CHAPTER - 6
ISSUE & REDEMPTION OF DEBENTURES

DO IT YOURSELF I

1. Amrit Company Limited purchased assets of the book value of Rs.2,20,000 fromanother company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of Rs.100 each at a premium of 10%. Record necessary journal entries.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Assets A/c	Dr		2,20,000	
	To Vendor A/c				2,20,000
	(Being assets purchased worth ₹ 2,20,000)				
(ii)	Vendor A/c	Dr		2,20,000	
	To 10% Debentures A/c				2,00,000
	To Securities Premium A/c				20,000
	(Being issued 2,000 debentures of ₹ 100 each at 10% premium)				

2. A company purchased assets of the value of Rs.1,90,000 from another company and agreed to make the payment of purchase consideration by issuing 2,000,10% debentures of Rs.100 each at a discount of 5%. Record necessary journal entries.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Assets A/c	Dr		1,90,000	
	To Vendor A/c				1,90,000
	(Being assets purchased worth ₹ 1,90,000)				
(ii)	Vendor A/c	Dr		1,90,000	
	Discount A/c	Dr		10,000	
	To 10% Debentures A/c				2,00,000
	(Being issue of 2,000 debentures of ₹ 100 eact at a discount of 5%)				

3. Rose Bond Limited purchased a business for Rs. 22,00,000. Purchase Price was paid by 6% debentures. Debentures of Rs. 20,00,000 were issued at a premium of 10% for the purpose. Record necessary journal entries.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Sundry Assets A/c	Dr		22,00,000	
	To Vendor A/c				22,00,000
	(Being assets purchased worth ₹ 22,00,000)				
(ii)	Vendor A/c	Dr		22,00,000	
	To 6% Debentures A/c				20,00,000
	To Securities Premium A/c				2,00,000
	(Being 2,000 debentures of ₹ 100 each issued at 10% premium)				

4. Nikhil and Ashwin Limited bought business of Agarwal Limited consisting sundry assts of Rs. 3,60,000, sundry creditors Rs. 1,00,000 for a consideration ofRs. 3,07,200. It issued 14% debentures of Rs. 100 each fully paid at a discount of 4% in satisfaction of purchase consideration. Record necessary journal entries.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Sundry Assets A/c	Dr		3,60,000	
	Goodwill A/c	Dr		47,200	
	To Agarwal Ltd				3,07,200
	To Sundry Creditor's A/c				1,00,000
	(Being business purchased from Agarwal Ltd)				
(ii)	Agarwal Ltd A/c	Dr		3,07,200	
	Discount A/c	Dr		12,800	
	To 14% Debentures A/c				3,20,000
	(Being 3,200 debentures issued of ₹ 100 each at a discount of 4%)				

Working Note

$$\text{Number of Debentures issued} = \frac{\text{Purchase Price}}{\text{Issue Price}}$$

$$= \frac{3,07,200}{96} = 3,200$$

Note If business is purchased and assets and liabilities are mentioned along with purchase price, pass a journal entry. To balance the entry use word 'Goodwill' if difference is on debit side and word 'Reserves' if difference is on credit side.

DO IT YOURSELF II

2. Record necessary journal entries in each of the following cases:

a. 27,000, 7% debentures of Rs. 100 each issued at par, redeemable at par.

b. 25,000, 7% debentures of Rs. 100 each issued at par redeemable at 4% premium.

c. 20,000, 7% debentures of Rs. 100 each issued at 5% discount and redeemable at par.

d. 30,000, 7% debentures of 100 each issued at 5% discount and redeemable at 2½ % premium.

e. 35,000, 7% debentures of Rs. 100 each issued at 4% premium and redeemable.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(a) (i)	Bank A/c	Dr		27,00,000	
	To 7% Debentures A/c				27,00,000
	(Being 27,000 debentures issued at par)				
(ii)	7% Debentures A/c	Dr		27,00,000	
	To Bank A/c				27,00,000
	(Being 27,000 debentures of 100 each redeemable at par)				
(b) (i)	Bank A/c	Dr		25,00,000	
	Loss on Issue A/c	Dr		1,00,000	
	To 7% Debentures A/c				25,00,000
	To Premium on Redemption A/c				1,00,000
	(Being 25,000 debentures of ₹ 100 each issued at par)				
(ii)	7% Debentures A/c	Dr		25,00,000	
	Premium on Redemption A/c	Dr		1,00,000	
	To Bank A/c				26,00,000
	(Being 25,000 debentures of ₹ 100 each redeemable at premium)				

(c) (i)	Bank A/c Dr Discount on Issue A/c Dr To 7% Debentures A/c (Being 20,000 debentures of ₹ 100 each issued at discount 5%)		19,00,000 1,00,000	 20,00,000
(ii)	7% Debentures A/c Dr To Bank A/c (Being 20,000 debentures of ₹ 100 each redeemable at par)		20,00,000	 20,00,000
(d) (i)	Bank A/c Dr Loss on Issue A/c Dr To 7% Debentures A/c To Premium on Redemption A/c (Being 30,000 debentures of ₹ 100 each issued at discount 5%)		28,50,000 2,25,000	 30,00,000 75,000

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(ii)	7% Debentures A/c Dr Premium on Redemption A/c Dr To Bank A/c (Being 30,000 debentures of ₹ 100 each redeemable at premium)		30,00,000 75,000	 30,75,000
(e) (i)	Bank A/c Dr To 7% Debentures A/c To Securities Premium A/c (Being 35,000 debentures of ₹ 100 each issued at premium)		36,40,000	 35,00,000 1,40,000
(ii)	7% Debentures A/c Dr To Bank A/c (Being 35,000 debentures of ₹ 100 each redeemable at par)		35,00,000	 35,00,000

DO IT YOURSELF III

1. Diwakar enterprises Ltd. Issued 10,00,000, 6% debentures on April 1, 2002. Interest is paid on September 30, 2002 and March 31, 2003.
Record necessary journal entries assuming that income tax is deducted @30% of the amount of interest.
(Amount of tax Rs.18,000 for the year ending March 31, 2003)

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2002 Apr 1	Bank A/c Dr To 6% Debentures A/c (Being 10,000, 6% debentures issued)		10,00,000	 10,00,000
Sep 30	Interest on 6% Debentures A/c Dr To Debenture Holder's A/c To Income Tax Payable A/c (Being Interest due for 6 months @ 6% pa and tax deducted @ 30% at source)		30,000	 21,000 9,000

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	6% Debenture Holder's A/c	Dr		21,000	
	To Bank A/c				21,000
	(Being interest paid)				
2003 Mar 31	6% Debenture Interest A/c	Dr		30,000	
	To Debenture Holder's A/c				21,000
	To Income Tax Payable A/c				9,000
	(Being interest due for 6 months @ 6% Pa and tax deducted @ 30% at source)				
	6% Debenture Holder's A/c	Dr		21,000	
	To Bank A/c				21,000
	(Being interest paid)				
	Income Tax Payable A/c	Dr		18,000	
	To Bank A/c				18,000
	(Being tax deposited)				
	Profit and Loss A/c			60,000	
	To Debenture Interest A/c				60,000
	(Being debenture interest transferred to Profit and Loss Account)				

Note *It is assumed that debentures are issued worth* ₹ 10,00,000 *instead of* 10,00,000 *debentures.*

Working Note

$$10{,}00{,}000 \times \frac{6}{100} \times \frac{6}{12} = 30{,}000$$

$$\text{Tax} = 30{,}000 \times \frac{30}{100} = 9{,}000$$

Tax Paid = 9,000 of Sept 2002 + 9,000 of March 2003 = 18,000

2. Laser India Ltd. Issued 7,00,000, 8% debentures of Rs. 100 each at par.Company deducts income tax from the interest of these debentures at source. Interest is to be paid on these debentures half-yearly on September 30 andMarch 31, every year. Amount of income tax deducted half-yearly iRs. 2,80,000.

Answer

Start

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2002 Apr 1	Bank A/c	Dr		7,00,00,000	
	To 8% Debentures A/c				7,00,00,000
	(Being 7,00,000 debentures issued)				
Sep 30	8% Debenture Interest A/c	Dr		28,00,000	
	To Debenture Holder's A/c				25,20,000
	To Income Tax Payable A/c				2,80,000
	(Being interest on debentures due for 6 months @ 8% pa and tax deducted at source)				
	Debenture Holder's A/c	Dr		25,20,000	
	To Bank A/c				25,20,000
	(Being interest Paid)				

2003 Mar 31	8% Debenture Interest A/c	Dr	28,00,000	
	To Debenture Holder A/c			25,20,000
	To Income Tax Payable A/c			2,80,000
	(Being interest on debentures due for 6 months @ 8% pa and tax deducted at source)			
	Debenture Holder's A/c	Dr	25,20,000	
	To Bank A/c			25,20,000
	(Being interest paid)			
	Being income tax Payable A/c	Dr	5,60,000	
	To Bank A/c			5,60,000
	(Income tax deposited)			
	Profit and Loss A/c	Dr	56,00,000	
	To Debenture Interest A/c			56,00,000
	(Being debenture interest transferred to profit and loss account)			

Working Note Interest $= 7{,}00{,}00{,}000 \times \frac{8}{100} \times \frac{6}{12} = 28{,}00{,}000$

DO IT YOURSELF IV

1. X Ltd. Issued 2,000, 10% debentures of Rs.100 each at a discount of 8% on1 Jan, 1992 which are redeemable at par by annual drawings in 4 yearscommencing from 31st March 1993 as per the following redemption plan:Ist Draw 10%, 2nd Draw 20%, 3rd Draw 30%, and 4th Draw 40%. Calculate theamount of discount to be written-off each year assuming that X Ltd. followscalendar year as its accounting year.

