containing a contract for the repayment of the principal sum at a specified date and for the payment of interest (usually half-yearly) at a fixed rate percent until the principal sum is repaid.

→ "Debenture includes debenture stock, bonds and any other securities of a company whether constituting a charge on the assets of the company or not."- Section 2(30) of the Companies Act, 2013

Characteristics or features of debentures:

1. A debenture is issued by a company in the form of certificate, which is a written acknowledgement of debt taken by the company.
2. A debenture is issued under the seal of the company.
3. It contains a contract for the repayment of principal sum at a specified date.
4. 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.
5. Usually the debenture are issued with a specified rate of interest, which is called 'Coupon Rate'. A debenture holder receives interest on his debentures at the specified rate, as mentioned in the certificate. Payment of interest is made, normally after every six months, whether the company makes profit or not.
6. A company is generally secured by a charge on the assets of the company. This means that if the company is unable to repay the debentures as per terms of issue, the

debenture holder can move the court and realise the money by getting the assets of the company sold.

7. Funds raised by the issue of debentures are of long term nature and usually the debentures are repaid after a long period, such as eight years, ten years. As such, the loan raised by issue of debentures is called 'Loan Capital'.

Difference Between Share and Debenture:

Basis of Distinction	Share	Debenture
Capital vs Loan	A share is part of the capital of the company, therefore, the shareholders are the owners of the company.	A debenture is a part of the loan and as such, the debenture holders are the creditors of the company.
Dividend vs Interest	A shareholder gets dividend from the company.	A debenture holder gets interest from the company.
Fluctuating or Fixed rate of dividend or interest	Dividend is paid only if there are profits. The rate of dividend may fluctuate from year to year depending upon the profits earned by the company.	The rate of interest is fixed and it must be paid irrespective of the company making a profit or loss.
Voluntary or Compulsory Redemption	It is at option of the company to return the amount of shares by buying back to its shares.	The amount of debentures must be returned according to the terms of the issue.

Priority of repayment of principal in case of winding up	In case of winding up, the payment of share capital is made after the repayment of debentures.	In case of winding up, the payment of debentures is made before the payment of share capital.
Unsecured or Secured	A share is always unsecured. Hence, they bear more risk	Debentures are usually secured on the assets of the company. Hence they bear little risk.
Restriction on issue at discount	Under Section 53 of the Companies Act, 2013 shares cannot be issued at discount except sweat equity shares.	There are no restriction on the issue of debentures at discount.
Voting rights	Share confers on its holder the right to participate in and vote at Company's meetings.	A holder of debentures neither possesses any voting right in the company's meetings nor can he participate in meetings

Types of Debentures:

- (a) Secured/Mortgage Debentures:** These debentures are those which are secured either on particular assets of the Company called fixed charge or on all assets of the Company in general, called a floating charge. Fixed charge denies the Company from dealing with mortgaged assets, whereas the floating charge does not prevent the Company from using the assets. If the Company is unable to repay the debentures on the due date, the debenture holders can realise their money from the assets mortgaged with them. First mortgage debentures are those that have a first claim on the assets charged and second mortgage debentures are those having a second claim on the assets charged. In India, debentures have necessarily to be secured.
- (b) Unsecured/Naked Debentures:** Unsecured Debentures do not have a specific charge on the assets of the company. The holders of these debentures are treated as unsecured creditors at the time of liquidation of the company.
- (c) Registered Debentures:** Names and addresses of the holders of such debentures are recorded in Registrar of the company called "Register of Debentureholders". Such debentures are not freely transferable. The transfer of such debentures requires the execution of a proper transfer deed. Principal amount and interest on such a

debenture is paid to the person whose name appears in the company's register.

- (d) Redeemable Debentures:** Redeemable debentures are those that will be repaid by the company either in lump sum at the end of a specific period or by instalments during the lifetime of the company. Most of the debentures are generally of this type.
- (e) Irredeemable /Perpetual Debentures:** Irredeemable debentures are those that are not repayable during the lifetime of the company. These debentures are repayable only at the time of liquidation of the company.
- (f) Convertible Debentures:** Convertible debentures are those the holder of which is given an option of exchanging the amount of their debenture for equity shares after a specified period. When only a part of amount of debentures is convertible into shares, such debentures are called 'Partly convertible debentures. When the full amount of debenture is convertible into shares, such shares are called 'Fully Convertible Debentures'
- (g) Bearer Debentures:** Names and addresses of the holders of such debentures are not recorded in the Company and these debentures are repayable by mere delivery. Payments of principal and interest is made to bearer of such debentures. Coupons are attached with these debentures and the interest is paid to such persons who produce the coupons in the specified bank.

Bonds:

It is very much similar to that of debenture. Main distinction between Debenture and Bond is with respect to the rate of interest. Debentures are issued with a fixed rate of interest whereas bonds can be issued without pre determined rate of interest as in case of deep discount bonds or zero coupon bonds. A deep discount bond or zero coupon bond is one which is issued without prefixed rate of interest and its issue price is heavily discounted. The difference between issue price and the redemption price represents the total interest charged to Statement of Profit and Loss every year over the life time of bond.

Issue of Debentures: Debentures can be issued at par, at a premium, or at a discount. They can also be issued for consideration other than cash or as Collateral Security. Accounting treatment regarding the issue of debenture is done in the same manner as in the case of the issue of share. The only difference is that 'Debenture' in place of 'Share' and 'Debenture A/e' in place of 'Share Capital A/c' is substituted.

Issue of Debentures at Par: Debentures are said to have been issued at par when the issue price is equal to their face value.

Following entries will be passed on the issue of debentures (assuming that the debentures carry 11% interest.

1. On receipt of application money:

Bank A/c Dr.

To 11% Debenture Application A/c
(Application Money received)

2. On transfer of application money to Debenture Account:

11% Debenture Application A/c Dr.

To 11% Debentures A/c

(Application money transferred)

3. On refund of money on totally rejected applications:

11% Debenture Application A/c Dr.

To Bank A/c

(Application money returned on rejected application)

4. On transfer of surplus application money on partially accepted applications:

11% Debenture Application A/c Dr.

To Debenture Allotment A/c

5. On making allotment money due:

11% Debenture Allotment A/c Dr.

To 11% Debentures A/c

6. On receipt of allotment money:

Bank A/c Dr.

To 11% Debenture Allotment A/c

7. On making the call money due:

11% Debenture First Call A/c Dr.

To 11% Debentures A/c

(First call money due)

8. On receipt of call money:

Bank A/c Dr.

To 11% Debenture First Call A/c

(First call money received)

Similar entries like can be made for the second call and final call.

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 as ₹110, ₹10 is the premium. The premium received is a capital profit and should, therefore, be used in writing off the capital losses, such as discount on issue of shares and debentures, premium on redemption of debentures etc.

Accounting Treatment:

On Issue of Debenture at Premium

Debenture Allotment A/c Dr.

To Debentures A/c

To Securities Premium A/c

Issue of Debentures at a Discount: When the debentures are issued at less than the face value, it is said to be issued at discount. It is a capital loss and should be written off as early as possible but within the lifetime of the debentures. It can be written off by debiting to Securities Premium Reserve Account or Statement of Profit and Loss. Following entry is passed for writing off discount or loss on issue of debentures

Securities Premium A/c Dr.

Statement of Profit and Loss Dr.

To Discount on issue of Debentures A/c

Discount is generally recorded at the time of allotment entry.

Over Subscription: When the number of debentures applied for is more than the number of debentures offered to the public, the issue is said to be oversubscribed. The excess money received on oversubscription may be retained for adjustment towards allotment and respective calls when the amount is payable in Instalments or excess money will be refunded.

Issue of Debentures for Consideration Other than Cash:

When the company purchases some assets (including services) and instead of making the payment to the supplier in the form of cash, issues its fully paid debentures, such issue of debentures is called the Issue of Debentures for Consideration Other than Cash. Such debentures can be issued at par, a premium, or at a discount.

Following entries will be passed for this purpose:

1. On purchase of assets:

Assets A/c Dr.

To Vendor's A/c

2. For issue of debentures to vendor at par:

Vendor's A/c Dr.

To Debentures A/c

3. For issue of debentures to vendor at premium:

Vendor's A/c Dr.

To Debentures A/c

To Securities Premium Reserve A/c

4. For issue of debentures to vendor at discount:

Vendor's A/c Dr.

Discount on Issue of Debentures A/c Dr.

To Debentures A/c

If the purchase consideration is greater than the value of the net assets acquired (i.e., the difference between the agreed value of the assets taken over and the agreed value of liabilities taken over), the difference is treated as a capital loss which should be debited to Goodwill A/c.

Sundry Assets A/c Dr.

Goodwill A/c Dr.

To Sundry Liabilities A/c

To Vendor's A/c

Or

If the amount of the purchase consideration is lower than the value of the net assets acquired, the difference is treated as a capital profit which should be credited to Capital Reserve A/c.

Sundry Assets A/c Dr.

