

CBSE Test Paper 01
Ch-8 Accounting for Debenture

1. Raghav Limited purchased a running business from Krishna traders for a sum of ₹15,00,000 payable ₹3,00,000 by cheque and for the balance issued 9% debentures of ₹100 each at par. The assets and liabilities consisted of the following: Plant and Machinery ₹4, 00,000 Building ₹6, 00,000 Stock ₹5,00,000 Debtors ₹3, 00,000 Creditors ₹2,00,000. Calculate amount of capital reserve
 - a. ₹200000
 - b. ₹100000
 - c. None of these
 - d. ₹150000
2. How would you show Debentures in the Balance sheet i.e. under which heading?
 - a. Share Capital
 - b. Reserve and Surplus
 - c. Non-current Liabilities
 - d. Current Liabilities
3. The following are the types of debentures except
 - a. Perpetual Debentures
 - b. Equity Debentures
 - c. Convertible debentures
 - d. Redeemable debentures
4. Vinod Limited redeem its 500 debentures of 100 each by purchasing these debentures at ₹94 from the open market for cancellation. Calculate the profit on cancellation of own debentures.
 - a. 3,000
 - b. 5000
 - c. 2500
 - d. 2000
5. When does a company issue debentures as collateral security
 - a. When lender does not gives additional security
 - b. When lender demands additional security
 - c. When lender does not demands additional security

d. When lender gives additional security

6. Beta Ltd issued 5,000, 9% debentures of Rs.500 each. Pass the necessary journal entries for the issue of debentures in the books of the company When debentures are issued at a premium of 25% to the vendors for machinery purchased for Rs. 6,25,000.
7. What is meant by the purchase of own debentures?
8. State the provisions of Companies Act, 2013 for the creation of debenture redemption reserve.
9. What is meant by convertible debentures?
10. State in brief, the SEBI Guidelines regarding Debenture Redemption Reserve.
11. Animesh Ltd. issued 1,000, 12 % Debenture of 100 each in the following manner:
 - i. For cash at par at Rs. 50,000 nominal value.
 - ii. For creditors of Rs. 45,000 against purchase of machinery at nominal value of Rs. 35,000.
 - iii. To S.B.I. bank against a loan of Rs. 10,000 as collateral security at nominal value of Rs. 15,000.

Pass Journal entries.

12. Tata Ltd issued 5,000, 10% debentures of Rs 100 each on 1st April, 2012. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half-yearly on 30th September and 31st March and tax deducted at source is 10%. Pass the necessary journal entries related to the debenture interest for the half-yearly ending on 31st March, 2013 and transfer of interest on debentures to statement of profit and loss.
13. On 1st April, 2013, the following balances appeared in the books of Blue and Green Ltd.
12% debentures (Redeemable on 31st August, 2015) (Rs.) 20,00,000
Debenture Redemption Reserve (Rs.) 2,00,000
The company met the requirements of the Companies Act, 2013 regarding Debenture Redemption Reserve and Debenture Redemption Investments and redeemed the

debentures.

Ignoring interest on investments pass necessary journal entries for the above transactions in the books of company.

14. On 1st April, 2015 KK Ltd issued 500, 9% debentures, of Rs.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 debenture 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.
15. X Ltd. Had Rs.12,00,000, 11% Debentures outstanding on 1st April, 2012. During the year, it took a loan of Rs.4 Lakh from Canara Bank for which company deposited debentures of Rs. Lakh as collateral security.

Pass journal entries and show how these transactions will appear in Balance Sheet of the company.

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Answer

1. b. ₹100000, **Explanation:** Amount of Capital Reserve = 1,00,000

Plant and machinery	4,00,000
Building	6,00,000
Stock	5,00,000
Debtors	3,00,000
To Creditors	2,00,000
To Krishna Traders	15,00,000
To Capital Reserve	1,00,000 (Bal. fig.)

2. c. Non-current Liabilities, **Explanation:** Debentures issued are shown under the heading of Non-current liabilities and sub-heading Long Term Borrowings.
3. b. Equity Debentures, **Explanation:** There are different types of debentures except Equity Debentures.
- i. Redeemable Debentures
 - ii. Perpetual Debentures
 - iii. Convertible Debentures
 - iv. Coupon Rate Debentures
4. a. 3,000, **Explanation:** Profit on cancellation of own debentures will be ₹3,000.
Profit per debentures is = $100 - 94 = 6$ 500 Debentures $\times 6 = 3,000$
5. b. When lender demands additional security, **Explanation:** A company issue its debentures as collateral security when lender demands for the additional security in addition to the prime or principal security.
- 6.

Books of Beta Ltd.