Answer Calculation of Discount to be written off each year

$$\text{Total Discount} = 2{,}000 \text{ (debentures)} \times 100 \times \frac{8}{100} = ₹\,16{,}000$$

Date	Period	Amt. (₹)	Product	Discount Written off
1 Jan 92 - 31 Dec 92	12 months	2,00,000	24,00,000	$\frac{240}{780} \times 16{,}000 = 4923$
1 Jan93-31 Mar 93	3 months	2,00,000	6,00,000	$\frac{222}{780} \times 16{,}000 = 4{,}554$
1 Apr 93-31 Dec 93	9 months	1,80,000	16,20,000	
1 Jan 94- 31 Mar 94	3 months	1,80,000	5,40,000	$\frac{180}{780} \times 16{,}000 = 3{,}692$
1 Apr 94-31 Dec 94	9 months	1,40,000	12,60,000	
1 Jan 95-31 Mar 95	3 months	1,40,000	4,20,000	$\frac{114}{780} \times 16{,}000 = 2{,}339$
1 Apr 95-31 Dec 95	9 months	80,000	7,20,000	
1 Jan 96 - 31 Mar 96	3 months	80,000	2,40,000	$\frac{24}{780} \times 16{,}000 = 492$
			78,00,000	=16,000

2. Z Ltd. issued 15,00,000, 10% debenture of Rs.50 each at premium of 10% payable as Rs.20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was calledand duly received. Record necessary entries when premium money is included:

(i) in application money

(ii) in allotment money

Answer (i) When premium is included in Application Money

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(a)	Bank A/c (15,00,000 × 20)	Dr		3,00,00,000	
	To 10% Debenture Application A/c				3,00,00,000
	(Being 15,00,000, 10% debentures issued at ₹ 20 each on application including ₹ 5 as premium)				
(b)	10% Debenture Application A/c	Dr		3,00,00,000	
	To 10% Debentures A/c (15,00,000 × 15)				2,25,00,000
	To Securities Premium A/c (15,00,000 × 5)				75,00,000
	(Being application money transferred to 10% debenture and premium account)				
(c)	10% Debenture Allotment A/c	Dr		5,25,00,000	
	To 10% Debentures A/c (15,00,000 × 35)				5,25,00,000
	(Being balance money due on allotment)				
(d)	Bank A/c	Dr		5,25,00,000	
	To 10% Debenture Allotment A/c				5,25,00,000
	(Being allotment money received)				

(ii) When premium is included in Allotment Money

	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(a)	Bank A/c (15,00,000 × 20)	Dr		3,00,00,000	
	To 10% Debenture Application A/c				3,00,00,000
	(Being issued 15,00,000 debentures and received ₹ 20 on application)				
(b)	10% Debenture Application A/c	Dr		3,00,00,000	
	To 10% Debentures A/c				3,00,00,000
	(Being money transferred to debenture account)				
(c)	10% Debenture Allotment A/c (15,00,000 × 35)	Dr		5,25,00,000	
	To 10% Debentures A/c (15,00,000 × 30)				4,50,00,000
	To Securities Premium A/c (15,00,000 × 5)				75,00,000
	(Being allotment money due including premium)				
(d)	Bank A/c	Dr		5,25,00,000	
	To 10% Debenture Allotment A/c				5,25,00,000
	(Being allotment money received)				

3. Z Ltd. issued 5,000, 10% debentures of Rs.100 each at a discount of 10% on 1.1.2005. The debentures are to be redeemed every year draw of lots – 1,000 debenture to be redeemed every year starting on 31.12.2005. Record the necessary journal entries including the payment of interest and writing off the discount on issue of debentures. The interest is payable on 30th June and 31st December. Z Ltd. Closes its books of accounts on 31st December.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2005 Jan 1	Bank A/c	Dr		4,50,000	
	To Debentures Application A/c				4,50,000
	(Being 5,000 10% debentures issued @ 100 each at discount of 10%)				
	Debentures Application A/c	Dr		4,50,000	
	Discount on Issue A/c	Dr		50,000	
	To 10% Debentures A/c				5,00,000
	(Being application money transferred to debenture and discount adjusted)				
Jun 30	Debenture Interest A/c	Dr		25,000	
	To Debenture Holders A/c				25,000
	(Being debenture interest due for 6 months)				
	Debenture Holders A/c	Dr		25,000	
	To Bank A/c				25,000
	(Being interest on debentures paid)				

Dec 31	Debenture Interest A/c Dr		25,000	
	To Debenture Holder A/c			25,000
	(Being debenture interest due for 6 months)			
	Debenture Holders A/c Dr		25,000	
	To Bank A/c			25,000
	(Being interest on debentures paid)			
	Profit and Loss A/c Dr		66,667	
	To Debenture Interest A/c			50,000
	To Discount on Issue of Debentures A/c			16,667
	(Being discount on issue written off and debenture interest transferred to profit and loss account)			
2006 Jun 30	Debenture Interest A/c Dr		20,000	
	To Debenture Holders A/c			20,000
	(Being debenture interest due for 6 months on ₹ 4,00,000)			

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Debenture Holders A/c Dr		20,000	
	To Bank A/c			20,000
	(Being debenture interest paid)			
Dec 31	Debenture Interest A/c Dr		20,000	
	To Debenture Holder A/c			20,000
	(Being debenture interest due for 6 months on ₹ 4,00,000)			
	Debenture Holders A/c Dr		20,000	
	To Bank A/c			20,000
	(Being debentures interest paid)			
	Profit and Loss A/c Dr		53,333	
	To Debenture Interest A/c			40,000
	To Discount on Issue of Debenture A/c			13,333
	(Being discount on Issue written off and debenture interest transferred to profit and loss account)			

Note (i) *Same five entries will repeat every year with change in amount only*
(ii) *Interest will be calculated on outstanding amount of Debentures every year.*

Working Note

$$\text{Discount on Debentures} = 5{,}00{,}000 \times \frac{10}{100} = 50{,}000$$

Discount to be written off each year

Year ended		Outstanding Debenture	Ratio	Amount to be Written off
Dec 31	2005	5,00,000	5	$50{,}000 \times \frac{5}{15} = 16{,}667$
	2006	4,00,000	4	$50{,}000 \times \frac{4}{15} = 13{,}333$
	2007	3,00,000	3	$50{,}000 \times \frac{3}{15} = 10{,}000$
	2008	2,00,000	2	$50{,}000 \times \frac{2}{15} = 6{,}667$
	2009	1,00,000	$\frac{1}{15}$	$50{,}000 \times \frac{1}{15} = 3{,}333$

4. M Ltd. issued 10,000, 8% debentures of Rs.100 each at a premium of 10% on 1.1.2004. It purchased sundry assets of the value of Rs,2,50,000 and took over the liabilities of Rs,1,90,000 and issued 8% debentures at a discount of 5% to the vendor. On the same date it took loan from the Bank for Rs.1,00,000 and issued 8% debentures as Collateral Security. Record the relevant journal entries in the books of M Ltd. and prepare the extract of balance sheet on 31.12.2004. Ignore interest.

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2004 Jan 1	Bank A/c	Dr		11,00,000	
	To 8% Debenture Application A/c				11,00,000
	(Being 10,000 debentures issued @ 100 each at a premium of 10%)				
	8% Debenture Application A/c	Dr		11,00,000	
	To 8% Debentures A/c				10,00,000
	To Securities Premium A/c				1,00,000
	(Being application money transferred to debenture and premium account)				
	Sundry Assets A/c	Dr		2,50,000	
	To Other Liabilities A/c				1,90,000
	To Vendor A/c (Bal fig)				60,000
	(Being business purchased)				
	Discount on Issue of Debenture A/c	Dr		3,160	
	Vendor A/c	Dr		60,000	
	Profit and Loss A/c	Dr		40	
	To 8% Debentures A/c				63,200
	(Being 632 debenture issued @ 95 each against ₹ 60,000)				
	Debenture Suspense A/c	Dr		1,00,000	
	To 8% Debenture A/c				1,00,000
	(Being debentures issued as collateral security)				

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Reserves and Surplus			Bank	12,00,000
Securitie Premium		1,00,000		
Secured Loan			Sundry Assets	2,50,000
10,000 8% Debenture issued for cash		10,00,000		
632 8% Debenture issued for purchase consideration		63,200	Discount on Issue of Debenture	3,160
Loan from Bank		1,00,000	Profit and Loss	40
8% Debenture	1,00,000			
(−) Debenture Suspence	(1,00,000)			
Sundry Liabilities		1,90,000		
		14,53,200		14,53,200

Working Note

$$\text{Number of debenture to be issued} = \frac{\text{Purchase Price}}{\text{Price Per Debenture}} = \frac{60,000}{95} = 631.57$$

Note *Debenture cannot be sold in part so debenture issued will be* 632 *in number.*

5. On 1.1.2005 Fast Computers Ltd. issued 20,00,000, 6% debentures of Rs.100 each at a discount of 4%, redeemable at a premium of 5% after three years.
The amount was payable as follows:
On application Rs.50 per debenture,
Balance on allotment,
Record the necessary journal entries for issue of debentures.

Answer

Journal Entries

(In lakhs)

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2005 Jan 1	Bank A/c	Dr		1,000	
	To Debentures Application A/c				1,000
	(Being 20 lakh debentures issued and received ₹ 50 each on application)				
	Debenture Application A/c	Dr		1,000	
	To 6% Debentures A/c				1,000
	(Being application money transferred to 6% debentures account)				

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Debenture Allotment A/c	Dr		920	
	Loss on Issue of Debenture A/c	Dr		180	
	To 6% Debenture A/c				1,000
	To Premium on Redemption A/c				100
	(Being amount due on 20 lakh debentures ₹ 46 each after 4% discount on issue and 5% premium on redemption)				
	Bank A/c	Dr		920	
	To Debenture Allotment A/c				920
	(Being allotment money received)				

Working Note

Loss on Issue = 4% Discount on Issue + 5% Premium on Redemption

$$= 9\% \text{ of } 20,00,00,000$$

$$= \frac{9}{100} \times 20,00,00,000 = 1,80,00,000$$

6. D Ltd. Purchased machinery worth Rs.2,00,000 from E Ltd. on 1.1.2001. Rs.50,000 were paid immediately and the balance was paid by issue of Rs.1,60,000, 12% Debentures in D Ltd. Record the necessary journal entries for recording the transactions in the books of D Ltd.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2001 Jan 1	Machinery A/c	Dr		2,00,000	
	To E Ltd				2,00,000
	(Being machinery purchased from E Ltd)				
	E Ltd A/c	Dr		50,000	
	To Bank A/c				50,000
	(Being paid ₹ 50,000 immediately)				
	E Ltd A/c	Dr		1,50,000	
	Discount on Issue of Debenture A/c	Dr		10,000	
	To 12% Debenture A/c				1,60,000
	(Being debentures issued in settlement to E Ltd)				

Note *Difference in value of debentures issued and amount due to E Ltd is considered as discount on issue*

TEST YOUR UNDERSTANDING I

• State whether the following statements are True (T) or Fasle (F)

Question 1. Debenture is written instrument acknowledging a debt under the common seal of the company.

Answer True

Question 2. Debenture is a part of owned capital.

Answer False

Question 3. The payment of interest on debentures is a charge on the profits of the company.

Answer True

Question 4. The debentures cannot be issued at a discount of more than 10% of the face value.

Answer False

Question 5. Redeemable debentures are those debentures, which are payable on the expiry of the specific period.