To Sundry Liabilities A/c

To Vendor's A/c

To Capital Reserve A/c

Issue of Debentures as Collateral Security: When a company takes a loan from a bank or any other party and

gives some additional security in the shape of debentures, the debentures are said to be issued as collateral security. In such a case, the lender has the absolute right over the debentures unless and until the loan is repaid. On repayment of the loan, the lender is legally bound to release the debenture forthwith. In case the loan is not repaid by the company on the due date, the lender has the right to retain these debentures and realize them. The holder of such debentures is entitled to interest only on the amount of loan, but not on the debentures.

Debentures issued as collateral security can be dealt with in two ways in the books.

- 1. First Method:** No accounting entry is required to be shown in the books at the time of issue of such debentures, as no debentures are not actually issued, but

only given as collateral security. As such, under this method entry is passed only for taking a loan. If loan is taken from Bank, the entry will be :

Bank A/c Dr.

To Bank Loan A/c

- 2. Second Method:** If it is desired that such an issue of debentures is to be recorded in the books, the following entries are recorded:

- (a) On the issue of Debentures as Collateral Security

Debentures Suspense A/c Dr.

To Debentures A/c

- (b) On repayment of the loan

Debentures A/c Dr.

To Debentures Suspense A/c

Accounting for Issue of Debentures Considering the terms and Conditions of Redemption

- 1. When debentures are issued at par and are redeemable at par:** For Example, if a debenture of ₹100 is issued at ₹100 and is redeemable at ₹100, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c Dr.	100		Debentures A/c Dr.	100	
To Debenture Application & Allotment A/c		100	To Debentureholders A/c		100
Debenture Application & Allotment A/c Dr.	100		Debentureholders A/c Dr.	100	
To Debentures A/c		100	To Bank A/c		100

- 2. When debentures are issued at a discount and are redeemable at par:** For example, if a debenture of ₹100 is issued at Rs 95 and is redeemable at ₹100, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c Dr.	95		Debentures A/c Dr.	100	
To Debenture Application & Allotment A/c		95	To Debentureholders A/c		100
Debenture Application & Allotment A/c Dr.	95		Debentureholders A/c Dr.	100	
Discount on Issue of Debentures A/c Dr.	5		To Bank A/c		100
To Debentures A/c		100			

- 3. When debentures are issued at a premium and are redeemable at par :** For example, if a debenture of ₹100 is issued at Rs 105 and is redeemable at ₹100, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c Dr.	105		Debentures A/c Dr.	100	
To Debenture Application & Allotment A/c		105	To Debentureholders A/c		100
Debenture Application & Allotment A/c Dr.	105		Debentureholders A/c Dr.	100	
To Debentures A/c		100	To Bank A/c		100
To Securities Premium Reserve A/c		5			

- 4. When debentures are issued at par and are redeemable at a premium:** Sometimes the debentures are issued with the specific condition that the Company will pay a premium at the time of their redemption. Although, such premium will be

paid at the time of actual redemption, but as it is a known loss, the Company records such loss at the time of issue by debiting an account called, "Loss on issue of debentures A/c". It is done in keeping with the convention of conservatism. For example, if a debenture of ₹100 is issued at ₹100 and is redeemable at ₹105, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c To Debenture Application & Allotment A/c	Dr.	100	Debentures A/c Premium on Redemption of Debenture A/c To Debentureholders A/c	Dr. 100 5	105
Debenture Application & Allotment A/c Loss on Issue of Debentures A/c To Debentures A/c To Premium on Redemption of Debentures A/c	Dr. Dr.	100 5	Debentureholders A/c To Bank A/c	Dr. 105	105

5. **When debentures are issued at a discount and are redeemable at a premium:** For example, if a debenture of ₹100 is issued at ₹98 and is redeemable at ₹105, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c To Debenture Application & Allotment A/c	Dr.	98	Debentures A/c Premium on Redemption of Debentures A/c Dr. To Debentureholders A/c	Dr. 100 5	105
Debenture Application & Allotment A/c Loss on Issue of Debentures A/c To Debentures A/c To Premium on redemption of Debentures A/c	Dr.	98 7	Debentureholders A/c To Bank A/c	Dr. 105	105

6. **When debentures are issued at a premium and are redeemable at a premium:** For example, if a debenture of ₹100 is issued at ₹106 and is redeemable at ₹110, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c To Debenture Application & Allotment A/c	Dr.	106	Debentures A/c Premium on Redemption of Debentures A/c To Debentureholders A/c	Dr. 100 10	110
Debenture Application & Allotment A/c Loss on Issue of Debentures A/c To Debentures A/c To Premium on redemption of Debentures A/c To Securities Premium Reserve A/c	Dr.	106 10	Debentureholders A/c To Bank A/c	Dr. 110	110

Interest on Debentures: Interest on debentures is a charge against the profits of the company and is payable irrespective of the fact whether there are profits or not. It is calculated on

the face value of the debenture. According to Income-tax Act the company must deduct income tax at the prescribed rate

from the gross amount of interest payable on debenture before the annual amount is paid to debenture holders.

Accounting Treatment:

1. When Interest is due and tax is deducted at source:

Interest on Debentures A/c Dr.
 To Debentureholders A/c
 To TDS Payable A/c
 (Interest due on debentureholder and tax deducted at source)

2. When interest is paid to the debenture holders:

Debenture holder A/c Dr.
 To Bank A/c
 (Payment of interest)

3. For Payment of Tax to deducted at source

TDS Payable A/c Dr.

To Bank A/c

4. On Closing of Debenture Interest A/c

Statement of Profit and Loss Dr.

To Debenture Interest A/c

(Interest transferred to Statement of Profit and Loss)

Writing off Discount/Loss on Issue of Debentures: The discount/ loss on the issue of debentures is a capital loss and therefore must be written off before debentures are redeemed. Section 52 of the Companies Act, 2013 permits the utilization of Securities Premium for writing off the discount/loss on the issue of the debenture.

Entry is following:

Statement of Profit and Loss Dr.

To Discount/Loss on Issue of Debenture A/c

Solved Examples

Q1. Ram Ltd. issued 5,000, 12% Debentures of ₹100 each, at par, payable as follows:

On Application ₹20; On Allotment ₹20; On First Call ₹30; and On Final Call ₹30.

Public applied for 6,000 debentures. Applications for 4,500 debentures were accepted in full. Applications for 800 debentures were allotted 500 debentures and applications for 700 debentures were rejected. Money overpaid on applications was utilised towards allotment.

Pass journal entries assuming that all moneys due were duly received, except final call on 200 debentures.

Solution:

JOURNAL OF RAM LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application A/c (Application money received on 6,000 debentures @ ₹20 each)		1,20,000	1,20,000
	12% Debenture Application A/c Dr. To 12% Debentures A/c To 12% Debenture Allotment A/c To Bank A/c (Application money transferred)		1,20,000	1,00,000 6,000 14,000
	12% Debenture Allotment A/c Dr. To 12% Debentures A/c (Allotment money due on 5,000 debentures @ ₹20 each)		1,00,000	1,00,000
	Bank A/c Dr. To 12% Debenture Allotment A/c (Balance of allotment money received, i.e., ₹1,00,000 - ₹6,000)		94,000	94,000
	12% Debenture First Call A/c Dr. To 12% Debentures A/c (First Call due)		1,50,000	1,50,000
	Bank A/c Dr. To 12% Debenture First Call A/c (First Call money received)		1,50,000	1,50,000
	12% Debenture Second & Final Call A/c Dr. To 12% Debentures A/c (Second & Final Call due)		1,50,000	1,50,000
	Bank A/c Dr. To 12% Debenture Second & Final Call A/c (Second & Final Call money received on 4,800 Debentures @ ₹30 per Debenture)		1,44,000	1,44,000

- Q2.** Sagar Chemicals Ltd. of Jalandhar issued 1,00,00,000, 10% Debentures of ₹ 100 each at a premium of 10% payable as ₹40 on application and ₹70 on allotment. Debentures are redeemable on March 31, 2010. Record necessary entries to record issue of debentures assuming that the issue is fully subscribed and all the money due is received.

Solution:

JOURNAL OF SAGAR CHEMICALS LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 10% Debenture Application A/c (Application money received)		40,00,00,000	40,00,00,000
	10% Debenture Application A/c Dr. To 10% Debentures A/c (Application money transferred to 10% Debentures account consequent upon allotment)		40,00,00,000	40,00,00,000
	10% Debenture Allotment A/c Dr. To 10% Debentures A/c To Securities Premium Reserve A/c (Allotment due)		70,00,00,000	60,00,00,000 10,00,00,000
	Bank A/c Dr. To 10% Debenture Allotment A/c (Allotment money received)		70,00,00,000	70,00,00,000

- Q3.** Mega Ltd. issued 2,500, 15% Debentures of ₹100 each at a discount of 10% payable as follows: ₹25 on application; ₹25 on allotment and the balance on First Call. Applications were received for 2,000 debentures and the allotment was made. All the moneys were duly received. Expenses on issue of debentures amounted to ₹8,000. Directors decided to write off 1/5th of "Expenses on Issue A/c" and "Discount on Debentures A/c" from Statement of Profit and Loss each year. Pass journal entries (for first year only).

