Issue and Redemption of Debentures

Introduction to Debentures

Objective

After going through this lesson, you shall be able to understand the following concepts.

- Meaning of Debenture and its Features
- Difference between Shares and Debentures
- Types of Debenture

Introduction to Debentures

In the previous chapter, we learnt about shares and also understood how a company issues shares to the general public in order to raise capital. Similar to the shares, debentures are also issued by a company to meet its capital requirements. The word debenture is derived from a Latin word '*debere*' which means to borrow. A debenture is a debt instrument issued in the form of a certificate under the seal of a company and containing a contract for the repayment of the principal sum after a fixed period of time and payment of interest at regular intervals, generally half yearly. Debentures are issued by a company for meeting its capital needs and considered as long-term borrowings of the company.

According to Section 2(30) of the Companies Act, 2013, 'Debenture' includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

In other words, debentures are instruments to raise long-term debt, issued by a borrower company for acknowledging debt. It is an instrument in writing that specifies the rate and time interval for payment of interest and terms and condition for repayment of principle amount of the debt.

Similar to the shares, debentures can be issued by a company either to raise its capital or to purchase assets and business. The holders of debentures are known as debentureholders. Debentures are generally freely transferable from one debentureholder to another debentureholder.

Features of Debenture

The mentioned below are some features of debenture.

i. It is a debt instrument issued by a company.
ii. It is issued under a seal of a company.
iii. It specifies the way of repayment of principal sum and interest on specific intervals and also specifies the date of its redemption.
iv. It is a transferable instrument and thus can also be considered as a movable property of the company.
v. It is a long-term borrowings of the company.

Difference between Shares and Debentures

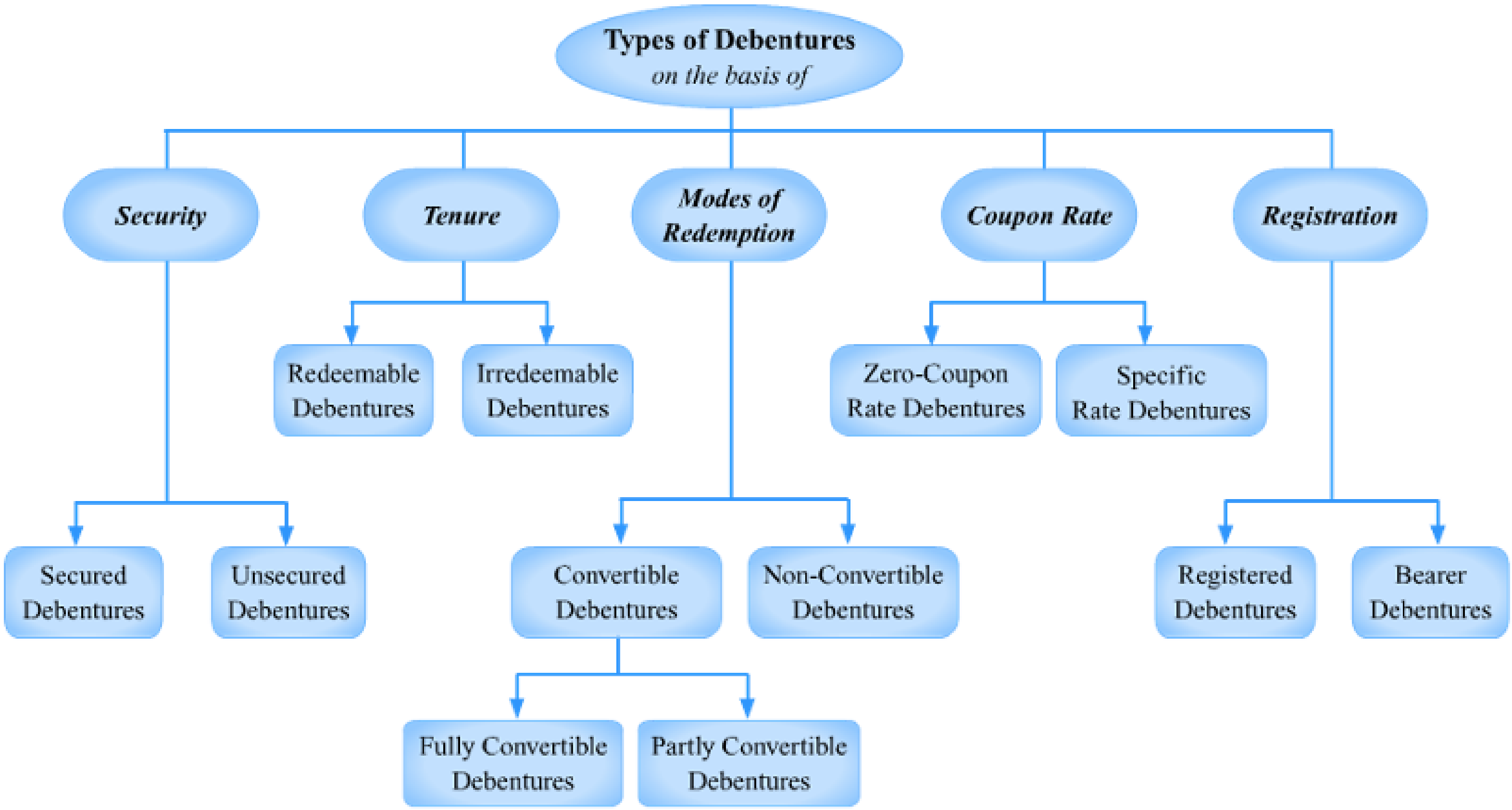
Shares and debentures are the two sources for raising capital by a company. The main points of differences between the two are given below.

Basis of Difference	Shares	Debentures
1. Owner or Creditor	Share holders are the owners since shares forms a are part of owned capital	Debenture holder are Creditors since debentures are a part of loan
2. Voting Rights	Share holders have the voting rights	Debenture holders do not have any voting rights.
3. Returns	Share holders are entitled for returns in the form of dividend.	Debenture holders are entitled for returns in the form of interest.
4. Rate of Return	The rate of dividend is not fixed and varies from year to year.	The rate of interest is fixed and do not vary from year to year.
5. Obligations of Return	Dividend is appropriation of profit. Dividend will not be paid if losses are incurred by the company	Interest is charged against profit, interest is payable even if there is no profit.
6. Repayment of Amount	The amount of share is not returned during the life time of the company	The amount of debenture is returned according to the term of issue.
7. Issue	As per the Section 53 of Companies Act 2013, shares ***cannot*** be issued at discount, except sweat equity shares (as mentioned in Section 54 of 2013 act). On the contrary, the earlier enforced act i.e. Companies Act of 1956, allowed the issue of shares at discount as per the conditions laid by Section 79 of the act.	There are no such restrictions for issuing debentures on discount.
8. Conversion	Shares cannot be converted into debentures.	Debentures can be converted into shares.
9. Risk	Shares are more risky than debenture as these are unsecured.	If debentures are secured against asset, the risk involved is the minimal.
10. Repayment Priority	Payment to the share holders is made after settlement of all external liabilities, i.e. after debenture holders.	Payment to the debenture holders is made before the share holders.

Types of Debentures

There are different types of debentures. Debentures can be classified on the following basis.

I. On the Basis of Security
II. On the Basis of Tenure
III. On the Basis of Mode of Redemption
IV. On the Basis of Coupon Rate
V. On the Basis of Registration



On the Basis of Security- On this basis, debentures can be classified as Secured Debentures and Unsecured Debentures.

a. **Secured Debentures-** These debentures are those debentures that are secured against some asset/s of a company. These are also known as Mortgaged Debentures. In case the company fails to pay back the principal amount of debentures or fails to meet its interest obligations on the due date, then the holders of such debentures have a right to sell the mortgaged asset in order to realise their amount due to the company.
b. **Unsecured Debentures-** These debentures are those debentures that are not secured against the asset/s of a company. In short, these debentures do not have any security with respect to its principal amount along with interest amount. The holders of such debentures are are treated as unsecured creditors.

II. ***On the Basis of Tenure***- On this basis, debentures can be classified as Redeemable Debentures and Irredeemable Debentures.

a. **Redeemable Debentures**- These debentures are those debentures which are issued for a specific period of time. Such debentures are payable (or redeemable) after the expiry of that specific period. These debentures can be redeemed at par or premium either in lump-sum or in instalment.

b. **Irredeemable Debentures**- These debentures are those debentures that cannot be redeemed by a company during its life time. There are repayable only at the time of winding up of a company. These are also known as Perpetual Debentures that means debentures having indefinite life. In India, now days, no company can issue irredeemable debentures.

III. ***On the Basis of Mode of Redemption***- On this basis, debentures can be classified as Convertible Debentures and Non-Convertible Debentures.

a. **Convertible Debentures-** These debentures are those debentures that can be converted into equity shares or other securities after a specified period of time. Convertible Debentures can be further divided into Fully Convertible Debentures and Partly Convertible Debentures.

i. *Fully Convertible Debentures*- When the whole amount of a debenture is convertible into equity shares or other securities of equivalent amount, then these debentures are called Fully Convertible Debentures. There is no need to maintain Debenture Redemption Reserves for such debentures.

ii. *Partly Convertible Debentures*- When only a part of amount of a debenture is convertible into equity shares or other securities, then these debentures are called Partly Convertible Debentures. In this regard, the Debenture Redemption Reserve is maintained only for the non-convertible part of the debentures.

b. **Non-Convertible Debentures-** Non - Convertible Debentures are those debentures which cannot be converted into shares. Generally debentures are non - convertible.

IV. **On the Basis of Coupon Rate-** On this basis, debentures can be classified as Zero Coupon Rate Debentures and Specific Rate Debentures.

a. **Zero Coupon Rate Debentures-** These debentures do not contain a specific rate of interest and can be issued at discount. In other words, interest rates these debentures are not specified. The excess of the face value of the debenture over its issue price is considered as interest amount.

b. **Specific Rate Debentures-** These are the debentures that are issued with a specific rate of interest which may be either fixed or floating.

V. **On the Basis of Registration-** On this basis, debenture can be classified as Registered Debentures and Bearer debentures.

a. **Registered Debentures-** These are those debentures, on the issue of which the company has to maintain a record regarding name, address and number of holding of debentures in the Register of Debentureholders of the company. Such debentures are not easily and freely transferable.

b. **Bearer Debentures-** When a company does not maintain any record of the debentureholders and the debenture is transferable mere by delivery, then the type of debenture held by the holders is termed as Bearer Debenture. Interests on such debentures are paid to the persons who produce the interest coupons that are attached with these debentures in a specified bank.

Exercise

Complete each of the following sentences by choosing the appropriate word in the space provided.

1. Debentures is ________ instrument issued under a common seal of the company. (a debt/an equity)

2. Company pays _________ on debentures at regular interval. (dividend/interest/commission)

3. _________ holders have right to vote in the General Meeting of the Company. (Share/Debenture)

4. At the time of winding up of a company accepts claim of __________ prior to __________. (Preference Shares/Debentures)

5. Debentures have __________ (Debit/Credit) balance. It is __________ (an expense/ an asset/a liability) to the company.

Solutions

1. a Debt

2. Interest

3. Shareholders

4. Debentures, Preference Shares

5. Credit Balance, a Liability.

Issue of Debentures

Objective

After going through this lesson, you shall be able to understand the following concepts related to the issue of debentures for cash.

- Issue of Debentures at Par, Premium and Discount
- Issue of Debentures- Lump-sum Issue and Instalment Issue

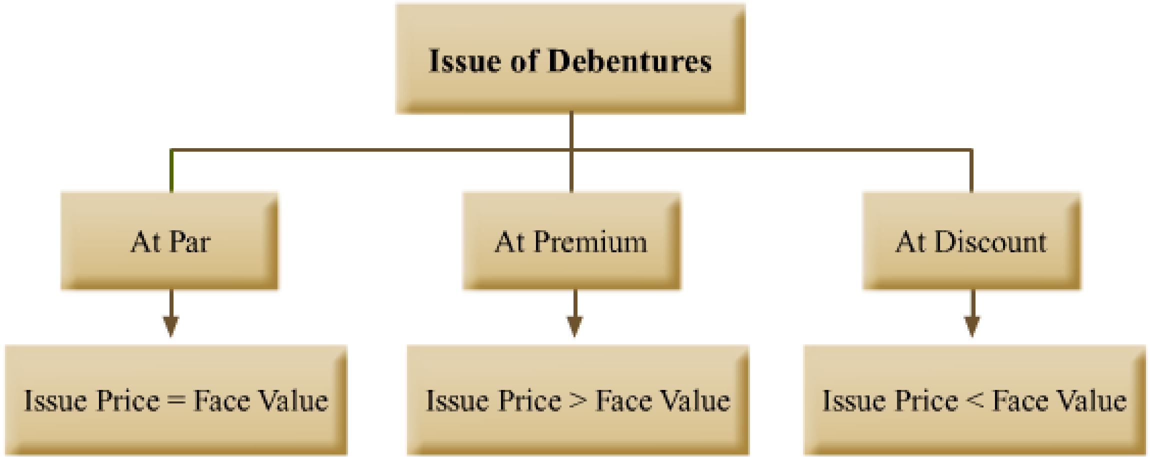
Issue of Debentures

A company issues debentures in the same way as it issues shares to the general public for meeting its capital requirement. Also, the accounting treatment for the issue of debentures is similar to that for the issue of shares. A company is required to prepare a prospectus which will be offered to the public for inviting them for subscribing debentures. This prospectus contains all the terms and conditions relating to the issue and redemption of the debentures. Debentures can be issued at par, at premium or at discount. That is, unlike shares, there is no such restriction on the issue of debentures at discount. Debentures can be issued in the following forms.

i. Issue of Debentures for Cash
ii. Issue of Debentures for Consideration other than Cash
iii. Issue of Debentures as Collateral Security

In this chapter we will study the Issue of Debentures for Cash. A company can issue debentures at their face value or at a value that is less than or more than their face value. Accordingly, the issue of debentures for cash can be classified as:

i. Issue of Debentures at ***Par*** (Issue Price = Face Value)
ii. Issue of Debentures at ***Premium*** (Issue Price > Face Value)
iii. Issue of Debentures at ***Discount*** (Issue Price < Face Value)



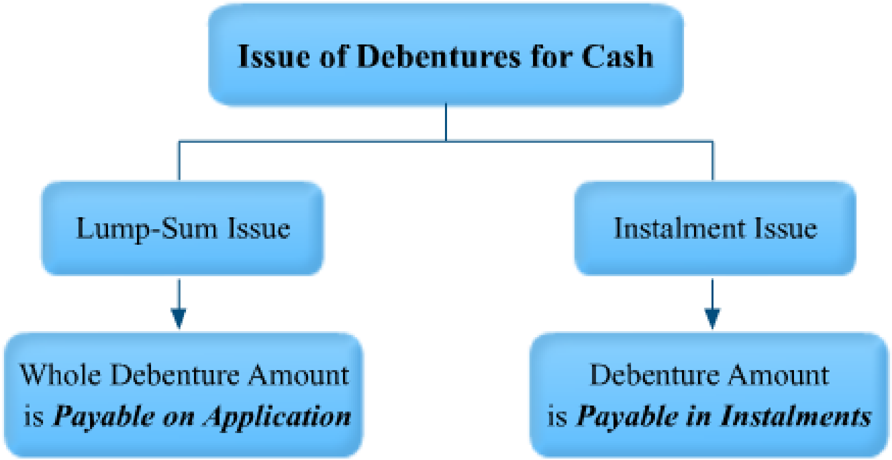
Issue of Debentures 'At Par'- When a company issue debentures at a price equal to the nominal or face value of the debenture, then it is known as Issue of Debentures at Par. For example, a debenture having a face value of Rs 15 is issued at the same value i.e. Rs 15. In this case, the issue price of debenture is equal to its face value. Therefore, it is a case of issue of debenture at par.

Issue of Debenture at 'Premium'- When the debentures are issued at a price more than the face value (or nominal value) of debenture, it is known as Issue of Debentures at Premium. In this case, issue price is more than the face value of debenture. The difference between the issue price and face value is considered as premium. This premium is credited to the Securities Premium Account. For example, a debenture of a face value of Rs 50 is issued at Rs 65. The excess of issue price (Rs 65) over its face value (Rs 50) i.e. Rs 15 (Rs 65 – Rs 15) is a amount of premium. The amount of Securities Premium can be utilised for the purposes as stated in section 52 of the Companies Act, 2013 (Section 77A and 78 of the Companies Act, 1956)

Issue of Debentures at 'Discount'- When a company issues debentures at a price less than its face value, then it is known as Issue of Debentures at Discount. For example, a debenture of face value of Rs 100 is issued at Rs 90. In this case, the issue price (i.e Rs 90) is lesser than the face value (i.e. Rs 100). Therefore, it is a case, where debentures are issued at a discount of Rs 10. The difference between the issue price and face value of debenture is considered as Discount. In this example, the amount of discount allowed on debentures (i.e. Rs 10) is regarded as a loss to the company. Unlike shares, there is no specific restrictions on issue of debentures at discount by the Companies Act. However, the Article of Association should contain the provision for issue of debentures at discount.

Issue of Debentures for Cash

Whenever a company attempts to raise capital in cash by issuing debentures to the general public, then this process is known as issue of debentures for cash. Similar to the cases of shares, a company can call the entire debenture money in just one single instalment or in number of instalments. Thus, depending on the number of instalments, the issue of debentures can be segmented in two cases namely- *Lump-sum Issue* and *Instalment Issue*. This is explained diagrammatically below.



Lump-sum Issue (when whole Debenture amount is payable on application)

If a company calls for the entire debenture money in one single instalment, then such issue of debentures is known as *issue of debentures for cash in lump-sum*. In this case, the debentureholders have to pay the whole debenture money in just one instalment that is at the time of application.

At the time of Application	
Bank A/c *(No. of debentures × Issue Price of debentures)*	Dr.
To Debentures Application A/c *(No. of debentures × Issue Price of debentures)*	
(Amount received on application)	
At the time of lump-sum issue at par	
Debenture Application A/c	Dr.
To __ % Debentures A/c *(No. of debentures × Face Value of debentures)*	
(Application money transferred to debenture account on allotment)	
At the time of lump-sum issue at premium	
Debenture Application A/c	Dr.
To __ % Debentures A/c *(No. of debentures × Face Value of debentures)*	
To Securities Premium A/c	
(Application money transferred to debenture account on allotment)	
At the time of lump-sum issue at discount	
Debenture Application A/c	Dr.
Discount on Issue of Debentures A/c	Dr.
To __ % Debentures A/c *(No. of debentures × Face Value of debentures)*	
(Application money transferred to debenture account on allotment)	

***Example*:** A Company issued 2,000, 12% Debentures of Rs 100 each. The whole amount was payable on application. All the debentures were applied and duly allotted. Pass the necessary Journal entries in each of the following cases.
(a) Debentures were issued at par
(b) Debentures were issued at premium of Rs 10
(c) Debentures were issued at discount of Rs 10

Solution

Journal

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(a)	Bank A/c Dr. To Debenture Application A/c (Debenture application money received on 2,000 debentures at Rs 100 per debenture)		2,00,000	 2,00,000
	Debenture Application A/c Dr. To 12% Debentures A/c (Application money transferred to Debentures Account)		2,00,000	 2,00,000

Journal

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(b)	Bank A/c Dr. To Debenture Application A/c (Debenture application money received on 2,000 debentures at Rs 110 per debenture)		2,20,000	 2,20,000
	Debenture Application A/c Dr. To 12% Debentures A/c To Securities Premium A/c (Application money transferred to Debentures Account)		2,20,000	 2,00,000 20,000

Journal

Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
(c)	Bank A/c	Dr.		1,80,000	
	To Debenture Application A/c				1,80,000
	(Debenture application money received on 2,000 debentures at Rs 90 per debenture)				
	Debenture Application A/c	Dr.		1,80,000	
	Discount on Issue of Debentures A/c	Dr.		20,000	
	To 12% Debentures A/c				2,00,000
	(Application money transferred to Debentures Account)				

Instalment Issue (when amount is payable in instalments)

Instead of calling for the whole amount of debentures at the time of application, a company can generally prefers to call the debenture money over different instalments. These instalments are known as application, allotment, first call, second call and third call.

Note:

1. *Students may find that the Journal entries in case of issue of debentures are similar to that of in case of issue of shares. The only difference between the two is that instead of Shares Application, Allotment and Share First Call, Debentures Application, Debenture Allotment and Debenture First Call and so on is mentioned.*
2. *Also, debentures are always preceded by the percentage rate of interest such as 12% Debentures, 20% Debentures, etc.*

The following Journal entries are passed in case of issue of Debentures.

At the time of Application	
Bank A/c	Dr.
To Debentures Application A/c	
(Amount received on application)	
Debenture Application A/c	Dr.
To __ % Debentures A/c	
(Application money transferred to debenture account on allotment)	
At the time of Allotment	
Debentures Allotment A/c	Dr.

To __ % Debentures A/c (Money due on allotment) Bank A/c Dr. To Debenture Allotment A/c (Amount received on allotment)
At the time of Calls
Debenture First/Second/Third Call A/c Dr. To __ % Debentures A/c (Money due on First/Second/Third Call) Bank A/c Dr. To Debenture First/Second/Third Call A/c (Amount received on First/Second/Third Call)

Instalment Issue at Par

***Example*: ** PQR Ltd issued 1,000, 11% Debentures of 100 each payable Rs 20 on application, Rs 50 on allotment and remaining amount on first and final call. All the debentures were the applied and duly allotted. Pass the necessary Journal entries.

Solution

PQR Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr.		20,000	
	To Debenture Application A/c			20,000
	(Debenture application money received on 1,000 debentures at Rs 20 per debenture)			
	Debenture Application A/c Dr.		20,000	
	To 11% Debentures A/c			20,000
	(Application money transferred to debentures account)			
	Debenture Allotment A/c Dr.		50,000	
	To 11% Debentures A/c			50,000
	(Allotment money due on 1,000 11% Debentures of Rs 50 per debenture)			
	Bank A/c Dr.		50,000	

	To Debenture Allotment A/c (Debenture allotment money received)			50,000
	Debenture First and Final Call A/c Dr. To 12% Debentures A/c (Debenture first and final call due1,000 11% Debentures of Rs 30 per debenture)		30,000	30,000
	Bank A/c Dr. To Debenture First and Final Call A/c (Debenture First and Final call received)		30,000	30,000

Example: Hanisha Ltd. issued 7,500, 12% debentures of Rs 50 each payable Rs 20 on application, Rs 15 on allotment and remaining balance on first and final call. All the debentures were fully subscribed and all the money was duly received. Pass the necessary Journal entries.