Answer True

Question 6. Perpetual debentures are also known as irredeemable debentures.
Answer True

Question 7. Debentures cannot be converted into shares.
Answer False

Question 8. Debentures cannot be issued at a premium.
Answer False
Question 9. A Collateral Security is a Subsidiary Security.
Answer True

Question 10. Debentures cannot be issued at a premium and redeemable at par.
Answer False

Question 11. Loss on issue of debentures account is a revenue loss.
Answer False

Question 12. Premium on redemption of debentures account is shown under the 'Securities Premium' in the Balance Sheet.
Answer False

DO IT YOURSELF V

1. X Ltd. decides to redeem 8,000, 10% debentures of Rs.100 each on January 1, 2004 at a premium of 5%. The company has a balance of Rs.9, 00,000 at the credit of its profit and loss account. The company closes its books on December 31 every year. What journal entries the company will be recorded to redeem the above debentures.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2004 Jan 1	Profit and Loss Appropriation A/c	Dr		4,00,000	
	To Debenture Redemption Reserve A/c				4,00,000
	(Being profit transferred to debenture redemption reserve account)				
	10% Debenture A/c	Dr		8,00,000	
	Premium on Redemption A/c			40,000	
	To 10% Debenture Holder A/c				8,40,000
	(Being debentures redeemed out of profits)				
	Debenture Holder A/c	Dr		8,40,000	
	To Bank A/c				8,40,000
	(Being amount paid to debenture holder)				
Dec 31	Debenture Redemption Reserve A/c	Dr		4,00,000	
	To General Reserve A/c				4,00,000
	(Being DRR transferred to general reserve)				

Note *It is assumed that redemption is made out of profits.*

2. G Ltd. issued 5,00,000, 12 % debenture of Rs.100 each on April 1, 2002 redeemable at par on July 1, 2003. The company received applications for 6,00,000 debentures and the allotment was made to all the applicants on pro-rata basis. The debenture were redeemed on due date. How much amount of Debenture Redemption Reserve is to be created before the redemption is carried out? Also record necessary journal entries regarding issue and redemption of debenture. Ignore tax deducted at source.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2002 Apr 1	Bank A/c	Dr		6,00,00,000	
	To 12% Debenture Application A/c				6,00,00,000
	(Being application money received on 6,00,000 debentures @ 100 each)				
	Debenture Application A/c	Dr		6,00,00,000	
	To 12% Debentures A/c				5,00,00,000
	To Bank A/c				1,00,00,000
	(Being application money for 5 lakh debenture transferred to debenture account and balance ₹ 1,00,00,000 refunded)				
2003 Jul 1	12% Debenture A/c	Dr		5,00,00,000	
	To Debenture Holder A/c				5,00,00,000
	(Being amount due for redemption)				
	Debenture Holder A/c	Dr		5,00,00,000	
	To Bank A/c				5,00,00,000
	(Being redemption amount paid)				

Note *No Debenture Redemption Reserve (DRR) is required because maturity period is less than 18 months.*

TEST YOUR UNDERSTANDING II

Select the correct answer for the following multiple choice questions:

1. Debentures which are transferable by mere delivery are:

(a) Registered debentures, (b) First debentures,

(c) Bearer debentures.

2. The following journal entry appears in the books of X Co. Ltd.

Bank A/c	Dr	4,75,000
Loss on issue of debenture A/c	Dr	75,000
To 12% Debentures A/c		5,00,000
To Premium on Redemption of Debenture A/c		50,000

Debentures have been issued at a discount of

(a) 15% (b) 5% (c) 10%

Answer (b) 5%

Question 3. X Co Ltd purchased assets worth ? 28,80,000. It issued debentures of ? 100 each at a discount of 4% in full satisfaction of the purchase consideration. The number of debentures issued to vendor is

(a) 30,000 (b) 28,800 (c) 32,000

Answer (a) 30,000

Question 4. Convertible debentures cannot be issued at a discount if 1 (a) they are to be immediately converted

(b) they are not to be immediately converted

(c) None of the above

Answer (a) They are to be immediately converted

Question 5. Discount on issue of debentures is shown under the following head in the Balance Sheet

(a) Profit and loss account

(b) Miscellaneous expenditure

(c) Debentures account

Answer (b) Miscellaneous expenditure

Question 6. When debentures are issued at par and are redeemable at a premium, the loss on such an issue debited to
(a) Profit and loss account
(b) Debentures applications and allotment account
(c) Loss on issue of debentures account
Answer (c) Loss on issue of debentures account

Question 7. Excess value of net assets over purchase consideration at the time of purchase of business is credited to
(a) General reserve
(b) Capital reserve
(c) Vendor's account
Answer (b) Capital reserve

Question 8. When all the debentures are redeemed, balance in the debentures redemption fund account is transferred to
(a) Capital reserve
(b) General reserve
(c) Profits and loss appropriation account
Answer (b) General reserve

Question 9. The nominal and book values of debenture redemption fund investments account are respectively ? 1,00,000 and ? 96,000.
The company sold investments of nominal value of? 30,000 at a price which was just sufficient to redeem debentures of ? 30,000 at 10% premium, the profit on sale of investment is
(a) Rs. 4,200 (b)Rs. 3,000 (c) Nil
Answer (a) Rs. 4,200

Question 10. Own debentures are those debentures of the company which
(a) the company allots to its own promoters
(b) the company allots to its Director
(c) the company purchase from the market and keeps them as investments
Answer (c) The company purchase from the market and keeps them as investments

Question 11. Profit on cancellation of own debentures is transferred to
(a) Profit and loss appropriation account
(b) Debenture redemption reserve
(c) Capital reserve
Answer (c) Capital reserve

Question 12. When debentures are redeemed out of profits, an equal amount is transferred to
(a) General reserve
(b) Debenture redemption reserve
(c) Capital reserve
Answer (b) Debenture redemption reserve

Question 13. Profit on sale of debenture redemption fund investments in the first instance is credited to
(a) Debenture redemption fund account
(b) Profit and loss appropriation account

(c) General reserve account
Answer (a) Debenture redemption fund account

Question 14. The balance of sinking fund investment account after the realisation of investments is transferred to
(a) Profit and loss account
(b) Debentures account
(c) Sinking fund account
Answer (c) Sinking fund account

Question 15. When debentures are issued at a discount and are redeemable at a premium, which of the following accounts is debited at the time of issue
(a) Debentures account
(b) Premium on redemption of debentures account
(c) Loss on issue of debentures account
Answer (c) Loss on issue of debentures account .

TEST YOUR UNDERSTANDING III

• Indicate in the column below, the account to be debited in case of the following transactions.
Transaction Account to be Debited
Question 1. Issue of debentures to a vendor in consideration of the business purchase.
Question 2. Setting aside the amount for creating sinking fund for redemption of debentures.
Question 3. The balance of debenture redemption reserve account after redemption of the debentures.
Question 4. Purchase of own debentures by the company.
Question 5. Writing off discount on issue of debentures.
Answer Account to be Debited
1. Vendor A/c
2. Profit and Loss Appropriation A/c
3. Debenture Redemption Reserve A/c
4. Own debentures A/c
5. Profit and Loss A/c

• Indicate in the column below, the account to be credited in case of the following transactions
Transaction Account to be Credited
Question 6. Debentures issued at a discount and are redeemable at par.
Question 7. Transfer of interest on sinking fund investments to sinking fund account.
Question 8. Balance of DRR account after the redemption of Debentures.
Question 9. Profit on sate of sinking fund investment account.
Question 10. Writing off the loss on issue of debentures.
Answer Account to be Credited
6. On Issue-Debenture A/c
On Redemption-Bank A/c .
7. Sinking Fund A/c
8. General Reserve A/c
9. Profit transferred to Debenture Sinking Fund A/c
10. Loss on Issue of Debentures A/c

DO IT YOURSELF VI

1. G Ltd. has 800 lakhs, 10% debentures of Rs.100 each due for redemption on March 31, 2003. Assume that Debenture Redemption Reserve has a balance of Rs. 3,40,00,00,000 on that date. Record necessary entries at the time of redemption of debenture.

Answer

Journal Entries

(in Lakhs)

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2003 Mar 31	Profit and Loss Appropriation A/c Dr To Debenture Redemption Reserve A/c (Being transfer of profits to deberture redempticn reserve as per SEBI guidelines)		6,000	6,000
	10% Debenture A/c Dr To Debenture Holder A/c (Being 80,000 lakh debentures redeemed)		80,000	80,000
	Debenture Holders A/c Dr To Bank A/c (Being money paid to debenture holders)		80,000	80,000
Mar 31	Debenture Redemption Reserve A/c Dr To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		40,000	40,000

Note:

Debentures for 80,000 (lakhs) were to be redeemed as per SEBI guidelines, 50% debenture redemption reserve is to be maintained. For Rs. 80,000 (lakhs) it comes to 40,000 (lakhs). Deberture redemption reserve already exist in books for Rs.34,000 (lakhs). Hence entry for balance 6,000 (lakhs) is passed in this solution.

2. R Ltd. issued 88,00,000, 8 % debenture of Rs. 50 each at a premium of 5 % on July 1, 2000 redeemable at par by conversion of debenture into shares of Rs.20 each at a premium of Rs.2 per share on June 30, 2003. Record necessary entries for redemption of debenture.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	8% Debentures A/c Dr To Debenture Holders A/c (Being 88 lakh 8% debentures redeemed at par)		4,400	4,400
	Debenture Holders A/c Dr To Share Capital A/c To Securities Premium A/c (Being 200 lakh shares issued @ 20 par at premium ₹ 2 in conversion of debentures)		4,400	4,000 400

Working Note

$$\text{Number of shares to be issued} = \frac{44{,}00{,}00{,}000}{22} = 2{,}00{,}00{,}000 \text{ shares}$$

3. C Ltd. has outstanding 11,00,000, 10% debentures of Rs.200 each, on April 1, 2003. The Board of Directors have decided to purchase 20% of own debenture for cancellation at Rs.200 each. Record necessary entries for the same.

Answer

Journal Entries

(In lakhs)

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2003 Apr 1	Own Debentures A/c Dr To Bank A/c (Being purchased 2,20,000 own debentures for cancellation at ₹ 200 each)		440	440
	10% Debenture A/c Dr To Own Debenture A/c (Being debentures cancelled)		440	440

Working Note

Debentures to be redeemed = 20% of 11,00,000 = $\frac{20}{100} \times 11,00,000 = 2,20,000$

$2,20,000 \times 200 = 44,00,00,00$ debentures

4. Record necessary journal entries in the books of the Company in following case for redemption of 1,000, 12% Debentures of Rs.10 each issued at par:
(a) Debentures redeemed at par by conversion into 12% Preference Shares of Rs.100 each,
(b) Debentures redeemed at a premium of 10% by conversion into Equity Share issued at par,
(c) Debentures redeemed at a premium of 10% by conversion into Equity Shares issued at a premium of 25%.

