

CBSE Test Paper 05
Ch-8 Accounting for Debenture

1. Debenture Holders are the_____.
 - a. Creditors of the company
 - b. Promoters of the company
 - c. Owners of the company
 - d. Auditors of the company
2. Vinod Limited has 5,000, 11% Debentures which are to be redeemed within the 8 Months from the date of previous balance sheet. How will you show these debentures in the balance sheet?
 - a. Under Other Current Liabilities
 - b. Long Term Borrowings
 - c. Short Term Borrowings
 - d. Trade payables
3. Which of the following is correct?
 - a. Debentures cannot be issued as 'Collateral Security'
 - b. Debentures can be issued in cash only
 - c. Debentures cannot be issued at discount
 - d. Interest on debentures is paid before paying any dividend
4. A debenture is _____.
 - a. Debtors equity
 - b. An internal equity
 - c. An external equity
 - d. Owners' equity
5. Which of the following statement is not correct?
 - a. Debentures can be issued at discount
 - b. A Debenture holder is a lender
 - c. Debenture is considered as external equity
 - d. Debentures are completely unsafe
6. What is redemption by the purchase of own debentures in the market?
7. Define Secured and Unsecured Debentures.

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8. What do you mean by Debentures?
 9. Differentiate between shareholders and debenture holders of a company.
 10. Distinguish between Shareholders and Debenture holders of a company.
 11. X Ltd. secured a loan of Rs. 80,00,000 from the Bank of America by issuing 10,000 ; 9% Debentures of Rs. 100 each as collateral security.
How will you show the issue of such debentures in the Balance Sheet?
 12. S Ltd. redeemed its Rs.10,000, 8% Debentures out of capital by drawing a lot on 30 Nov. 2015. Journalise.
 13. F Ltd issued Rs. 1,00,000, 15% debentures of Rs. 100 each at a premium of 5%, redeemable at a premium of 10% at the end of 4 years. The board of directors decided to transfer the minimum required amount to debenture redemption reserve account at the time of redemption. Pass journal entries at the time of redemption of debentures.
 14. Pass necessary Journal entries for issue and redemption of Debentures in the following cases:
10,000; 12% Debentures of Rs 50 each were issued and to be redeemed as follows:
 - i. Issued at par and redeemed at a premium of 10%.
 - ii. Issued at a premium of 10% and redeemable at a premium of 20%.
 15. Devi Ltd. on 1st April, 2006 acquired assets of the value of Rs. 6,00,000 and liabilities worth Rs. 70,000 from P & Co. at an agreed value of Rs. 5,50,000. Devi Ltd. issued 12% Debentures of Rs.100 each at a premium of 10% in full satisfaction of purchase consideration. The debentures were redeemable 3 years later at a premium of 5%. Pass entries to record the above including redemption of debentures.

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Answer

1. a. Creditors of the company, **Explanation:** Debenture holders are the creditors of a company because they are paid first at the time liquidation. Their payment (Principal amount and interest) is fixed, which has to be paid either firm is in profit or loss.
2. a. Under Other Current Liabilities, **Explanation:** When debentures become due for the redemption they are shown under the heading of Current Liabilities and subheading Other Current Liabilities.
3. d. Interest on debentures is paid before paying any dividend
Explanation: Interest on debentures is paid before paying any dividend.
Following statement are false:
 - Debentures cannot be issued as 'Collateral Security'
 - Debentures can be issued in cash only
 - Debentures cannot be issued at discount
4. c. An external equity
Explanation: Debentures are external equity i.e. outsiders liability. Capital contributed by the shareholders is called internal equity but amount contributed by the debenture holders is called external equity.
5. d. Debentures are completely unsafe
Explanation: Debentures are safe in comparison of shares. Debentures are almost risk-free because most of the time they are secured by a charge on the assets of the company.
6. A company if authorized by its articles of association can redeem its own debentures by purchasing them in the open market after purchasing the debentures the company may use any of the following two options:
 - i. The company can hold the debentures as an investment and these debentures can be sold or it can be cancelled if the company wishes
 - ii. The company can cancel these debentures.
7. **Unsecured Debentures:** Debentures are called unsecured in the sense that if the

company defaults on payment of the principal amount or interest, debenture holder has to be along with other unsecured creditors of the company. In simple words, these debentures are not secured by the charge of fixed assets. **Secured or Mortgaged Debentures**: Debentures are secured by a charge on the fixed assets of the company. If the company fails on payment of the principal amount or interest amount, assets under charge are sold to repay the amount due to the debenture holders.