JOURNAL

Date	Particulars		L.F.	Amt (Dr)	Amt (Cr)
	Machinery A/c	Dr		6,25,000	
	To Vendor's A/c (Being machinery purchased)				6,25,000
	Vendor's A/c	Dr		6,25,000	
	To 9% Debentures A/c (1,000 × 500)				5,00,000
	To Securities Premium Reserve A/c (1,000 × 125) (Being 9% debentures issued to vendor at premium of 25%)				1,25,000

Working Note :

1. Number of Debentures Issued

$$= \frac{\text{Amount Due to Vendor}}{\text{Issue Price Per Debenture}} = \frac{6,25,000}{625(500+125)} = 1,000 \text{ debentures}$$

2. Debentures are said to have been issued at premium when Debentures are issued more than the nominal (face) value of debenture.

3. Premium on Issue of Debentures is capital receipt and is credited to Securities Premium Reserve Account.

4. Amount of Premium = $500 \times 25\% = \text{Rs. } 125$

7. According to the Companies Act, 2013, a company can purchase its own debentures from the open Market if it is authorised by its Articles of Association. This is known as purchase of own debentures. It can done with motive for investment or for cancellation.
8. As per Section 71(4) of the Companies Act, 2013 and companies (share capital and debentures) rules, every company issuing debentures is required to create debenture redemption reserve of an amount that is atleast equal to 25% of the nominal (face)

value of debentures that are redeemable by it. If the company have an amount in their profit than it can create it by 100% and if it is financial institution then it will be nil.

9. The holders of such debentures are given an option to exchanging the amount of their debentures with equity shares or other securities after a specified period.
10. As per SEBI Guidelines, an amount equal to 25% of face value of the debentures are to be redeemed, must be transferred to DRR before the redemption begins.

11. **Books of Animesh Ltd.**

Journal

Date	Particulars		L.F.	Dr. (Rs.)	Cr. (Rs.)
	Debentures application and allotment a/c	Dr.		50,000	.....
	To 12% Debentures a/c			.....	50,000
	(Being 12% Debentures issued at par)			.....	.....
	Bank A/c	Dr.		50,000	.....
	To Debentures application and allotment a/c			.....	50,000
	(Being money received on 500 debentures @ Rs. 100)			.....	.....
	Machinery a/c	Dr.		45,000	.....
	To Vendor's a/c			.....	45,000
	(Being machinery purchased)			.....	.....
	Vendor a/c	Dr.		45,000	.....
	To 12% Debentures a/c			.....	35,000
	To Securities Premium a/c			.....	10,000
	(Being Debentures issued to vendors at a premium)			.....	.....

	Bank a/c	Dr.		10,000	.....
	To Bank Loan a/c			.....	10,000
	(Being Loan borrowed)			.....	.....
	Debentures suspense a/c	Dr.		15,000	.....
	To 12% Debentures a/c			.....	15,000
	(Being Debentures issued as collateral security)			.....	.....

12.

Books of Tata Ltd.

JOURNAL

Date	Particulars		L.F.	Amt (Dr)	Amt (Cr)
2012					
30-Sep					
	Debenture Interest A/c $\left(5,00,000 \times \frac{10}{100} \times \frac{6}{12}\right)$	Dr		25,000	
	To Income Tax Payable A/c (25,000x10%)				2,500
	To Debentureholders A/c				22,500
	(Being interest made due for half yearly ending 30th September)				
30-Sep	Debentureholders A/c	Dr		22,500	
	To Bank A/c				22,500
	(Being interest paid to debenture holders)				
30-Sep	Income Tax Payable A/c	Dr		2,500	
	To Bank A/c				2,500
	(Being payments of tax on interest on debentures)				

2013					
31-Mar	Debenture Interest A/c $\left(5,00,000 \times \frac{10}{100} \times \frac{6}{12}\right)$	Dr		25,000	
	To Income Tax Payable A/c (25,000x10%)				2,500
	To Debentureholders' A/c				22,500
	(Being interest made due for half yearly ending 31st March)				
31-Mar	Debentureholders' A/c	Dr		22,500	
	To Bank A/c				22,500
	(Being interest paid to debentureholders')				
31-Mar	Income Tax Payable A/c	Dr		2,500	
	To Bank A/c				2,500
	(Being payment of tax or interest on debentures)				
31-Mar	Statement of Profit and Loss	Dr		50,000	
	To Interest on Debentures A/c				50,000
	(Being interest on debentures account transferred to statement of profit and loss)				

NOTES :

- T.D.S. payable is deducted before interest is paid to debenture and deposited to government account.
- Interest on Debenture is transferred to Statement of Profit and Loss at the end of year.