Answer (a)

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	12% Debentures A/c	Dr		10,000	
	To Debenture Holders A/c				10,000
	(Being 1000, 12% debentures redeemed at par)				
(ii)	Debenture Holders A/c	Dr		10,000	
	To 12% Preference Share Capital A/c				10,000
	(Being 100, 12% preference shares issued in conversion of 1,000 debentures)				

Working Note Number of Preference Shares to be issued = $\frac{10,000}{100}$

$= 100$ Preference Shares

(b)

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	12% Debentures A/c	Dr		10,000	
	Premium on Redemption of Debenture A/c	Dr		1,000	
	To Debenture Holders A/c				11,000
	(Being 1000 12% debentures redeemed at 10% premium)				
(ii)	Debenture Holders A/c	Dr		11,000	
	To Equity Share Capital A/c				11,000
	(Being equity shares issued at par in conversion of 1,000 debentures)				

(c)

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	12% Debentures A/c	Dr		10,000	
	Premium on Redemption of Debenture A/c	Dr		1,000	
	To Debenture Holders A/c				11,000
	(Being 1000, 12% debentures redeemed at 10% premium)				
(ii)	Debenture Holders A/c	Dr		11,000	
	To Equity Share Capital A/c				8,800
	To Securities Premium A/c				2,200
	(Being 880 equity shares issued at 25% premium in conversion of 1,000 debentures)				

Working Note

(1) Let Equity Share be @ ₹ 10 each

(2) Number of Equity Shares to be issued = $\frac{11,000}{12.50}$ = 880 Equity Shares

(3) Premium on Equity Share = 25% of 10 $= \frac{25}{100} \times 10 = 2.50$

5. On 31.1.2005 Janta Ltd. converted its Rs.88,00,000, 6% debentures into equity shares of Rs.20 each at a premium of Rs.2 per share. Record necessary journal entries in the books of the company for redemption of debentures.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2005 Jan 31	6% Debentures A/c Dr		88,00,000	
	To Debenture Holders A/c			88,00,000
	(Being amount due to debenture holders for conversion on redemption)			
	Debenture Holders A/c Dr		88,00,000	
	To Equity Shares Capital A/c			80,00,000
	To Securities Premium A/c			8,00,000
	(Being 40,00,00 equity shares issued at premium ₹ 2 per share in conversion of debenture)			

Working Note

$$\text{Number of Equity Shares to be issued} = \frac{88,00,000}{22}$$

$$= 4,00,000 \text{ Equity Shares}$$

6. Anirudh Ltd. has 4,000, 8% debentures of Rs.100 each due for redemption on March 31, 2005. The company has a debenture redemption reserve of Rs.1,50,000 on that date. Assuming that no interest is due record the necessary journal entries at the time of redemption of debentures.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2005 Mar 31	Profit and Loss A/c Dr		50,000	
	To Debenture Redemption Reserve A/c			50,000
	(Being profit transferred to debenture redemption reserve as per SEBI guidelines)			
	8% Debenture A/c Dr		4,00,000	
	To Debenture Holders A/c			4,00,000
	(Being amount due for 4,000 debentures of ₹ 100 each redeemed)			
	Debenture Holders A/c Dr		4,00,000	
	To Bank A/c			4,00,000
	(Being amount due on redemption paid)			
	Debenture Redemption Reserve A/c Dr		2,00,000	
	To General Reserve A/c			2,00,000
	(Being debenture redemption reserve transferred to general reserve account)			

Working Note

Debenture forRs.4,00,000 were to be redeemed. As per SEBI guidelines, 50% debenture redemption reserve is to be maintained. For Rs.14,00,000 it comes to Rs.2,00,000. Debenture redemption reserve already in books of account was Rs.1,50,000. Hence, entry for balance Rs. 50,000 was passed in this solution.

SHORT ANSWER TYPE QUESTIONS

Question 1. What is meant by a Debenture?

Answer Debenture The word 'Debenture' has been derived from a Latin word 'debere' which means to borrow.

Debenture is a written instrument acknowledging a debt under the common seal of the company. It contains a contract for repayment of principal after a specified period or at intervals or at the option of the company and for payment of interest at a fixed rate payable

usually either half-yearly or yearly on fixed dates.
According, to Section 2(12) of The Companies Act, 1956 'Debenture' includes Debenture Stock, Bonds and any other securities of a company whether constituting a charge on the assets of the company or not.

Question 2. What does a Bearer Debenture mean?
Answer Bearer debentures are the debentures which can be transferred by way of delivery and the company does not keep any record of the debenture holders. Interest on debentures is paid to a person who produces the interest coupon attached to such debentures.

Question 3. State the meaning of 'Debentures issued as a Collateral Security'.
Answer Collateral security is given in addition to the primary security to the loan provider. In case when a company takes some loan it may issue debentures for additional security besides the primary security to that particular bank or financial institution.
Here it is to be remember that issue of debenture in ordinary course is different from issue of debenture as collateral security, in ordinary course debenture holders are entitled to get interest at an specified coupon rate where as in case of debenture issued as collateral security the holder of these debenture is not entitled to any such interest.
But in case of any default in payment of principle or interest of loan it may recover its amount from the issue of such debenture in the secondary market. Here it should be remembered that first of all the primary security will be sold after that debenture as collateral security will be used.

Question 4. What is meant by Issue of debentures for consideration other than Cash'?
Answer When a company purchase some assets it is supposed to pay the purchase consideration in cash but sometimes due to lack of sufficient fund, company may issue debenture for the payment of such purchase consideration. This is known as issue of debenture for consideration other than cash.
The issue of debenture for consideration other than cash serves the purpose of both the vendor as well as of the purchaser (company). From the purchaser's point of view, purchasing an asset against the issue of debentures requires no additional cost for raising loans or arranging funds immediately.
On the other hand, the vendor gets interest on the amount of debentures received. In this case, payment is deferred by issue of debentures and interest is paid for time lag. Here it should be remembered that such debentures may be issued at par, premium or discount to the vendor.

Question 5. What is meant by 'Issue of debentures at discount and redeemable at premium?
Answer As per the prevailing market circumstances sometimes company has to manage funds by issuing debenture below its par value and to attract the investor when these are redeemed at price higher than its par value, then it is termed as issue of debenture at discount and redeemable at premium.
The difference between the issue price and the redemption price is treated as loss on issue of debenture and posted in assets side of the company as miscellaneous expenditure. To have a better understanding about the issue we may take an example as follows
Example: A 10% debenture of ? 100 each is issued at 5% discount and is redeemed at 5% premium. The following Journal Entry will be passed for that

Journal Entry

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c	Dr		95	
	Discount on Issue of Debenture A/c	Dr		5	
	Loss on Issue of Debenture A/c	Dr		5	
	To Debentures A/c				100
	To Premium on Redemption of Debenture A/c				5
	(Being 10% debenture are issued at 5% discount and redeemable at 5% premium)				

Question 6 What is 'Capital Reserve'?
Answer Capital Reserve is a reserve that is created out of capital profits. Capital profits are those profits arising out of those activity which are not part of the business operations e.g., premium on issue of share and debentures, profits of sale of fixed asset, profit on redemption on debenture and profit on reissue of forfeited share and so on.

A capital reserve can be utilised for meeting the future capital losses. Here it is to be remembered that capital reserve cannot be used for distributing dividend to the share holders but bonus shares can be issued out of the capital reserve.

Question 7 What is meant by a 'Irredeemable Debenture?
Answer Irredeemable Debentures are those debentures which may not be redeemed during the life of a Company. They can only be paid off in the event of winding up of the Company. The holder of such debenture will enjoy interest on these debentures throughout the life of the company. Now-a-days no company issue irredeemable debentures.

Question 8. What is a 'Convertible Debenture?
Answer Convertible Debentures are those debentures which are convertible in equity shares after some specified time generally mentioned at the time of issue of such debentures. These convertible debentures are divided into two categories
(i) **Partly Convertible Debenture**: In this type of debenture only a part of such debenture is convertible in equity shares which is mentioned at the time of issue.
(ii) **Fully Convertible Debenture** :These are fully convertible into equity shares. It means in case of fully convertible debenture the whole amount of such debenture, is convertible in equity share after the period mentioned in the prospectus.

Question 9. What is meant by 'Mortgaged Debentures?
Answer Debentures which are secured against asset/s of a company known as Mortgaged Debenture. Mortgage Debentures are of two types first fixed charge mortgage debenture and second floating charge mortgage debentures.
When debentures are secured against a particular asset, then they are called fixed charge whereas, if the debentures are secured against all the assets of a company, then it is called floating charge. Mortgage debentures can only be sold by the holder when company fails to pay its loan or interest there on.

Question 10. What is discount on issue of debentures?
Answer Debenture is said to have been issued at discount where an applicant is required to pay a total sum less than the face value of the debenture. The excess of the face value over the issue price is regarded as the discount. When debentures are issued at a discount, cash account is debited with net sum received, the discount on debentures account is debited with the amount of discount allowed and the debentures account is credited with the full nominal value of the debentures.
Here it is worth mentioning that there is no legal restriction on the companies for issuing debentures at discount. Maximum limit for discount on debentures is also not prescribed by

the Companies Act. However, this Act requires that the amount of discount must be shown on the assets side of the Balance Sheet till written off under the head "Miscellaneous Expenditure."

Question 11. What is meant by 'Premium on Redemption of Debentures'?
Answer When the debentures are redeemed at a price more than its face value or the par value, then it is said that the debentures are redeemed at premium. The difference between the redeemed price and the par value is regarded as a capital loss and this loss is written off till the redemption of the debentures.
The Premium on Redemption of Debenture is shown on the Liabilities side of the Balance Sheet under the head of "Current Liabilities and Provisions" debentures are redeemed. –

Question 12. How debentures are different from shares? Give two points.
Answer Nature: A share is a part of the capital of the company and a debenture is a part of loan of the company.

Dividend or Interest :Dividend on shares is paid only when there are profits in
the company on the other hand debenture interest has to be paid, it the company does not have profit or even suffer a loss.

Ownership Equity share holders are the owners of the company on the other hand debenture holders are the creditors of the company.

Question 13. Name the head under which 'Discount on Issue of Debentures' appears in the Balance Sheet of a company.
Answer As we know that Discount on Issue of debentures is a capital loss and it will be written off out of the profit of coming years, Therefore, it is shown on the Assets side of the Balance Sheet under the heading of "Miscellaneous Expenditures" until it is written off.

Question 14. What is meant by redemption of debentures ?
Answer The term redemption implies the discharge of an obligation arising out of the contractual obligations created through the debenture Trust Deed. In other words, discharge of the liability on account of debentures is called redemption of debenture.
The redemption of debentures is made by the company in accordance with the terms and conditions of issue. Debentures may be redeemable at par, premium or discount, but in present scenario redemption of debentures at par and at premium is most popular. The redemption can be done out of profits or from the fresh issue of debentures or shares.
Redemption of debentures may be done by the following methods
(i) By paying after stipulated period
(ii) By annual drawing
(iii) By conversion into shares or new debentures
(iv) By purchasing own debentures in the open market
(v) At the option of the company

Question 15. Can the company purchase its own debentures?
Answer Yes, a company, if authorised by its Articles of Association, can purchase its own debentures in the open market. The main purposes of such purchase may be as follows
(i) A company may purchase its own debenture for immediate cancellation for reducing the debenture liability especially in case when the interest rate on its debenture is higher than the market rate of interest.
(ii) A company may also purchase its own debentures with the motive of investment and sell them at higher price in future and thereby earn profit.

Question 16. What is meant by redemption of debentures by conversion?
Answer Debentures are usually redeemed in cash but sometimes privilege is given to the debenture holders to exchange their debentures either for shares or for new debentures of the company. The redemption of debentures by means of shares or new debentures is known as redemption by conversion and the debentures which carry such a right is called convertible debentures.