8. Debenture is an instrument of debt owned by a company as an acknowledgement of debt.
9. Difference between Share Holder and Debenture Holder are as follows :

Base	Shareholder	Debenture holder
1) Status	There are the owners of the company. They have right to vote in meetings of the company.	They are the creditors of the company. They do not have any right to vote in meetings
2) Return	They are paid a Dividend. Rate of Dividend is not fixed.	They are paid interest. Rate of interest is generally fixed.
3) Security	Shares Holders are not secured.	Debenture holders are ordinarily secured.

10. Distinction between Shareholders and Debenture holders are as follows :

Basis	Shareholders	Debenture holders
Ownership	Shareholders are considered as the owners of the company.	Debenture holders are considered as Creditors or lenders of the company.
Participation in Management	They are entitled to take part in the management and have control over the working of the company.	Debenture Holders are not entitled to take part in the management and also don't have right to give advice on working of company.
Share of Profit	They enjoy the share of profit as dividend. If there is no profit or less profit, no or less dividend is paid.	They get interest and are not entitled to share the profits. Interest rate is fixed. Not depend on profit.

Risk Taker	Shareholders are at a greater risk. They can even lose the amount invested in shares.	Debenture holders are safe in comparison of shareholders. Secured Debenture Holders have almost no risk.
Voting Rights	They have right to attend and vote in the general meeting of the company.	They don't have any right to attend the meetings of the company or to vote.
Option of Convertibility	Shareholders cannot convert their shares in debentures.	Debenture holders can convert their Debentures in Equity Shares.

11. **An Extract of Balance Sheet of X Ltd.
as at 31st March 20XX**

Particulars	Note No.	(Rs.)
1. EQUITY AND LIABILITIES		
Non-Current Liabilities Long-term Borrowings	1	8,00,000

Note to Accounts:

1. Long-term Borrowings	
Bank Loan 9% Debentures 10,00,000 Less: Debentures Suspense A/c <u>10,00,000</u>	8,00,000

12. **Journal of S. Ltd.**

Date	Particulars		L.F.	Debit(Rs.)	Credit(Rs.)
2015, Apr. 30	Debentures Redemption Investment A/c	Dr.		1,500	...
	To Bank A/c			...	1,500
	(Being investment in specified securities made)			...	...

2015, Nov. 30	Balance in Statement of Profit & Loss A/c	Dr.		2,500	...
	To Debentures Redemption Reserve A/c			...	2,500
	(Being transfer of profit to Debentures Redemption Reserve)			...	...
30th Nov.	Bank A/c	Dr.		10,000	...
	To. Deb. Redemption Investment A/c			...	10,000
	(Being Investment encashed)			...	...
30th Nov.	10% Debentures A/c	Dr.		10,000	...
	To Debenture holders A/c			...	10,000
	(Being the amount due to Debenture holders)			...	...
30th Nov.	Debentures holders A/c	Dr.		10,000	...
	To Bank A/c			...	10,000
	(Being the amount paid to Debenture holders)			...	...

Note: The D.R.R. Balance will be transferred to General Reserve after all the debentures are redeemed.