Solution:

JOURNAL OF MEGA LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 15% Debenture Application A/c (Application money received for 2,000 debentures @ ₹25 each)		50,000	50,000
	15% Debenture Application A/c Dr. To 15% Debentures A/c (Application money transferred)		50,000	50,000
	15% Debenture Allotment A/c Dr. Discount on Debentures A/c Dr. To 15% Debentures A/c (Allotment due)		50,000 20,000	70,000
	Bank A/c Dr. To 15% Debentures Allotment A/c (Amount received on allotment)		50,000	50,000
	15% Debentures First & Final Call A/c Dr. To 15% Debentures A/c (First & Final Call due)		80,000	80,000
	Bank A/c Dr. To 15% Debentures First & Final Call A/c (Amount received on First & Final Call)		80,000	80,000
	Expenses on Issue A/c Dr. To Bank A/c (Expenses paid on issue of debentures)		8,000	8,000
	Statement of Profit & Loss Dr. To Discount on Debentures A/c To Expenses on Issue A/c		5,600	4,000 1,600

(1/5 of 'Discount on debentures' and 1/5th of 'expenses on issue' written off)

It should be noted that in case, the full amount of a debenture is received in one instalment, the amount should be credited to 'Debenture Application & Allotment A/c', instead of 'Debenture Application A/c'.

- Q4.** A company purchased assets of the book value of ₹99,000 from another Co. It was agreed that the purchase consideration be paid by issuing 11% Debentures of ₹100 each. Assume that the debentures have been issued (i) at par, (ii) at a discount of 10%, and (iii) at a premium of 10%.
Give necessary journal entries in the books of purchasing company.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c To Vendor's A/c (Assets purchased) Dr.		99,000	99,000
(1)	When Debentures are issued at par: Vendor's A/c Dr. To 11% Debentures A/c (Issue of debentures at par)		99,000	99,000
(2)	When Debentures are issued at Discount: Vendor's A/c Dr. Discount on Issue of Debentures A/c Dr. To 11% Debentures A/c (Issue of 1,100 debentures of ₹100 each at 10% discount) Calculated as follows: $\frac{99,000}{90} = 1,100$ debentures		99,000 11,000	1,10,000
(3)	When debentures are issued at premium: Vendor's A/c Dr. To 11% Debentures A/c To Securities Premium Reserve A/c (Issue of 900 debentures of ₹100 each at 10% each at 10% premium,) Calculated as follows: $\frac{99,000}{110} = 900$ debentures)		99,000	90,000 9,000

- Q5.** A Company had ₹10,00,000, 12% Debentures outstanding as on 1st April, 2017. During the year company took a loan of ₹2,00,000 from the State Bank of India for which the Company placed with the bank debentures for ₹2,50,000 as Collateral Security. Pass journal entries, if any. Also show how the Debentures and Bank Loan will appear in the Company's Balance Sheet as at 31st March, 2018.

Solution:

First Method: No entry is passed for the issue of debentures in this method. Entry is passed only for taking a loan from the bank, as under:

Bank A/c Dr. 2,00,000
 To Bank Loan A/c 2,00,000

(Loan taken from the Bank and ₹2,50,000 debentures deposited as collateral security)

EXTRACT OF BALANCE SHEET as at 31st March, 2018

Particulars	Note No.	31 st March, 2018	31 st March, 2017
I. EQUITY AND LIABILITIES:		₹	₹
Non-Current Liabilities:			
Long-term Borrowings	1	<u>12,00,000</u>	10,00,000

Notes to Accounts:

	₹
(1) Long-term Borrowings:	
12% Debentures (In addition, Debentures for ₹2,50,000 Have been issued as collateral security)	10,00,000
Bank Loan (On collateral security of Debentures of ₹2,50,000)	<u>2,00,000</u>
	<u>12,00,000</u>

Second Method: Following entries are passed in this method:

1. Bank A/c Dr. 2,00,000
 To Bank Loan A/c 2,00,000
 (Loan taken from the Bank)

2. Debentures Suspense A/c Dr. 2,50,000
 To 12% Debentures A/c 2,50,000
 (Issue of ₹2,50,000 debentures as collateral
 Security to secure a loan of ₹2,00,000 from the Bank)

EXTRACT OF BALANCE SHEET as at 31st March, 2018

Particulars	Note No.	31st March, 2018	31st March, 2017
I. EQUITY AND LIABILITIES:		₹	₹
Non-Current Liabilities:			
Long-term Borrowings	1	<u>12,00,000</u>	10,00,000

Notes to Accounts:

	₹
(1) Long-term Borrowings:	
12% Debentures 12,50,000	
Less: Debenture Suspense A/c (2,50,000)	10,00,000
Bank Loan (On collateral security of Debentures of ₹2,50,000)	<u>2,00,000</u>
	<u>12,00,000</u>

Q6. Give journal entries for the issue of debentures in the following conditions.

- Issued 2,000, 12% debentures of ₹100 each at par, redeemable also at par.
- Issued 2,000, 12% debentures of ₹100 each at a discount of 2%, redeemable at par.
- Issued 2,000, 12% debentures of ₹100 each at a premium of 5%, redeemable at par.
- Issued 2,000, 12% debentures of ₹100 each at par but redeemable at 5% premium.
- Issued 2,000, 12% debentures of ₹100 each at a discount of 2%, redeemable at a premium of 5%.
- Issued 2,000, 12% debentures of ₹100 each at a premium of 5%, redeemable at a premium of 10%.

Solution:

I. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application & Allotment A/c (Application money received)		2,00,000	2,00,000
	12% Debenture Application & Allotment A/c Dr. To 12% Debentures A/c (Transfer of application money to Debentures Account, issue at par)		2,00,000	2,00,000

II. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application & Allotment A/c (Application money received)		1,96,000	1,96,000
	12% Debenture Application & Allotment A/c Dr. Discount on issue of Debentures A/c Dr. To 12% Debentures A/c (Transfer of application money to Debentures Account, issued at a discount of 2%)		1,96,000 4,000	2,00,000

III. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		2,10,000	

	To 12% Debenture Application & Allotment A/c (Application money received)			2,10,000
	12% Debenture Application & Allotment A/c Dr. To 12% Debentures A/c To Securities Premium Reserve A/c (Transfer of application money to Debentures Account, issued at a premium of 5%)		2,10,000	2,00,000 10,000

IV. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application & Allotment A/c (Application money received)		2,00,000	2,00,000
	12% Debenture Application & Allotment A/c Dr. Loss on issue of debentures A/c Dr. To 12% Debentures A/c To Premium on Redemption A/c (Transfer of application money to Debentures Account, issued at par, but redeemable at a premium of 5%)		2,00,000 10,000	2,00,000 10,000

V. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application & Allotment A/c (Application money received)		1,96,000	1,96,000
	12% Debenture Application & Allotment A/c Dr. Loss on issue of Debenture A/c ⁽¹⁾ Dr. To 12% Debentures A/c To Premium on Redemption A/c (Transfer of application money to Debentures Account, issued at a discount of 2% and redeemable at a premium of 5%)		1,96,000 14,000	2,00,000 10,000

Note 1: Loss on issue A/c has been debited by ₹14,000 by grouping together the discount on issue ₹4,000 and premium on redemption ₹10,000.

VI. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application & Allotment A/c (Application money received)		2,10,000	2,10,000
	12% Debenture Application & Allotment A/c Dr. Loss on issue of debentures A/c Dr. To 12% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption A/c (Transfer of application money to Debentures Account, issued at a premium of 5% and redeemable at a premium of 10%)		2,10,000 20,000	2,00,000 10,000 20,000

Q7. On 1.4.2015, R.S. Ltd. issued 8,000, 9% redeemable at ₹1,000 each at a discount of 6%, redeemable at a premium of 5% after three years. The company closes its books on 31st March every year. Interest on 9% debentures is payable on 30th September and 31st March every year. The rate of tax deducted at source is 10%.

Pass necessary journal entries for the issue of debentures and debenture interest for the year ended 31.3.2016.

Solution:

JOURNAL OF R.S. LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
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2015 April 1	Bank A/c To Debenture Application & Allotment A/c (Amount received on Application)	Dr.	75,20,000	75,20,000
April 1	Debenture Application & Allotment A/c Loss on Issue of Debentures A/c To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Issue of Debentures at 6% discount and redeemable at 5% premium)	Dr. Dr.	75,20,000 8,80,000	80,00,000 4,00,000
Sept. 30	Interest on Debentures A/c To Debenture holders A/c To TDS Payable A/c (Half-yearly interest due on debentures and tax deducted at source)	Dr.	3,60,000	3,24,000 36,000
Sept. 30	Debentureholders A/c To Bank A/c (Payment of interest)	Dr.	3,24,000	3,24,000
Sept. 30	TDS Payable A/c To Bank A/c (TDS deposited in Government Account)	Dr.	36,000	36,000
2016 March 31	Interest on Debentures A/c To Debentureholders A/c To TDS Payable A/c (Half-yearly interest due on debentures and tax deducted at source)	Dr.	3,60,000	3,24,000 36,000
March 31	Debentureholders A/c To Bank A/c (Payment of interest)	Dr.	3,24,000	3,24,000
March 31	TDS Payable A/c To Bank A/c (TDS deposited in Government Account)	Dr.	36,000	36,000
March 31	Statement of Profit & Loss To Interest on Debentures A/c (₹3,60,000 + ₹3,60,000) (Interest transferred to Statement of Profit and Loss)	Dr.	7,20,000	7,20,000

Q8. On 1st April, 2012, a Limited Company issued 11% ,₹10,00,000 debentures at a discount of 6%, repayable at the end of 5 years at par. Pass journal entries for the issue of debentures and prepare Discount on Issue of Debentures Account for five years. Assume that the accounts are closed on 31st March each year.