Question 17. How would you deal with 'Premium on Redemption of Debentures?
Answer When the debentures are redeemed at a price more than its face value or the par value, then it is said that the debentures are redeemed at premium. The difference between the redeemed price and the par value is regarded as a capital loss and this loss is written off till the redemption of the debentures.
The Premium on Redemption of Debenture is shown on the Liabilities side of the Balance Sheet under the head of Current Liabilities and Provisions until debentures are redeemed.
Accounting Treatment for Premium on Redemption on Debentures

At the Time of the Issue of Debenture

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank/Debenture Allotment A/c Dr			
	Loss on Issue of Debenture A/c Dr			
	To Debenture A/c			
	To Premium on Redemption of Debenture A/c			
	(Being debenture are issued with the term of redemption at premium)			

For Loss Written off

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Profit and Loss A/c Dr			
	To Loss on Issue of Debenture A/c			
	To Debenture A/c			
	(Being loss on issue of debenture written off)			

At the time of Redemption of Debentures

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Debenture A/c Dr			
	Premium on Redemption A/c Dr			
	To Debenture Holders A/c			
	(Being amount of debentures due to debenture holders)			

Question 18. What is meant by 'Redemption out of Capital'?
Answer: When debentures are redeemed out of current resources, the working capital of the company are reduced to that extent, and therefore, it is called redemption out of capital.

In other words when debentures are redeemed out of capital and no profits are utilised for redemption, then such redemption is termed as redemption out of capital.

A company cannot redeem its debentures purely out of capital. At least 50% of debentures issued must be redeemed out of profits by creating a 'Debenture Redemption Reserve' and the balance of debentures issued may be redeemed out of profits or out of capital.

According to the Companies Act, 1956 when debentures are to be redeemed an adequate amount of profits is required to be transferred to 'Debenture Redemption Reserve' every year before the redemption begins. It is to be noted that the Companies Act, 1956 does not spell out at to what is the adequate amount.

For this one can refer to SEBI Guidelines which stipulates that an amount equal to 50% of the

debentures issue should be transferred to 'Debenture Redemption Reserve' before the redemption begins.
There are exceptions in the following cases
(i) Infrastructure companies (i.e., those companies that are engaged in the business of developing, maintaining and operating infrastructure facilities)
(ii) A company that issues debentures with a maturity up to 18 months.
(iii) In case of Convertible debentures and convertible portion of partly convertible debentures

Question 19. What is meant by redemption of debentures by 'Purchase in the Open Market?
Answer: A company, if authorised by its Articles of Association, can redeem its own debentures by purchasing them in the open market. This is advantageous for several reasons
(I) It would be saving the amount of interest on debentures purchased and cancelled.
(ii) Sometimes the own debentures are being sold at a discount. It would enable the company to save money equai to the amount of discount i.e., profit on redemption of debentures.
(iii) Debentures so purchased may be kept alive as investment. In need of fund, they can again be sold off in the market.
Objectives There may be the following objectives foP purchasing own debentures in the open market
(i) For immediate cancellation of debentures.
(ii) For investment in the own debentures.

Question 20. Under which head is the 'Debenture Redemption Reserve' shown in the Balance Sheet.
Answer The Debenture Redemption Reserve is shown on the Liabilities side of the Balance Sheet under the head Reserve and Surplus.

LONG ANSWER TYPE QUESTIONS

Question 1. What is meant by a debenture? Explain the different types of debentures?
Answer Debenture: The word 'Debenture' has been derived from a Latin w'ord 'Debere' which means to borrow. Debenture is a written instrument acknowledging a debt under the common seal of the company. It contains a contract for repayment of principal after a specified period or at intervals or at the option of the company and for payment of interest at a fixed rate payable usually either half-yearly or yearly on fixed dates.
According, to Section 2(12) of The Companies Act, 1956 'Debenture' includes Debenture Stock, Bonds and any other securities of a company whether constituting a charge on the assets of the company or not. There are various types of Debentures.
(i) **From Security Point of View** :From security point of view debentures can be classified into two broad categories naked or simple debentures and Mortgaged debentures.
(a) **Naked or Simple Debentures** :Naked or Simple Debentures are those debentures which do not carry any security in respect of repayment of interest or the principal. The general solvency of the company is the only security for the holders of simple debentures.
(b) **Mortgaged Debentures**: Mortgaged Debentures are the debentures which are secured by a charge on the asset or properties of the company. The debenture holders have the right to recover their principal amount as well as unpaid interest out of the assets mortgaged by the company.

In case of mortgage debentures, a company may prefer to appoint trustees who will hold the property given by way of security in trust for the benefits of debentures holders.

(ii) **From Permanence Point of View** From Permanence point of view the debentures may be Redeemable or Irredeemable debentures.

(a) **Redeemable Debentures** Redeemable debentures provide for the payment of principal amount on the expiry of certain period. Redeemable debentures can be reissued even after they have been redeemed until they have been cancelled.
(b) **Irredeemable Debentures** Irredeemable Debentures are retained as a part of the permanent capital structure during the life time of the company. Such debt becomes due for payment only when the company goes into liquidation or when the payment of interest is not made regularly.

The company has the option of cancelling its liability to the debenture holders at any time by giving due notice to them.

(iii) **From Priority Point of View** :From this point of view the debentures may be First and Second debentures.
(a) **First Debentures** :First Debentures are those debentures which are paid first before any payment is made to another type of debentures.
(b) **Second Debentures**: Second Debentures are those debentures which are paid after making the payment of first debentures.
(iv) **From Recording Point of View** :From recording point of view debentures can be classified into two categories bearer and registered debentures.
(a) **Bearer Debentures** :Bearer Debentures are transferable per bearer without endorsement and they are just like bearer cheques or government currency notes. They are treated as negotiable instrument and transferable by mere delivery. It is not necessary that transfer of such debentures should be registered with the company. The interest is paid to the holder irrespective of identity.
(b) **Registered Debentures**: Registered debentures are made out in the name of a particular person who is registered by the company as a holder and are transferable in the same way as shares.
The payment of interest and repayment of capital is made to those whose name are registered with the company and duly entered in the register of debenture holders.
(v) **From Conversion Point of View**: From conversion point of view debentures may be convertible or non-convertible.
(a) **Convertible Debentures** :Convertible debenture holders are given an option to convert them into equity or preference shares at a stated rate of exchange after a certain period. Convertible debentures are very popular these days with the companies as it provides them a major source of permanent working capital. It also provides safety, liquidity, capital appreciation and assured return to the investors.
(b) **Non-Convertible Debentures**: Non-convertible debentures are not convertible into equity or preference shares afterwards.

Question 2. Distinguish between a debenture and a share. Why debenture is known as loan capital? Explain.

Answer The following are the difference between Shares and Debentures

Basis of Difference	Shares	Debentures
Nature	Share holders are the owners of the company.	Debenture holders are Creditors of the company.
Voting Rights	Share holders have the voting rights.	Debenture holders do not have any voting rights.
Returns	Share holders are entitled for returns in the form of dividend, which may vary from year to year.	Debenture holders are entitled for returns in the form of interest, which is fixed.
Conversion	Shares cannot be converted into debentures.	Debentures can be converted into shares.
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.
Risk	Investment in Shares is unsecured.	If debentures are secured against asset, they are less risky as the risk involved is secured against the assets.
Issue	The issue of shares at discount need adherence to the restrictions imposed by the Section 79 of the Company Act.	There are no such restrictions for issuing debentures on discount.
Payment at Liquidation	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.

Question 3. Describe the meaning of 'Debenture Issued as Collateral Securities'. What accounting treatment is given to the issue of debentures in the books of accounts?

Answer When a company takes a loan, it has to give some security, it may do so by giving debentures to the party from whom loan is takes. If on the due date principal is paid back by the Company and interest is also paid, the loan-giver will return the debentures to the Company and then they will be cancelled by the Company,

If the Company makes a default, the bank may either keep the debenture and become debenture-holder or sell them and realise money. This type of issue by the Company is called Issue of Debenture as Collateral Security.

When debentures are issued by the company, they are not really alive and no accounting entry is made in the books of the Company for it. Only a note is given in the balance sheet for it as under

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Loan (Secured by the issued of Debentures of ₹ .... As Collateral Security) **Debentures** (In addition to these debentures, debentures of ₹ .... has been issued as Collateral Security)			

If accounting record for these debentures is to be made Debentures Suspense A/c is debited and deoentures A/c credited, debentures are shown in the liability side and balance of debentures Suspense A/c is shown in the assets side of the Balance Sheet. When debt is paid off by the Company, Debentures A/c is debited and Debentures Suspense A/c is credited.

Question 4. How is 'Discount on Issue of Debentures' treated in the books of accounts? How will you deal with the 'Discount on issue of debentures' when the debentures are to be redeemed in instalments?

Answer When the debentures are issued at a price below its par value or face value, then it is said that the debentures are issued at discount. The difference between the issue price and the face value of the debenture is regarded as a capital loss. This loss is written off every year till the debentures are redeemed.

The loss on the issue of debenture is shown on the Assets side of the Balance Sheet under the heading of Miscellaneous Expenditures.

Accounting Treatment for Discount on Issue of Debentures:
At the time of issue of debentures at discount

Accounting Treatment for Discount on Issue of Debentures

At the time of issue of debentures at discount

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Debenture Allotment A/c Dr			
	Discount on Issue of Debenture A/c Dr			
	To Debentures A/c			
	(Being debentures issued at discount)			

At the time of writing off the discount on issue of debentures at the end of each year

At the time of writing off the discount on issue of debentures at the end of each year

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Profit and Loss A/c Dr			
	To Discount on Issue of Debenture A/c			
	(Being discount on issue of debentures written off)			

(i) Fixed Instalment Method/Equal Instalment Method : This method is used when debentures are redeemable in lump sum after a specified period of time. In this case an equal amount of discount (loss) is written off in equal instalments over the life of the debenture. The formula for calculating amount of discount written off every year is given below

$$\text{Amount of instalment} = \frac{\text{Total Amount of Discount / Loss}}{\text{Number of year after which Debenture are redeemed}}$$

(ii) Fluctuating Instalment Method/Variable Instalment Method/ Proportion Method: When debentures are repaid by annuaLdrawings or in instalments, the discount should be written-off in the ratio of
debentures outstanding as at the end of each accounting year. The amount of discount, under this method, goes on reducing every year and so this method may also be known as Reducing Instalment Method. –

e.g., if a company has issued 10% debentures of Rs. 12,00,000 at 5% discount redeemable annually by Rs. 2,40,000 each year. The total amount of discount on Rs.12,00,000 debentures @ 5% is Rs. 60,000, i.e., (12,00,000 x 5/100 =Rs. 60,000). The amount of discount to be written off every year is calculated as

Year	Amount of Debenture Used up During the Year	Ratio	Amount of Discount to be Written off each Year
First Year	12,00,000	5	60,000 × 5/15 = 20,000
Second Year	9,60,000	4	60,000 × 4/15 = 16,000
Third Year	7,20,000	3	60,000 × 3/15 = 12,000
Fourth Year	4,80,000	2	60,000 × 2/15 = 8,000
Fifth Year	2,40,000	1	60,000 × 1/15 = 4,000
		15	

Total amount of Discount on 12,00,000 debentures @ 5% pa is ₹ 60,000.