Solution

Hanisha Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To Debenture Application A/c (Amount received on application of 7,500 debentures at Rs 20 per debenture)		1,50,000	1,50,000
	Debenture Application A/c Dr. To 12% Debenture A/c (Application money transferred to debentures account)		1,50,000	1,50,000
	Debenture Allotment A/c Dr. To 12% Debenture A/c (Amount due on allotment of 7500 debentures at Rs 15 per debenture)		1,12,500	1,12,500
	Bank A/c Dr. To Debenture Allotment A/c (Amount received on allotment of debentures)		1,12,500	1,12,500
	Debenture First and Final call A/c Dr.		1,12,500	

	To 12% Debenture A/c (Amount due on first and final call of 7,500 debentures at Rs 15per debenture)			1,12,500
	Bank A/c Dr. To Debenture First and Final Call A/c (Amount received on call)		1,12,500	1,12,500

Instalment Issue at Premium

Example: Heena Ltd issued 3,000, 9% debentures of 50 each at a premium of 20% payable as follows- Rs 20 on application Rs 30 on allotment (including premium) and balance on first and final call. All the debentures were applied and allotted. Also, all the money due was duly received. Pass the necessary Journal entries.

Solution

Heena Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (3,000 debentures × Rs 20) Dr. To Debenture Application A/c (Application money received on 3,000 debentures at Rs 20 per debenture)		60,000	60,000
	Debenture Application A/c Dr. To 9% Debenture A/c (Application money transferred to debentures account)		60,000	60,000
	Debenture Allotment A/c (3000 debentures × Rs 30) Dr. To 9% Debenture A/c (3000 debentures × Rs 20) To Securities Premium A/c (3000 debentures × Rs 10) (Allotment money due on 3,000 debentures at Rs 30 including premium of 10% i.e. Rs 10 per debenture)		90,000	60,000 30,000
	Bank A/c Dr. To Debenture Allotment A/c (Amount received on allotment)		90,000	90,000
	Debenture First and Final Call A/c Dr. To 9% debenture A/c		30,000	30,000

	(Amount due on first and final call of 3,000 debentures at Rs 10 per debenture)			
	Bank A/c Dr.		30,000	
	To Debenture First and Final Call A/c			30,000
	(Amount received on call)			

Instalment Issue at Discount

Example: Archana Ltd. issued 4,500, 8% debentures of Rs 50 each at a discount of 10% payable as Rs 15 on application, Rs 20 on allotment and balance on first and final call. Pass the necessary Journal entries.

Solution

Archana Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (4,500 debentures × Rs 15) Dr.		67,500	
	To Debenture Application A/c			67,500
	(Application money received on 4,500 debentures at Rs 15 per debenture)			
	Debenture Application A/c Dr.		67,500	
	To 8% Debenture A/c			67,500
	(Application money transferred to debentures account)			
	Debenture Allotment A/c (4,500 debentures × Rs 20) Dr.		90,000	
	Discount on Issue of Debenture A/c (4,500 debentures × Rs 5) Dr.		22,500	
	To 8% Debenture A/c (4,500 debentures × Rs 25)			1,12,500
	(Allotment money due on 4,500 debentures at Rs 20 per debenture at a discount of Rs 5)			
	Bank A/c Dr.		90,000	
	To Debenture Allotment A/c			90,000
	(Amount received on allotment)			
	Debenture First and Final Call A/c (4500 debentures × Rs 10) Dr.		45,000	
	To 8% Debenture A/c			45,000
	(Amount due on call of 4,500 debentures at Rs 10 per debenture)			

	Bank A/c Dr. To Debenture First and Final Call A/c (Amount received on call)		45,000	 45,000

Issue of Debentures for Consideration Other than Cash

Objective

After going through this lesson, you shall be able to understand the following concepts of Issue of Debentures for Consideration other than Cash.

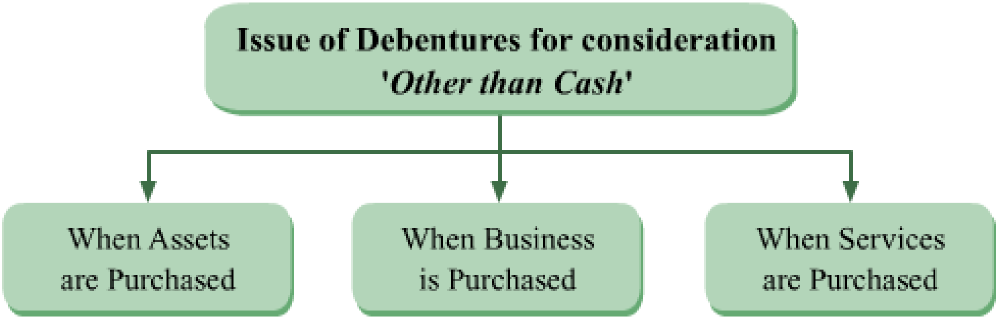
- Issue of Debentures for Purchase of Assets
- Issue of Debentures for Purchase of Business
- Issue of Debentures for Purchase of Services

Issue of Debentures for Consideration other than Cash

Generally, a company issues its debentures for a cash consideration (that is debentures issued for cash). It implies that the debentures are issued by a company for raising its capital in the form of cash. But, it is not always necessary that a company will issue debentures for cash. Debentures can also be issued for consideration other than cash. Sometimes, when a company purchases assets from its suppliers or vendors it issues debentures to them instead of making payment in cash. In such a situation, the debentures are said to be issued against the purchase of assets. Moreover, there are times, when a company purchases the whole business of some other firm. For example, Company A Ltd. purchased the business of Company B Ltd. The purchase of business implies purchase of all the assets and liabilities. In this case, the company can issue debentures in return rather than making payment in cash. In such a situation, the debentures are said to be issued against the purchase of business.

Thus, from the above mentioned cases, we can conclude that there are times when the debentures are issued not merely in exchange of cash but also are issued for settlement of payments against purchase of assets and purchase of business. As in these cases, the debentures are not issued in exchange of cash, so such instances are termed as Issue of Debentures for Consideration other than Cash. In such instances, the debentures can be either issued at par, premium or at discount to the vendor (seller).

Accounting Treatment for Issue of Debentures other than Cash



Case-1: When Assets are Purchased

Issue at *Par*	Issue at *Premium*	Issue at *Discount*
Purchase of Assets	***Purchase of Assets***	***Purchase of Assets***
Asset A/c Dr. To Vendor (Assets purchased)	Asset A/c Dr. To Vendor (Assets purchased)	Assets A/c Dr. To Vendor (Assets purchased)
Issue of Debentures	***Issue of Debentures***	***Issue of Debentures***
Vendor Dr. To Debentures A/c (Debentures issued to vendor) $\text{No. of Deb. issued} = \frac{\text{Amount Payable}}{\text{Face value per Debenture}}$	Vendor Dr. To Debentures A/c To Securities Premium A/c (Debentures issued to vendor at premium) $\text{No. of Deb. issued} = \frac{\text{Amount Payable}}{(\text{Face value} + \text{Premium})\text{ per Debenture}}$	Vendor A/c Dr. Discount on Issue of Debentures A/c Dr. To Debentures A/c (Debentures issued to vendor at discount) $\text{No. of Deb. issued} = \frac{\text{Amount Payable}}{(\text{Face value} - \text{Discount})\text{ per Debenture}}$

Example: X Ltd. purchased a furniture for Rs 20,000 from Janta Furniture. It made the payment by issuing 14% Debentures of Rs 100 each. Pass the necessary Journal entries.

Solution

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Furniture A/c Dr. To Janta Furniture (Furniture purchased from Janta furniture)		20,000	 20,000

	Janta Furniture Dr. To 14% Debenture A/c (Issued of 200 14% Debentures of Rs 100 each for consideration of furniture purchased)		20,000	20,000

Calculation of Number of Debentures to be Issued

$$Note: \text{ No. of Deb. issued} = \frac{\text{Amount Payable}}{\text{Face value per Debenture}} = \frac{20,000}{100} = 200 \text{ Debentures}$$

Example: B Ltd. purchased a machine for Rs 60,000 from Machine Tools Co. and settled the purchase consideration by issuing 8% Debentures of Rs 10 each at a premium of Rs 2. Pass the necessary Journal entries.

Solution

Books of B Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Machinery A/c Dr. To Machine Tools Co. (Machinery purchased from Machine Tools Company)		60,000	60,000
	Machine Tools Co. Dr. To 8% Debenture A/c To Securities Premium A/c (Issued 5,000, 8% Debentures of Rs 10 each issued at a premium of Rs 2 to Machine Tools Co.)		60,000	50,000 10,000

Calculation of Number of Debentures to be Issued

$$\text{No. of Deb. issued} = \frac{\text{Amount Payable}}{\text{(Face value+Premium) per Debenture}} = \frac{60,000}{10+2} = 5,000 \text{ Debentures}$$

Example: Y Ltd. purchased a plant for Rs 36,000 from Genpech Ltd. and issued 14% Debentures of Rs 10 each at a discount of Re 1 against the purchase consideration. Pass the necessary Journal entries.

Solution

Books of Y Ltd.
Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Plant A/c	Dr.		36,000	
	To Genpech Ltd.				36,000
	(Machinery purchased from machine tools company)				
	Genpech Ltd.	Dr.		36,000	
	Discount on Issue of Debentures A/c	Dr.		4,000	
	To 14% Debenture A/c				40,000
	(Issued 4,000, 14% Debentures of Rs 10 each issued at a discount of Re 1)				

Calculation of Number of Debentures to be Issued

$$\text{No. of Deb. issued} = \frac{\text{Amount Payable}}{(\text{Face value} - \text{Discount})\text{ per Debenture}} = \frac{36{,}000}{(10-1)} = 4{,}000 \text{ Debentures}$$

Case-2 When Business is Purchased

Purchase of a business implies that a company is completely taking-over another company. It implicitly implies that the company is purchasing all the assets and liabilities of the another company. In this case, the purchasing company may settle the purchase consideration by issuing debentures to the vendor (company that is being purchased) rather than payment in cash. These debentures can be issued either at par, at premium or at discount.

Net Assets and Purchase Consideration

Net Assets is regarded as a difference between the total assets and total liabilities (i.e. Total assets – Total liabilities). On the other hand, purchase consideration is the amount that is agreed to be paid by the purchasing company to the vendor.

In case of purchase of a business, the following three situations can be possible.

i. Value of Net assets is *equal to* the Purchase Consideration
ii. Value of Net Assets is *less than* the Purchase Consideration
iii. Value of Net Assets is *more than* the Purchase Consideration

The following table presents the Journal entries that are to be passed in case of purchase of business.

Purchase of Business		
Net Assets = Purchase Consideration	**Net Assets < Purchase Consideration**	**Net Assets > Purchase Consideration**
Sundry Assets A/c Dr.	Assets A/c Dr.	Assets A/c Dr.

To Liabilities A/c To Vendor * (Business purchased)	*Goodwill A/c* °(*Bal. Fig.*) Dr. To Liabilities A/c To Vendor * (Business purchased)	To Liabilities A/c To Vendor * *To Capital Reserve* °°(*Bal. Fig.*) (Business purchased)

Issue of Debentures

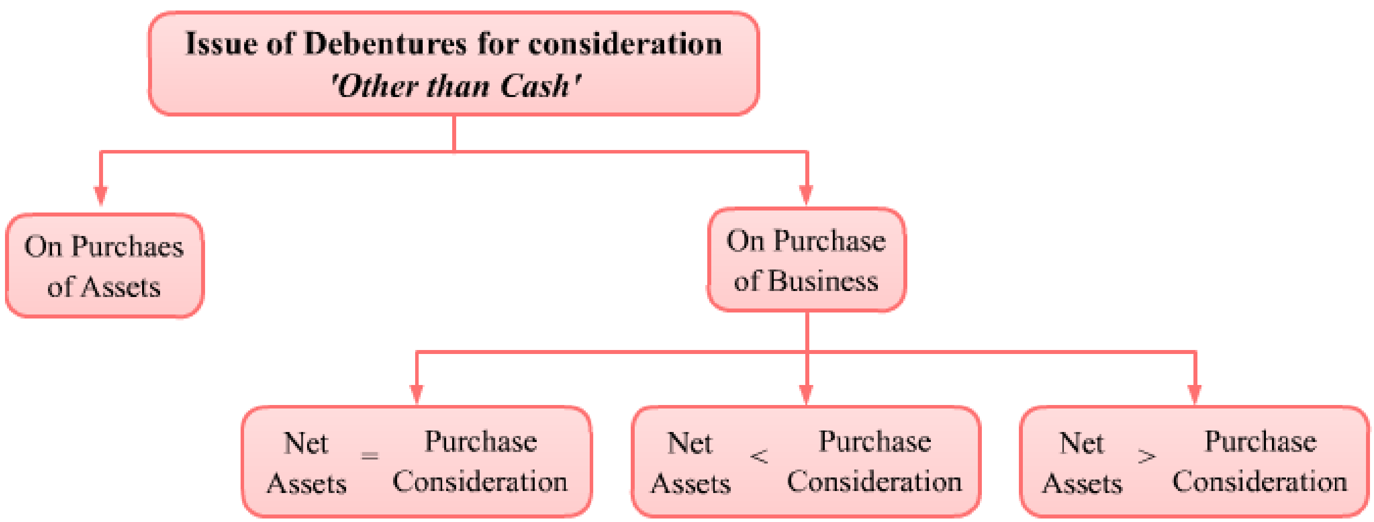
At Par	At Premium	At Discount
Vendor Dr. To Debentures A/c (Debentures issued to vendor at par) $\text{No. of Deb. issued} = \frac{\text{Amount Payable}}{\text{Face value per Debenture}}$	Vendor Dr. To Debentures A/c To Securities Premium A/c (Debentures issued to vendor at premium) $\text{No. of Deb. issued} = \frac{\text{Amount Payable}}{(\text{Face value} + \text{Premium}) \text{ per Debenture}}$	Vendor A/c Dr. Discount on Issue of Debentures A/c Dr. To Debentures A/c (Debentures issued to vendor at discount) $\text{No. of Deb. issued} = \frac{\text{Amount Payable}}{(\text{Face value} - \text{Discount}) \text{ per Debenture}}$

Note

° If the Net Assets (Sundry Assets – Sundry Liabilities) < Purchase Consideration, then ***Goodwill A/c*** *is Debited* with the difference amount

°° If the Net Assets (Sundry Assets – Sundry Liabilities) > Purchase Consideration, then ***Capital Reserve*** *is* Credited with the difference amount

* Vendor A/c is credited with the amount of Purchase Consideration. If it is not given in the question, then it is equal to the difference between the Sundry Assets and Sundry Liabilities.



Example- Hunt Ltd. purchased the following assets and liabilities from J Ltd. for a purchase consideration of Rs 11,75,000. Hunt Ltd. issued 17% Debentures of Rs 100 each at a premium of 25% against the purchase consideration.

Particulars	Amount

	(Rs)
Machinery	3,00,000
Stock	80,000
Plant	1,20,000
Land	5,00,000
Creditors	2,00,000

Pass the necessary Journal entries.

Solution

Journal

Date	**Particulars**		**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
	Machinery A/c	Dr.		3,00,000	
	Stock A/c	Dr.		80,000	
	Plant A/c	Dr.		1,20,000	
	Land A/c	Dr.		5,00,000	
	Goodwill A/c (*Balancing Figure*)	Dr.		3,75,000	
	To Creditors A/c				2,00,000
	To J Ltd.				11,75,000
	(Hunt Ltd. purchased business from J Ltd.)				
	J Ltd.	Dr.		11,75,000	
	To 17% Debentures A/c				9,40,000
	To Securities Premium A/c				2,35,000
	(9,400 17% debentures of Rs 100 each issued at a premium of 25%)				

<u>Working Notes</u>:

$$\text{Number of 17\% Debentures to be issued} = \frac{\text{Amount Payable}}{\text{Issue Price}} = \frac{11,75,000}{(100+25)} = 9,400 \text{ debentures}$$

<u>Example</u>

Tent & Co. Ltd. purchased the following assets and liabilities of Kink Ltd. for a purchase consideration of Rs 9,00,000.

Particulars	**Amount (Rs)**
Building	5,25,000
Furniture	2,75,000

Machinery	3,20,000
Bills Receivables	1,80,000
Creditors	1,50,000
Bills Payable	75,000

The company issued 12% Debentures of Rs 50 each at a discount of 10% against the purchase consideration. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Building A/c Dr.		5,25,000	
	Furniture A/c Dr.		2,75,000	
	Machinery A/c Dr.		3,20,000	
	Bills Receivables A/c Dr.		1,80,000	
	To Creditors A/c			1,50,000
	To Bills Payable A/c			75,000
	To Capital Reserve A/c (*Balancing Figure*)			1,75,000
	To Kink Ltd.			9,00,000
	(Tent & Co. Ltd. purchased business from Kink Ltd.)			
	Kink Ltd. Dr.		9,00,000	
	Discount on Issue of Shares A/c Dr.		1,00,000	
	To Equity Share Capital A/c			10,00,000
	(20,000 12% debentures of Rs 50 each issued at a discount of 10%)			

<u>Working Notes</u>:

$$\text{Number of 12\% Debentures to be issued} = \frac{\text{Amount Payable}}{\text{Issue Price}} = \frac{9,00,000}{(50-5)} = 20,000 \text{ debentures}$$

<u>Example</u>: Menka Ltd. purchased Machinery for Rs 6,00,000 and Building for Rs 3,00,000 from Zeenath Ltd. The payment is made by issuing 9% debentures of Rs 100 each. Pass the necessary Journal entries in each of the following cases.

i. If debentures are issued at par
ii. If debentures are issued at premium of 20% and
iii. If debentures are issued at discount of 10%

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Machinery A/c	Dr.		6,00,000	
	Building A/c	Dr.		3,00,000	
	To Zeenath Ltd.				9,00,000
	(Purchase of Machinery and Building)				
	Case (i)				
	Zeenath Ltd.	Dr.		9,00,000	
	To 9% Debenture A/c				9,00,000
	(Issue of 9,000 debentures at Rs 100 each)				
	Case (ii)				
	Zeenath Ltd.	Dr.		9,00,000	
	To Securities Premium A/c				1,50,000
	To 9% Debenture A/c				7,50,000
	(Issue of 7,500, 9% debentures of Rs 100 each at a premium of 20%)				
	$\text{No. of Deb. issued} = \frac{9,00,000}{(100+20)} = 7,500 \text{ Debentures}$				
	Case (iii)				
	Zeenath Ltd.	Dr.		9,00,000	
	Discount on Issue of Debentures A/c	Dr.		1,00,000	
	To 9% Debenture A/c				10,00,000
	(Issue of 10,000, 9% debentures of Rs 100 each at a discount of 10%)				
	$\text{No. of Deb. issued} = \frac{9,00,000}{(100-10)} = 10,000 \text{ Debentures}$				

Case-3 When Services are Purchased

A company may sometimes issue debentures to the promoters who render their services to the company. Such issue of debentures does not result in any cash inflows, since the debentures are allotted against the services provided by them.

The accounting entries for issue of debentures in such a situation are given below.

On Issue of Debentures at Par	
Incorporation Expenses A/c	Dr.
To __% Debentures A/c	

On Issue of Debentures at Premium	
Incorporation Expenses A/c	Dr.
To __% Debentures A/c	
To Securities Premium A/c	

On Issue of Debentures at Discount	
Incorporation Expenses A/c	Dr.
Discount on Issue of Debentures A/c	Dr.
To __% Debentures A/c	

Some Important Cases

Case 1: Partly Payment in Cash and Partly by Issuing Debentures

When a company purchases assets or business, it can opt to make the part payment in cash and the part payment by issuing debentures. In such a situation, the payment made through cash is credited to the Bank or Cash Account and the remaining payment is made by issuing shares. In other words, the debentures will be issued for the amount that left after making part payment in cash.

Example: Disha Ltd. purchased the assets of Rs 12,00,000 and took over the liabilities of Rs 5,00,000 of Charu Ltd. for the purchase consideration of Rs 10,00,000. Half of the payment was made in cash and the remaining amount is paid by issuing 11% debentures of Rs 100 each at a premium of Rs 25. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Assets A/c	Dr.		12,00,000	
	Goodwill A/c (*Bal. Fig.*)	Dr.		3,00,000	
	To Liabilities A/c				5,00,000
	To Charu Ltd.				10,00,000
	(Purchased business from Charu Ltd.)				

	Charu Ltd. Dr. To Cash A/c (Half payment of Rs 10,00,000 made in cash)		5,00,000	 5,00,000
	Charu Ltd. Dr. To Securities Premium A/c To 11% debenture A/c (Issue of 4,000, 11% debentures at Rs 100 each at a premium of Rs 25)		5,00,000	 1,00,000 4,00,000

Calculation of Number of Debentures Issued

$$\text{No. of Deb. issued} = \frac{5,00,000}{(100+25)} = 4,000 \text{ Debentures}$$

Case 2: What happens when number of debentures is in fractions or decimals?

There may be situations, where, number of debentures are not in whole numbers. That is, the number of debentures are in fraction or in decimals. For example, a company purchased an asset worth Rs 4,90,000 from a vendor and purchase consideration was settled by issuing debentures of Rs 100 each at Rs 10 discount.

$$\text{No. of Debentures} = \frac{4,90,000}{100-10} = 5,444.44 \text{ or } 5,444.40 \ (\textit{approx.})$$

In this case, 5,444 debentures are issued, whereas, the decimal portion is paid in cash/bank.

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Vendor A/c Dr. Discount on Issue of Debenture A/c (5,444 × Rs 10) Dr. To 10% Debenture A/c (5,444 × Rs 100) To Bank A/c *(balancing figure)* **(4,90,000 - 489,960)** (Issue of 5,444 debentures at Rs 100 each at a Discount of Rs 10 per debenture and Rs 40 paid in cash)		4,90,000 54,440	 5,44,400 40

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Issue of Debentures as Collateral Security

Objective

After going through this lesson, you shall be able to understand the Accounting Treatment of Issue of Debentures as Collateral Security and its disclosure in the Company's Balance Sheet as per ***Schedule III of the Companies Act, 2013***

Introduction

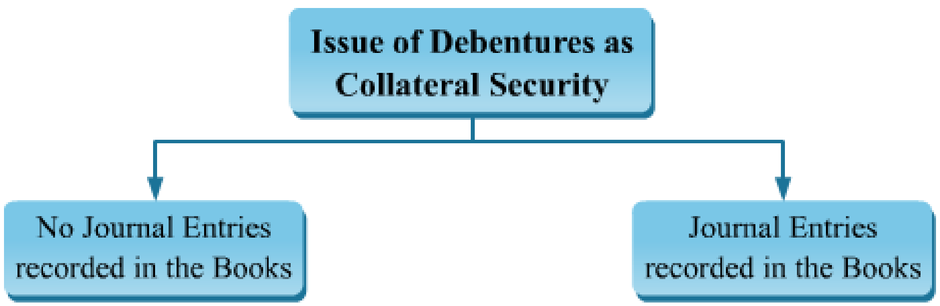
In the previous lesson, we understood how debentures are issued for purchase of assets and business. Besides these, a company may issue debentures as security against loan applied from any financial institutions such as banks, etc. In this sense, debenture act as a security or formally collateral security.