Solution:

JOURNAL ENTRIES FOR ISSUE OF DEBENTURES

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2012 April 1	Bank A/c To 11% Debenture Application & Allotment A/c (Receipt of application money on debentures)		9,40,000	9,40,000
April 1	11% Debenture Application & Allotment A/c Discount on Issue of Debentures A/c To 11% Debentures A/c (Issue of Debentures at 6% discount and redeemable at par)	Dr. Dr.	9,40,000 60,000	10,00,000

Dr.		DISCOUNT ON ISSUE OF DEBENTURES A/C			Cr.
Date	Particulars	₹	Date	Particulars	₹
2012 April 1	To 11% Debentures A/c	60,000	2013 March 31	By Statement of P & L (1/5 of ₹ 60,000)	12,000
			March 31	By Balance c/d	<u>48,000</u>
		60,000			60,000
2013 April 1	To Balance b/d	48,000	2014 March 31	By Statement of P & L	12,000
			March 31	By Balance c/d	<u>36,000</u>
		48,000			48,000
2014 April 1	To Balance b/d	36,000	2015 March 31	By Statement of P & L	12,000
			March 31	By Balance c/d	<u>24,000</u>
		36,000			36,000
2015 April 1	To Balance b/d	24,000	2016 March 31	By Statement of P & L	12,000
			March 31	By Balance c/d	<u>12,000</u>
		24,000			24,000
2016 April 1	To Balance b/d	12,000	2017 March 31	By Statement of P & L	12,000
					<u>12,000</u>
		12,000			12,000

Q9. A company issued debentures of the face value of ₹10,00,000 at a discount of 6% on 1st April, 2012. These debentures are redeemable by annual drawings of ₹2,00,000 made on 31st March each year. The directors decided to write off discount based on the debentures outstanding each year. Prepare Discount on Issue of Debentures account for five years.

Solution:

Total Discount on the issue of debentures = ₹10,00,000 × $\frac{6}{100}$ = ₹60,000.

Since debentures amounting to ₹2,00,000 are to be redeemed each year, the amount of discount written off from Statement of P & L is determined as follows:

Year ending	Debentures Outstanding ₹	Ratio*	Amount of Discount to be written off each year ₹		
31 st March 2013	10,00,000	5 or 5/15	60,000 × 5/15	=	20,000
31 st March 2014	8,00,000	4 or 4/15	60,000 × 4/15	=	16,000
31 st March 2015	6,00,000	3 or 3/15	60,000 × 3/15	=	12,000
31 st March 2016	4,00,000	2 or 2/15	60,000 × 2/15	=	8,000
31 st March 2017	2,00,000	1 or 1/15	60,000 × 1/15	=	<u>4,000</u>
		<u>15</u>			<u>60,000</u>

*Ratio has been obtained by dividing Debentures Outstanding by 2,00,000.

Dr.			DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT			Cr.
Date	Particulars	₹	Date	Particulars	₹	
2012 April 1	To Debentures A/c	60,000	2013 March 31 March 31	By Statement of P & L By Balance c/d	20,000 40,000	
		60,000			60,000	
2013 April 1	To Balance b/d	40,000	2014 March 31 March 31	By Statement of P & L By Balance c/d	16,000 24,000	
		40,000			40,000	
2014 April 1	To Balance b/d	24,000	2015 March 31	By Statement of P & L	12,000	

			March 31	By Balance c/d	12,000
		24,000			24,000
2015			2016		
April 1	To Balance b/d	12,000	March 31	By Statement of P & L	8,000
		12,000	March 31	By Balance c/d	4,000
					12,000
2016			2017		
April 1	To Balance b/d	4,000	March 31	By Statement of P & L	4,000
		4,000			4,000

QUESTIONS FOR PRACTICE

MCQ

- The following journal entry appears in the books of X Co. Ltd.
 Bank A/c Dr 4,75,000
 Loss on Issue of Debenture A/c Dr 75,000
 To 12% Debentures A/c 5,00,000
 To Premium on Redemption of Debenture A/c 50,000
 Debentures have been issued at a discount of
 (a) 15% (b) 5%
 (c) 10% (d) 20%
- At the time of issue, Debentures Account is:
 (a) credited by the amount received
 (b) credited by the face value of debentures
 (c) credited by the issue price of the debentures
 (d) none of the above.
- For recording the issue of debentures as collateral security, the amount of debentures issued is debited to:
 (a) Statement of Profit and Loss
 (b) Debentures Suspense Account
 (c) Debentures Account
 (d) General Reserve Account
- X Co Ltd. purchased assets worth ₹28,80,000. It issued debentures of ₹100 each at a discount of 4 per cent in full satisfaction of the purchase consideration. The number of debentures issued to vendor is
 (a) 30,000 (b) 28,800
 (c) 32,000 (d) 40,000
- Premium received on issue of debentures is credited to:
 (a) Capital Reserve
 (b) Securities Premium Reserve
 (c) General Reserve
 (d) None of these
- The discount on issue of debentures is:
 (a) Capital profit (b) Capital gain
 (c) Capital loss (d) All of the above
- Those debentures in which the holders are given option to partially or fully convert debentures into equity shares after a specified period are known as:
 (a) Registered Debentures
 (b) Mortgage Debentures
 (c) Naked Debentures
 (d) Convertible Debentures
- Debentures which do not carry any specific rate of interest are known as:
 (a) Registered Debentures
 (b) Zero Coupon Rate Debentures
 (c) Bearer Debentures
 (d) First Debentures
- If debentures are issued at premium, then they can be redeemed at
 (a) par (b) premium
 (c) Both (a) and (b) (d) can't be redeemed
- Company can utilise premium received on issue of debentures for which purpose?
 (a) Writing-off discount allowed on issue
 (b) For writing-off preliminary expenses
 (c) Both (a) and (b)
 (d) None of the above
- 'X' Limited purchased the assets from 'Y' Limited from ₹16,20,000. 'X' Limited issued 10% debentures of ₹ 10 each at 10% discount against the payment. The number of debentures issued by 'X' Limited will be
 (a) 16,200 (b) 18,000
 (c) 1,80,000 (d) 1,62,000
- Shashi Ltd. issued 6,000 Debentures of ₹100 each at a premium of ₹10. It will credit Debentures Account by:
 (a) 6,60,000 (b) 6,00,000
 (c) 4,50,000 (d) None of these
- X Ltd. issued 10,000, 8% debentures of ₹ 10 each, payable on application and redeemable at par at any time after 6 years. Record the entries for the application money received in the books of X Ltd.
 (a) Bank A/c Dr 80,000
 To Debenture Application and Allotment A/c 80,000
 (b) Bank A/c Dr 1,00,000
 To Debenture Application and Allotment A/c 1,00,000
 (c) Debenture Application and Allotment A/c Dr 80,000

- To 8% Debentures A/c 80,000
(d) None of the above
14. Goel Ltd. invited applications for issuing 6,000, 12% debentures of ₹ 100 each at a premium of ₹ 50 per debenture. The full amount was payable on application. Applications were received for 8,000 debentures. Applications for 2,000 debentures were rejected and application money was refunded. Debentures were allotted to the remaining applicants. Based on the information, pass the journal entry for adjusting the application money received in the books of Goel Ltd.
- (a) Bank A/c Dr 12,00,000
To Debenture Application and Allotment A/c 12,00,000
- (b) Debenture Application and Allotment A/c Dr 9,00,000
To 12% Debentures A/c 9,00,000
- (c) Debenture Application and Allotment A/c Dr 12,00,000
To 12% Debentures A/c 6,00,000
To Securities Premium Reserve A/c 3,00,000
To Bank A/c (2,000 × 150) 3,00,000
- (d) None of the above
15. A company 'Vansh Ltd.' has purchased an asset costing ₹ 22,00,000. Vendor issued 10% debentures of ₹ 100 each at 10% premium as consideration against asset purchased. Calculate number of debentures to be issued.
- (a) 26,000 debentures (b) 24,000 debentures
(c) 20,000 debentures (d) 22,000 debentures
16. During the year 2019-20, Network 10 Ltd. issued 12% debentures of ₹ 100 each as per the details given. A machine was purchased for ₹2,18,500. The Vendor was paid by the issue of 1,900 debentures at a premium of 15%, to be redeemed at par. The entry for the payment will be

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

17. Name the sub-head under which the 'premium on redemption of debentures' appears in the balance sheet?
- (a) Shareholders' fund
(b) Long term provisions
(c) Other long-term liabilities
(d) None of the above
18. On 1st Oct., 2018 PK Ltd. issued 500, 9% Debentures of ₹500 each at a discount of 4%. Debentures interest for the year ended 31st March, 2019 will be:
- (a) ₹11,250 (b) ₹10,800
(c) ₹22,500 (d) None of these
19. Which of the following alternatives are available for the company at the time of oversubscription?
- (i) Pro-rata
(ii) Rejection of excess application
- Alternatives**
- (a) Only (i) (b) Only (ii)
(c) Both (a) and (b) (d) None of these
20. A company AB Ltd issued 12% debentures of ₹ 10,00,000 of ₹ 100 each to public. In the terms of issue, these debentures are redeemable after 10 months ending on 31st January, 2022. These debentures will be shown in balance sheet as on 31st March, 2021 under the heading
- (a) long-term liability (b) current liability
(c) fixed assets (d) current assets

SUBJECTIVE QUESTIONS

1. Narain Laxmi Ltd. invited applications for issuing 7,500, 12% debentures of ₹100 each at a premium of ₹35 per debenture. The full amount was payable on application. Applications were received for 10,000 debentures. Applications for 2,500 debentures were rejected and the application money was refunded. Debentures were allotted to the remaining applicants. Pass necessary journal entries for the above transactions in the books of Narain Laxmi Ltd.
2. X Ltd. invited applications for issuing 500, 12% debentures of ₹100 each at a discount of 5%. These debentures were redeemable after three years at par.