Hence, the amount of the total discount of' 60,000 will be written off in the ratio of ,5 : 4 : 3 : 2 :1 i.e.,' 20,000,' 16,000,' 12,000,' 8,000 and 4,000 respectively.

Question 5. Explain the different terms for the issue of debentures with reference to their redemption.

Answer Debentures can be issued at par, at premium and at discount in the same way they can be redeem at par and at premium. Debentures can never be redeemed at discount. The following are the six situation under which debentures can be issued to their redemption.

(i) Issue at Par and Redeemable at Par: When the debentures are issued and are redeemed at their face value, then the following Journal entry is passed.

(i) **Issue at Par and Redeemable at Par** When the debentures are issued and are redeemed at their face value, then the following Journal entry is passed.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	debenture Application A/c Dr To Debentures A/c (Being debentures application money transferred to debentures account)			

(ii) Issue at Premium and Redeemable at Par When the debentures are issued at premium and redeemable at par, then the following Journal entry is passed. As premium is a gain for a company so it is credited in the Journal entry.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	Debenture Application A/c Dr To Debentures A/c To Security Premium A/c (Being debentures issues at premium and redeemable at par)			

(iv)Issue at Discount and Redeemable at Par When the debentures are issued at discount and redeemable at par, then the following Journal entry is passed. As discount is a loss for a company so it is debited in the Journal entry.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	Debenture Application A/c Dr Discount on issue of Debenture A/c To Debenture A/c (Being debentures issues at discount and redeemable at par)			

(v) Issue at Premium and Redeemable at Premium When debentures are issued at par and redeemable at premium, then the following Journal entry is passed. In such case, the company did not suffer any loss at the time of issue but there will be loss at the time of redemption.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	Debenture Application A/c Dr Loss on Issue of Debenture A/c To Debenture A/c To Premium on Redemption of Debenture A/c (Being debentures issues at par and redeemable at premium)			

(vi) Issue at Discount and Redemption at Premium When the debentures are issued at discount and redeemable at premium, then the following Journal entry is passed.

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c	Dr			
	To Debenture Application A/c				
	(Being debentures application money received)				
	Debenture Application A/c	Dr			
	Loss on Issue of Debenture A/c	Dr			
	To Debenture A/c				
	To Securities Premium A/c				
	To Premium on Redemption of Debentures A/c				
	(Being debentures issues at premium and redeemable at premium)				

Question 6. Differentiate between redemption of debentures out of capital and out of profits.

Answer Debentures can be redeemed out of capital and out of profits. The following are the difference between these two methods.

Redemption of Debentures Out of Capital: This is the situation where debentures are redeemed out of capital and no profits are utilised for redemption of the debentures, such redemption is termed as redemption out of capital. In this situation, no profits are required to be transferred to the Debenture Redemption Reserve (DRR).

Here it is to be remembered that no company can redeem its debenture purely out of capital because as per the guideline laid down by Securities and Exchange Board of India (SEBI) and the Section 117C of Company Act of 1956, before starting any redemption process a company is required to create a DRR equal to 50% of the debentures issued).

Therefore, it is not possible to redeem debentures purely out of capital, as it reduces the value of assets. There are exceptions in the following case

(i) Infrastructure companies (i.e., those companies that are engaged in the business of developing, maintaining and operating infrastructure facilities)

(ii) A Company that issues debentures with a maturity up to 18 months.

(iii) In case of convertible debentures and convertible portion of partly convertible debentures.

Redemption of Debenture Out of Profits:When debentures are redeemed out of profit then no capital is utilised for redemption. Before redeeming the debentures profits are transferred to DRR from Profit and Loss Appropriation Account. The creation of DRR is mandatory as per the guidelines laid down by Securities and Exchange Board of India (SEBI).

SEBI mandates transferring amount equal to 50% of debentures issued to DRR before redeeming debentures. As transfer of amount (profits) to the DRR from Profit and Loss Appropriation Account reduces the amount of profit available for distribution of dividend, so this redemption process is known as redemption out of profit.

DRR is shown under the head of Reserves and Surpluses on the Liabilities side of the Balance Sheet. DRR account is closed by transferring it to General Reserve only when all the debentures are redeemed.

Question 7. Explain the guidelines of SEBI for creating Debenture Redemption Reserve.

Answer Securities and Exchange Board of India (SEBI) have provided some guidelines for redemption of debentures. The focal points of these guidelines are *

(i) Every company shall create Debenture Redemption Reserve in case of issue of debenture redeemable after a period of more than 18 months from the date of issue.

(ii) The creation of Debenture Redemption Reserve is obligatory only for non-convertible debentures and non-convertible portion of partly convertible debentures.

(iii) A company shall create Debenture Redemption Reserve equivalent to at least 50% of the amount of debenture issue before starting the redemption of debenture.

(iv) Withdrawal from Debenture Redemption Reserve is permissible only after 10% of the debenture liability has already been reduced by the company.

SEBI guidelines would not apply under the following situations:
(i) Infrastructure company (a company wholly engaged in the business of developing, maintaining and operating infrastructure facilities), and
(ii) A company issuing debentures with a maturity period of not more than 18 months.

Question 8. Describe the steps for creating Sinking Fund for redemption of debentures.
Answer The steps involved in creation of Sinking Fund on redemption of Debenture are
(i) Calculate the amount of profit to be set-aside annually with the help of sinking fund table.
(ii) Set aside the amount of profit at the end of each year and credit to Debenture Redemption Fund (DRF) Account.
(iii) Purchase the investments of the equivalent amount at the end of first year and debit Debenture Redemption Fund Investment (DRFI) Account.
(iv) Receive interest on investment at the end of each subsequent year.
(v) Purchase the investments equivalent to the fixed amount of profit set aside and the interest earned every year except last year (year of redemption).
(vi) Receive interest on investment for the last year.
(vii) Set aside the fixed amount of profit for the last year.
(viii) Encash the investments at the end of the year of redemption.
(ix) Transfer the profit/loss on sale of investments reflected in the balance of Debenture Redemption Fund Investment Account to Debenture Redemption Fund Account.
(x) Make payment to debenture holders.
(xi) Transfer Debenture Redemption Fund A/c balance to General Reserve.

Question 9. Can a company purchase its own debentures in the open market? Explain.
Answer Yes, a company, if authorised by its Articles of Association, can purchase its own debentures in the open market. The main purposes of such purchase may be as follows
(i) A company may purchase its own debenture for immediate cancellation for reducing the debenture liability especially in case when the interest rate on its debenture is higher than the market rate of interest.
(ii) A company may also purchase its own debentures with the motive of investment and sell them at higher price in future and thereby earn profit.

When a company purchase its own debenture,in the open market it can happen in either of the two ways first debentures may be purchased at premium for cancellation and debenture may be purchase at discount for cancellation. The following will be the accounting treatment in both the situation

(i) If Debentures are Purchased at Discount for Cancellation :When the company purchase its own debentures at discount for cancellation, then the following Journal entries are recorded.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Own Debentures A/c Dr To Bank A/c (Being own debentures purchased in the open market)			
	Debenture A/c Dr To Own Debentures A/c To Profit on Redemption of Debenture A/c (Being own debentures cancelled)			
	Profit on Cancellation of Own Debentures A/c Dr To Capital Reserve A/c (Being profit on cancellation of own debentures transferred to capital reserve account)			

(ii) **If Debentures are Purchased at Premium for Cancellation**

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Own Debentures A/c Dr To Bank A/c (Being own debentures purchased in the open market)			
	Debenture A/c Dr Loss on Redemption of Debenture A/c Dr To Own Debentures A/c (Being own debentures cancelled)			

Question 10. What is meant by conversion of debentures? Describe the method of such a conversion.

Answer The debentures can also be redeemed by converting them into shares or new debentures. If debenture holders find that the offer is beneficial to them they may convert his/her debentures into shares or new debentures after the expiry of a specified period of time, then this whole process is known as redemption of debentures by conversion.

It is worth mentioning here that in such a case no Debenture Redemption Reserve is required because no funds are required for redemption.

If a debenture holder exercises the conversion option, then the issue price of shares must be equal to or less than the amount .actually received from debentures. The accounting treatment in that case will be as follows:

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Debentures A/c Dr To Debenture Holders' A/c (Being debentures are redeemed)			
	Debenture Holders' A/c Dr To Share/Debentures (New) A/c (Being amount due to debenture holders is discharged)			

NUMERICAL PROBLEMS

1. G.Ltd. issued 75,00,000, 6% Debenture of Rs.50 each at par payable Rs.15 on application and Rs.35 on allotment, redeemable at par after 7 years from the date of issue of debenture. Record necessary entries in the books of Company.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr		11,25,00,000	
	To 6% Debenture Application A/c			11,25,00,000
	(Being application money @ ₹ 15 each received for 75,00,000 debentures)			
(ii)	6% Debenture Application A/c Dr		11,25,00,000	
	To 6% Debenture A/c			11,25,00,000
	(Being application money of 75,00,000 debentures transferred to 6% debentures account)			

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(iii)	6% Debenture Allotment A/c Dr		26,25,00,000	
	To 6% Debenture A/c			26,25,00,000
	(Being allotment money @ ₹ 35 each due for 75,00,000 debentures)			
(iv)	Bank A/c Dr		26,25,00,000	
	To 6% Debenture Allotment A/c			26,25,00,000
	(Being allotment money received @ ₹ 35 each on 75,00,000 debentures)			

Note *The entries for issue of debentures are same as that of shares with only difference that 'capital' word is not used.*

2. Y.Ltd. issued 2,000, 6% Debentures of Rs.100 each payable as follows: Rs.25 on application; Rs.50 on allotment and Rs.25 on First and Final call.

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr		50,000	
	To 6% Debentures Application A/c			50,000
	(Being application money @ ₹ 25 each received for 2,000 6% debentures)			
(ii)	6% Debenture Application A/c Dr		50,000	
	To 6% Debenture A/c			50,000
	(Being application money on 2,000 debentures transferred to 6% debentures account)			
(iii)	6% Debenture Allotment A/c Dr		1,00,000	
	To 6% Debenture A/c			1,00,000
	(Being debenture allotment money @ ₹ 50 each due on 2,000 6% debentures)			
(iv)	Bank A/c Dr		1,00,000	
	To 6% Debenture Allotment A/c			1,00,000
	(Being allotment money for 2,000 6% debentures received)			
(v)	6% Debenture First and Final Call A/c Dr		50,000	
	To 6% debenture A/c			50,000
	(Being debenture first and final call @ ₹ 25 each due on 2,000 6% debentures)			
(vi)	Bank A/c Dr		50,000	
	To 6% Debenture First and Final Call A/c			50,000
	(Being first and final call for 2,000 6% debentures received)			

3. A.Ltd. issued 10,000, 10% Debentures of Rs.100 each at a premium of 5% payable as follows:

Rs.10 on Application;

Rs.20 along with premium on allotment and balance on First and Final call.

Record necessary Journal Entries.