The term *collateral security* refers as secondary security in addition to the primary security. The collateral security is utilised only when the primary or principal security fails to meet the debt obligation. When a company takes loan from a financial institution, it may issue debenture as collateral security in addition to primary security. The lender who receives debentures as collateral security is not entitle for any interest on such debentures. On the repayment of loan obligation, such debentures are returned to the company. In case any default is made by the company in discharging the loan obligation or any interest amount thereupon, the lender has the full right to recover his/her dues from the sale of primary security. But, if the primary security is not sufficient to recover the amount of loan, then the debentures issued as collateral security can be used for recovery of the remaining amount of loan.

Account Treatment of Debentures Issued as Collateral Security

There are two ways in which the debentures issued as collateral security are recorded in the books of accounts.

I. When no Journal entry is passed in the books
II. With the help of Journal entries



Case-I: When no Journal Entry is Passed- 'No Journal Entry'

As per this approach, the issue of debentures (as collateral security) is assumed not to lead to creation of any liability for a company. Therefore, in this regard, no Journal entry is recorded in the books of account for such issue of debentures. ***As per Schedule III*** of the Companies Act, 2013, the issue of debentures as collateral security is shown in the Notes to Accounts of Long-Term Borrowings. The final balance is shown on the ***Equity and Liabilities Side*** of the Company's Balance Sheet under the main head of ***Non-Current Liabilities***. This is shown in the Company's Balance Sheet as presented below.

Balance Sheet of...

as on...

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Fund		
2. Non-Current Liabilities		
a. **Long-Term Borrowings**		
3. Current Liabilities		
Total		

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long-Term Borrowings** Bank Loan (Secured by issue of….. debentures of Rs… as collateral security)	

Example: XY Ltd. took a loan of Rs 1,00,000 from a Bank and issued 800 10% debentures of Rs 100 each as collateral security. Disclose the relevant items in the Company's Balance Sheet as per ***Schedule III*** of the Companies Act, 2013.

Solution

XY Ltd.

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Fund		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	1,00,000
3. Current Liabilities		
Total		**1,00,000**
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents		

Total		

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long-Term Borrowings** Bank Loan (Secured by 800 10% debentures of Rs 100 each as collateral security)	1,00,000

Case-II: When Issue of Debentures as Collateral Security is recorded with the help of Journal Entry

In this method, issue of debentures as collateral security is recorded in the books by passing following Journal entries.

At the time of Issue of Debentures as Collateral Security

Debenture Suspense A/c To Debenture A/c (Debentures issued as collateral security)	Dr.		

As per Schedule III of the Companies Act, 2013, the issue of debenture as collateral security is shown in the Notes to Accounts of Long-Term Borrowings and Debenture Suspense Account is deducted from the debentures so issued as Collateral Security. The final balance of this is shown on the ***Equity and Liabilities*** side of the Company's Balance Sheet under the main head of ***Non-Current Liabilities***. It is shown below.

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities 1. Shareholders' Fund 2. Non-Current Liabilities a. **Long-Term Borrowings** 3. Current Liabilities		
Total		

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long-Term Borrowings**	

	Secured: Bank Loan (Secured by issue of….. debentures of Rs… as collateral security) Debenture (Secured against loan taken) *Less*: Debenture Suspense Account	

When these debentures are redeemed after repayment of the loan so taken, the following entry is recorded in the books.

At the time of taking back the Debentures

Debenture A/c To Debentures Suspense A/c (Debenture released and loan repaid)	Dr.		

Example: Company issued 12% Debentures of Rs 15,00,000 as collateral security for a loan of Rs 10,00,000 from ICICI. Disclose the relevant items in the Company's Balance Sheet as per ***Schedule III*** of the Companies Act, 2013.

Solution

Debenture Suspense A/c	Dr.	15,00,000	
To Debenture A/c			15,00,000
(Debentures issued as collateral security)			

Balance Sheet

Particulars	**Note No.**	**Amount (Rs)**
I. Equity and Liabilities		
1. Shareholders' Fund		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	10,00,000
3. Current Liabilities		
Total		**10,00,000**

NOTES TO ACCOUNTS

Note No.	**Particulars**		**Amount (Rs)**
1	**Long-Term Borrowings**		
	Secured:		
	Bank Loan		10,00,000
	12% Debenture (Secured against loan taken)	15,00,000	

	Less: Debenture Suspense Account	(15,00,000)	-
			10,00,000

Example: XYZ Ltd. has issued 1,000 8% debentures of Rs 100 each. The company also took a loan of Rs 60,000 from the State Bank of India. This loan is secured by issue of 8% Debentures of Rs 80,000. Show the accounting treatment of issue of debentures in the following two cases.
(a) Company does not want to record the issue of debentures as collateral security in the books.
(b) Company records the issue of debentures as collateral security in the books.

Solution

(a) *When Company does not want to record the Issue of Debentures as Collateral Security in the books*.

Books XYZ Ltd.

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To 8% Debenture A/c (Amount received on issue of debentures)		1,00,000	 1,00,000
	Bank A/c Dr. To Bank Loan A/c (Bank loan taken from State Bank of India against 8% Debentures)		60,000	 60,000

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	1,60,000
3. Current Liabilities		
Total		**1,60,000**
II. Assets		
1. Non-Current Assets		

2. Current Assets a. Cash and Cash Equivalents	2	1,60,000
Total		**1,60,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long-Term Borrowings**	
	Secured:	
	Loan from State Bank of India (Secured by issue of debentures as Collateral Security)	60,000
	1,000 8% Debentures of Rs 100 each	1,00,000
		1,60,000
2	**Cash and Cash Equivalents**	
	Cash at Bank	1,60,000

(b) ***When Company records the Issue of Debentures as Collateral Security in the books***.

Books XYZ Ltd.

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr.		1,00,000	
	To 8% Debenture A/c			1,00,000
	(Amount received on issue of debentures)			
	Bank A/c Dr.		60,000	
	To Bank Loan A/c			60,000
	(Bank loan taken from State Bank of India against 8% Debentures)			
	Debentures Suspense A/c Dr.		80,000	
	To 8% Debenture A/c			80,000
	(Debentures of Rs 80,000 issued as			

	collateral security)			

Balance Sheet

Particulars	Note No.	Amount (Rs)
I Equity and Liabilities		
1.Shareholders' Funds		
2.Non-Current Liabilities		
a. Long-Term Borrowings	1	1,60,000
3.Current Liabilities		
Total		**1,60,000**
II Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	2	1,60,000
Total		**1,60,000**

NOTES TO ACCOUNTS

Note No.	Particulars		Amount (Rs)
1	**Long-Term Borrowings**		
	Secured:		
	Loan from State Bank of India (Secured by issue of debentures as Collateral Security)		60,000
	1,000, 8% Debentures of Rs 100 each	1,00,000	
	800, 8% Debentures of Rs 100 each (issued as collateral security)	80,000	
	Less: Debenture Suspense Account	(80,000)	1,00,000
			1,60,000
2	**Cash and Cash Equivalents**		
	Cash at Bank		1,60,000

Subscription of Debentures

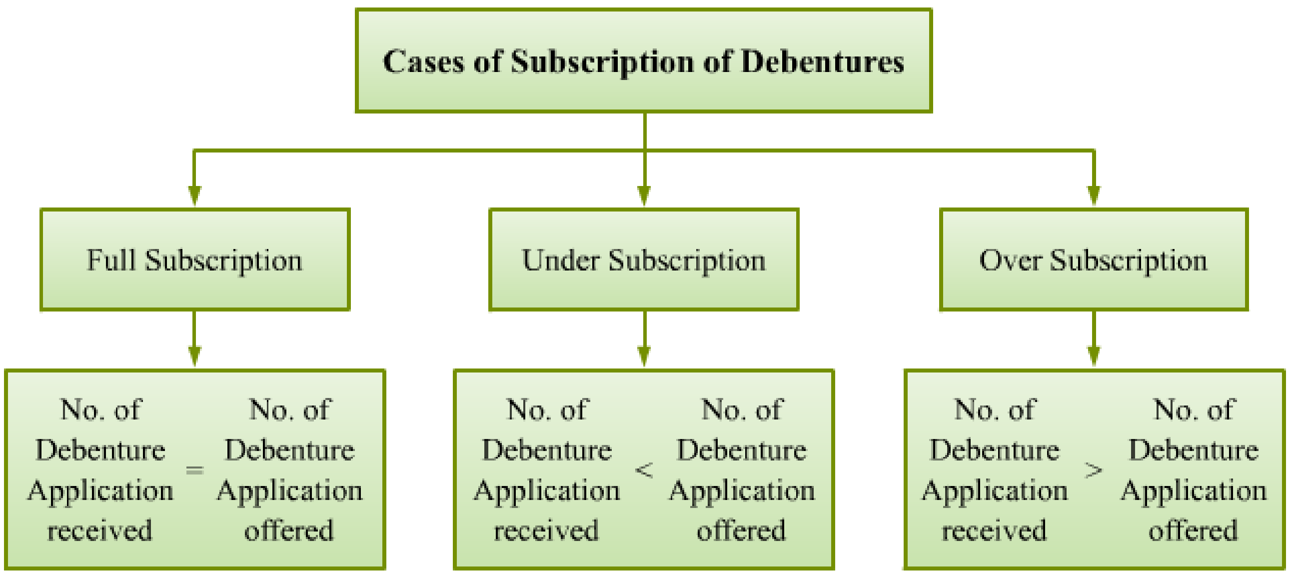
Objective

After going through this lesson, you shall be able to understand the following concepts related to the subscription of debentures.

- Full Subscription of Debentures
- Under-Subscription of Debentures
- Over-Subscription of Debentures

Introduction

In the chapter of shares, we learnt about different subscription cases of shares, namely, full subscription, under-subscription and over-subscription of shares. Similarly, in case of debentures, the company may confront either full, over or under-subscription for its debentures. That is, in other words, the total number of applications received may be more or less than the number of applications offered. The below figure presents the three probable situations of the subscriptions of debentures.



Full Subscription

Full subscription of debentures refers to a situation when the number of application received by the company is *equal to* the number of applications offered for its subscription. In other words, it is a situation in which all the debentures offered is subscribed by the public. For example, if a company invited applications for 1,000, 10% debentures of Rs 50 each. In response, it received applications for 1,000 debentures. Thus, as in this case, the number of debentures offered is equal to the number of the application received, so this is a situation of Full Subscription of debentures.

Example: Exe Ltd. invited applications for 1,500 9% debentures of Rs 100 each. The entire amount is payable at the time of application. All the debentures were subscribed by the public and all the money was duly received. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c	Dr.		1,50,000	
	To Debenture Application A/c				1,50,000
	(Application money received on 1,500, 9% debentures of Rs 100 each)				
	Debenture Application A/c	Dr.		1,50,000	
	To 9% Debentures A/c				1,50,000
	(Application money transferred debenture account)				

Under-Subscription

Under-subscription of debentures refers to a situation when the number of application received by the company is *lesser than* the number of applications offered for subscription. For example, a company invited application for 750, 11% debentures of Rs 100 each. Public applied only for 700 debentures. Therefore, in this case, the number of application received is lesser than the number of debentures offered, so this is a case of of under-subscription of debentures.

Example: Keemat Ltd. invited applications for 3,000 10% debentures of Rs 50 each. The amount is payable as Rs 15 on application, Rs 20 on allotment and Rs 15 on first and final call. The applications were received only for 2,800 debentures. All the money was received from the applicants. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs

	Bank A/c Dr. To Debenture Application A/c (Application money received on 2,800 debentures at Rs 15 per debenture)		42,000	42,000
	Debenture Application A/c Dr. To 10% Debenture A/c (Application money transferred to debenture account)		42,000	42,000
	Debenture Allotment A/c Dr. To 10% Debenture A/c (Allotment money due on 2,800 debentures at Rs 20 per debenture)		56,000	56,000
	Bank A/c Dr. To Debenture Allotment A/c (Allotment money received)		56,000	56,000
	Debenture First and Final Call A/c Dr. To 10% Debenture A/c (Call money due on 2,800 debentures at Rs 15 per debenture)		42,000	42,000
	Bank A/c Dr. To Debenture First and Final Call A/c (First and Final Call money received)		42,000	42,000

Over-Subscription

It refers to a situation when the number of debentures offered to the public is less than the total number of applications received for subscription. The money received on the excess application can either be refunded or it can be utilised towards allotment and subsequent calls (if excess money after adjusting on allotment remains). Therefore, in case of the oversubscription the company has the following options for allotment.

I. Reject the Excess Application and Money Refunded
II. Pro-rata Allotment to all the applicants
III. Reject the Excess Application and making Pro-rata Allotment

Rejecting Excess Application and Money Refunded

In case of over-subscription of debentures, the company may refuse to accept the excess applications and may immediately return the amount received on such excess applications to the applicants of such debentures. In this case, the following Journal entries are passed.

At the time of Receiving Application Money	
Bank A/c Dr.	{with total amount received on application}
To Debenture Application A/c	{with total amount received on application}
(Application money received)	
Debenture Application A/c Dr.	(with total amount received)
To Debenture A/c	(with application money transferred to Debenture Account)
To Bank A/c	(with excess application money returned to applicants)
(Application money transferred to debenture account and excess amount returned)	

Example: Mahima Ltd. issued 5,000, 9% debentures of Rs 50 each. The full amount is payable on application. Application were received for 7,000 debentures. Excess applications were rejected by the company and amount is refunded. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (7,000 deb. × Rs 50) Dr.		3,50,000	
	To Debenture Application A/c			3,50,000
	(Application money received on 7,000, 9% debentures of Rs 50 each)			
	Debenture Application A/c Dr.		3,50,000	
	To 9% Debentures A/c (5,000 deb. × 50)			2,50,000
	To Bank A/c (2,000 deb. × Rs 50)			1,00,000
	(Application money adjusted towards debenture account and excess amount is refunded)			

Pro-rata Allotment or Partial Allotment

Pro-rata allotment implies that a company instead of rejecting the excess applications, may allot debentures to all the applicants but less than what they have applied for. That is, the debentures are partially allotted to the applicants. For instance, the company may allot 150 debentures to an applicant who has applied for 400 debentures. In such a case, the excess amount received on application can either be utilised by the company towards amount due on allotment and calls or it can be refunded to the applicants. But, generally, a company prefers to utilise the excess money received on application towards the subsequent calls, i.e. allotment, first call and so on.

At the time of Receiving Application Money	

Bank A/c Dr.	{with total amount received on application}
To Debenture Application A/c	{with total amount received on application}
(Application money received)	
Debenture Application A/c Dr.	(with total amount received)
To Debenture A/c	(with application money transferred to Debenture Account)
To Debenture Allotment or Call A/c	(with amount utilised towards allotment or call)
(Application money transferred to debenture account and excess amount utilised on debenture allotment/call)	

Example: Xing Ltd. issued 12,000, 13% debentures of Rs 100 each payable as: Rs 30 on application, Rs 50 on allotment and Rs 20 on first and final call. Applications were received for 15,000 debentures. The company has made pro-rata allotment and the excess money received has been utilised towards allotment. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr.		4,50,000	
	To Debenture Application A/c			4,50,000
	(Application money received on 15,000 debentures at Rs 30 per debenture)			
	Debenture Application A/c (15,000 deb. × Rs 30) Dr.		4,50,000	
	To 10% Debenture A/c (12,000 deb. × Rs 30)			3,60,000
	To Debenture Allotment A/c (3,000 deb. × Rs 30)			90,000
	(Application money on 12,000 debentures transferred to debenture account and excess money on 3,000 debentures utilised towards debenture allotment)			
	Debenture Allotment A/c Dr.		6,00,000	
	To Debenture A/c			6,00,000
	(Allotment money due on 12,000 debentures at Rs 50 per debenture)			
	Bank A/c (Rs 6,00,000 – Rs 90,000) Dr.		5,10,000	
	To Debenture Allotment A/c			5,10,000
	(Allotment money of Rs 5,10,000 received)			
	Debenture First and Final Call A/c Dr.		2,40,000	

	To Debenture A/c (Call money due on 12,000 debentures at Rs 20 per debenture)			2,40,000
	Bank A/c Dr. To Debenture First and Final Call A/c (First and Final Call money received)		2,40,000	2,40,000

Working Notes

Amount due on allotment = Rs 6,00,000

(−) Excess Money Utilised towards allotment = Rs (90,000)

Amount received on Allotment = Rs 5,10,000

(iii) ***Partial Allotment and Rejection of Some Applications***

In case of over subscription of debentures, the company may follow a combination of both, the pro-rata allotment and refund of excess money received. It implies that, the company in case of over subscription, may reject the some of the applications and can make pro-rata allotment to remaining applicants. The amount received on rejected applications is refunded immediately to the applicants. The excess amount received on applications from the applicants to whom the pro-rata allotment is made can be adjusted towards the amount due on allotment and call.

Example: Leeza Ltd. issued 5,000, 10% debentures of Rs 100 each at a discount of 10% payable as: Rs 40 on application, Rs 30 on allotment and Rs 20 on final call. Applications were received for 7,000 debentures. The company rejected the application for 500 debentures and remaining applicants were allotted on pro-rata basis. The excess amount received on application was to be utilised towards allotment. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (7,000 debentures × Rs 40) Dr. To Debenture Application A/c (Application money received on 7,000 debentures at Rs 40 per debenture)		2,80,000	2,80,000

	Debenture Application A/c	Dr.		2,80,000	
	To 10% Debenture A/c (5,000 deb. × Rs 40)				2,00,000
	To Debenture Allotment A/c (1,500 deb. × Rs 40)				60,000
	To Bank A/c (500 deb. × Rs 40)				20,000
	(Application money on 2,000 debentures transferred to debenture account, on 1,500 debentures adjusted towards allotment and on 500 debentures refunded)				
	Debenture Allotment A/c (5,000 deb. × Rs 30)	Dr.		1,50,000	
	Discount on Issue of Debentures A/c (5,000 deb. × Rs 10)			50,000	
	To 10% Debenture A/c				2,00,000
	(Allotment money due on 5,000 debentures at Rs 30 at a discount of Rs 10)				
	Bank A/c (Rs 1,50,000 – Rs 60,000)	Dr.		90,000	
	To Debenture Allotment A/c				90,000
	(Allotment money of Rs 90,000 received)				
	Debenture Final Call A/c (5,000 deb. × Rs 20)	Dr.		1,00,000	
	To 10% Debenture A/c				1,00,000
	(Debenture call money due on 5,000 debentures at Rs 20 per debenture)				
	Bank A/c	Dr.		1,00,000	
	To Debenture Final Call A/c				1,00,000
	(Amount received on call)				

Issue of Debentures with respect to Redemption Terms

Objective

After going through this lesson, you shall be able to understand the following concepts related to the issue of debentures with respect to redemption conditions and its disclosure in the Company's Balance Sheet as per ***Schedule III of the Companies Act, 2013***.

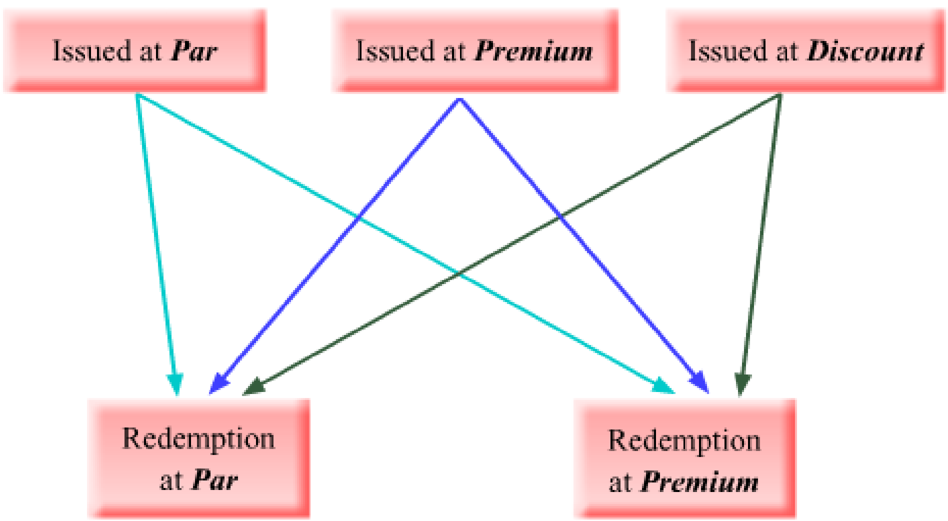
- Issued at Par, Redeemable at Par
- Issued at Premium, Redeemable at Par
- Issued at Discount, Redeemable at Par
- Issued at Par, Redeemable at Premium
- Issued at Premium, Redeemable at Premium
- Issued at Discount, Redeemable at Premium
- Posting in Companies Balance Sheet as per Schedule III of the Companies Act, 2013

Introduction

In the previous lessons, we learnt about the issue of debentures at par, premium and discount. But, such issues were presented irrespective of the redemption terms. However; the accounting treatment of issue of debentures depends on the redemption terms and conditions. For example, the accounting treatment for the issue of debentures at premium and redeemable at par will differ from the accounting treatment for the issue of debentures at premium but redeemable at premium. In this lesson, we will study about different redemption terms and different accounting treatments for the issue of debentures as per the redemption terms.

Redemption of debentures refers to the repayment of debentures at its maturity by the company. This implies that the company is repaying or paying-of its long-term liability. Similar to the issue of debentures, the redemption of debentures can be done either at par or premium. You must be wondering why debentures are not redeemed at discount. This is because redemption of debentures at discount implies that the debentureholders are getting lesser than what they have earlier invested at the time of issue. This is certainly absurd and discouraging from the point of view of any debentureholder. Thus, based on the redemption terms, the below diagram explains the six possible situations of issue of debentures.

Terms of Issue and Redemption of Debentures



Accounting Treatment for Issue of Debentures based on the Redemption Terms

Let us discuss the Journal entries for the above six situations.

When Debentures are Issued at 'Par' and Redeemable at 'Par'

When the debentures are issued at par and redeemable at par i.e at the face value, then the following Journal entries are passed.