JOURNAL

Date	Particulars	L.F.	Amt (Dr)	Amt (Cr)
2015 Mar 31	Surplus i.e., Balance In Statement of Profit and Loss	Dr	3,00,000	
	To Debenture Redemption Reserve A/c (W.N. 1)			3,00,000
	(Being the amount equal to 25% of debentures transferred to D.R.R.)			
Apr 30	Debenture Redemption Investment A/c (20,00,000 × 15%)	Dr	3,00,000	
	To Bank A/c			3,00,000
	(Being the amount equal to 15% of value of debentures to be redeemed invested)			
Aug 31	Bank A/c	Dr	3,00,000	
	To Debenture Redemption Investment A/c			3,00,000
	(Being the investment encashed)			
Aug 31	12% Debentures A/c	Dr	20,00,000	
	To Debentureholders' A/c			20,00,000
	(Being the amount due on redemption)			
Aug 31	Debentureholders' A/c	Dr	20,00,000	
	To Bank A/c			20,00,000
	(Being the payment made to debentureholders)			
2016				

Mar 31	Debenture Redemption Reserve A/c			5,00,000	
	To General Reserve A/c				5,00,000
	(Being the transfer of balance of D.R.R. to General Reserve)				

Working Note:

1. Amount Transferred to Debenture Redemption Reserve :

Required Debenture Redemption Reserve (25% of 20,00,000)	= 5,00,000
(-) Existing Balance	= (2,00,000)
	Rs. 3,00,000

2. Debenture Redemption Investment should be redeemed by the company by 31st March of next year and the amount should be invested on or before 30th April of the current year.

3. The amount invested or deposited should not at any time fall below 15% of the amount of debentures maturing by 31st March of the current year.

14.

In the books of K Ltd.

Journal

Date	Particulars		L/F	Debit Amount (Rs)	Credit Amount (Rs)
2015 1 Apr	Bank A/c Discount on issue of debentures A/c To 9% Debentures A/c (Being issued 500 9% debentures of Rs 500 each at a discount of 4%)	Dr Dr		2,10,000 40,000	2,50,000
	Bank A/c				

2015	Tax Deducted at source A/c	Dr		20,250	22,500
30	To 9% Debenture Interest A/c	Dr		2,250	
Sep	(Being interest on debentures paid and TDS deducted)				
2016	Bank A/c				
31	Tax Deducted at source A/c	Dr		20,250	22,500
Mar	To 9% Debenture Interest A/c	Dr		2,250	
	(Being interest on debentures paid and TDS deducted)				

15. FIRST METHOD. NO ENTRY IS PASSED FOR DEBENTURES

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2012	Bank A/c Dr.		4,00,000	...
1st	To Canara Bank's loan A/c			
April	(Loan has taken from the bank against collateral security of debentures worth Rs.5 Lakhs)		....	4,00,000

Balance Sheet of X Ltd.

As at 1st April, 2012

Particulars	Notes No.	(Rs.)
Equity And Liabilities		...
3. Non-Current Liabilities		...
(a) Long-term Borrowing	1	16,00,000
Notes to Balance Sheet		...
Note No. 1		(Rs.)
Long-Term Borrowings:		...

11% Debentures	12,00,000
Bank Loan (Against Collateral Security of Debentures Rs. 5,00,000)	4,00,000
.Total	16,00,000

Second Method. Entry for issue of Debentures is passed.

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
2012, April 1	Bank A/c Dr.		4,00,000	...
	To Canara Bank's Loan A/c		...	4,00,000
	(Loan Taken from bank)		...	...
	Debentures Suspense A/c Dr.		5,00,000	...
	To 11% Debentures A/c		...	5,00,000
	(Issue of Rs. 5,00,000 Debentures issued as collateral Securities)		...	...

Presentation of Debentures and Bank Loan will remain same as explained Balance Sheet Under 1st Method, however, presentation of information in note will differ.

Balance Sheet of X Ltd.

As at 31st March, 2013 (ASSUMED)

Particulars	Notes No.	(Rs.)
1. Equity and Liabilities		...
2. Non-Current Liabilities		...
(a) Long-term Borrowings	1	16,00,000

Ind Method

Notes to Balance Sheet

Particulars	(Rs.)	(Rs.)
Note No. 1	...	...
Other Long-term Borrowings:	...	...
11% Debentures (12,00,000 + 5,00,000)	17,00,000	...
Less: Debentures Suspense A/c	5,00,000	12,00,000
Bank Loan (Against Collateral Security of Debentures of Rs. 5,00,000)	...	4,00,000
Total	...	16,00,000

*When the loan is paid to the lender, the above entry is cancelled by passing a reverse entry.

* If the company fails to pay the loan along with interest in time, the lender may recover the dues from the sale of primary security or by seeking redemption of collateral security, i.e., debentures. When the loan is paid back, the debentures issued as collateral security are returned to the company. These debentures do not carry any right till the time loan is being repaid along with due interest and the lender has not demanded the loan to be repaid.