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c	Dr		1,00,000	
	To 10% Debenture Application A/c				1,00,000
	(Being Application money received for 10,000, 10% debentures application @ ₹ 10 each)				
(ii)	10% Debenture Application A/c	Dr		1,00,000	
	To 10% Debenture A/c				1,00,000
	(Being application money @ ₹ 10 each transferred to 10% debenture account)				
(iii)	10% Debenture Allotment A/c	Dr		2,50,000	
	To 10% Debentures A/c				2,00,000
	To Securities Premium A/c				50,000
	(Being allotment due @ ₹ 25 each including premium ₹ 5 on 10,000,10% debentures)				
(iv)	Bank A/c	Dr		2,50,000	
	To 10% Debenture Allotment A/c				2,50,000
	(Being allotment money received on allotment @ ₹ 25 each for 10,000 10% debentures)				
(v)	10% Debenture First and Final Call A/c	Dr		7,00,000	
	To 10% Debenture A/c				7,00,000
	(Being first and final call @ ₹ 70 each on 10,000 10% debentures due)				
(vi)	Bank A/c	Dr		7,00,000	
	To 10% Debenture First and Final Call A/c				7,00,000
	(Being debenture first and final call received @ ₹ 70 each for 10,000 10% debentures)				

4. A. Ltd. issued 90,00,000, 9% Debenture of Rs.50 each at a discount of 8%, redeemable at par any time after 9 years. Record necessary entries in the books of A. Ltd.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c	Dr		41,40,00,000	
	To 9% Debenture Application A/c				41,40,00,000
	(Being debenture application money received @ ₹ 46 each on 90,00,000 9% debentures)				
(ii)	9% Debentures Application A/c	Dr		41,40,00,000	
	Discount on Issue of Debentures A/c	Dr		3,60,00,000	
	To 9% Debenture A/c				45,00,00,000
	(Being 9% debentures application money transferred to 9% debenture account)				

Note *A single compound entry can also be passed with Bank and discount on issue of debenture debit and 9% debentures account credit*

5. A.Ltd. issued 4,000, 9% Debentures of Rs.100 each on the following terms:

Rs.20 on Application;

Rs.20 on Allotment;

Rs.30 on First call; and

Rs.30 on Final call.

The public applied for 4,800 Debentures. Applications for 3,600 Debentures were accepted in full. Applications for 800 Debentures were allotted 400 Debentures and applications for 400 Debentures were rejected.

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr To 9% Debenture Application A/c Beking 9% debenture application money received on 4,800 debentures @ ₹ 20 each)		96,000	96,000
(ii)	9% Debenture Application A/c Dr To 9% Debenture A/c (4,000 × 20) To 9% Debenture Allotment A/c (400 × 20) To Bank A/c (400 × 20) (Being 9% debenture application money of 4000 debentures transferred to debentures account, 400 debentures rejected returned and remaining amount adjusted on allotment)		96,000	80,000 8,000 8,000
(iii)	9% Debenture Allotment A/c Dr To 9% Debenture A/c (Being 9% debenture allotment due on 4,000 debentures @ ₹ 20 each)		80,000	80,000
(iv)	Bank A/c (Working note) Dr To 9% Debenture Allotment A/c (Being 9% debenture allotment money received)		72,000	72,000
(v)	9% Debenture First Call A/c Dr To 9% Debenture A/c (Being 9% debenture first call due on 4,000 debenture @ ₹ 30 each)		1,20,000	1,20,000
(vi)	Bank A/c Dr To Debenture First Call A/c (Being 9% debenture first call received for 4,000 debentures @ ₹ 30 each)		1,20,000	1,20,000
(vii)	9% Debenture Final Call A/c Dr To 9% Debenture A/c (Being 9% debenture final call due on 4,000 debentures @ ₹ 30 each)		1,20,000	1,20,000
(vi)	Bank A/c Dr To 9% Debenture Final Call A/c (Being 9% debenture final call received on 4,000 debentures @ ₹ 30 each)		1,20,000	1,20,000

Working Note

Amount due on allotment 4,000 × 20	=	80,000
(–) Amount received on application 400 × 20	=	(8,000)
Net amount received on allotment	=	72,000

6. T. Ltd. offered 2,00,000, 8% Debenture of Rs.500 each on June 30, 2002 at a premium of 10% payable as Rs.200 on application (including premium) and balance on allotment, redeemable at par after 8 years. But application are received for 3,00,000 debenture and the allotment is made on pro-rata basis. All the money due on application and allotment is received. Record necessary entries regarding issue of debenture.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr		6,00,00,000	
	To 8% Debenture Application A/c			6,00,00,000
	(Being 8% debenture application money received for 3,00,000 debentures @ ₹ 200 each)			
(ii)	8% Debenture Application A/c Dr		6,00,00,000	
	To 8% Debenture A/c (2,00,000 × 150)			3,00,00,000
	To 8% Debenture Allotment A/c (1,00,000 × 200)			2,00,00,000
	To Securities Premium A/c (2,00,000 × 50)			1,00,00,000
	(Being 8% debenture application money of 2,00,000 debentures @ ₹ 200 each including ₹ 50 premium transferred to debenture account and rest of the amount adjusted on allotment)			
(iii)	8% Debenture Allotment A/c Dr		7,00,00,000	
	To 8% Debenture A/c			7,00,00,000
	(Being 8% debenture allotment on 2,00,000 debentures @ ₹ 350 due)			
(iv)	Bank A/c Dr		5,00,00,000	
	To 8% Debenture Allotment A/c			5,00,00,000
	(Being 8% debenture allotment money received)			

7. X.Ltd. invites application for the issue of 10,000, 14% debentures of Rs.100 each payable as to Rs.20 on application, Rs.60 on allotment and the balance on call. The company receives applications for 13,500 debentures, out of which applications for 8,000 debentures are allotted in full, 5,000 only 40% and the remaining rejected. The surplus money on partially allotted applications is utilised towards allotment. All the sums due are duly received.

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr		2,70,000	
	To 14% Debenture Application A/c			2,70,000
	(Being 14% debenture application money for 13,500 debentures @ ₹ 20 each received)			
(ii)	14% Debenture Application A/c Dr		2,70,000	
	To 14% Debenture A/c (10,000 × 20)			2,00,000
	To 14% Debenture Allotment A/c (3,000 × 20)			60,000
	To Bank A/c (500 × 20)			10,000
	(Being 14% debenture application money of 10,000 @ ₹ 20 each transferred to 14% debentures account and 500 debentures were rejected and returned and rest of the amount adjusted on allotment)			
(iii)	14% Debenture Allotment A/c Dr		6,00,000	
	To 14% Debenture A/c			6,00,000
	(Being 14% debenture allotment money due on 10,000 debentures @ ₹ 60 each)			
(iv)	Bank A/c Dr		5,40,000	
	To 14% Debenture Allotment A/c			5,40,000
	(Being 14% debenture allotment money received)			
(v)	14% Debenture First and Final Call A/c Dr		2,00,000	
	To 14% Debenture A/c			2,00,000
	(Being 14% debenture first and final call money due on 10,000 debentures @ 20 each)			
(vi)	Bank A/c Dr		2,00,000	
	To 14% Debenture First and Final Call A/c			2,00,000
	(Being 14% debenture first and final call money received on 10,000 debentures @ ₹ 20 each)			

8. R.Ltd. offered 20,00,000, 10% Debenture of Rs.200 each at a discount of 7% redeemable at premium of 8% after 9 years. Record necessary entries in the books of R. Ltd.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr		37,20,00,000	
	To 10% Debenture Application and Allotment A/c			37,20,00,000
	(Being debenture application and allotment money received for 20,00,000, 10% debentures @ ₹ 200 each at 7% discount)			
(ii)	10% Debenture Application and Allotment A/c Dr		37,20,00,000	
	Loss on Issue of Debenture A/c Dr		3,20,00,000	
	Discount on Issue of Debentures A/c Dr		2,80,00,000	
	To 10% Debenture A/c			40,00,00,000
	To Premium on Redemption of Debentures A/c			3,20,00,000
	(Being Allotment of 20,00,000 debenture @ ₹ 200 each at 7% discount with the term of 8% premium on redemption)			

9. M.Ltd. took over assets of Rs.9,00,00,000 and liabilities of Rs.70,00,000 of S.Ltd. and issued 8%Debenture of Rs.100 each. Record necessary entries in the books of M. Ltd.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Sundry Assets Dr		9,00,00,000	
	To Sundry Liabilities A/c			70,00,000
	To S Ltd (Balance figure as Capital)			8,30,00,000
	(Being assets and liabilities of S Ltd taken over)			
(ii)	S Ltd Dr		8,30,00,000	
	To 8% Debenture A/c (Working Note)			8,30,00,000
	(Being 8,30,000 8% debentures @ 100 each issued to S Ltd in consideration of assets and liabilities)			

Working Note

Amount Payable to S, Ltd by M Ltd = ₹ 8,30,00,000

$$8\% \text{ Debentures of ₹ 100 each to be issued} = \frac{8{,}30{,}00{,}000}{100}$$

$$= 8{,}30{,}000 \text{ Debenture}$$

10. B.Ltd. purchased assets of the book value of Rs.4,00,000 and took over the liability of Rs.50,000 from Mohan Bros. It was agreed that the purchase consideration, settled at Rs,3,80,000, be paid by issuing debentures of Rs.100 each. What Journal entries will be made in the following three cases, if debentures are issued: (a) at par; (b) at discount; (c) at premium of 10%? It was agreed that any fraction of debentures be paid in cash.

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Sundry Assets A/c Dr		4,00,000	
	Goodwill A/c (Balancing figure) Dr		30,000	
	To Sundry Liabilities A/c			50,000
	To Mohan Bros			3,80,000
	(Being assets and liabilities of Mohan Bros taken over)			
(ii)	Mohan Bros Dr		3,80,000	
	To Debenture A/c			3,80,000
	(Being 3,800 debentures of 100 each issued to Mohan Bros in consideration of assets and liabilities)			

Working Note

Amount payable to Mohan Bros = ₹ 3,80,000

Number of Debentures to be issued at par $= \frac{3,80,000}{100}$

= 3,800 Debentures

(b)

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Sundry Assets A/c	Dr		4,00,000	
	Goodwill A/c	Dr		30,000	
	To Sundry Liabilities A/c				50,000
	To Mohan Bros.				3,80,000
	(Being assets and liabilities of Mohan Bros taken over)				
(ii)	Mohan Bros.	Dr		3,80,000	
	Discount on Issue of Debenture A/c	Dr		20,000	
	To Debenture A/c				4,00,000
	(Being issued 4,000 debentures of ₹ 100 each at 5% discount)				

Working Note Amount payable to Mohan Bros = ₹ 3,80,000

Number of debentures to be issued at discount of 5% (assume 5% as nothing is given in question) $= \frac{3,80,000}{95}$ = 4,000 Debentures

(c)

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Sundry Assets A/c	Dr		4,00,000	
	Goodwill A/c	Dr		30,000	
	To Sundry Liabilities A/c				50,000
	To Mohan Bros				3,80,000
	(Being assets and liabilities of Mohan Bros. taken over)				
(ii)	Mohan Bros	Dr		3,80,000	
	To Debenture A/c				3,45,400
	To Securities Premium A/c				34,540
	To Bank A/c (Balance figure)				60
	(Being issued of 3,454 debentures at 10% premium and balance paid in cash)				

Working Note

Amount payable to Mohan Bros = ₹ 3,80,000

Number of debentures to be issued at premium of 10%

$= \frac{3,80,000}{110}$ = 3,454 Debentures

11. X.Ltd. purchased a Machinery from Y for an agreed purchase consideration of Rs.4,40,000 to be satisfied by the issue of 12% debentures of Rs.100 each at a premium of Rs.10 per debenture. Journalise the transactions.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Machinery A/c	Dr		4,40,000	
	To Y				4,40,000
	(Being machinery purchased from Y)				
(ii)	Y	Dr		4,40,000	
	To 12% Debenture A/c				4,00,000
(iii)	To Securities Premium A/c				40,000
	(Being issued 4,000 debentures at premium of 10%)				

Working Note Amount payable to Y = ₹ 4,40,000

Number of debentures to be issued at 10% premium = $\frac{4,40,000}{110}$

= 4,000 Debentures

12. X.Ltd. issued 15,000, 10% debentures of Rs.100 each. Give journal entries and the Balance Sheet in each of the following cases:

(i) The debentures are issued at a premium of 10%;

(ii) The debentures are issued at a discount of 5%;

(iii) The debentures are issued as a collateral security to bank against a loan of Rs.12,00,000; and

(iv) The debentures are issued to a supplier of machinery costing Rs.13,50,000.