(a)	Bank A/c	Dr.	(No. of Debentures × Face

			value)
	To Debenture Application A/c		(No. of Debentures × Face value)
	(Debenture application money received)		
(b)	Debenture Application A/c	Dr.	(No. of Debentures × Face value)
	To Debenture A/c		(No. of Debentures × Face value)
	(Debentures Application money transferred to Debenture Account)		

Example: Q Ltd. issued 1,000 9% debentures of Rs 100 each at par, redeemable at par. Pass the Journal entries for issue of debentures and prepare Balance Sheet as per the ***Schedule III of the Companies Act, 2013***.

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c	Dr.		1,00,000	
	To Debenture Application A/c				1,00,000
	(Application money received)				
	Debenture Application A/c	Dr.		1,00,000	
	To 9% Debenture A/c				1,00,000
	(Issue of debentures at par, redeemable at par)				

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities 1. Shareholders' Funds 2. Non-Current Liabilities a. Long-Term Borrowings 3. Current Liabilities	1	1,00,000

Total		**1,00,000**
II. Assets 1. Non-Current Assets 2. Current Assets a. Cash and Cash Equivalents	2	1,00,000
Total		**1,00,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long-Term Borrowings** 9% Debenture	1,00,000
2	**Cash and Cash Equivalents** Cash at Bank	1,00,000

When Debentures are Issued at 'Premium' and Redeemable at 'Par'

When the debentures are issued at premium, (i.e. at a value more than the face value), it is a gain for a company. This premium amount is credited to Securities Premium Account at the time of the issue. The Journal entry is passed for the issue of debentures at premium and redeemable at par.

(a)	Bank A/c	Dr.	No. of Debentures × Issue Price (Face Value + Premium)
	To Debenture Application A/c		No. of Debentures × Issue Price (Face Value + Premium)
	(Debenture application money received)		
(b)	Debenture Application A/c	Dr.	No. of Debentures × Issue Price (Face Value + Premium)
	To Debenture A/c		No. of Debentures × Face Value
	To Securities Premium A/c		No. of Debentures × Premium
	(Debentures issued at premium and redeemable at par)		

Example: K Ltd. issued 1,000 9% debentures of Rs 100 each at a premium of 15%, redeemable at par. Pass the Journal entries for issue of debentures and prepare Balance Sheet as per ***Schedule III of the Companies Act, 2013***.

Solution

Journal

Journal					
Date	**Particulars**		**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
	Bank A/c	Dr.		1,15,000	
	To Debenture Application A/c				1,15,000
	(Application money received on 1,000 debentures at Rs 115)				
	Debenture Application A/c	Dr.		1,15,000	
	To 9% Debenture A/c				1,00,000
	To Securities premium A/c				15,000
	(Issue of debentures at premium, redeemable at par)				

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Reserves and Surplus	1	15,000
2. Non-Current Liabilities		
a. Long-Term Borrowings	2	1,00,000
3. Current Liabilities		
Total		**1,15,000**
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	3	1,15,000
Total		**1,15,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Reserves and Surplus**	

	Securities Premium	15,000
2	**Long-Term Borrowings**	
	9% Debenture	1,00,000
3	**Cash and Cash Equivalents**	
	Cash at Bank	1,15,000

When Debentures are Issued at 'Discount' and Redeemable at 'Par'

When the debentures are issued at discount, (i.e. at a value less than the face value), then it is considered as a loss to the company. Therefore, at the time of issue, discount is debited as Discount on Issue of Debentures Account at the time of the issue. The following Journal entry is passed for the issue of debentures at discount and redeemable at par.

(a)	Bank A/c	Dr.	No. of Debentures × Issue Price (Face Value – Discount)
	To Debenture Application A/c		No. of Debentures × Issue Price (Face Value – Discount)
	(Debenture application money received)		
(b)	Debenture Application A/c	Dr.	No. of Debentures × Issue Price (Face Value – Discount)
	Discount on Issue of Debenture A/c	Dr.	No. of Debentures × Discount
	To Debenture A/c		No. of Debentures × Face Value
	(Debentures issued at discount and redeemable at par)		

Example: R Ltd. issued 1,000 9% debentures of Rs 100 each at a discount of Rs 10, redeemable at par. Pass the Journal entries for issue of debentures and prepare Balance Sheet as per ***Schedule III of the Companies Act, 2013.***

Solution

Journal

Date	**Particulars**		**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
	Bank A/c	Dr.		90,000	
	To Debenture Application A/c				90,000
	(Application money received on 1,000 debentures at Rs 90)				
	Debenture Application A/c	Dr.		90,000	
	Discount on Issue of Debentures A/c			10,000	
	To 9% Debenture A/c				1,00,000

Journal				
	(Issue of debentures at discount, redeemable at par)			

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	1,00,000
3. Current Liabilities		
Total		**1,00,000**
II. Assets		
1. Non-Current Assets		
a. Other Non-Current Assets	2	10,000
2. Current Assets		
a. Cash and Cash Equivalents	3	90,000
Total		**1,00,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long-Term Borrowings**	
	9% Debenture	1,00,000
2	**Other Non-Current Assets**	
	Discount on Issue of Debentures	10,000
3	**Cash and Cash Equivalents**	
	Cash at Bank	90,000

When Debentures are Issued at 'Par' and Redeemable at 'Premium'

When debentures are issued at par but are redeemable at premium, then it implies that the company is paying more than what it actually got from the debentureholders at the time of issue. Accordingly, the excess amount (premium payable at redemption) paid to the debentureholders is considered as a loss to the company. Consequently, the loss is debited in the Journal entry as Loss on Issue of Debentures Account. In this case, the following Journal entry is passed at the time of issue of debentures.

(a)	Bank A/c	Dr.	No. of Debentures × Face Value
	To Debenture Application A/c		No. of Debentures × Face Value
	(Debenture application money received)		
(b)	Debenture Application A/c	Dr.	No. of Debentures × Face Value
	Loss on Issue of Debentures A/c	Dr.	No. of Debentures × Redemption Premium
	To Debenture A/c		No. of Debentures × Face Value
	To Premium on Redemption A/c		No. of Debentures × Redemption Premium
	(Debentures issued at discount and redeemable at premium)		

Example: Dee Bee. Construction Ltd. issued 6,000 8% Debentures Rs 100 each issued with term redeemable at premium of Rs 5 after five years. Pass the necessary Journal entries to record the issue of debentures and prepare Balance Sheet as per the ***Schedule III of the Companies Act, 2013***.

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c	Dr.		6,00,000	
	To Debenture Application A/c				6,00,000
	(Debenture Application received for 6,000 8% Debentures at Rs 100 each)				
	Debenture Application A/c	Dr.		6,00,000	
	Loss on Issue of Debentures A/c	Dr.		30,000	
	To 8% Debentures A/c				6,00,000
	To Premium on Redemption of Debentures A/c				30,000
	(6,000 8% Debentures of Rs 100 each issued with the term redeemable at premium of Rs 5)				

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		

1. Shareholders' Funds		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	6,00,000
b. Other Long-Term Liabilities	2	30,000
3. Current Liabilities		
Total		**6,30,000**
II. Assets		
1. Non-Current Assets		
a. Other Non-Current Assets	3	30,000
2. Current Assets		
a. Cash and Cash Equivalents	4	6,00,000
Total		**6,30,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long-Term Borrowings** 8% Debenture	6,00,000
2	**Other Long-Term Liabilities** Premium on Redemption	30,000
3	**Other Non-Current Assets** Loss on Issue of Debenture	30,000
4	**Cash and Cash Equivalents** Cash at Bank	6,00,000

Example: Santosh Perfumes Ltd. offers 4,000 10% Debentures at Rs 100 each with the term repayable at premium of Rs 2 per debentures at the end of 6 year. The amount is payable as Rs 40 on application, Rs 30 on allotment and balance on first and final call. The whole issue is subscribed and allotted. Pass the necessary Journal entries to record the issue of debentures.

Solution

Journal

Date	Particulars	L.F.	Debit	Credit

			Amount Rs	Amount Rs
	Bank A/c Dr. To Debenture Application A/c (Debenture Application money received for 40,000 10% Debenture at Rs 40 each)		1,60,000	 1,60,000
	Debenture Application A/c Dr. Loss on Issue of Debentures A/c Dr. To 10% Debenture A/c To Premium on Redemption of Debentures A/c (Debenture application money transferred to 10% Debenture Account)		1,60,000 8,000	 1,60,000 8,000
	Debenture Allotment A/c Dr. To 10% Debenture A/c (Debentures allotment due for 4,000 10% Debenture at Rs 30 each)		1,20,000	 1,20,000
	Bank A/c To Debenture Allotment A/c (Debenture Allotment amount received)		1,20,000	 1,20,000
	Debenture First and Final Call A/c Dr. To 10% Debenture A/c (First and final call due on 4,000 10% Debenture at Rs 30 each)		1,20,000	 1,20,000
	Bank A/c Dr. To Debentures First and Final Call A/c (First and final call money received)		1,20,000	 1,20,000

Working Notes:

$$\text{Premium on Redemption of Debentures} = 4,000\,\text{Debentures} \times \text{Rs } 2 \text{ each}$$
$$= \text{Rs } 8,000$$

When Debentures are Issued at 'Premium' and Redeemable at 'Premium'

When the debentures are issued at premium and are redeemable at premium, then it implies the issue price and the redemption price is more than the face value of the debenture. Thus, in this case, we have two different premium- one for the issue and another for the redemption. *The issue premium that is the excess of issue price over the face value is credited as* ***Securities Premium Account****. On the* *other hand, the premium payable at the time of redemption is* ***debited*** *as* ***Loss on Issue of Debentures Account*** *as well as* ***credited*** *as* ***Premium on Redemption Account.*** The following Journal entry is passed at the time of issue of debentures in this case.

(a)	Bank A/c	Dr.	No. of Debentures × Issue Price (Face Value + Issue Premium)
	To Debenture Application A/c		No. of Debentures × Issue Price (Face Value + Issue Premium)
	(Debenture Application money received)		
(b)	Debenture Application A/c	Dr.	No. of Debentures × Issue Price (Face Value + Issue Premium)
	Loss on Issue of Debentures A/c	Dr.	No. of Debentures × Redemption Premium
	To Debenture A/c		No. of Debentures × Face Value
	To Securities Premium A/c		No. of Debentures × Issue Premium
	To Premium on Redemption A/c		No. of Debentures × Redemption Premium
	(Debentures issued at premium and redemption at premium)		

Example: Jonson Cosmetic Ltd. issued 5,000 12% Debentures of Rs 100 at premium of Rs 20 with the term redeemable at premium of Rs 10 each. The whole issue was subscribed and duly allotted. Pass the necessary Journal entries to record the issue of debentures and prepare Balance Sheet as per ***Schedule III of the Companies Act, 2013***.

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c	Dr.		6,00,000	
	To Debenture Application A/c				6,00,000
	(Debenture Application received for 5,000 12% Debentures at Rs 120 each Including premium of Rs 20)				
	Debenture Application A/c	Dr.		6,00,000	
	Loss on Issue of Debentures A/c	Dr.		50,000	
	To 12% Debentures A/c				5,00,000
	To Securities Premium A/c				1,00,000
	To Premium on Redemption of Debentures A/c				50,000
	(5,000 12% Debentures of Rs 100 each issued at a premium Rs 20 which are to be redeemed at premium Rs 10 each)				

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Reserves and Surplus	1	1,00,000
2. Non-Current Liabilities		
a. Long-Term Borrowings	2	5,00,000
b. Other Long-Term Liabilities	3	50,000
3. Current Liabilities		
Total		**6,50,000**
II. Assets		
1. Non-Current Assets		
a. Other Non-Current Assets	4	50,000
2. Current Assets		
a. Cash and Cash Equivalents	5	6,00,000
Total		**6,50,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Reserves and Surplus**	
	Securities Premium	1,00,000
2	**Long-Term Borrowings**	
	12% Debenture	5,00,000
3	**Other Long-Term Liabilities**	
	Premium on Redemption	50,000
4	**Other Non-Current Assets**	
	Loss on Issue of Debenture	50,000
5	**Cash and Cash Equivalents**	
	Cash at Bank	6,00,000

When Debentures are Issued at 'Discount' and Redeemable at 'Premium'

When the debentures are issued at discount, then it implies the issue price is less than the face value of the debentures. Thus, it means that the company is incurring loss by issuing debentures. On the other hand, redeemable at premium implies that the company has to pay more than what it actually received from the debentureholders at the time of issue. Therefore, in this particular case, the company is incurring losses both at the time of issue as well as at the time of redemption. ***This double loss (discount on issue and premium on redemption) is debited as Loss on Issue of Debentures Account and premium payable at the time of redemption is credited as Premium on Redemption Account.*** The following Journal entries are passed at the time of issue of debentures in this case.

(a)	Bank A/c	Dr.	No. of Debentures × Issue Price (Face Value – Discount)
	To Debenture Application A/c		No. of Debentures × Issue Price (Face Value – Discount)
	(Debenture Application money received)		
(b)	Debenture Application A/c	Dr.	No. of Debentures × Issue Price (Face Value – Discount)
	Loss on Issue of Debentures A/c	Dr.	No. of Debentures × Total Loss (Issue Discount + Redemption Premium)
	To Debenture A/c		No. of Debentures × Face Value
	To Premium on Redemption A/c		No. of Debentures × Redemption Premium
	(Debentures issued at premium and redemption at premium)		

Example: Wall Craft Ltd. issued 200 16% Debentures of Rs 1,000 each at a discount of Rs 50 with the term redeemable at Rs 1,025 at the end of sixth year. Pass the necessary Journal entries to record the issue of debentures and prepare Balance Sheet as per ***Schedule III of the Companies Act, 2013***.

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c	Dr.		1,90,000	
	To Debenture Application A/c				1,90,000
	(Debenture Application money received for 200 16% Debentures at Rs 950 each)				
	Debenture Application A/c	Dr.		1,90,000	
	Loss on Issue of Debentures A/c	Dr.		15,000	
	To 16% Debentures A/c				2,00,000
	To Premium on Redemption of Debentures A/c				5,000
	(200 16% Debentures of Rs 1,000 each issued at a discount Rs 50 and repayable at premium of Rs 25)				

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	2,00,000
b. Other Long-Term Liabilities	2	5,000
3. Current Liabilities		
Total		**2,05,000**
II. Assets		
1. Non-Current Assets		
a. Other Non-Current Assets	3	15,000
2. Current Assets		
a. Cash and Cash Equivalents	4	1,90,000
Total		**2,05,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Long-Term Borrowings**	
	16% Debenture	2,00,000
2	**Other Long-Term Liabilities**	
	Premium on Redemption	5,000
3	**Other Non-Current Assets**	
	Loss on Issue of Debenture	15,000
4	**Cash and Cash Equivalents**	
	Cash at Bank	1,90,000

Miscellaneous Example: Pass the necessary Journal entries in each of the following cases considering the face value of the debentures to be Rs 100.

i. Co. issued 5000, 10% debentures at Rs 100 and redeemable at Rs 100.
ii. Co. issued 5000, 10% debentures at a discount of 10% and redeemable at Rs 100.

iii. Co. issued 5000, 10% debentures at a premium of 20%, and redeemable at Rs 100.
iv. Co. issued 5000, 10% debentures at Rs 100 and redeemable at a premium of 10%.
v. Co. issued 5000, 10% debentures at a discount of 10% and redeemable at premium of 15%.
vi. Co. issued 5000, 10% debentures at a premium of 10% and redeemable at premium of 20%.

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Case (i)				
(a)	Bank A/c	Dr.		5,00,000	
	To Debenture Application A/c				5,00,000
	(Application money received on 5,000, 10% debentures at Rs 100 each)				
(b)	Debenture Application A/c	Dr.		5,00,000	
	To 10% Debenture A/c				5,00,000
	(Application money transferred to debenture account)				
	Case (ii)				
(a)	Bank A/c (5,000 debentures x Rs 90)	Dr.		4,50,000	
	To Debenture Application A/c				4,50,000
	(Application money received on 5,000, 10% debentures of Rs 100 at a discount of 10%)				
(b)	Debenture Application A/c (5,000 debentures x Rs 90)	Dr.		4,50,000	
	Discount on Issue of Debentures A/c (5,000 debentures x Rs 10)	Dr.		50,000	
	To 10% Debenture A/c				5,00,000
	(Application money transferred to debenture account)				
	Case (iii)				
(a)	Bank A/c (5,000 debentures x Rs 120)	Dr.		6,00,000	
	To Debenture Application A/c				6,00,000
	(Application money received on 5,000, 10% debentures at Rs 100 each at a premium of 20%)				
(b)	Debenture Application A/c	Dr.		6,00,000	
	To 10% Debenture A/c (5,000 debentures x Rs 100)				5,00,000
	To Securities Premium A/c (5,000 debentures x Rs 20)				1,00,000
	(Application money transferred to debentures and securities premium A/c)				

	Case (iv)			
(a)	Bank A/c (5,000 debentures x Rs 100) Dr.		5,00,000	
	To Debenture Application A/c			5,00,000
	(Application money received at Rs 100 each)			
(b)	Debenture Application A/c Dr.		5,00,000	
	Loss on Issue of Debenture A/c (5,000 debentures x Rs 10) Dr.		50,000	
	To 10% Debenture A/c (5,000 debentures x Rs 100)			5,00,000
	To Premium on Redemption of Debenture A/c (5,000 debentures x Rs 10)			50,000
	(Application money transferred to debenture account)			
	Case (v)			
(a)	Bank A/c (5,000 debentures x Rs 90) Dr.		4,50,000	
	To Debenture Application A/c			4,50,000
	(Application money received on 5,000, 10% debenture of Rs 100 each at a discount of 10%)			
(b)	Debenture Application A/c Dr.		4,50,000	
	Loss on Issue of Debentures A/c (5,000 debentures x Rs 25) Dr.		1,25,000	
	To 10% Debenture A/c (5,000 debentures x Rs 100)			5,00,000
	To Premium on Redemption A/c (5,000 debentures x Rs 15)			75,000
	(Application money transferred to debenture account)			
	Case (vi)			
(a)	Bank A/c (5,000 debentures x Rs 110) Dr.		5,50,000	
	To Debenture Application A/c			5,50,000
	(Application money received at a premium of 10%)			
(b)	Debenture Application A/c Dr.		5,50,000	
	Loss on Issue of Debentures A/c (5,000 debentures x Rs 20) Dr.		1,00,000	
	To 10% Debenture A/c (5,000 debentures x Rs 100)			5,00,000
	To Securities Premium A/c (5,000 debentures x Rs 10)			50,000
	To Premium on Redemption A/c (5,000 debentures x Rs 20)			1,00,000
	(Application money transferred to debentures account)			

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Interest on Debentures

Objective

After going through this lesson, you shall be able to understand the accounting treatment of interest on debentures.

Introduction

Up till now, we must have noticed that a certain percentage amount is always prefixed the word 'Debentures'. For example, 10% Debentures, 12% Debentures, etc. You might be wondering what this percentage indicates. In fact, this indicates the rate of interest on the debentures. Similar to all other long-term liabilities, a company is obliged to pay interest on the issued debentures to the debentureholders. A company has to pay interest to the debentureholders under every odd circumstances, irrespective of profits or losses. That is, the payment of interest on debentures is not an appropriation of profits (instead, it is a charge out of profits). The interest is payable by the company at fixed interval of time, generally, half yearly. It is calculated on the nominal or face value of debentures issued at a specified rate. In short, while calculating interest on debentures, premium and discount on issue is ignored.

Treatment of Interest on Debentures

From the above introduction, we know that interest on debentures is payable to the debentureholders at regular intervals. This amount of interest is transferred to the Statement of Profit and Loss at the end of the every accounting period. As per the Income Tax Act, 1961, before paying interest on debentures, the company is required to *deduct tax at source* at a specified rate from the total amount of interest payable on debentures. The tax so deducted is paid to the Government.

Note: It should be noted that when debentures are issued as 'Collateral Security', then a company is not liable to pay any interest on such debentures.

The following are the Journal entries that are to be passed for Interest on Debentures.

When Interest is Due		

Debenture Interest A/c
  To Debentureholders A/c
  To Income Tax Payable A/c
(Interest due on debentures and TDS)
	Dr.	(with total interest)
		(with net interest)
		(with tax deducted)

On Payment of Interest		
Debentureholders A/c To Bank A/c (Interest paid to the debentures holders)	Dr.	
On Payment of Tax to the Government		
Income Tax Payable A/c To Bank A/c (Payment of tax on interest on debentures)	Dr.	(with the amount of tax deducted at source)

On Transfer of Interest on Debentures to Profit and Loss Account	
Statement of Profit and Loss Dr. To Debenture Interest A/c (Debenture interest transferred to Statement of Profit and Loss)	(with amount of interest)

Interest on Debentures Payable Yearly

Example: Ziddi Ltd. issued 10,000, 12% debentures of Rs 100 each at a premium of 10% on April 1, 2011. Interest on debentures is payable half yearly and tax deducted at source is 15%. Pass the necessary journal entries for interest for the year ending March 31, 2012.

Solution

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
September 30, 2011	Debenture Interest A/c $\left(10,00,000\times\frac{12}{100}\times\frac{6}{12}\right)$ Dr. To Income Tax Payable (Rs 60,000 × 15%) To Debentureholders' A/c (Amount of Interest due for 6 months and tax deducted at source)		60,000	 9,000 51,000
September 30, 2011	Debentureholders' A/c Dr. To Bank A/c (Interest paid to the debentureholders)		51,000	 51,000
September 30, 2011	Income Tax Payable A/c Dr. To Bank A/c (Payment of tax on interest on debentures)		9,000	 9,000
March 31, 2012	Debenture Interest A/c $\left(10,00,000\times\frac{12}{100}\times\frac{6}{12}\right)$ Dr. To Income Tax Payable (Rs 60,000 × 15%) To Debentureholders' A/c		60,000	 9,000 51,000

	(Amount of Interest due for 6 months and tax deducted at source)				
March 31, 2012	Debentureholders' A/c To Bank A/c (Interest paid to debentureholders)	Dr.		51,000	51,000
March 31, 2012	Income Tax Payable A/c To Bank A/c (Payment of tax on interest on debentures)	Dr.		9,000	9,000
March 31, 2012	Statement of Profit and Loss To Interest on Debentures A/c (Interest or debentures transferred to Statement of Profit and Loss)	Dr.		1,20,000	1,20,000

Interest on Debentures Payable Half-Yearly

Example: More Fun Ltd. have 80,000 12% Debentures of 100 each. Interest on debentures is paid half-yearly on September 30 and March 31 every year. Pass the Journal entries for interest on debentures for the period 2011-12.