- Applications for 600 debentures were received. Pro-rata allotment was made to all the applicants. Pass necessary journal entries for the issue of debentures assuming that the whole amount was payable with application.
3. Disha Ltd. purchased machinery from Nisha Ltd. and paid to Nisha Ltd. as follows:
- (i) By issuing 10,000, equity shares of ₹10 each at a premium of 10%.
- (ii) By issuing 200, 9% debentures of ₹100 each at a discount of 10%.
- (iii) Balance by accepting a bill of exchange of ₹50,000 payable after one month.

- Pass necessary journal entries in the books of Disha Ltd. for the purchase of machinery and making payment to Nisha Ltd.
4. BG Ltd. issued 2,000, 12% debentures of ₹100 each on 1st April, 2012. The issue was fully subscribed. According to the terms of issue, interest on the debentures is payable half-yearly on 30th September and 31st March and the tax deducted at source is 10%.
Pass necessary journal entries related to the debenture interest for the half-yearly ending 31st March, 2013 and transfer of interest on debentures of the year to the Statement of Profit and Loss.
 5. Deepak Ltd. purchased furniture of ₹2,20,000 from M/S Furniture Mart. 50% of the amount was paid to Furniture Mart by accepting a bill of exchange and for the balance, company issued 9% debentures of ₹100 each at a premium of 10% in favour of Furniture Mart.
Pass necessary journal entries in the books of Deepak Ltd. for above transactions.
 6. Nano Ltd. purchased assets of Dow Ltd. for ₹3,00,000. It also agreed to take over the liabilities of Dow Ltd. amounting to ₹50,000 for a purchase consideration of ₹2,75,000. The payment to Dow Ltd. was made by issue of 8% Debentures of ₹50 each at a premium of 10%.
Pass necessary journal entries for the above transactions in the books of Nano Ltd.
 7. KTR Ltd. issued 365, 9% Debentures of ₹1,000 each on 4th March, 2016. Pass necessary journal entries for the issue of debentures in the following situations:
 - (a) When debentures were issued at par, redeemable at a premium of 10%.
 - (b) When debentures were issued at 6% discount, redeemable at 5% premium.
 8. Pass the necessary journal entries for issue of 1,000, 7% Debentures of ₹100 each in the following cases:
 - (a) Issued at 5% premium redeemable at a premium of 10%.
 - (b) Issued at a discount of 5% redeemable at par.
 9. On 1st April, 2018, R.J. Ltd. issued ₹10,00,000 9% debentures of ₹100 each at a discount of 10%. These debentures were redeemable at a premium of 5% after four years.
Pass necessary journal entries for the issue of debentures and prepare 9% Debentures Account.
 10. Rahil Ltd. issued 20,000, 9% Debentures of ₹100 each at 5% discount, redeemable at par after 5 years, payable at ₹40 on application and the balance on allotment. The whole issue was subscribed and all money was duly received.
Pass necessary journal entries for the issue of debentures and for writing off discount on issue of debentures as per AS-16 in the books of Rahil Ltd. and prepare the Balance Sheet.

HOMEWORK

1. Which of the following is not a feature of debentures?
 - (a) These are written document acknowledging a debt.
 - (b) The mode and payment of principal and interest is fixed.
 - (c) Interest on debentures is an appropriation of profit.
 - (d) They may be secured by way of charge on assets of the company.
 2. Which of the following is not a characteristic of Bearer Debenture?
 - (a) They are treated as negotiable instruments
 - (b) Their transfer requires a deed of transfer
 - (c) They are transferable by mere delivery
 - (d) The interest on it is paid to the holder irrespective of identity
 3. Loss on debentures arises when:
 - (a) Debentures are issued at par and redeemable at premium
 - (b) Debentures are issued at premium and redeemable at par
 - (c) Debentures are issue par and redeemable at par
 - (d) All of these
 4. Debentures which are transferred by executing s transfer deed are:
 - (a) Registered Debentures
 - (b) Bearer Debentures
 - (c) Naked Debentures
 - (d) Convertible Debentures
 5. Premium on redemption of debentures is a :
 - (a) Personal A/c
 - (b) Real A/c
 - (c) Nominal A/c
 - (d) Suspense A/c
 6. Debentures which are transferred by mere delivery are:
 - (a) Registered Debentures
 - (b) Bearer Debentures
 - (c) First Debentures
 - (d) Irredeemable Debentures
- Direction for Question (7 to 10):** Read the given case study carefully and answer the following questions:
 Moonlight India Ltd. is to produce and distribute green energy in the backward areas of India. It has also taken up a project of giving vocational training to the girls belonging to the backward areas of Rajasthan. To meet the requirements of funds to serve the purpose, company issued 40,000 debentures of ₹100 each at a premium of ₹25, payable as follows
 ₹ 20 per share on application

₹ 45 per share on allotment (including premium of ₹ 15)
₹ 60 per share on first and final call (including premium of ₹ 10)

The issue was oversubscribed by 20,000 debentures.

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

7. Amount refunded to debenture holders will be
(a) ₹2,60,000 (b) ₹2,50,000
(c) ₹2,30,000 (d) ₹2,00,000
8. What amount will be received on allotment?
(a) ₹16,30,000 (b) ₹16,00,000
(c) ₹18,00,000 (d) ₹18,30,000
9. What pro-rata allotment is made in this case other than the One already mentioned?
(a) 44,000 : 40,000 (b) 42,000 : 38,000
(c) 60,000 : 40,000 (d) 42,000 : 36,000
10. Amount of security premium transferred to balance sheet will be
(a) ₹6,00,000 (b) ₹10,00,000
(c) ₹4,00,000 (d) ₹14,00,000
11. On 1st April, 2017, Mehta Ltd. issued 5,000, 8% debentures of ₹100 each at a discount of 5%. What will be total amount of interest for the year ending 31st March, 2018?
(a) ₹38,000 (b) ₹42,000
(c) ₹40,000 (d) ₹25,000
12. Which of following statements is false?
(a) At maturity, debenture holders get back their money.
(b) Debentures can be forfeited for non-payment of call money.
(c) In company's balance sheet, debentures are shown under the head Long term Borrowings.
(d) Interest on debentures is a charge against profits.
13. Which of following is not a characteristic of Bearer Debentures?
(a) They are treated as negotiable instruments.
(b) Their transfer requires a deed of transfer.
(c) They are transferable by mere delivery.
(d) The interest on it is paid to the holder irrespective of the identity.
14. Which of the following is false?
(a) A company can issue redeemable debentures
(b) A company can issue debentures with voting rights
(c) A company can buy its own shares
(d) A company can buy its own debentures
15. A debenture holder is entitled to :
(a) Fixed dividend
(b) Share in profits

(c) Voting rights in the company

(d) Interest at the fixed rate

16. Rate of interest on debentures is :

- (a) 12% p.a. (b) 20% p.a.
(c) Fixed Rate (d) 15% p.a.

17. AB Ltd. purchased assets worth ₹6, 80,000 and took over liabilities of ₹80,000. It was agreed to pay the purchase price of ₹6,40,000, of which ₹2,00,000 was to paid be in cash and rest through issue of debentures at 10% premium. Calculate the number of debentures issued.

- (a) 4,000 (b) 4,500
(c) 3,800 (d) 4,200

18. Which of following statements is false?

- (a) At maturity, debenture holders get back their money
(b) Debentures can be forfeited for non-payment of call money
(c) In company's Balance sheet, debentures are shown under the head Long term borrowings
(d) Interest on debentures is a charge against profits

19. In case of issue of debentures as a collateral security for loan from the bank which account will be debited :

- (a) Debentures Holdings Account
(b) Bank Loan Account
(c) Debentures Account
(d) Debentures Suspense Account

20. If debentures of ₹4,50,000 are issued for the consideration of net assets of ₹5,00,000 balance ₹50,000 will be credited to:

- (a) Profit & Loss A/c (b) Goodwill A/c
(c) General Reserve A/c (d) Capital Reserve A/c

Direction (Q. Nos. 21 to 24) There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below.