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Date	Particulars	L.F.	Amt (Dr)	Amt (Cr)
	Surplus i.e. Balance in Statement of Profit and Loss A/c	Dr	25,000	
	To Debenture Redemption Reserve A/c (1,00,000 × 25%)			25,000

	(Being debentures redemption reserve created)				
	Debenture Redemption Investment A/c (1,00,000 × 15%)	Dr		15,000	
	To Bank A/c				15,000
	(Being the investment equal to 15% of the value of debenture to be redeemed invested)				
	Bank A/c	Dr		15,000	
	To Debenture Redemption Investment A/c				15,000
	(Being the debenture redemption investment encashed)				
	15% Debentures A/c (1,000 × 100)	Dr		1,00,000	
	Premium on Redemption of Debentures A/c (1,000 × 10)	Dr		10,000	
	To Debentureholders' A/c				1,10,000
	(Being debentures due for redemption)				
	Debentureholders' A/c	Dr		1,10,000	
	To Bank A/c				1,10,000
	(Being amount paid to debentureholders')				
	Debenture Redemption Reserve A/c Dr	Dr		25,000	
	To General Reserve A/c				25,000
	(Being debenture redemption reserve transferred to general reserve account)				

Notes: 1. Companies Act prescribes that every company issuing debentures shall create Debenture Redemption Reserve out of its profits available for distribution as dividend. 2. Amount credited to DRR shall not be utilised by company except for redemption of debentures.

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Journal

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

	Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being 10,000 debentures issued at a premium of 10% and redeemable at a premium of 20%)	Dr. Dr.		5,50,000 1,00,000	5,00,000 50,000 1,00,000
	On Redemption of Debentures				
	12% Debentures A/c Premium on Redemption of Debentures A/c To Debenture holder's A/c (Being the amount due to debenture holders on redemption)	Dr. Dr.		5,00,000 1,00,000	6,00,000
	Debenture holders A/c To Bank A/c (Being the payment made to debentures)	Dr.		6,00,000	6,00,000
	Total			45,50,000 =====	45,50,000 =====

15.

Books of Devi Ltd.

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Date	Particulars	L.F.	Amt (Dr)	Amt (Cr)
2006 Apr-01	Sundry Assets A/c	Dr	6,00,000	
	Goodwill A/c (Balancing figure)	Dr	20,000	
	To Sundry Liabilities A/c			70,000
	To P & Co.			5,50,000
	(Being business purchased)			

	P & Co.	Dr	5,50,000	
	Loss on Issue of Debentures A/c	Dr	25,000	
	To 12% Debentures A/c (5,000 × 100)			5,00,000
	To Securities Premium Reserve A/c (5,000 × 10)			50,000
	To Premium on Redemption of Debentures A/c (5,000 × 5)			25,000
	(Being debentures issued to P & Co. in consideration)			
2009 Mar 31	Surplus i.e. Balance in Statement of Profit and Loss	Dr	1,25,000	
	To Debenture Redemption Reserve A/c (5,00,000 × 25%)			1,25,000
	(Being debenture redemption reserve created out of profit)			
	Debenture Redemption Investment A/c (5,00,000 × 15%)	Dr	75,000	
	To Bank A/c			75,000
	(Being the investment made of amount equal to 15% of value of debentures to be redeemed)			
Apr-01	Bank A/c	Dr	75,000	
	To Debenture Redemption Investment A/c			75,000
	(Being the investment encashed)			
	12% Debentures A/c	Dr	5,00,000	
	Premium on Redemption of Debentures A/c	Dr	25,000	

	To Debentureholders' (P & Co.) A/c			5,25,000
	(Being debentures due for redemption)			
	Debentureholders' A/c	Dr	5,25,000	
	To Bank A/c			5,25,000
	(Being amount paid to debentureholders)			
	Debenture Redemption Reserve A/c	Dr	1,25,000;	
	To General Reserve A/c			1,25,000
	(Being debenture redemption reserve transferred to General Reserve Account)			

Working Note :

$$\begin{aligned}
 \text{1. Number of Debentures Issued} &= \frac{\text{Amount Due to P \& Co.}}{\text{Issue Price Per Debenture}} \\
 &= \frac{5,50,000}{110} = 5,000 \text{ debentures}
 \end{aligned}$$

2. When Purchase Consideration is more than Net Assets acquired, the excess of Purchase Consideration over Net Assets acquired is debited to Goodwill Account.

3. When Net Assets are more than Purchase Consideration, the excess of Net Assets acquired over Purchase Consideration is credited to Capital Reserve Account.