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
2011 Sep. 30	Interest on Debentures A/c To Debentureholders' A/c (Half-yearly interest due on 80,000 12% Debentures at Rs 100 each)	Dr.		4,80,000	4,80,000
Sep. 30	Debentureholders' A/c To Bank A/c (Half-yearly interest paid to the debentureholders)	Dr.		4,80,000	4,80,000
2012 Mar. 31	Interest on Debentures A/c To Debentureholders' A/c (Half-yearly interest due on 80,000 12% Debentures at Rs 100 each)	Dr.		4,80,000	4,80,000
Mar. 31	Debentureholders' A/c To Bank A/c (Half-yearly interest paid to the debentureholders)	Dr.		4,80,000	4,80,000

Mar. 31	Statement of Profit and Loss (4,80,000 + 4,80,000) To Interest on Debentures A/c (Interest on debentures charged from the Statement of Profit and Loss)	Dr.		9,60,000	9,60,000

Working Note

$$\text{Interest on Debentures } (half\text{-}yearly) = 80{,}00{,}000 \times \frac{12}{100} \times \frac{6}{12}$$
$$= \text{Rs } 4{,}80{,}000$$

Writing-off Loss on Issue of Debentures

Objective

After going through this lesson, you shall be able to understand the ***concept of Writing-off Loss on Issue of Debentures.***

Introduction

In the previous lessons, we learnt that whenever the debentures are issued at a price that is less than its redeemed value (value that is repaid at the time of redemption), then a company incurs loss on such issues. The difference amount (redemption value – issue price) is regarded as a loss to a company. This loss is considered to be a part of the borrowing cost of the company as per the Accounting Standard-16 (AS-16). Thus, it must be written off as quickly as possible and in the year when debentures are allotted to the full extent. There are various sources through which it can be written off which we will discuss in detail in this lesson.

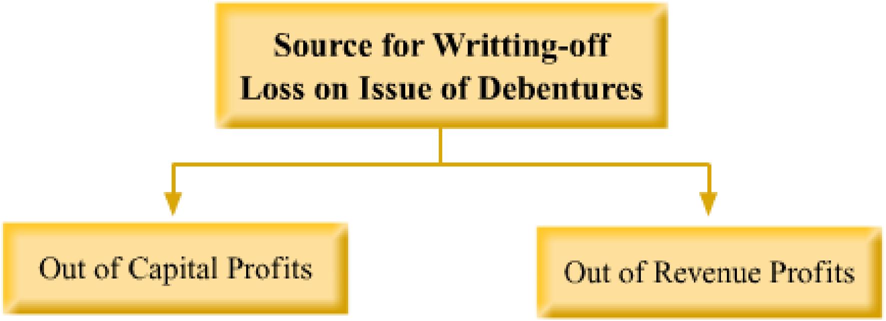
Example: Suppose that a company issued 2,000 10% debentures at discount of Rs 10, which are redeemable after 5 years at par. In this case, the company has incurred a loss of Rs 20,000 (i.e. 2,000 × Rs 10 of discount). Thus, the amount of loss of Rs 20,000 will be written off completely in the year of allotment itself.

This thus implies that it is does not lead to a creation of any fictitious asset for the company on account of any unamortized loss or discount.

Sources of Writing-off of Loss on Issue of Debentures

The loss on issue of debentures can be written-off using the following sources.

a. Capital Profits
b. Revenue Profits



Generally, the loss on issue of debentures is written-off by using the capital profits of a company. However, if the capital profits are inadequate, then revenue profits (through Profit and Loss Account) can be used to write-off such losses. The following are the respective Journal entries for either of the cases.

Writing-off Loss from Securities Premium and/or Other Capital Profits	**Writing-off Loss from Revenue Profits (Balance in Statement of Profit and Loss)**
Securities Premium A/c Dr. And/Or Other Capital Profits A/c Dr. To Discount/Loss on Issue of Debentures A/c	Statement of Statement of Profit and Loss Dr. To Discount/Loss on Issue of Debentures A/c

Writing-off Loss on Issue of Debentures

As already mentioned, the entire amount of loss on issue of debentures being a borrowing cost of the company is written off in the year of allotment of debentures itself. Thus, it can have a significant impact on the profits of the company in the year of allotment when it is written off. Let's understand this with the help of some examples.

Example 1**:** Renuka Ltd. issued 2,000, 11% debentures of Rs 100 each at a discount of 10% redeemable after 4 years at a premium of 5%. You are required to pass the necessary Journal entries to write-off the loss on issue of debentures for the period of four years. Also prepare the Loss on Issue of Debenture Account.

Solution

In the books of Renuka Ltd.
Journal

Date	**Particulars**	**L.F.**	**Debit Amount (Rs)**	**Credit Amount (Rs)**
At the time of issue	Bank A/c (2,000 debentures × Rs 90) Dr. To Debenture Application A/c		1,80,000	 1,80,000

	(Application money received on 2,000, 11% debentures of Rs 100 each at a discount of 10%)			
	Debenture Application A/c Dr. Loss on Issue of Debenture A/c (2,000 debentures × Rs 15) Dr. To 11% Debenture A/c To Premium on Redemption A/c (2,000 debentures × Rs 5) (Application money transferred to debenture account)		1,80,000 30,000	 2,00,000 10,000
At the end of year of Allotment	Statement of Profit and Loss A/c Dr. To Loss on Issue of Debentures A/c (Being the loss on issue of debentures written off)		30,000	 30,000

Loss on Issue of Debenture Account

Dr. **Cr.**

Date	**Particulars**	**Amount (Rs)**	**Date**	**Particulars**	**Amount (Rs)**
1st year	To 11% Debentures A/c	30,000	At the end of 1st year	By Statement of Profit and Loss A/c	30,000
		30,000			30,000

***Example 2*:** XYZ Ltd. issued 1,500 10% debentures of Rs 50 at par redeemable at premium of 5%. The company decided to redeemed debentures as follows.

At the end of Year I- 300 debentures
At the end of Year II- 800 debentures
At the end of Year III- 400 debentures

Prepare Loss on Issue of Debentures Account.

Solution: Even when the debentures are redeemed in installments, the entire amount of discount or loss on issue of debentures is to be written off in the year of allotment of debentures itself.

Loss on Issue of Debenture Account

Dr.					Cr.
Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
1st year	To 10% Debentures A/c 1,500×2.5	3,750	At the end of 1st year	By Statement of Profit and Loss A/c	3,750
		3,750			3,750

Example 3: Moana Ltd. issued 300, 9% debentures of Rs. 100 each at a premium of 15% and redeemable at a premium of 20%. What will be the journal entries for the issue of debentures if the entire money is received on application in the books of the company?

Solution:

In the books of Moana Ltd.
Journal

Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
At the time of Issue	Bank A/c (300 × 115)	Dr.		34,500	
	To Debentures Application and Allotment A/c				34,500
	(Application money received on 9% debentures issued at 15% premium)				
	Debentures Application and Allotment A/c	Dr.		34,500	
	Loss on Issue of Debentures A/c (300×20)	Dr.		6,000	
	To 9% Debentures A/c				30,000
	To Securities Premium Reserve A/c				4,500
	To Premium on Redemption of Debentures A/c				6,000
	(Application money adjusted to debentures account)				
At the end of Year of issue	Securities Premium Reserve A/c	Dr.		4,500	
	Statement of Profit & Loss A/c	Dr.		1,500	
	To Loss on Issue of Debentures A/c				6,000
	(Being the loss on issue of debentures written off)				

Redemption of Debentures

Objective

After going through this lesson, you shall be able to understand the following concepts related to Redemption of Debentures.

- Meaning of Redemption of Debentures
- Debenture Redemption Reserve
- Debenture Redemption Investment

Redemption of Debentures

Redemption of debentures refers to the repayment of debentures by a company to its debentureholders. Debentures are redeemed after the expiration of its fixed period. In other words, redemption of debentures implies the discharge of liabilities by repaying the amount due to the debentureholders as per the terms and conditions. The terms and conditions of redemption of debentures are specifically stated in the prospectus that is offered to the public at the time of issue of debentures. These debentures may be redeemable at par or premium.

Debenture Redemption Reserve (DRR)

Redemption of debentures involves a huge outflow of cash in form of payments to the debentureholders. Generally, it becomes very difficult for a company to bear such huge cash outflows on the day of redemption. Accordingly, every company maintains a reserve known as Debenture Redemption Reserve (DRR) for redemption of debentures. This reserve acts as a piggy-bank in which a company transfers a portion of every year's profits. The whole amount in this reserve is utilised on the day of redemption.

As per Section 71 (4) of the Companies Act, 2013 and Companies (Share Capital and Debentures) Rules, 2014, every company issuing debentures is required to create Debenture Redemption Reserve of ***an amount that is atleast equal to 25% of the total nominal (face) value of debentures*** that are redeemable by it. DRR is created out of the profits of the company available for payment of dividend and the amount credited to such account shall not be utilised by the company except for the redemption of debenture.

It should be noted that DRR is required to be created for Non-Convertible Debentures (NCDs) and non-convertible part of Partly Convertible Debentures (PCDs).

The Companes Act, 2013 ***exempts*** the following companies from the creation of DRR.

(i) All India Financial Institutions (AIFIs) regulated by the Reserve Bank of India
(ii) Banking Companies

Disclosure of DRR in Company's Balance Sheet
DRR is shown in the Notes to Account of *Reserves and Surplus* and the final balance is shown on the *Equity and Liabilities Side* of the Balance Sheet *as*

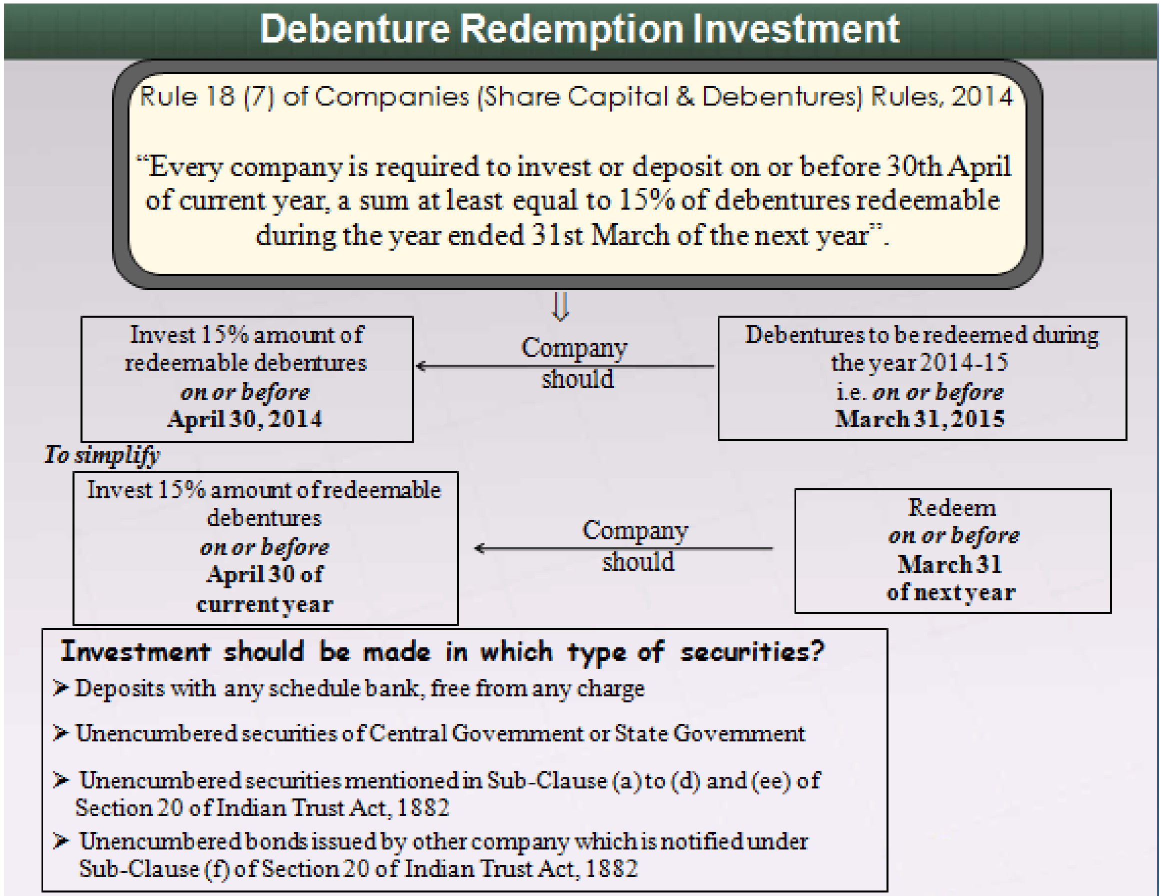
per the Schedule III of Companies Act 2013. It is closed by transferring its balance to *General Reserve Account* at the end, when all the debentures are redeemed.

Debenture Redemption Investment (DRI)

In addition to above specified rules, Rule 18 (7) of the Companies (Share Capital and Debentures) Rules, 2014 requires every company required to create DRR shall on or before 30th April in each year, invest or deposit in specified securities, a sum of at least equal to fifteen percent of the amount of debentures maturing for payment during the year ended 31st March of the next year. The specified securities for Investment are:

(i) in deposits with any Scheduled Banks, free from any charge;
(ii) in unencumbered securities of Central Government or any State Government;
(iii) in unencumbered securities mentioned in sub-clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882 and
(iv) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of Section 20 of the Indian Trusts Act, 1882.

Also, the amount invested or deposited shall not be used for any purpose other than redemption of debentures maturing during the year ending 31st March of next year.



<u>Exercise</u>**:** State weather the following statements are ***true*** or ***false***. If false, then justify your answer with appropriate reasons.

(i) Debenture Redemption Reserve is created by transferring the amount of capital.
(ii) As per the Companies (Share Capital and Debentures) Rules, 2014, DRR to be created must be 25% of the value of debentures.
(iii) Creation of Debenture Redemption Reserve is not required for that portion of partly convertible debenture which is to be converted into new securities.

Solution

(i) ***False***- Debenture Redemption Reserve is created by transferring profits from Statement of Profit and Loss.
(ii) ***True***
(iii) ***True***

<u>Example</u>**:** Ascertain the amount that is required to be transferred to DRR as per the Companies (Share Capital and Debentures) Rules, 2014 in each of the following cases.

Case 1: One of the Banking Company issued 10% Debentures of Rs 1,00,000 on April 01, 2015 with the term to be redeemed on June 30, 2016.

Case 2: On April 01, 2011, company issued debentures of Rs 5,00,000, which are to be redeemed after five years. How much amount of profit is to be transferred to Debenture Redemption Reserve Account and on which date will the debentures be due for redemption?

Case 3: A company had 10% Debentures of Rs 5,00,000 redeemable at par. For redeeming debentures, the company had already transferred Rs 1,10,000 to the DRR Account. Calculate the amount that is to be transferred to DRR before starting redemption.

Case 4: On April 01, 2011, a listed company issued 12% Debentures of Rs 2,00,000 at 5% discount which are to be redeemed on March 31, 2015. How much amount is required to be transferred to Debenture Redemption Reserve before starting redemption?

Case 5: A company issued Rs 5,00,000, 10% Debentures of Rs 100 each for five years with the term that 50% of the debentures to be converted in 12% Preference Shares of Rs 100 each. The remaining amount is to be paid in cash. Calculate the amount in the DRR Account before initiating the redemption process.

Solution

***Case 1*:** There is no need to create Debenture Redemption Reserve because as per the Companies (Share Capital and Debentures) Rules, 2014, All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures are exempted from creation of DRR.

***Case 2*:** As per the Companies (Share Capital and Debentures) Rules, 2014, the amount of profit that is to be transferred to the DRR must be atleast equal to 25% of the value of debentures issued. Therefore,

$$\text{Amount to be transferred to DRR} = 25\% \text{ of the Debentures issued}$$

$$= \frac{25}{100} \times 5,00,000 = \text{Rs } 1,25,000$$

The Debentures are due for Redemption on March 31, 2016.

***Case 3*: Amount required to be transferred to DRR**

$$\text{Amount to be transferred to DRR} = 25\% \text{ of the Debentures issued}$$

$$= \frac{25}{100} \times 5,00,000$$

$$= \text{Rs } 1,25,000$$

$$\textit{Less}\text{: Amount already in DRR} = \underline{(\text{Rs } 1,10,000)}$$

$$\text{Balance Amount to be transferred} = \underline{\underline{\text{Rs } 15,000}}$$

***Case 4*: Amount required to be transferred to DRR**

$$\text{Amount to be transferred to DRR} = 25\% \text{ of the value of Debentures}$$

$$= \frac{25}{100} \times 2,00,000$$

$$= \text{Rs } 50,000$$

**_Case 5_: ** Amount to be transferred to DRR

$$\text{Amount to be transferred to DRR} = 25\% \text{ of the Debentures redeemable in cash}$$
$$= \frac{25}{100} \times 2,50,000$$
$$= \text{Rs } 62,500$$

Example: In the below-given cases, ascertain the respective amounts to be transferred to DRR and DRI along with their respective dates.

(i) On April 01, 2011, a company issued debentures of Rs 10,00,000, which are to be redeemed after five years.
(ii) On April 01, 2013, a company issued debentures of Rs 3,00,000 at 20% premium, redeemable on June 30, 2016.
(iii) On April 01, 2013, a company issued 40,000 debentures of Rs 100 each redeemable as:
(a) 30,000 debentures on March 31, 2016
(b) 10,000 debentures on March 31, 2017

Solution

Cases	Amount of DRR	Date of DRR	Amount of DRI	Date of DRI
(i)	2,50,000	March 31, 2015	1,50,000	April 30, 2015
(ii)	75,000	March 31, 2016	45,000	April 30, 2016
(iii)	10,00,000	March 31, 2015	(a) 4,50,000 (b) 1,50,000	(a) April 30, 2015 (b) April 30, 2016

Method-I: Redemption in Lump-sum

Objective
After going through this lesson, you shall be able to understand the Method I of Redemption of Debentures i.e. '***Redemption of Debentures in Lump-sum***'.

Important Points

A Quick Recap

DRR [Section 71 (4) of Companies Act 2013]

- Transfer of amount ***not less than 25%*** of the total face value of debentures that are to be redeemed.

DRI [Rule 18 (7) of Companies (Share Capital & Debentures) Rules, 2014]

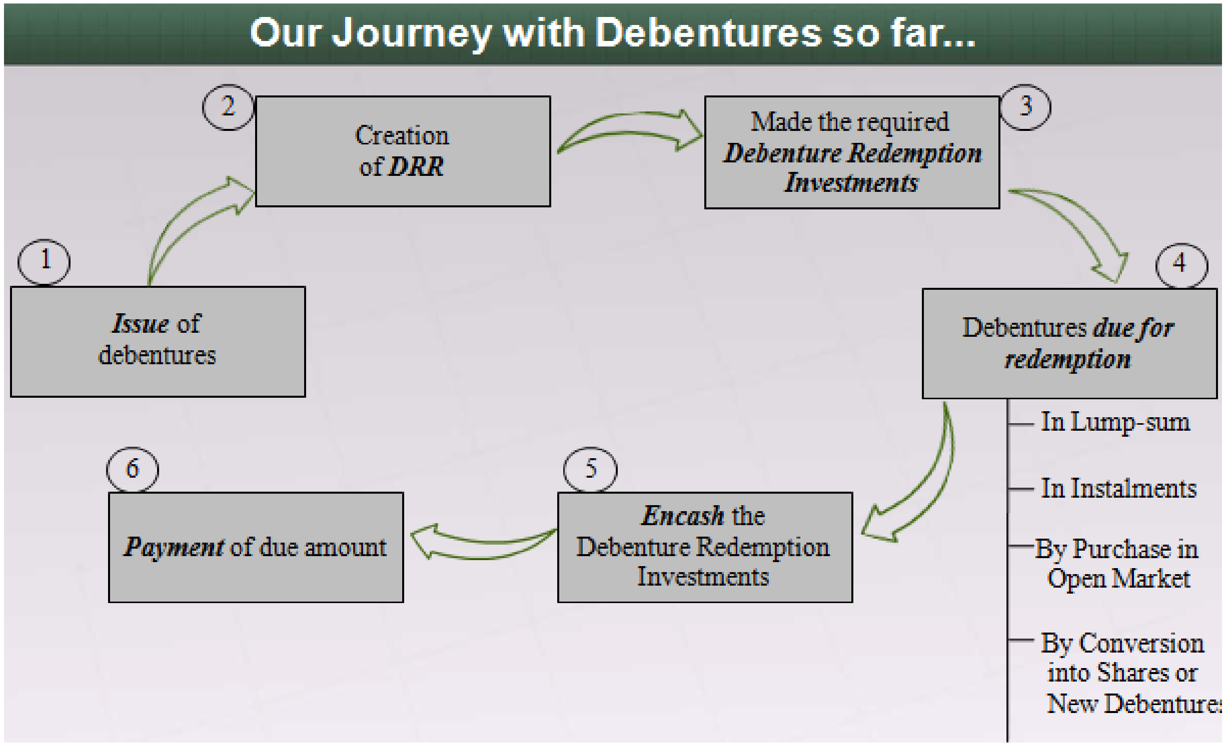
- Every company is required to invest or deposit ***on or before April 30th of current year***, a sum of atleast equal to 15% of debentures redeemable during the year ended March 31st of the next year

For Example

Invest		Redeem
Invest 15% amount of Rs 1,00,000, i.e. Rs 15,000 in DRI on or before April 30, **2014**	← Company should	Company will redeem Rs 1,00,000 debentures on March 31, **2015**
Invest 15% amount of Rs 1,00,000, i.e. Rs 15,000 in DRI on or before April 30, **2014**	← Company should	Company will redeem Rs 1,00,000 debentures on July 31, **2014**

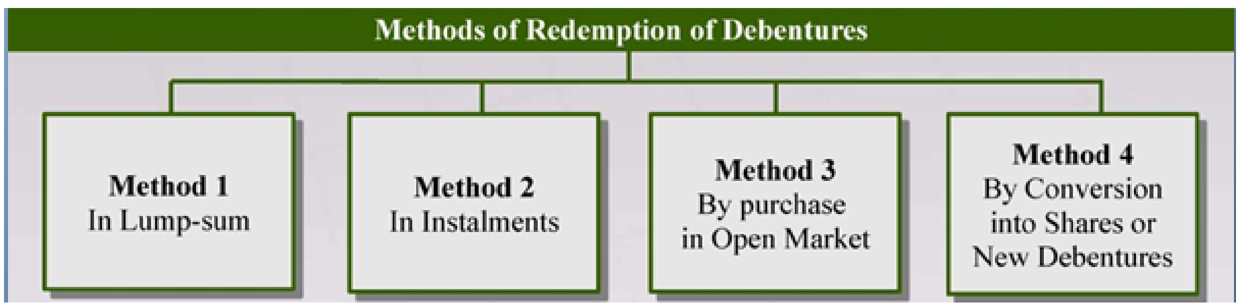
Process of Redemption of Debentures

The following chart explains the different phases involved in the redemption of debentures.