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

21. **Assertion (A):** Shares and debentures are not alike.

Reason (R): Debenture holders are owners and shareholders are creditors of the company.

22. **Assertion (A):** Debentures is an instrument acknowledging a debt.

Reason (R): It is the denomination of loan.

23. **Assertion (A):** Debentures being borrowings of the company are shown on liabilities side of the balance sheet.

Reason (R): Debentures are current liabilities of a company.

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

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

Direction: Read the following case study and answer the question no. 25 to 28 on the basis of the same.

'Golden Blankets Ltd' are the manufacturers of woollen blankets. Blankets of the company are exported to many countries. The company decided to distribute blankets free of cost to five villages of Kashmir valley destroyed by the recent floods. It also decided to employ 100 young persons from these villages in their newly established factory at Solan in Himachal Pradesh. To meet the requirements of funds for starting its new factory, the company issued 50,000, 10% debentures of ₹10 each and 2000, 8% debentures of ₹100 each to the vendor of the machinery purchased for ₹ 7,00,000.

25. Debentures issued to vendor of machinery, would be classified as

- (a) issue of debentures in cash
- (b) issue of debentures for consideration other than cash
- (c) issue of debentures as collateral security
- (d) None of the above

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

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

27. Total interest payable by the company will amount to

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

28. Zero coupon bonds are issued :

- (a) At Zero Interest Rate
- (b) With Specified Rate of Interest
- (c) Without Specified Rate of Interest
- (d) None of these

29. Match the following

Column - I	Column - II
A. Received Oversubscription	(i) Debentures Suspense A/c
B. Debentures issued to promoters	(ii) Rejection of excess application
C. Issued Debentures as collateral security	(iii) Goodwill

A B C

- (a) (i) (ii) (iii)
- (b) (ii) (iii) (i)
- (c) (ii) (i) (iii)
- (d) (iii) (ii) (i)

30. Loss on issue of debentures would be written-off out of

- (i) securities premium reserve
- (ii) capital reserve
- (iii) profit and loss account
- (a) Only (i)
- (b) (i) and (ii)
- (c) (ii) and (iii)
- (d) (i), (ii) and (iii)

SUBJECTIVE QUESTIONS

1. MNC Ltd. issued 12,500, 10% Debentures of ₹100 each. Give journal entries and the Balance Sheet when the debentures were issued at a premium of 20%.

2. 15,000, 8% Debentures were issued by Madhu Sports Ltd. During the year 2018-19, the company suffered a huge loss. Will debenture holders be entitled to interest of that year?

3. Power and Utility Ltd. issued 2,500 8% Debentures of ₹100 each at a discount of 10% on 1st April, 2017 redeemable at par after five years. The company has a balance of ₹15,000 in Securities Premium Reserve. The company decided to use the Securities Premium Reserve for writing off the loss on issue of debentures and also decided to write off the remaining discount in the first year itself.

Pass the Journal entries for issue of debentures and writing off the discount on Issue of debentures. You are also required to prepare Discount on Issue of Debentures Account.

4. 'UZ Ltd.' purchased Plant and Machinery from Elk Machine Ltd. for ₹6,90,000. Elk Ltd. was paid by accepting a draft of ₹90,000 payable after three months

and the balance by issue of 6% debentures of ₹100 each at a discount of 20%.

Pass necessary journal entries for the above transactions in the books of 'UZ Ltd.'

5. On 1st April, 2015, K.K. Ltd. issued 500, 9% Debentures of ₹500 each at a discount of 4%, redeemable at a premium of 5% after three years.

Pass necessary Journal Entries for the issue of debentures and debentures' interest for the year ended 31st March, 2016 assuming that interest is payable on 30th September and 31st March and the rate of tax deducted at source is 10%. The company closes its books on 31st March every year.

6. (a) Mohit Ltd. took over assets of ₹8,40,000 and liabilities of ₹80,000 of Ram Ltd. at an agreed value of ₹7,20,000. Mohit Ltd. paid to Ram Ltd., by issue of 9% debentures of ₹100 each at a premium of 20%. Pass necessary journal entries to record the above transactions in the books of Mohit Ltd.

(b) Give Journal entries in each of the following cases if the face value of a 9% debenture is ₹100.

(i) A debenture issued at ₹100 repayable at ₹105.

(ii) A debenture issued at ₹105 repayable at ₹105.

7. Shikhar Ltd. issued 10,000, 10% debentures of ₹100 each, payable as follows: ₹10 on application, ₹20 on allotment, and ₹30 on first call and ₹40 on second and final call.

Arun, who holds 500 debentures failed to pay the amount due on allotment. He, however, pays this amount with the first call money. Dinesh, who holds 800 debentures paid all the calls in advance on allotment. Pass journal entries.

8. SSS Ltd. issued 25,000; 10% Debentures of ₹100 each. Give Journal entries and the Balance Sheet in each of the following cases when:

- (i) the debentures were issued at a premium of 20%.
(ii) the debentures were issued as a collateral security to Bank against a loan of ₹20,00,000.

9. On 1st April, 2017 Bhawani Ltd. issued 5,000, 10% Debentures of ₹100 each at a discount of 10%, redeemable at 5% premium after 5 years. On the same

10. Fill in the blanks in the following entries:

date, Bhawani Ltd. completed the following transactions also:

- (i) It purchased business of Swami Ltd. by taking over sundry assets of ₹4,50,000 and sundry liabilities of ₹70,000 for the purchase consideration of ₹4,80,000. It paid the purchase consideration by issuing 10% Debentures at 4% discount.

- (ii) Bhawani Ltd. borrowed a loan of ₹80,000 from SBI for 5 years and issued 10% Debentures of ₹1,00,000 to Bank as a collateral security.

The interest on debentures is paid half yearly on 30th September and 31st March every year. You are required to pass the journal entries in the books of Bhawani Ltd. to record the above transactions for the year ended 31st March, 2018 assuming that the company has sufficient balance in its Securities Premium Reserve Account at the year end and it has decided to write off loss on issue of debentures from Securities Premium Reserve Account.

GG Ltd. Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	..... Dr.		.....
	To.....			.....
	(Being application and allotment money received on 2,000, 12% Debentures of ₹100 each issued at a premium of 5% and redeemable at a premium of 10%)			
	..... Dr.		.....
	..... Dr.		.....
	To.....			.....
	To.....			.....
	To.....			.....
	(.....)			

SOLUTION FOR PRACTICE QUESTIONS

SOLUTION FOR MCQ QUESTIONS

1. (b): $\frac{(75,000 - 50,000)}{5,00,000} \times 100 = 5\%$

2. (b)

3. (b)

4. (a): Number of debentures = $\frac{28,80,000}{96(100-4)}$

5. (b)

6. (c)

7. (d)

8. (b)

9. (c)

10. (c)

11. (c): Number of Debentures = $\frac{16,20,000}{10-10\% \text{ of } 10} = \frac{16,20,000}{9} = 1,80,000$

12. (b)

13. (b)

14. (c)

15. (c): Number of Debentures Issued

$$= \frac{22,00,000}{110(100 + 10)} = 20,000 \text{ debentures}$$

16. (b)

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

18. (a)

19. (c)

20. (b): Whenever debentures are issued for less than 12 months or debentures are redeemable within 12 months, then these are shown under 'current liability'.

SOLUTIONS FOR SUBJECTIVE QUESTIONS

1.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (10,000 × 135) Dr. To Debenture Application and Allotment A/c (Being application money received)		13,50,000	13,50,000
	Debenture Application and Allotment A/c Dr. To 12% Debentures A/c (7,500 × 100) To Securities Premium Reserve A/c (7,500 × 35) To Bank A/c (2,500 × 135) (Being application money transferred to 12% debentures account, securities premium reserve and excess refunded)		13,50,000	7,50,000 2,62,500 3,37,500

2.

Books of X Ltd.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application and Allotment A/c (Being application money received for 600 debentures @ ₹95 each)		57,000	57,000
	12% Debenture Application and Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To 12% Debentures A/c To Bank A/c (Being 500, 12% debentures allotted on pro-rata basis)		57,000 2,500	50,000 9,500

3.

**Disha Ltd.
JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Machinery A/c Dr. To Nisha Ltd. (Being machinery purchased from Nisha Ltd.)		1,78,000	1,78,000
	Nisha Ltd. Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being 10,000 equity shares of ₹10 each issued at 10% premium)		1,10,000	1,00,000 10,000
	Nisha Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 9% Debentures A/c (Being 200, 9% debentures of ₹100 each issued at 10% discount)		18,000 2,000	20,000
	Nisha Ltd. Dr. To Bills Payable A/c (Being balance payment made by accepting one month bill of exchange)		50,000	50,000

4.