Methods of Redemption of Debentures

We started with the issue of debentures, followed by creation of DRR, then DRI and finally now, we are proceeding towards redemption of debentures. These are the four methods of redeeming debentures.

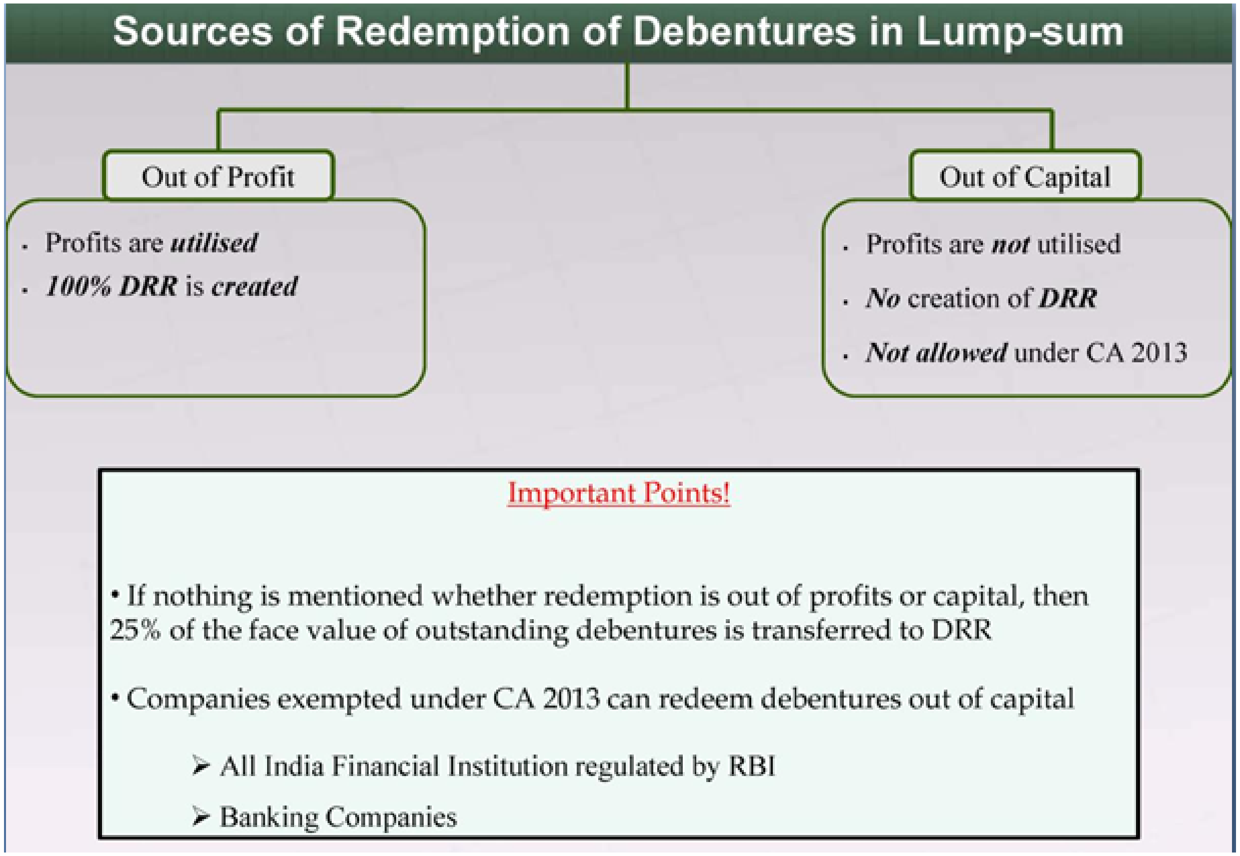


<u>Note:</u> Only first two methods i.e. Redemption of Debentures In Lump-sum and In Instalments are to be covered as part of the curriculum for the year 2018-19.

Method I- ***Redemption of Debentures in Lump-sum***

When all the debentures are repaid (or redeemed) in just one single payment, then such method of redemption is termed as redemption of debentures in lump-sum. As per this method, a company has to make the entire payment to all the debentureholders in one-go on the maturity date of the debentures. For redemption of debentures in lump-sum on maturity, a company can opt for any of the following redemption sources.

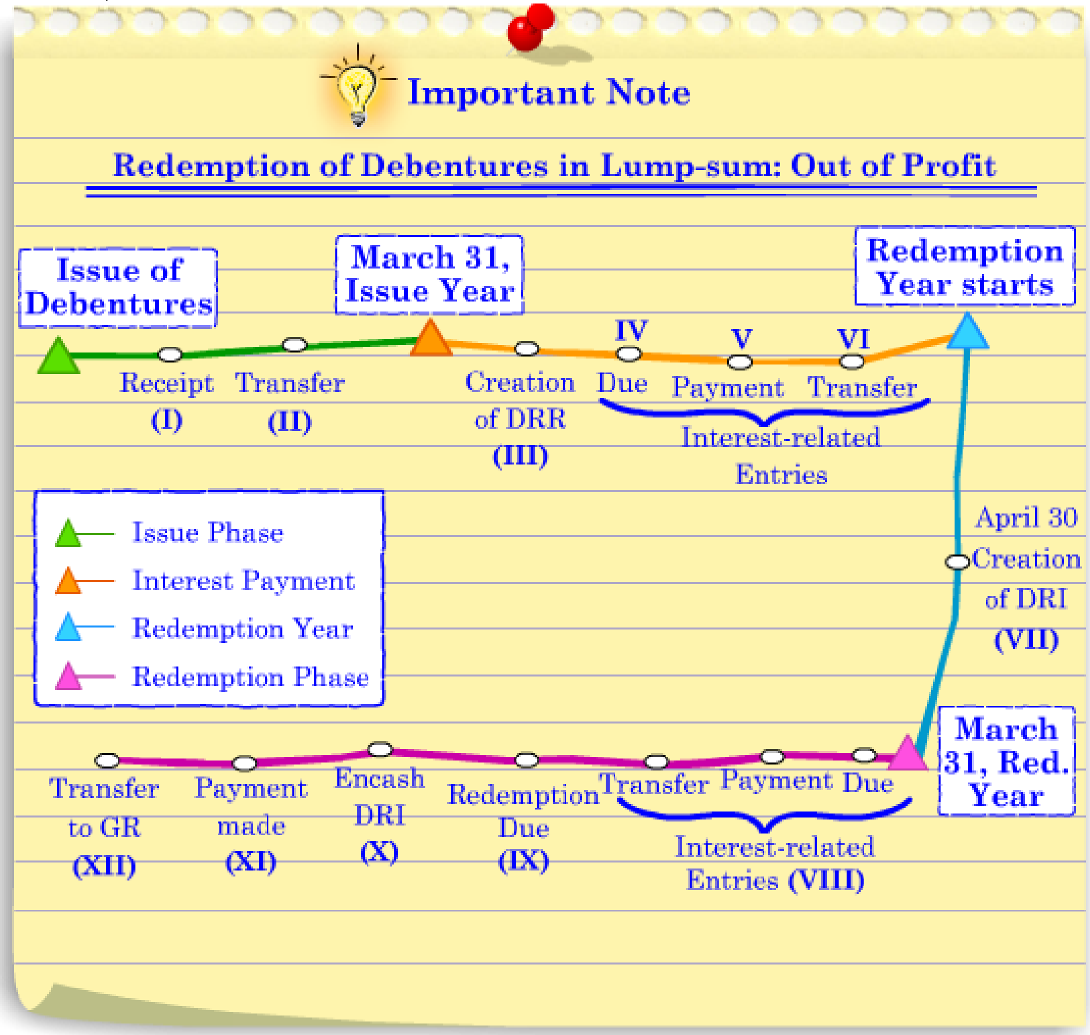
a. Redemption Out of Capital
b. Redemption Out of Profits



Redemption Out of Profits
When debentures are redeemed out of profits and no capital is utilised for the purpose of redemption, then such redemption are termed as Redemption out of profits. Before redeeming the debentures, sufficient profits are transferred to Debenture Redemption Reserve Account (DRR) from the Statement of Profit and Loss. In such a case, an amount equal to 100% of the nominal value of the oustnading debentures is transferred to DRR.

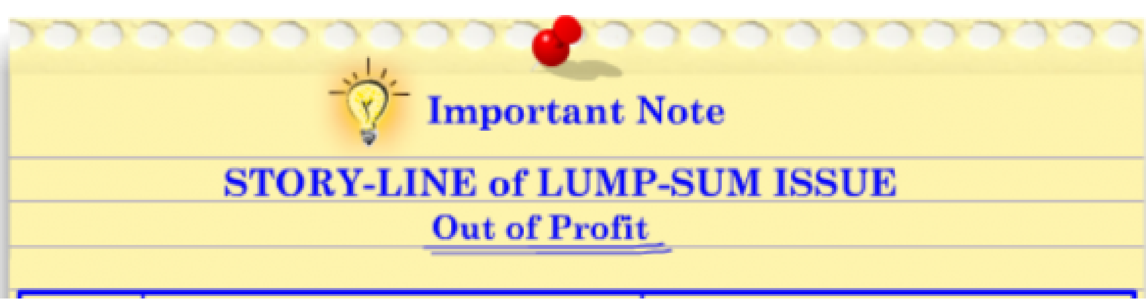
Different Phases of Redemption in Lump-Sum Method (Out of Profit)
As evident in the below diagram the journey starts just after the issue of debentures, thereafter, payment of interest on debentures at the year-end, followed by creation of DRR, then investing in DRI @ 15% (of debentures redeemable) on April 30 of the redemption year, finally paying the interest amount and encashing the investment so made. The last phase is making the final payment to the debentureholders. Lastly, if all the debentures are

redeemed, then the amount is transferred to General Reserve Account from DRR.



Accounting Treatment & Journal Entries (Out of Profit)

The following are the Journal entries that are to be passed in case of redemption of debentures out of profits.



	Issue at Par & Redeemable at Par	Issue at Par & Redeemable at Premium
Date of Issue	Issue Entries	Issue Entries
	(I) Bank A/c Dr.	(I) Bank A/c Dr.
	To Deb. Application & Allot. A/c	To Deb. Application & Allot. A/c
	(II) Deb. App. & Allot. A/c Dr.	(II)Deb. App. & Allot. A/c Dr.
	To Debentures A/c	Loss on Issue of Deb. A/c Dr.
		To Debentures A/c
		To Premium on Red. A/c
		(III) Sec. Premium Reserve A/c Dr.
		Or Statement of Profit & Loss A/c Dr.
		To Loss on Issue of Deb. A/c
March 31 of Previous Year	Creation of DRR	Creation of DRR
	(III) Statement of P & L A/c Dr.	(III) Statement of P & L A/c Dr.
	To DRR A/c	To DRR A/c
March 31 of Previous Year	Interest related Entries	Interest related Entries
	(IV) Deb. Interest A/c Dr.	(IV) Deb. Interest A/c Dr.
	To Debentureholders A/c	To Debentureholders A/c
	(V) Debentureholders A/c Dr.	(V) Debentureholders A/c Dr.
	To Bank A/c	To Bank A/c
	(VI) Statement of P & L A/c Dr.	(VI) Statement of P & L A/c Dr.
	To Deb. Interest A/c	To Deb. Interest A/c
	During the Redemption Year	
April 30 Redemp-tion Year	Creation of DRI	Creation of DRI
	(VII) DRI A/c Dr.	(VII) DRI A/c Dr.
	To Bank A/c	To Bank A/c
	On the date of Redemption	
Date of Redemp-tion	Interest related Entries	Interest related Entries
	(VIII) *Same as Journal Entries* (IV to VI)	(VIII) *Same as Journal Entries* (IV to VI)
Date of Redemp-tion	Redemption Due	Redemption Due
	(IX) Deb. A/c Dr.	(IX) Deb. A/c Dr.
	To Debentureholders A/c	Premium on Red. A/c Dr.

		To Debentureholders A/c
Date of Redemption	Encash DRI (X) Bank A/c Dr. To DRI A/c	Encash DRI (X) Bank A/c Dr. To DRI A/c
Date of Redemption	Payment Made (XI) Debentureholders A/c Dr. To Bank A/c	Payment Made (XI) Debentureholders A/c Dr. To Bank A/c
Date of Redemption	Transfer to GR (XII) DRR A/c Dr. To General Reserve A/c	Transfer to GR (XII) DRR A/c Dr. To General Reserve A/c

***<u>Example</u>*: Comprehensive Example (From Issue till Redemption)**
Sarita Ltd. issued 10,000 12% Debentures of Rs 100 each a premium of 10% on September 30, 2011 redeemable on September 30, 2013. The issue was fully subscribed. The provisions of Schedule III of the Companies Act of 2013 were complied with in respect of creation of DRR and investment in securities. Pass the necessary Journal entries.

Solution: Since nothing has been mentioned about the financial year, so as we have to adhere to the guidelines of Companies Act 2013, wherein, we will assume the financial year to be Arpil 01 to March 31.

Journal (Issued at Premium, Redeemable at Par)

Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2011-12					
Sept. 30	Bank A/c	Dr.		11,00,000	
	To 12% Debenture Application and Allotment A/c				11,00,000
	(Receipt of application money)				
Sept. 30	12% Debenture Application and Allotment A/c			11,00,000	
	To 12% Debentures A/c				10,00,000
	To Securities Premium A/c				1,00,000

	(Transfer of application money)				
Mar. 31	Debenture Interest A/c	Dr.		60,000	
	To Debentureholders' A/c				60,000
	(Interest on 12% debentures due for 6 months)				
Mar. 31	Debentureholders' A/c	Dr.		60,000	
	To Bank A/c				60,000
	(Payment of interest to debentureholders')				
Mar. 31	Statement of Profit and Loss A/c	Dr.		60,000	
	To Debenture Interest A/c				60,000
	(Transfer of debenture interest to Statement of Profit and Loss)				
2012-13					
Mar. 31	Statement of Profit and Loss A/c	Dr.		2,50,000	
	To Debenture Redemption Reserve A/c				2,50,000
	(Transfer of 25% of face value to DRR)				
Mar. 31	Debenture Interest A/c	Dr.		1,20,000	
	To Debentureholders' A/c				1,20,000
	(Interest on 12% debentures due)				
Mar. 31	Debentureholders' A/c	Dr.		1,20,000	
	To Bank A/c				1,20,000
	(Payment of interest to debentureholders')				
Mar. 31	Statement of Profit and Loss A/c	Dr.		1,20,000	
	To Debenture Interest A/c				1,20,000
	(Transfer of debenture interest to Statement of Profit and Loss)				
2013-					

14				
Apr. 30	Debenture Redemption Investment A/c	Dr.	1,50,000	
	To Bank A/c			1,50,000
	(Invested 15% of debentures redeemed)			
Sept. 30	Debenture Interest A/c	Dr.	60,000	
	To Debentureholders' A/c			60,000
	(Interest on 12% debentures due for 6 months)			
Sept. 30	Debentureholders' A/c	Dr.	60,000	
	To Bank A/c			60,000
	(Payment of interest to debentureholders')			
Sept. 30	12% Debentures A/c	Dr.	10,00,000	
	To Debentureholders' A/c			10,00,000
	(Debentures due for redemption)			
Sept 30.	Bank A/c	Dr.	1,50,000	
	To Debenture Redemption Investment A/c			1,50,000
	(Encashment of investments)			
Sept 30.	Debentureholders' A/c	Dr.	10,00,000	
	To Bank A/c			10,00,000
	(Payment to debentureholders made)			
Sept. 30	Debenture Redemption Reserve A/c	Dr.	2,50,000	
	To General Reserve A/c			2,50,000
	(Transfer of DRR to General Reserve)			

Note: Since, nothing is mentioned, the provisions of Companies Act 2013 are applicable. Accordingly, an amount equal to atleast 25% of the nominal value of debentures is transferred to DRR.

***Example*: No Balance in DRR and Existing Balance in DRR**

Latika Ltd. issued 5,000, 17% debentures of Rs 100 each due for redemption at Rs 120 each on March 31, 2011.

(a) Pass the necessary Journal entries for redemption of debentures; assuming there is no existing balance in DRR.

(b) How much amount should be transferred to DRR Account, if the company already has a balance of Rs 90,000 in its DRR Account?

Solution

(a)

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
2010					
March 31	Statement of Profit and Loss	Dr.		1,25,000	
	To Debenture Redemption Reserve A/c				1,25,000
	(25% of face value of debentures transferrred to the DRR Account)				
April 30	Debenture Redemption Investment A/c	Dr.		75,000	
	To Bank A/c				75,000
	(Investment is made in specified securities equal to the 15% of the value of the debentures redeemed)				
2011					
March 31	17% Debentures A/c	Dr.		5,00,000	
	Premium on Redemption A/c	Dr.		1,00,000	
	To Debentureholders' A/c				6,00,000
	(Amount due on redemption to the debentureholders)				
March 31	Bank A/c	Dr.		75,000	
	To Debenture Redemption Investment A/c				75,000
	(Investment made in specified securities, now encashed)				
March 31	Debentureholders' A/c	Dr.		6,00,000	
	To Bank A/c				6,00,000
	(Payment made to the debentureholders)				
March 31	Debenture Redemption Reserve A/c	Dr.		1,25,000	
	To General Reserve A/c				1,25,000
	(DRR transferred to General Reserve Account)				

(b)

If the company already has a balance of Rs 90,000 in its DRR Account, then it must transfer Rs 35,000 more to the DRR as per Rule 18(7) of the Companies Rule, 2014

Amount to be transferred to DRR (25%)	=	1,25,000
Less: Amount already exist in DRR	=	90,000
Amount to be transferred to DRR	=	Rs 35,000

Therefore, the Journal entry to be passed for the transfer of amount to DRR is:

Journal Entry

Statement of Profit and Loss A/c	Dr.		35,000	
To Debenture Redemption Reserve A/c				35,000
(Transferring of amount to DRR)				

All the remaining Journal entries for redemption will remain the same as above.

Note:

1. Entries related to issue of debentures have been ignored in the above solution as the question required Journal entries ***at the time of redemption*** only.
2. Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalise the entries related to interest on debentures for the years ending March 31, 2010 and March 31, 2011. Below given are the entries for interest for the year 2010. The same entries will be passed at the year-end of 2011.

Journal (Interest-related Entries)

Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2010 Mar. 31	Debenture Interest A/c	Dr.		85,000	
	To Debentureholders' A/c				85,000
	(Interest on 17% debentures due)				
Mar. 31	Debentureholders' A/c	Dr.		85,000	
	To Bank A/c				85,000
	(Payment of interest to debentureholders')				
Mar. 31	Statement of Profit and Loss A/c	Dr.		85,000	
	To Debenture Interest A/c				85,000
	(Transfer of debenture interest to Statement of Profit and Loss)				

Example: **Existing Balance in DRR and Redemption Entries**

Dee Dee Ltd. has 30,000 debentures of face value of Rs 50 each due for redemption at a premium of 10%. Pass the necessary Journal entries at the time of redemption of debentures if Debenture Redemption Reserve has a balance of Rs 50,000 on that date.

Solution

Books of Dee Dee Ltd.
Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Statement of Profit and Loss	Dr.		3,25,000	
	To Debenture Redemption Reserve A/c				3,25,000
	(Required amount transferred to DRR)				
	Debenture Redemption Investment A/c	Dr.		2,25,000	
	To Bank A/c				2,25,000
	(Investment is made in specified securities equal to the 15% of the value of the debentures redeemed)				
	Debenture A/c	Dr.		15,00,000	
	Premium on Redemption A/c	Dr.		1,50,000	
	To Debentureholders' A/c				16,50,000
	(Debentures due for redemption)				
	Bank A/c	Dr.		2,25,000	
	To Debenture Redemption Investment A/c				2,25,000
	(Investment made in specified securities, now encashed)				
	Debentureholders' A/c	Dr.		16,50,000	
	To Bank A/c				16,50,000
	(Amount due to debentureholders paid)				
	Debenture Redemption Reserve A/c	Dr.		3,75,000	
	To General Reserve A/c				3,75,000
	(Transfer of DRR to General Reserve)				

As per Rule 18(7) of the Companies Rule, 2014, DRR should be equal to the 25% of the value of debentures i.e. Rs 3,75,000. But the company already had a DRR balance of Rs 50,000. So, DRR is to be created with the difference amount of Rs 3,25,000 (3,75,000 – 50,000).

Note:
1. Entries related to issue of debentures have not been journalised as the company has not made fresh issue of debentures, rather it has existing 30,000 debentures that are due for redemption.
2. Entries for interest on debentures have been ignored in the above solution as the question does not specify the rate of interest.

Example: **Existing Balance in DRR and Redemption Entries**
Anik Ltd. has 20,000 debentures of face value of Rs 100 each due for redemption. Debenture Redemption Reserve has a balance of Rs 2,00,000 on that date. Pass the necessary Journal entries at the time of redemption of debentures.

Solution

Books of Anik Ltd.
Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Statement of Profit and Loss	Dr.		3,00,000	
	To Debenture Redemption Reserve A/c				3,00,000
	(Required amount transferred to DRR)				
	Debenture Redemption Investment A/c	Dr.		3,00,000	
	To Bank A/c				3,00,000
	(Investment is made in specified securities equal to the 15% of the value of the debentures redeemed)				
	Debenture A/c	Dr.		20,00,000	
	To Debentureholders' A/c				20,00,000
	(Debentures due for redemption)				
	Bank A/c	Dr.		3,00,000	
	To Debenture Redemption Investment A/c				3,00,000
	(Investment made in specified securities, now encashed)				
	Debentureholders' A/c	Dr.		20,00,000	
	To Bank A/c				20,00,000
	(Amount due to debentureholders paid)				
		Dr.			

	Debenture Redemption Reserve A/c		5,00,000	
	To General Reserve A/c			5,00,000
	(Transfer of DRR to General Reserve)			

Working Notes:

Amount to be transferred to DRR (25%) = 5,00,000

Less: Amount already exist in DRR = 2,00,000

Amount to be transferred to DRR = Rs 3,00,000

Notes:

1. Entries related to issue of debentures have not been journalised as the company has not made fresh issue of debentures, rather it has existing 20,000 debentures that are due for redemption.
2. Entries for interest on debentures have been ignored in the above solution as the question does not specify the rate of interest.

Example: **No Balance in DRR and Only Redemption Entries**

On March 31, 2016, Megha Ltd. redeemed 1,500 8% Debentures of face value of Rs 20 each due for redemption at a premium of Rs 2. Pass the necessary Journal entries for the redemption of debentures.

Solution

Books of Megha Ltd.
Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
2015 Mar. 31	Statement of Profit and Loss	Dr.		7,500	
	To Debenture Redemption Reserve A/c				7,500
	(Required amount transferred to DRR)				
Apr. 30	Debenture Redemption Investment A/c	Dr.		4,500	
	To Bank A/c				4,500
	(Investment is made in specified securities equal to the 15% of the value of the debentures redeemed)				
2016 Mar. 31	Debenture A/c	Dr.		30,000	
	Premium on Redemption A/c	Dr.		3,000	
	To Debentureholders' A/c				33,000

	(8% Debentures due for redemption)			
Mar. 31	Bank A/c Dr. To Debenture Redemption Investment A/c (Investment made in specified securities, now encashed)		4,500	4,500
Mar. 31	Debentureholders' A/c Dr. To Bank A/c (Amount due to debentureholders paid)		33,000	33,000
Mar. 31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Transfer of DRR to General Reserve)		7,500	7,500

Note:

1. Entries related to issue of debentures have not been journalised as the company has not made fresh issue of debentures, rather it has existing 1,500 debentures that are being redeemed.
2. Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalise the entries related to interest on debentures for the years ending March 31, 2015 and March 31, 2016 as given below.

Journal (Interest-related Entries)

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2015 Mar. 31	Debenture Interest A/c Dr. To Debentureholders' A/c (Interest on 8% debentures due)		2,400	2,400
Mar. 31	Debentureholders' A/c Dr. To Bank A/c (Payment of interest to debentureholders')		2,400	2,400
Mar. 31	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Transfer of debenture interest to		2,400	2,400

	Statement of Profit and Loss)			

***Example*: Interest on Debentures and TDS along with Redemption Entries**
Z Ltd. decided to redeem Rs 1,50,000, 10% Debentures on March 31, 2015 at a premium of 5%. Debenture interest is payable annually on March 31 of every year. Tax was deducted @ 10% on interest paid to debentureholders. Pass the necessary journal entries.
Solution

Journal (Issued at Par, Redeemable at Premium)

Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013-14					
Mar. 31	Statement of Profit and Loss A/c	Dr.		37,500	
	To Debenture Redemption Reserve A/c				37,500
	(Transfer of 25% of face value to DRR)				
Mar. 31	Debenture Interest A/c	Dr.		15,000	
	To Debentureholders' A/c				13,500
	To TDS A/c				1,500
	(Interest on 10% debentures due)				
Mar. 31	Debentureholders' A/c	Dr.		13,500	
	TDS A/c	Dr.		1,500	
	To Bank A/c				15,000
	(Payment of interest to debentureholders')				
Mar. 31	Statement of Profit and Loss A/c	Dr.		15,000	
	To Debenture Interest A/c				15,000
	(Transfer of debenture interest to Statement of Profit and Loss)				
2014-15					
Apr. 30	Debenture Redemption Investment A/c	Dr.		22,500	
	To Bank A/c				22,500
	(Invested 15% of debentures redeemed)				
Mar. 31	Debenture Interest A/c	Dr.		15,000	
	To Debentureholders' A/c				13,500
	To TDS A/c				1,500
	(Interest on 10% debentures due)				
Mar. 31	Debentureholders' A/c	Dr.		13,500	
	TDS A/c	Dr.		1,500	

	To Bank A/c (Payment of interest to debentureholders')			15,000
Mar. 31	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Transfer of debenture interest to Statement of Profit and Loss)		15,000	15,000
Mar. 31	10% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders' A/c (Debentures due for redemption)		1,50,000 15,000	1,65,000
Mar. 31	Bank A/c Dr. To Debenture Redemption Investment A/c (Encashment of investments)		22,500	22,500
Mar. 31	Debentureholders' A/c Dr. To Bank A/c (Payment to debentureholders made)		1,65,000	1,65,000
Mar. 31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Transfer of DRR to General Reserve)		37,500	37,500

Notes:

1. Entries related to issue of debentures have not been journalised as the company has not made fresh issue of debentures, rather it has Rs 1,50,000 10% Debentures that are being redeemed.
2. Journal entries related to interest on debentures are passed as it has been explicitly stated in the question.

***Example*: Missing Information**

On June 30, 2015, Preet Ltd. redeemed all of its debentures of Rs 100 each at a premium of 5%. The company has a balance of Rs 50,000 in its DRR. The requisite amount has been invested in specified securities yielding interest @ 10% p.a. Fill in the missing information in the given below journal entries.

Journal (Issued at Par, Redeemable at Premium)

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2015 Mar. 31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c		___*i*___	___*i*___

	(Transfer of 25% of face value to DRR)			
Apr. 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment in 15% securities)		___ii___	___ii___
June 30	Debentures A/c Dr. _______iii_______ Dr. To Debentureholders' A/c (Debentures due for payment)		10,00,000 50,000	10,50,000
June 30	Bank A/c Dr. To Debenture Redemption Investment A/c To Interest Earned A/c (Encashment of investment)		___iv___	1,50,000 ___v___
June 30	Debentureholders' A/c Dr. To Bank A/c (Payment made to debentureholders)		10,50,000	10,50,000
June 30	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Transfer of DRR to General Reserve)		2,50,000	2,50,000

Solution

(i) **Transfer to DRR: Rs 2,00,000**
Explanation: Face value of debentures redeemed = Rs 10,00,000
DRR (25% of 10,00,000) = Rs 2,50,000
Existing Balance in DRR = Rs 50,000
Balance Amount Transferred from Statement of Profit and Loss = Rs 2,00,000

(ii) **Amount Invested = Rs 1,50,000**
Explanation: Amount Invested = 15% of Debentures Redeemed
= 15% of 10,00,000
= Rs 1,50,000

(iii) **Account debited: Premium on Redemption of Debenture A/c**
Explanation: Redemption is taking place at a premium of 5%. While making the debentures due for payment, Premium on Redemption of Debenture (loss for the company) has to be debited.

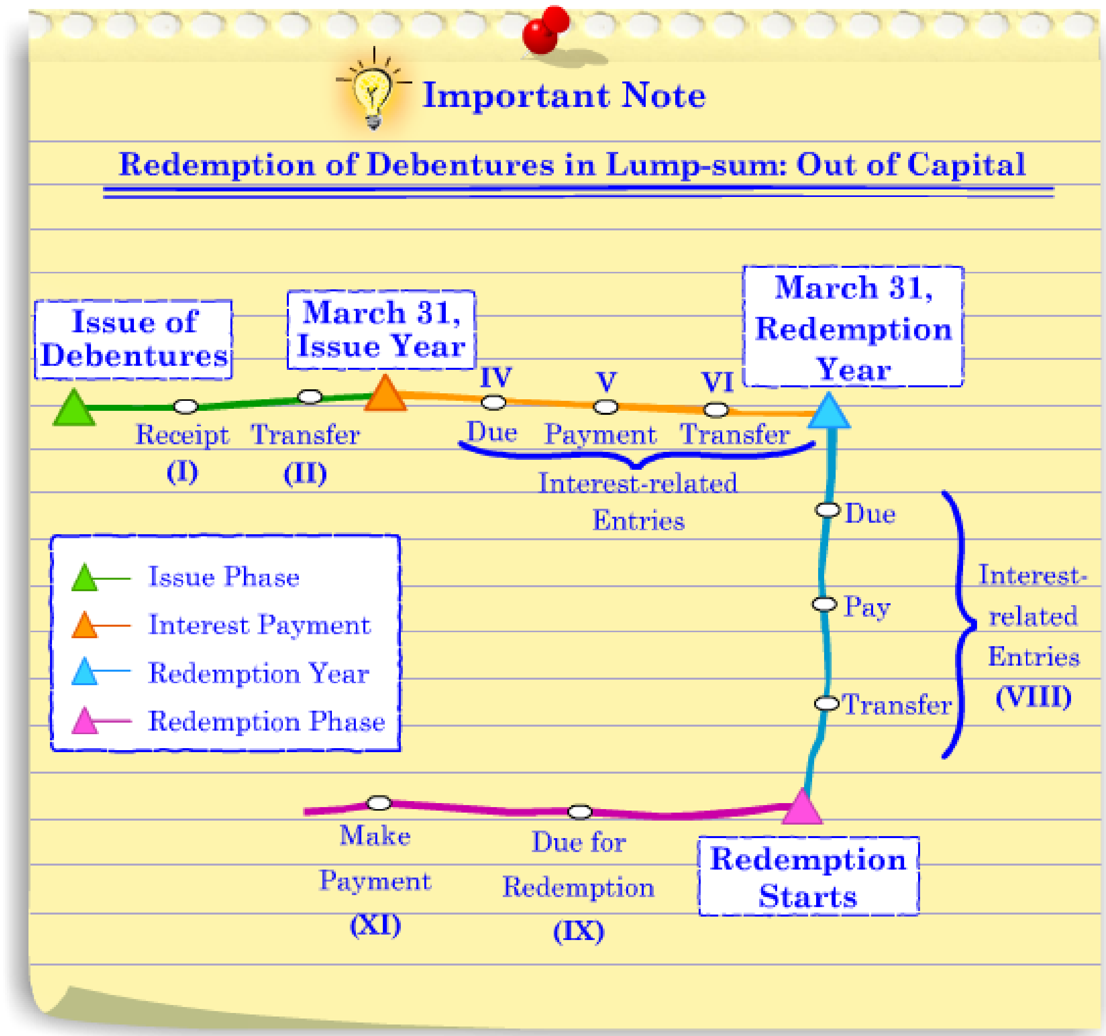
(iv) **Amount Debited to Bank A/c = Rs 1,52,500**
Explanation: Amount debited to Bank A/c will be total amount realised on the sale of investments (including interest for 2 months).

(v) **Amount Credited to Interest A/c = Rs 2,500**
Explanation: Interest will be calculated for 2 months (May and June) i.e. from the date of investment till the date on which investments are encashed.
Amount of Interest = 1,50,000 @ 10% for 2 months = Rs 2,500

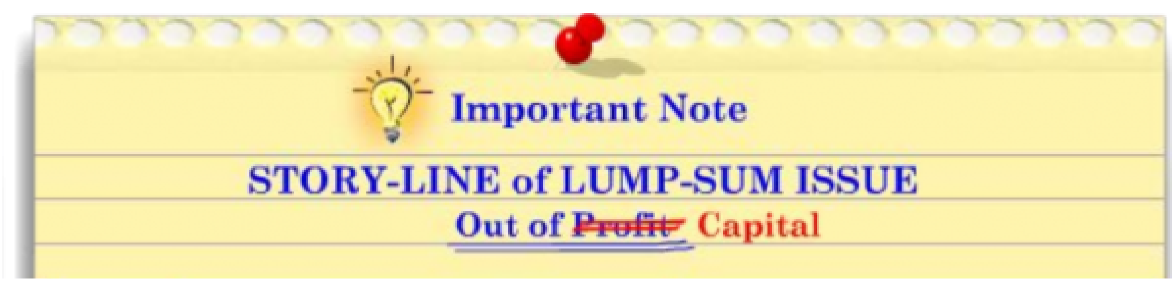
Redemption Out of Capital
So far, we have learnt about the redemption of debenture in lump-sum method using profit, wherein, DRR and DRI are created or maintained. Accordingly, at the time of redemption, DRI amount is encashed to repay the debentureholders. This method of redeeming debentures is allowed only for the companies which have been mandated by the Companies Act of 2013. However, the act has exempted some companies (All India Financial Institutions regulated by RBI and Banking Companies) from redeeming debentures out of profit. These companies redeem debentures using capital, hence, there is no requirement for creation of DRR and DRI.

Different Phases of Redemption in Lump-Sum Method (Out of Capital)
From the above paragraph, it is apparent that the exempted companies need not prepare DRR and invest in DRI. So, the journey of debentures starts right from the issue, followed by interest payments at the end of the issue year. The interest-related entries are passed on for every year till the redemption year. On the date of redeeming debentures, the payment ot debentureholders is made due and after that the repayment is done. That's it in this case; we need not to pass the entries for DRR, DRI, encashment of DRI and final transferring of DRR balance to General Reserve Account.

The route-map of redeeming debentures in Lump-Sum Method out of capital has been explained diagrammatically below. The ***skipped out phases have been missed in the below diagram***.



Accounting Treatment & Journal Entries (Out of Capital)
In the below table, a few of the Journal entries have been struck-out. These are related to DRR and DRI. Since, there is no need of DRR and DRI in redemption out of capital, so the related entries have struck-off. The left-over entries are the only entries that are to be passed in case of redemption of debentures out of capital.



	Issue at Par & Redeemable at Par	Issue at Par & Redeemable at Premium
Date of Issue	Issue Entries	Issue Entries
	(I) Bank A/c Dr.	(I) Bank A/c Dr.
	To Deb. Application & Allot. A/c	To Deb. Application & Allot. A/c
	(II) Deb. App. & Allot. A/c Dr.	(II)Deb. App. & Allot. A/c Dr.
	To Debentures A/c	Loss on Issue of Deb. A/c Dr.
		To Debentures A/c
		To Premium on Red. A/c
		(III) Sec. Premium Reserve A/c Dr.
		Or Statement of Profit & Loss A/c Dr.
		To Loss on Issue of Deb. A/c
~~March 31 of Previous Year~~	~~Creation of DRR~~	~~Creation of DRR~~
	~~(III) Statement of P & L A/c Dr.~~	~~(III) Statement of P & L A/c Dr.~~
	~~To DRR A/c~~	~~To DRR A/c~~
March 31 of Previous Year	Interest related Entries	Interest related Entries
	(IV) Deb. Interest A/c Dr.	(IV) Deb. Interest A/c Dr.
	To Debentureholders A/c	To Debentureholders A/c
	(V) Debentureholders A/c Dr.	(V) Debentureholders A/c Dr.
	To Bank A/c	To Bank A/c
	(VI) Statement of P & L A/c Dr.	(VI) Statement of P & L A/c Dr.
	To Deb. Interest A/c	To Deb. Interest A/c
	During the Redemption Year	
~~April 30 Redemption Year~~	~~Creation of DRI~~	~~Creation of DRI~~
	~~(VII) DRI A/c Dr.~~	~~(VII) DRI A/c Dr.~~
	~~To Bank A/c~~	~~To Bank A/c~~
	On the date of Redemption	
Date of Redemption	Interest related Entries	Interest related Entries
	(VIII) *Same as Journal Entries* (IV to VI)	(VIII) *Same as Journal Entries* (IV to VI)
Date of Redemption	Redemption Due	Redemption Due
	(IX) Deb. A/c Dr.	(IX) Deb. A/c Dr.
	To Debentureholders A/c	Premium on Red. A/c Dr.

		To Debentureholders A/c
Date of Redemption	Encash DRI (X) Bank A/c Dr. To DRI A/c	Encash DRI (X) Bank A/c Dr. To DRI A/c
Date of Redemption	Payment Made (XI) Debentureholders A/c Dr. To Bank A/c	Payment Made (XI) Debentureholders A/c Dr. To Bank A/c
Date of Redemption	Transfer to GR (XII) DRR A/c Dr. To General Reserve A/c	Transfer to GR (XII) DRR A/c Dr. To General Reserve A/c

Example: **Comprehensive Example (From Issue till Redemption- Out of Capital)**
On April 01, 2013, IDBI Bank issued 4,000, 9% debentures of Rs 100 each due for redemption at premium of Rs 20 each on March 31, 2015. Pass the necessary Journal entries for redemption of debentures.

Journal (Issued at Par, Redeemable at Premium)

Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
2013-14					
Apr. 01	Bank A/c	Dr.		4,00,000	
	To 9% Debenture Application and Allotment A/c				4,00,000
	(Receipt of application money)				
Apr. 01	9% Debenture Application and Allotment A/c	Dr.		4,00,000	
	Loss on Issue of Debentures A/c	Dr.		80,000	
	To 9% Debentures A/c				4,00,000
	To Premium on Redemption of Debentures A/c				80,000
	(Transfer of application money)				
2014					
Mar. 31	Statement of Profit and Loss A/c	Dr.		80,000	
	To Loss on Issue of Debentures A/c				80,000
	(Loss on debentures written off)				

Mar. 31	Debenture Interest A/c	Dr.		36,000	
	To Debentureholders' A/c				36,000
	(Interest on 9% debentures due)				
Mar. 31	Debentureholders' A/c	Dr.		36,000	
	To Bank A/c				36,000
	(Payment of interest to debentureholders')				
Mar. 31	Statement of Profit and Loss A/c	Dr.		36,000	
	To Debenture Interest A/c				36,000
	(Transfer of debenture interest to Statement of Profit and Loss)				
2014-15					
Mar. 31	Debenture Interest A/c	Dr.		36,000	
	To Debentureholders' A/c				36,000
	(Interest on 9% debentures due)				
Mar. 31	Debentureholders' A/c	Dr.		36,000	
	To Bank A/c				36,000
	(Payment of interest to debentureholders')				
Mar. 31	Statement of Profit and Loss A/c	Dr.		36,000	
	To Debenture Interest A/c				36,000
	(Transfer of debenture interest to Statement of Profit and Loss)				
Mar. 31	9% Debentures A/c	Dr.		4,00,000	
	Premium on Redemption of Debentures A/c	Dr.		80,000	
	To Debentureholders' A/c				4,80,000
	(Debentures due for redemption)				
Mar. 31	Debentureholders' A/c	Dr.		4,80,000	
	To Bank A/c				4,80,000
	(Payment made to debentureholders)				

***Example*: Comprehensive Example (From Issue till Redemption- Out of Capital)**

KB Bank Ltd. issued 1,20,000, 16% Debentures of Rs 75 each at a discount of Rs 5 on July 31, 2011 redeemable on September 30, 2013 at a premium of Rs 10. The issue was fully subscribed. Pass the necessary Journal entries for issue and redemption of debentures. How much amount of Debenture Redemption Reserve is to be created before redemption of debentures?

Solution

Journal					
Date	**Particulars**		**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
Jul. 31, 2011	Bank A/c	Dr.		84,00,000	
	To Debenture Application A/c (Debenture application money received on 8,000 debentures at a discount of Rs 5)				84,00,000
	Debenture Application A/c	Dr.		84,00,000	
	Loss on Issue of Debentures A/c (6,00,000 + 12,00,000)	Dr.		18,00,000	
	To 16% Debenture A/c To Premium on Redemption A/c (Debenture Application money transferred to Debenture Account)				90,00,000 12,00,000
Mar. 31 2012	Statement of Profit and Loss A/c	Dr.		18,00,000	
	To Loss on Issue of Debentures A/c (Loss on debentures written off)				18,00,000
Sept. 30, 2013	16% Debenture A/c	Dr.		90,00,000	
	Premium on Redemption A/c	Dr.		12,00,000	
	To Debentureholders' A/c (Amount due to debentureholders)				1,02,00,000
	Debentureholders' A/c	Dr.		1,02,00,000	
	To Bank A/c (Payment made to debentureholders)				1,02,00,000

Notes:

1. As per Rule 18(7) of Companies Rules, 2014 banking companies are not required to create DRR.
2. Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalise the entries related to interest on debentures for the years ending March 31, 2012 (for 8 months) and March 31, 2016 (for full year). It must also be noted that in the year of redemption, interest entries will be passed for 6 months only i.e. from April 01, 2013 to September 30, 2013.

Journal (Interest-related Entries)					
Date	**Particulars**		**L.F.**	**Debit Amount (Rs)**	**Credit Amount (Rs)**
2012 Mar. 31	Debenture Interest A/c	Dr.		9,60,000	
					9,60,000

	To Debentureholders' A/c				
	(Interest on 16% debentures due for 8 months)				
Mar.31	Debentureholders' A/c	Dr.		9,60,000	
	To Bank A/c				9,60,000
	(Payment of interest to debentureholders')				
Mar. 31	Statement of Profit and Loss	Dr.		9,60,000	
	To Debenture Interest A/c				9,60,000
	(Transfer of debenture interest to Statement of Profit and Loss)				

Statement of Profit and Loss A/c

Method-II: Redemption by Draw of Lots

Objective
After going through this lesson, you shall be able to understand the Method II of Redemption of Debentures i.e. '***Redemption of Debentures in Instalments***'.

Method-II: Redemption of Debentures in Instalments or in Lots

Till the last lesson, we have learnt that in Method-1, all the debentures are redeemed in lump-sum, i.e. in just one-go. But in such a scarnio, there exists a huge amount of outflow of funds altogether, which might hamper the daily operations of a company. If evaluated in terms of opportunity cost of money of putting the amount specifically to be utilised at the time of redemption of debentures, then it might be discouraging for a comapny. This is the instance, where the Method-2 of redemption of debentures comes into play, since it enjoys an edge over the Method-1. As per the Method-2, also known as Redemption by Draw of Lots, a company redeems a portion of debentures every year, i.e. in instalments. The name of the debentureholders whose debentures are to be redeemed during a given financial year is nominated by lottery method (or lucky draw). After this, the company proceeds towards redeeming the debentures of the nominated debentureholders. Similar to the lump-sum method, herein this method too, the nominated debentures can either be redeemed at par or at premium depending on the terms decided at the time of issue of such debentures. At this stage, it is also worth highlighting that the clause related to DRR and DRI along with the stipuated percentages of 25% and 15% remain exactly the same to that of Method-1.