**In the Books of BG Ltd.
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2012 Sept. 30	Debenture Interest A/c Dr. To Debentureholders A/c To TDS Payable A/c (Being the interest due on debentures for the half-year ended 30 th Sept. 2012; TDS deducted @10%)		12,000	10,800 1,200
	Debentureholders A/c Dr. TDS Payable A/c Dr. To Bank A/c (Being the interest paid to debentureholders and TDS deposited in Government Account)		10,800 1,200	12,000
2013 Mar. 31	Debenture Interest A/c Dr. To Debentureholders A/c To TDS Payable A/c (Being the interest due on debentures for the half-year ended 31 st March, 2013, TDS deducted @10%)		12,000	10,800 1,200
	Debentureholders A/c Dr. TDS Payable A/c Dr. To Bank A/c (Being the interest paid and TDS deposited in the Government Account)		10,800 1,200	12,000
	Statement of Profit and Loss (Finance cost) Dr. To Debenture Interest A/c		24,000	24,000

	(Being the interest transferred to Statement of Profit and Loss as Finance Cost at the year end)			
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5.

Journal

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

Working Note:

$$\text{Number of Debentures} = \frac{\text{Total Amount Due}}{\text{Issue Price Per Debenture}} = \frac{1,10,000}{110} = 1,000 \text{ debentures}$$

6.

In the Books of the Nano Ltd.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Dow Ltd. (Being assets and liabilities purchased at a higher purchase consideration)		3,00,000 25,000	50,000 2,75,000
	Dow Ltd. Dr. To 8% Debentures A/c To Securities Premium Reserve (Being purchase consideration paid by issue of 5,000, 8% debentures at 10% premium)		2,75,000	2,50,000 25,000

7.

(a) Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 Mar. 4	Bank A/c Dr. To 9% Debenture Application and Allotment A/c (Being application money received)		3,65,000	3,65,000
2016 Mar. 4	9% 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 transfer of application money to debenture account issued at par, but redeemable at premium of 10%)		3,65,000 36,500	3,65,000 36,500

(b)

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 Mar. 4	Bank A/c Dr. To 9% Debenture Application and Allotment A/c (Being application money received)		3,43,000	3,43,000
2016 Mar. 4	9% 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 transfer of application money to debentures account issued at 6% discount but redeemable at premium of 5%) OR 9% Debenture Application and Allotment A/c Dr. Discount on Issue of Debentures 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 transfer of application money to debenture account issued at 6% discount but redeemable at premium of 5%)		3,43,100 40,150	3,65,000 18,250
			3,43,100 21,900 18,250	3,65,000 18,250

8.

(a) Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being money received on 1,000, 7% Debentures @ ₹105 each including premium)		1,05,000	1,05,000
	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 7% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being debentures issued at 5% premium and redeemable at 10% premium)		1,05,000 10,000	1,00,000 5,000 10,000

(b) Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being amount received on 1,000, 7% Debentures @ ₹95 per debenture)		95,000	95,000
	Debenture Application and Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To 7% Debentures A/c (Being debentures issued at discount and redeemable at par)		95,000 5,000	1,00,000

9.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 April 1	Bank A/c Dr. To Debenture Application and Allotment A/c (Being applications received for 10,000, 9% debentures issued at 10% discount)		9,00,000	9,00,000
April 1	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 allotment of 10,000, 9% debentures issued at 10% discount and redeemable at 5% premium)		9,00,000 1,50,000	10,00,000 50,000

Dr.

9% Debentures Account

Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
2019 Mar. 31	To Balance c/d	10,00,000	2018 Apr. 1	By Debenture Application and Allotment A/c	9,00,000
			Apr. 1	By Discount on Issue of Debentures A/c	1,00,000
		<u>10,00,000</u>			<u>10,00,000</u>

10.

Books of Rahil Ltd.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (20,000 × 40) Dr. To Debenture Application A/c (Being application money received on 20,000 debentures)		8,00,000	8,00,000
	Debenture Application A/c Dr. To 9% Debentures A/c (Being application money transferred to 9% Debentures Account)		8,00,000	8,00,000
	Debenture Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To 9% Debentures A/c (Being amount due to allotment)		11,00,000 1,00,000	12,00,000
	Bank A/c Dr. To Debenture Allotment A/c (Being amount due on allotment received)		11,00,000	11,00,000
	Statement of Profit and Loss Dr. To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off)		1,00,000	1,00,000

Balance Sheet

as at ...

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Reserves and Surplus	1	(1,00,000)	
2. Non-Current Liabilities			
(a) Long-term Borrowings	2	20,00,000	
Total		<u>19,00,000</u>	
II. ASSETS			
1. Current Assets			
(a) Cash and Cash Equivalents	3	19,00,000	
Total		<u>19,00,000</u>	

Notes to Accounts

Particulars	(₹)
1. Reserves and Surplus	
Surplus, i.e., Balance in Statement of Profit and Loss (Discount on issue of Debentures written off)	<u>(1,00,000)</u>
2. Long-term Borrowings	
20,000, 9% Debentures of ₹ 100 each	<u>20,00,000</u>
3. Cash and Cash Equivalents	
Cash at Bank	<u>19,00,000</u>

SOLUTION FOR HOMEWORK QUESTIONS

SOLUTION FOR MCQ QUESTIONS

1. (c) 2. (b) 3. (a)
4. (a) 5. (a) 6. (b)
7. (c) Excess money received on application not adjusted in any call will be refunded Excess money received $(20,000 \times 20) = ₹4,00,000$ Adjusted on allotment $(2,000 \times 45 + 4,000 \times 20) = ₹1,70,000$ Therefore, total amount refunded is $(4,00,000 - 1,70,000) = ₹2,30,000$
8. (a) Allotment money due $(40,000 \times 45) = ₹18,00,000$ (-)
Excess money adjusted = $(1,70,000)$
Amount received = ₹16,30,000
9. (b) Out of 60,000 applications, applicants of 16,000 debentures were allotted 2,000 debentures and applications of 2,000 debentures were rejected. So

pro-rata will be made to the remaining shareholders, i.e. 42,000 debenture applications were allotted 38,000 debentures.

10. (b) At the time of allotment $(40,000 \times 15) = ₹6,00,000$
(+) At the time of call $(40,000 \times 10) = ₹4,00,000$
Total security premium received = ₹10,00,000
11. (c) 12. (b) 13. (b)
14. (b) 15. (d) 16. (c)
17. (a) 18. (b) 19. (d)
20. (d) 21. (c) 22. (a)
23. (c)
24. (c) The power to issue debentures must be mentioned in Memorandum of Association.

25. (b)

26. (a)

27. (c) 50,000, 10% debenture @ 10 = 5,00,000 × 10/100 = ₹50,000

2,000, 8% debenture @ 100 each = 2,00,000 × 8/100 = ₹ 16,000

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

28. (c)

29. (b)

30. (d)

SOLUTION FOR SUBJECTIVE QUESTIONS

1.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received)		15,00,000	15,00,000
	Debenture Application and Allotment A/c Dr. To 10% Debentures A/c (12,500 × 100) To Securities Premium Reserve A/c (12,500 × 20) (Being application money transferred to 10% debentures account and securities premium reserve)		15,00,000	12,50,000 2,50,000

Balance Sheet

as at

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Reserves and Surplus	1	2,50,000	
2. Non-Current Liabilities			
(a) Long-term Borrowings	2	12,50,000	
Total		<u>15,00,000</u>	
II. ASSETS			
1. Current Assets			
(a) Cash and Cash Equivalents	3	15,00,000	
Total		<u>15,00,000</u>	

Notes to Accounts

Particulars	(₹)
1. Reserves and Surplus:	
Securities Premium Reserve	<u>2,50,000</u>
2. Long-term Borrowings:	
10% Debentures	<u>12,50,000</u>
3. Cash and Cash Equivalents:	
Cash at Bank	<u>15,00,000</u>

2. Debenture holders will be entitled interest of the year 2018-19 as interest on debentures is a charge against profits of the company and is payable irrespective of the fact whether the company has earned profit or not.

3.

In the books of Power and Utility Ltd.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 Apr. 1	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received)		2,25,000	2,25,000
	Debenture Application and Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To 8% Debentures A/c (Being 2,500, 8% debentures allotted)		2,25,000 25,000	2,50,000
2018 March 31	Securities Premium Reserve A/c Dr. Statement of Profit and Loss Dr. To Discount on issue of debentures A/c (Being the discount on issue of debentures written off)		15,000 10,000	10,000

Dr. Discount on Issue of Debentures Account Cr.

Date	Particulars	(₹)	Date	Particulars	(₹)
2017 April 1	To 8% Debentures A/c	25,000	2018 March 31	By Securities Premium A/c	15,000
				By Statement of Profit and Loss	10,000
		25,000			25,000

4.

In the Books of UZ Ltd

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Plant & Machinery A/c Dr. To Elk Machine Ltd. (Being machinery purchased from Elk Machine Ltd.)		6,90,000	6,90,000
	Elk Machine Ltd. Dr. To Bills Payable A/c (Being bills accepted)		90,000	90,000
	Elk Machine Ltd. Dr. Discount on Issue of Debentures A/c Dr. To 6% Debentures A/c (Being 7,500, 6% debentures issued at 20% discount)		6,00,000 1,50,000	7,50,000
	Statement of Profit and Loss Dr. To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off)		1,50,000	1,50,000

5.