Method-1 *versus* Method-2

Important Points

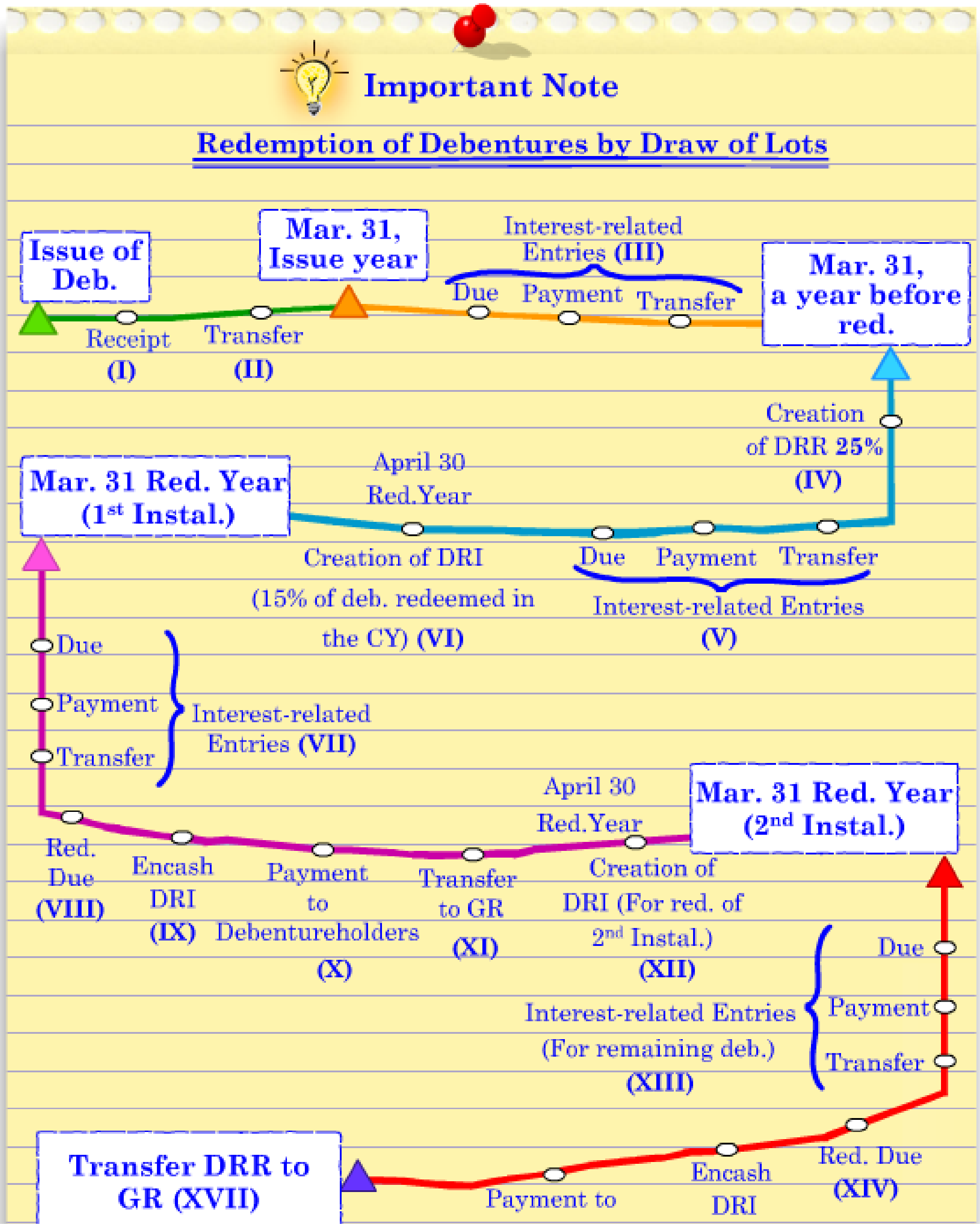
Method I *versus* Method II

Basis of Difference	Lump-sum	Draw of Lots
Meaning	All debentures are ***redeemed in one go***	Debentures are ***redeemed in instalments***
Amount of DRI	15% of ***total nominal value*** ***Suppose*** Total Debentures = Rs 1,00,000 DRI = 15% of Rs 1,00,000 = Rs 15,000	15% of ***total nominal value redeemable in a year*** ***Suppose*** Total Debentures = Rs 1,00,000 1st Instal. Rs 60,000 — DRI @ 15% = Rs 9,000 2nd Instal. Rs 40,000 — DRI @ 15% = Rs 6,000
Creation of DRI and Encashment	DRI is created and encashed ***only once***	DRI is created ***every year*** on Apr. 30 of redemption year DRI is encashed ***every year*** when redemption falls due

Different Phases of Redemption by Draw of Lots

The different phases in the redemption process remains quite similar to the phase of redemption by lump-sum method. As depicted in the below diagram, the journey starts just after the issue of debentures, thereafter, payment of interest on debentures is made at the year-end, followed by creation of DRR, then investing in DRI @ 15% (of debentures redeemable in the first lot) on April 30 of the redemption year, finally paying the interest amount and encashing the investment so made. The last phase is making payment against the first instalment and tranferring an equivalent amount from DRR to General Reserve (i.e. 25% of the nominal value of the debentures to be redeemed in first instalment). Once the first instalment of debentures are redeemed, next year again on or before April 30, 15% amount of debentures redeemable in the second lot is invested in DRI. After this, interest payments are made and encashment of the DRI for the second lot is done, which then is used-up for redeeming the debentures of the second lot. In this manner, every year the same events happen in the given sequence till all the debentures are redeemed.

Let us understand the phases of redemption by draw of lots with the help of the following figure assuming all debentures are redeemed in two instalments.



Debentureholders	(XV)
(XVI)	

Accounitng Treatment & Journal Entries

STORY-LINE of Draw of lots

	Issue at Par & Redeemable at Par	Issue at Par & Redeemable at Premium
Date of Issue	Issue Entries	Issue Entries
	(I) Bank A/c Dr.	(I) Bank A/c Dr.
	To Deb. Application & Allot. A/c	To Deb. Application & Allot. A/c
	(II) Deb. App. & Allot. A/c Dr.	(II)Deb. App. & Allot. A/c Dr.
	To Debentures A/c	Loss on Issue of Deb. A/c Dr.
		To Debentures A/c
		To Premium on Red. A/c
March 31 of Previous Year of Red.	Creation of DRR	Creation of DRR
	(III) Statement of P & L A/c Dr.	(III) Statement of P & L A/c Dr.
	To DRR A/c	To DRR A/c
March 31 of Previous Year of Red.	Interest related Entries	Interest related Entries
	(IV) Deb. Interest A/c Dr.	(IV) Deb. Interest A/c Dr.
	To Debentureholders A/c	To Debentureholders A/c
	(V) Debentureholders A/c Dr.	(V) Debentureholders A/c Dr.
	To Bank A/c	To Bank A/c
	(VI) Statement of P & L A/c Dr.	(VI) Statement of P & L A/c Dr.
	To Deb. Interest A/c	To Deb. Interest A/c
	During the ***Redemption Year of First Instalment***	
April 30 Redemption Year	Creation of DRI	Creation of DRI
	(VII) DRI A/c Dr.	(VII) DRI A/c Dr.
	To Bank A/c	To Bank A/c
	(15% × Value of Debentures redeemed	(15% × Value of Debentures redeemed

	in current year)	in current year)
	On the date of ***Redemption of First Instalment***	
Date of Redemption	Interest related Entries **(VIII)** *Same as Journal Entries* **(IV** to **VI)**	Interest related Entries **(VIII)** *Same as Journal Entries* **(IV** to **VI)**
Date of Redemption	Redemption Due **(IX)** Deb. A/c Dr. To Debentureholders A/c	Redemption Due **(IX)** Deb. A/c Dr. Premium on Red. A/c Dr. To Debentureholders A/c
Date of Redemption	Encash DRI **(X)** Bank A/c Dr. To DRI A/c	Encash DRI **(X)** Bank A/c Dr. To DRI A/c
Date of Redemption	Payment Made **(XI)** Debentureholders A/c Dr. To Bank A/c	Payment Made **(XI)** Debentureholders A/c Dr. To Bank A/c
Date of Redemption	Transfer to GR (First Instalment) **(XII)** DRR A/c Dr. To General Reserve A/c (To the extent of first instalment)	Transfer to GR (First Instalment) **(XII)** DRR A/c Dr. To General Reserve A/c (To the extent of first instalment)
	During the ***Redemption Year of Second Instalment***	
April 30 Redemption Year	Creation of DRI **(XIII)** DRI A/c Dr. To Bank A/c (15% × Value of Debentures redeemed in current year)	Creation of DRI **(XIII)** DRI A/c Dr. To Bank A/c (15% × Value of Debentures redeemed in current year)
	Repeat Journal entries from (IX) to (XII)	
Date of Redemption	Transfer to GR (Second Instalment) **(XIV)** DRR A/c Dr. To General Reserve A/c (To the extent of second instalment)	Transfer to GR (Second Instalment) **(XIV)** DRR A/c Dr. To General Reserve A/c (To the extent of second instalment)

***Example*: Comprehensive Example (From Issue till Redemption by Draw of Lots)**

Jiny Ltd. issued 16,000 8% debentures of Rs 50 each on August 01, 2011 redeemable in two equal annual instalments at a premium of 6% starting from June 30, 2015. The company decided to transfer out of profits Rs 1,00,000 to Debenture Redemption reserve on March 31, 2014 and Rs 1,00,000 on March 31, 2015. Interest was earned on the investments @ 8% p.a. and tax deducted @ 5% p.a. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
2011 Aug. 01	Bank A/c To Debenture Application A/c (16,000, 8% Debentures issued)	Dr.		8,00,000	 8,00,000
Aug. 01	Debenture Application A/c Loss on Issue of Debentures A/c (8,00,000 ×6%) To 8% Debentures A/c To Premium on Redemption A/c (Debentures issued redeemable at 6% premium)	Dr. Dr.		8,00,000 48,000	 8,00,000 48,000
2012 Mar. 31	Debenture Interest A/c (8,00,000 ×8% ×8 months) To Debentureholders' A/c (Debenture Interest due for 8 months)	Dr.		42,667	 42,667
Mar. 31	Debentureholders' A/c To Bank A/c (Interest paid to Debentureholders)	Dr.		42,667	 42,667
Mar. 31	Statement of Profit and Loss To Debenture Interest A/c (Debenture interest transferred to Statement of Profit or Loss)	Dr.		42,667	 42,667
2013 Mar. 31	Debenture Interest A/c (8,00,000 × 8%) To Debentureholders' A/c (Debenture Interest due)	Dr.		64,000	 64,000
Mar. 31	Debentureholders' A/c To Bank A/c (Interest paid to Debentureholders)	Dr.		64,000	 64,000
Mar. 31	Statement of Profit and Loss To Debenture Interest A/c	Dr.		64,000	 64,000

	(Debenture interest transferred to Statement of Profit or Loss)			
2014 Mar. 31	Statement of Profit and Loss Dr. To Debenture Redemption Reserve A/c (Amount transferred to DRR)		1,00,000	1,00,000
Mar. 31	Debenture Interest A/c (8,00,000 × 8%) Dr. To Debentureholders' A/c (Debenture Interest due)		64,000	64,000
Mar. 31	Debentureholders' A/c Dr. To Bank A/c (Interest paid to Debentureholders)		64,000	64,000
Mar. 31	Statement of Profit and Loss Dr. To Debenture Interest A/c (Debenture interest transferred to Statement of Profit or Loss)		64,000	64,000
2015 Mar. 31	Statement of Profit and Loss Dr. To Debenture Redemption Reserve A/c (Amount transferred to DRR)		1,00,000	1,00,000
Mar. 31	Debenture Interest A/c (8,00,000 × 8%) Dr. To Debentureholders' A/c (Debenture Interest due)		64,000	64,000
Mar. 31	Debentureholders' A/c Dr. To Bank A/c (Interest paid to Debentureholders)		64,000	64,000
Mar. 31	Statement of Profit and Loss Dr. To Debenture Interest A/c (Debenture interest transferred to Statement of Profit or Loss)		64,000	64,000
2015 Apr. 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment is made in specified securities equal to 15% of		60,000	60,000

	the value of debentures)			
June 30	Debenture Interest A/c (4,00,000 × 8% ×3 months) To Debentureholders' A/c (Debenture Interest due)	Dr.	8,000	 8,000
June 30	Debentureholders' A/c To Bank A/c (Interest paid to Debentureholders)	Dr.	8,000	 8,000
June 30	8% Debentures A/c Premium on Redemption A/c To Debentureholders' A/c (Amount due on redemption to the debentureholders)	Dr. Dr.	4,00,000 24,000	 4,24,000
June 30	Bank A/c Income Tax Payable A/c To Debenture Redemption Investment A/c To Interest A/c (Investments are now encashed and interest earned on the investments for 2 months)	Dr. Dr.	60,760 40	 60,000 800
June 30	Debentureholders' A/c To Bank A/c (Payment is made to debentureholders)	Dr.	4,24,000	 4,24,000
June 30	Debenture Redemption Reserve A/c To General Reserve A/c (Amount of DRR transferred to General Reserve)		1,00,000	 1,00,000
2016 Mar. 31	Debenture Interest A/c (4,00,000 × 8%) To Debentureholders' A/c (Debenture Interest due)	Dr.	32,000	 32,000
Mar. 31	Debentureholders' A/c To Bank A/c (Interest paid to Debentureholders)	Dr.	32,000	 32,000
Mar. 31	Statement of Profit and Loss (32,000 +	Dr.	40,000	

	8,000) To Debenture Interest A/c (Debenture interest transferred to Statement of Profit or Loss)			40,000
2016 Apr. 30	Debenture Redemption Investment A/c To Bank A/c (Investment is made in specified securities equal to 15% of the value of debentures)		60,000	 60,000
June 30	Debenture Interest A/c (4,00,000 × 8% ×3 months) Dr. To Debentureholders' A/c (Debenture Interest due)		8,000	 8,000
June 30	Debentureholders' A/c Dr. To Bank A/c (Interest paid to Debentureholders)		8,000	 8,000
June 30	8% Debentures A/c Dr. Premium on Redemption A/c Dr. To Debentureholders' A/c (Amount due on redemption to the debentureholders)		4,00,000 24,000	 4,24,000
June 30	Bank A/c Dr. Income Tax Payable A/c Dr. To Debenture Redemption Investment A/c To Interest A/c (Investments are now encashed and interest earned on the investments for 2 months)		60,760 40	 60,000 800
June 30	Debentureholders' A/c Dr. To Bank A/c (Payment is made to debentureholders)		4,24,000	 4,24,000
June 30	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Amount of DRR transferred to General Reserve)		1,00,000	 1,00,000
2017				

Mar. 31	Statement of Profit and Loss To Debenture Interest A/c (Debenture interest transferred to Statement of Profit or Loss)	Dr.		8,000	8,000

Notes:

1. As prescribed by Section 71(4) of the Companies Act, 2013, companies are required to create DRR at 25% of the total value of debentures. Here, debentures worth Rs 8,00,000 are to be redeemed, so, the amount of DRR will be:

$$\text{Amount of DRR} = 8,00,000 \times \frac{25}{100} = \text{Rs } 2,00,000$$

As specified in the question, this amount is transferred to DRR in two instalments; Rs 1,00,000 on March 31, 2014 and Rs 1,00,000 on March 31, 2015.

2. As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed in the previous accounting year.

$$\text{Amount of Investment in specified securities} = 8,00,000 \times \frac{15}{100} = \text{Rs } 1,20,000$$

Since debentures are redeemed in 2 equal instalments, therefore, investment will be made in 2 equal instalments of Rs 60,000 on April 30, 2015 and April 30, 2016 respectively.

***Example*: When redemption is made during the year**

Prateek Ltd. had issued 9,000, 11% debentures of Rs 100 each due for redemption at a premium of 10% in three equal annual instalments starting from Sept. 30, 2015. All the requirements of Companies Act, 2013 with respect to DRR are complied by the Company. Pass the necessary Journal entries (ignoring entries for interest on debentures).

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
2015 March 31	Statement of Profit and Loss To Debenture Redemption Reserve A/c	Dr.		2,25,000	2,25,000

	(Amount transferred to DRR)			
April 30	Debenture Redemption Investment A/c	Dr.	45,000	
	To Bank A/c			45,000
	(Investment is made in specified securities equal to the 15% of the value of the debentures redeemed)			
Sept. 30	11% Debenture A/c (3,000 debentures × Rs 100)	Dr.	3,00,000	
	Premium on Redemption A/c (3,000 debentures × Rs 10)	Dr.	30,000	
	To Debentureholders' A/c (3,000 debentures × Rs 110)			3,30,000
	(Amount due for redemption)			
Sept. 30	Bank A/c	Dr.	45,000	
	To Debenture Redemption Investment A/c			45,000
	(Investment made in specified securities, now encashed)			
Sept. 30	Debentureholders' A/c	Dr.	3,30,000	
	To Bank A/c			3,30,000
	(Payment made to debentureholders)			
Sept. 30	Debenture Redemption Reserve A/c	Dr.	75,000	
	To General Reserve A/c			75,000
	(DRR transferred to General Reserve Account)			
2016				
April 30	Debenture Redemption Investment A/c	Dr.	45,000	
	To Bank A/c			45,000
	(Investment is made in specified securities equal to the 15% of the value of the debentures redeemed)			
Sept. 30	11% Debenture A/c	Dr.	3,00,000	
	Premium on Redemption A/c	Dr.	30,000	
	To Debentureholders' A/c			3,30,000
	(Amount due for redemption)			
Sept. 30	Bank A/c	Dr.	45,000	
	To Debenture Redemption Investment A/c			45,000

	(Investment made in specified securities, now encashed)				
Sept. 30	Debentureholders' A/c	Dr.		3,30,000	
	To Bank A/c				3,30,000
	(Payment made to debentureholders)				
Sept. 30	Debenture Redemption Reserve A/c	Dr.		75,000	
	To General Reserve A/c				75,000
	(DRR transferred to General Reserve Account)				
2017					
April 30	Debenture Redemption Investment A/c	Dr.		45,000	
	To Bank A/c				45,000
	(Investment is made in specified securities equal to the 15% of the value of the debentures redeemed)				
Sept. 30	11% Debenture A/c	Dr.		3,00,000	
	Premium on Redemption A/c	Dr.		30,000	
	To Debentureholders' A/c				3,30,000
	(Amount due for redemption)				
Sept. 30	Bank A/c	Dr.		45,000	
	To Debenture Redemption Investment A/c				45,000
	(Investment made in specified securities, now encashed)				
Sept. 30	Debentureholders' A/c	Dr.		3,30,000	
	To Bank A/c				3,30,000
	(Payment made to debentureholders)				
Sept. 30	Debenture Redemption Reserve A/c	Dr.		75,000	
	To General Reserve A/c				75,000
	(DRR transferred to General Reserve Account)				

Notes:

1. As prescribed by Section 71(4) of the Companies Act, 2013, companies are required to create DRR at 25% of the total value of debentures. Here, debentures worth Rs 9,00,000 are to be redeemed, so, the amount of DRR will be:

$$\text{Amount of DRR} = 9,00,000 \times \frac{25}{100} = \text{Rs } 2,25,000$$

2. As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed in the previous accounting year.

$$\text{Amount of Investment in specified securities} = 9,00,000 \times \frac{15}{100} = \text{Rs } 1,35,000$$

Since debentures are redeemed in 3 equal instalments, therefore, investment will be made in 3 equal instalment of Rs 45,000 on April 30, 2015, April 30, 2016 and April 30, 2017 respectively.

***Example*: Missing Information**
Devki Ltd. has 4,500, 5% debentures of Rs 100 each due for redemption in 2 equal annual instalments starting from March 31, 2015. The company has complied with the requirements of debenture redemption reserve and investment made in government securities. Fill in the blanks in the given journal entries.

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
2014 Mar. 31	Statement of Profit or Loss To Debenture Redemption Reserve A/c (Amount transferred to DRR)	Dr.		__*i*___	__*i*___
__*ii*__	Debenture Redemption Investment A/c To Bank A/c (Investment is made in specified securities equal to the 15% of the value of the debentures redeemed)	Dr.		__*iii*__	__*iii*__
2015 Mar. 31	5% Debentures A/c To Debentureholders' A/c (Amount due for redemption)	Dr.		1,50,000	1,50,000
Mar. 31	___*iv*___ A/c To Debenture Redemption Investment	Dr.		33,750	33,750

	A/c (Investment made in specified securities, now encashed)			
Mar. 31	Debentureholders' A/c Dr. To Bank A/c (Payment made to Debentureholders)		__*v*__	__*v*__
Mar. 31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Debenture redemption reserve transferred to general reserve)		56,250	56,250
Apr. 30	Debenture Redemption Investment A/c Dr. To Bank A/c (Investment is made in specified securities equal to the 15% of the value of the debentures redeemed)		33,750	33,750
2016 Mar. 31	5% Debentures A/c Dr. To Debentureholders' A/c (Amount due for redemption)		__*vi*__	__*vi*__
__*vii*__	Bank A/c Dr. To Debenture Redemption Investment A/c (Investment made in specified securities, now encashed)		33,750	33,750
Mar. 31	__*viii*__ A/c Dr. To Bank A/c (Payment made to Debentureholders)		1,50,000	1,50,000
Mar. 31	Debenture Redemption Reserve A/c Dr. To __*ix*__ A/c (Debenture redemption reserve transferred to general reserve)		__*x*__	__*x*__

Solution

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
2014				
Mar. 31	Statement of Profit or Loss Dr.		***1,12,500***	
	To Debenture Redemption Reserve A/c			***1,12,500***
	(Amount transferred to DRR)			
Apr. 30	Debenture Redemption Investment A/c Dr.		***33,750***	
	To Bank A/c			***33,750***
	(Investment is made in specified securities equal to the 15% of the value of the debentures redeemed)			
2015				
Mar. 31	5% Debentures A/c Dr.		1,50,000	
	To Debentureholders' A/c			1,50,000
	(Amount due for redemption)			
Mar. 31	***Bank*** A/c Dr.		33,750	
	To Debenture Redemption Investment A/c			33,750
	(Investment made in specified securities, now encashed)			
Mar. 31	Debentureholders' A/c Dr.		***1,50,000***	
	To Bank A/c			***1,50,000***
	(Payment made to Debentureholders)			
Mar. 31	Debenture Redemption Reserve A/c Dr.		56,250	
	To General Reserve A/c			56,250
	(Debenture redemption reserve transferred to general reserve)			
Apr. 30	Debenture Redemption Investment A/c Dr.		33,750	
	To Bank A/c			33,750
	(Investment is made in specified securities equal to the 15% of the value of the debentures redeemed)			
2016				
Mar. 31	5% Debentures A/c Dr.		***1,50,000***	
	To Debentureholders' A/c			***1,50,000***

	(Amount due for redemption)				
Mar. 31	Bank A/c To Debenture Redemption Investment A/c (Investment made in specified securities, now encashed)	Dr.		33,750	33,750
Mar. 31	***Debentureholders'*** A/c To Bank A/c (Payment made to Debentureholders)	Dr.		1,50,000	1,50,000
Mar. 31	Debenture Redemption Reserve A/c To ***General Reserve*** A/c (Debenture redemption reserve transferred to general reserve)	Dr.		***56,250***	***56,250***

Notes:

1. As prescribed by Section 71(4) of the Companies Act, 2013, companies are required to create DRR at 25% of the total value of debentures. Here, debentures worth Rs 4,50,000 are to be redeemed, so, the amount of DRR will be:

$$\text{Amount of DRR} = 4,50,000 \times \frac{25}{100} = \text{Rs } 1,12,500$$

2. As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed in the previous accounting year.

$$\text{Amount of Investment in specified securities} = 4,50,000 \times \frac{15}{100} = \text{Rs } 67,500$$

Since debentures are redeemed in 2 equal instalments, therefore, investment will be made in 2 equal instalments of Rs 33,750 on April 30, 2014 and April 30, 2015 respectively.