KK Ltd.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015 Apr. 1	Bank A/c Dr. To 9% Debenture Application and Allotment A/c		2,40,000	2,40,000

2015 Apr. 1	(Being application money received)			
	9% Debenture Application and Allotment A/c Dr.	2,40,000		
	Discount on Issue of Debentures A/c Dr.	10,000		
	Loss on Issue of Debentures A/c Dr.	12,500		
	To 9% Debentures A/c			2,50,000
	To Premium on Redemption of Debentures A/c			12,500
	(Being transfer of application money to debentures' account issued at a discount of 4% but redeemable at a premium of 5%)			
	Or			
	9% Debenture Application and Allotment A/c Dr.	2,40,000		
	Loss on Issue of Debentures A/c Dr.	22,500		
2015 Sept. 30	To 9% Debentures A/c			2,50,000
	To Premium on Redemption of Debentures A/c			12,500
	(Being transfer of application money to debentures account issued at a discount of 4% but redeemable at a premium of 5%)			
	Debentures Interest A/c Dr.	11,250		
	To Debentureholders A/c			10,125
	To TDS Payable A/c			1,125
	(Being interest payable on 9% debentures and tax deducted at source @ 10%)			
	Debentureholders A/c Dr.	10,125		
	TDS Payable A/c Dr.	1,125		
	To Bank A/c			11,250
2016 Mar. 31	(Being interest paid to debentureholders and TDS deposited)			
	Debentures Interest A/c Dr.	11,250		
	To Debentureholders A/c			10,125
	To TDS Payable A/c			1,125
	(Being interest payable on 9% debentures and tax deducted at source @ 10%)			
	Debentureholders' A/c Dr.	10,125		
	TDS Payable A/c Dr.	1,125		
	To Bank A/c			11,250
	(Being interest paid to debentureholders and TDS deposited)			
	Statement of Profit and Loss Dr.	22,500		
	To Debenture Interest A/c			22,500
	(Being interest on debentures transferred to Statement of P & L at the year end)			
	Statement of Profit and Loss Dr.	22,500		
	To Discount on Issue of Debentures A/c			10,000
	To Loss on Issue of Debentures A/c			12,500
	(Being the capital losses written off at the year end)			

6.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c Dr. To Sundry Liabilities A/c To Ram Ltd. To Capital Reserve A/c (Being Mohit Ltd. took over assets and liabilities of Ram Ltd.)		8,40,000	80,000 7,20,000 40,000
	Ram Ltd. Dr. To 9% Debentures A/c To Securities Premium Reserve A/c (Being 6,000; 9% Debentures issued to Ram Ltd. at 20% premium)		7,20,000	6,00,000 1,20,000

(b)

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received)		100	100
	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 Debentures issued at par and redeemable at premium)		100 5	100 5
(ii)	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received)		105	105
	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being debentures issued at premium and redeemable at premium)		105 5	100 5 5

7.

Journal of Shikhar Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Debenture Application A/c (Being application money received on 10,000 debentures @ ₹10 each)		1,00,000	1,00,000
	Debenture Application A/c Dr. To 10% Debentures A/c (Being application money transferred to 10% Debentures A/c)		1,00,000	1,00,000
	Debenture Allotment A/c Dr. To 10% Debentures A/c (Being allotment money due)		2,00,000	2,00,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Debenture Allotment A/c To Calls-in-Advance A/c		2,46,000 10,000	2,00,000 56,000

(Being allotment money received on 9,500 debentures @ ₹20 per debenture and call received in advance on 800 debentures @ ₹70 per debenture)			
Debenture First Call A/c To 10% Debentures A/c (Being first call due)	Dr. 	3,00,000	3,00,000
Bank A/c Calls-in-Advance A/c To Debentures First Call A/c (Being first call money received after adjusting the of first call @₹30 per debenture on 800 debentures of Dinesh)	Dr. Dr. 	2,76,000 24,000	3,00,000
Bank A/c To Calls-in-Arrears A/c (Being the receipt of arrears of allotment in respect of 500 debentures)	Dr. 	10,000	10,000
Debenture Second and Final Call A/c To 10% Debentures A/c (Being second and final call due on 10,000 debentures @ ₹40 per debenture)	Dr. 	4,00,000	4,00,000
Bank A/c Calls-in-Advance A/c To Debenture Second and Final Call A/c (Being second call money received after adjusting the advance of second call @ ₹40 per debenture on 800 debentures of Dinesh)	Dr. Dr. 	3,68,000 32,000	4,00,000

8.

Journal of SSS Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c To Debenture Application and Allotment A/c (Being the debenture application money received on 25,000, 10% Debentures at 20% premium)	Dr.	30,00,000	30,00,000
	Debenture Application and Allotment A/c To 10% Debentures A/c To Securities Premium Reserve A/c (Being the issue of 25,000, 10% debentures at a premium of 20%)	Dr.	30,00,000	25,00,000 5,00,000
(ii)	No Entry			

(i)

Balance Sheet of SSS Ltd.

as at.....

Particulars	Note No.	(₹)
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
Reserves and Surplus	1	5,00,000
2. Non-Current Liabilities		
Long-term Borrowings	2	25,00,000
Total		<u>30,00,000</u>
II. ASSETS		
1. Current Assets		
(a) Cash and Cash Equivalents	3	30,00,000
Total		<u>30,00,000</u>

Notes to Accounts

Particulars	(₹)
1. Reserves and Surplus	
Securities Premium Reserve	5,00,000
2. Long-term Borrowings	
25,000, 10% Debentures of ₹100 each	25,00,000
3. Cash and Cash Equivalents	
Cash at Bank	30,00,000

(ii)

Balance Sheet of SSS Ltd.

as at.....

Particulars	Note No.	(₹)
I. EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long-term Borrowings	1	20,00,000
Total		20,00,000
II. ASSETS		
Current Assets		
Cash and Cash Equivalent (Cash at Bank)		20,00,000
Total		20,00,000

Notes to Accounts

Particulars	(₹)
1. Long-term Borrowings	
Loan from Bank (Secured by issue of 25,000; 10% Debentures of ₹100 each, issued as collateral security)	20,00,000

9.

In the books of Bhawani Ltd.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 April 1	Bank A/c Dr. To 10% Debenture Application and Allotment A/c (Being money received on application for 5,000 debenture @ ₹90 per debenture)		4,50,000	4,50,000
	10% Debentures Application & Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 10% Debentures A/c To Premium on Redemption of Debentures A/c (Being 5,000 10% debentures allotted and redeemable at 5% premium)		4,50,000 75,000	5,00,000 25,000
April 1	Sundry Assets A/c Dr. Goodwill A/c (Balancing figure) Dr. To Sundry Liabilities A/c		4,50,000 1,00,000	70,000

2018 April 1	To Swami Ltd. (Being assets and liabilities of Swami Ltd. taken over for a consideration of ₹4,80,000)			4,80,000
	Swami Ltd. Dr.	4,80,000		
	Discount on Issue of Debentures A/c Dr.	20,000		
	To 10% Debentures A/c (Being 5,000, 10% debentures of ₹100 each issued to Swami Ltd. at 4% discount)			5,00,000
	Bank A/c Dr.	80,000		
	To Bank Loan A/c (Being loan obtained from SBI)			80,000
	Debenture Suspense A/c Dr.	1,00,000		
	To 10% Debentures A/c (Being ₹1,00,000 debentures issued as collateral security to bank against loan of ₹80,000)			1,00,000
	Sept. 30			
	Debentures Interest A/c Dr.	50,000		
2018 Mar. 31	To Debentureholders A/c (Being interest due on 10,000, 10% debentures for 6 months)			50,000
	Debentureholders A/c Dr.	50,000		
	To Bank A/c (Being interest paid to debentureholders)			50,000
	Debentures Interest A/c Dr.	50,000		
	To Debentureholders A/c (Being interest due on 10,000, 10% debentures for the 6 months)			50,000
	Debentureholders A/c Dr.	50,000		
	To Bank A/c (Being interest paid to debentureholders)			50,000
	Statement of Profit and Loss Dr.	1,00,000		
	To Debentures Interest A/c (Being debentures' interest transferred to Statement of Profit and Loss at the year end)			1,00,000
	Securities Premium Reserve A/c Dr.	75,000		
	To Loss on Issue of Debentures A/c (Being loss on issue of debentures written off from Securities Premium Reserve)			75,000

Working Notes:

- Interest will be charged on:

5,000, 10% Debentures of ₹100 each issued for cash for the year	=	(₹) 50,000
5,000, 10% Debentures of ₹100 each issued for consideration other than cash for the year	=	<u>50,000</u>
Total Interest for the year		1,00,000
Total interest for the half year (6 months)	= 1,00,000 ÷ 2 =	₹50,000
- Interest is not paid on debentures of ₹1,00,000 issued, as collateral security.
- Loss on Issue of Debentures = Discount on issue of debentures + Premium on redemption of debentures
= 50,000 + 25,000 = ₹75,000

10.

**GG Ltd.
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application and allotment money received on 2,000, 12% Debentures of ₹ 100 each issued at a premium of 5% and redeemable at a premium of 10%)		2,10,000	2,10,000
	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 12% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being 2,000, 12% Debentures issued at a premium of 5% and redeemable at a premium of 10%)		2,10,000 20,000	2,00,000 10,000 20,000