Answer

(i)

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c (15,000 × 110)	Dr		16,50,000	
	To 10% Debentures A/c (15,000 × 100)				15,00,000
	To Securities Premium A/c (15,000 × 10)				1,50,000
	(Being issued 15,000, 10% debentures of ₹ 100 each at 10% premium)				

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Reserves and Surplus		**Current Assets**	
Securities Premium	1,50,000	Cash at Bank	16,50,000
Secured Loans			
10% Debentures	15,00,000		
	16,50,000		16,50,000

(ii)

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c (15,000 × 95)	Dr		14,25,000	
	Discount on Issue of Debentures A/c (15,000 × 5)	Dr		75,000	
	To 10% Debentures (15,000 × 100)				15,00,000
	(Being issued 15,000, 10% debentures of ₹ 100 each at 5% discount)				

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Secured Loans		**Current Assets**	
10% Debentures	15,00,000	Cash at Bank	14,25,000
		Miscellaneous Expenditure	
		Discount on Issue Debentures	75,000
	15,00,000		15,00,000

(iii) No entry will be passed for issuing debentures as a collateral security

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Secured Loans			
Bank Loan	12,00,000		
(Being 15,000 10% Debentures @ ₹ 100 each issued as a collateral security to bank against a loan of ₹ 12,00,000)			

Alternative Method

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Debenture Suspense A/c	Dr		15,00,000	
	To 10% Debentures A/c				15,00,000
	(Being issued 15,000, 10% debentures of ₹ 100 each as collateral security to bank against a loan of ₹ 12,00,000)				

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Secured Loans			
Bank Loan	12,00,000	Debenture Suspense	15,00,000
10% Debentures of ₹ 100 each	15,00,000		
(Being 15,000 10% Debentures @ ₹ 100 each issued as a collateral security to bank against a loan)			

(iv)

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Machinery A/c	Dr		13,50,000	
	To Vendor A/c				13,50,000
	(Being machinery purchased from vendor)				
(ii)	Vendor A/c	Dr		13,50,000	
	Discount on Issue of Debentures A/c (15,000 × 10)			1,50,000	
	To 10% Debentures A/c (15,000 × 100)				15,00,000
	(Being 15,000, 10% debentures @ ₹ 100 each issued at 10% discount to the vendor in consideration of machinery of ₹ 13,50,000)				

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Secured Loans		**Fixed Assets**	
10% Debentures	15,00,000	Machinery	13,50,000
		Miscellaneous Expenditure	
		Discount on Issue of Debentures	1,50,000

Working Note

$$\text{Price of debenture} = \frac{\text{Amount due to Vendor}}{\text{Number of debentures issued}}$$

$$= \frac{13,50,000}{15,000} = ₹\ 90 \text{ each}$$

13. Journalise the following:

(i) A debenture issued at Rs.95, repayable at Rs.100;

(ii) A debenture issued at Rs.95, repayable at Rs.105; and

(iii) A debenture issued at Rs.100, repayable at Rs.105;

The face value of debenture in each of the above cases is Rs.100.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c	Dr		95	
	Discount on Issue of Debenture A/c	Dr		5	
	To Debenture A/c				100
	(Being debenture of ₹ 100 issued at ₹ 5 discount with the term repayable at ₹ 100)				
(ii)	Bank A/c	Dr		95	
	Loss on Issue of Debenture A/c	Dr		10	
	To Debenture A/c				100
	To Premium on Redemption of Debentures A/c				5
	(Being debenture of ₹ 100 issued at a discount of ₹ 5 and with the term repayable at ₹ 105)				
(iii)	Bank A/c	Dr		100	
	Loss on Issue of Debenture A/c	Dr		5	
	To Debenture A/c				100
	To Premium on Redemption of Debentures A/c				5
	(Being debenture of ₹ 100 issued with the term repayable at ₹ 105)				

14. A.Ltd. issued 50,00,000, 8% Debenture of Rs.100 at a discount of 6% on April 01, 2000 redeemable at premium of 4% by draw of lots as under:

20,00,000 Debentures on March, 2002

10,00,000 Debentures on March, 2004

20,00,000 Debentures on March, 2005

Compute the amount of discount to be written-off in each year till debentures are paid. Also prepare discount/loss on issue of debenture account.

Answer

Loss on issue of debenture = 6% (discount on issue) + 4% (premium on redemption) = 10%

$$= 50{,}00{,}000 \times 100 \times \frac{10}{100} = 5{,}00{,}00{,}000$$

Calculation of Amount to be written off every year

At the end of Year	Debenture Outstanding	Ratio	Loss to be Written off Every Year
Mar 2001	50,00,00,000	5	$5{,}00{,}00{,}000 \times \frac{5}{18}$ = 1,38,88,889
Mar 2002	50,00,00,000	5	$5{,}00{,}00{,}000 \times \frac{5}{18}$ = 1,38,88,889
Mar 2003	30,00,00,000	3	$5{,}00{,}00{,}000 \times \frac{3}{18}$ = 83,33,333
Mar 2004	30,00,00,000	3	$5{,}00{,}00{,}000 \times \frac{3}{18}$ = 83,33,333
Mar 2005	20,00,00,000	2	$5{,}00{,}00{,}000 \times \frac{2}{18}$ = 55,55,556
		18	₹ 5,00,00,000

Dr **Loss on Issue of Debenture Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars		Amt. (₹)
2000 Apr 1	To Debenture		5,00,00,000	2001 Mar 31	By Profit and Loss		1,38,88,889
					By Balance c/d		3,61,11,111
			5,00,00,00				5,00,00,000
2001 Apr 1	To Balance b/d		3,61,11,111	2002 Mar 31	By Profit and Loss		1,38,88,889
					By Balance c/d		2,22,22,222
			3,61,11,111				3,61,11,111
2002 Apr 1	To Balance b/d		2,22,22,222	2003 Mar 31	By Profit and Loss		83,33,333
					By Balance c/d		1,38,88,889
			2,22,22,222				2,22,22,222
2003 Apr 1	To Balance b/d		1,38,88,889	2004 Mar 31	By Profit and Loss		83,33,333
					By Balance c/d		55,55,556
			1,38,88,889				1,38,88,889
2004 Apr 1	To Balance b/d		55,55,556	2005 Mar 31	By Profit and Loss		55,55,556
			55,55,556				55,55,556

15. A company issues the following debentures:

(i) 10,000, 12% debentures of Rs.100 each at par but redeemable at premium of 5% after 5 years;

(ii) 10,000, 12% debentures of Rs.100 each at a discount of 10% but redeemable at par after 5 years;

(iii) 5,000, 12% debentures of Rs.1000 each at a premium of 5% but redeemable at par after 5 years;

(iv) 1,000, 12% debentures of Rs.100 each issued to a supplier of machinery costing Rs.95,000. The debentures are repayable after 5 years; and

(v) 300, 12% debentures of Rs.100 each as a collateral security to a bank which has advanced a loan of Rs.25,000 to the company for a period of 5 years. Pass the journal entries to record the: (a) issue of debentures; and (b) repayment of debentures after the given period.

Answer

(a)

Journal Entries
Issue of Debentures

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr		10,00,000	
	To 12% Debenture Application A/c			10,00,000
	(Being debenture application money of 10,000 12% debentures @ 100 each received)			
	12% Debenture Application A/c Dr		10,00,000	
	Loss on Issue of Debenture A/c Dr		50,000	
	To 12% Debenture A/c			10,00,000
	To Premium on Redemption of Debenture A/c			50,000
	(Being debenture application money of 10,000 12% debentures @ ₹ 100 each transferred to 12% debentures account and the debentures are issued with term of repayable at 5% premium)			
(ii)	Bank A/c Dr		9,00,000	
	To Debenture Application and Allotment A/c			9,00,000
	(Being debenture application money received excluding discount on issue)			
	12% Debenture Application and Allotment A/c Dr		9,00,000	
	Discount on Issue of Debenture A/c Dr		1,00,000	
	To Debenture A/c			10,00,000
	(Being debenture allotment made due)			
(iii)	Bank A/c Dr		52,50,000	
	To Debenture Application and Allotment A/c			52,50,000
	(Being debenture application money received)			
	Debenture Application and Allotment A/c Dr		52,50,000	
	To Debenture A/c			50,00,000
	To Security Premium A/c (5,000 × 50)			2,50,000
	(Being allotment of debenture at premium)			
(iv)	Machinery A/c Dr		95,000	
	To Vendor A/c			95,000
	(Being machinery purchased from supplier)			
	Vendor A/c Dr		95,000	
	Discount on Issue of Debenture Dr		5,000	
	To 12% Debenture A/c			1,00,000
	(Being debenture issue at discount to vendor of machinery)			
(v)	12% Debenture Suspense A/c Dr		30,000	
	To Debenture A/c			30,000
	(Being 300, 12% Debentures of ₹ 100 each issued as collateral security to the bank against a loan of ₹ 25,000)			

(b)

Journal Entries
Repayment of Debentures

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	12% Debenture A/c Dr		10,00,000	
	Premium on Redemption of Debenture A/c Dr		50,000	
	To Debenture Holders A/c			10,50,000
	(Being amount due on redemption of debentures)			
	Debenture Holders A/c Dr		10,50,000	
	To Bank A/c			10,50,000
	(Being payment made to debenture holders)			
(ii)	12% Debenture A/c Dr		10,00,000	
	To Debenture Holders A/c			10,00,000
	(Being amount due on redemption of debentures)			

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Debenture Holders A/c To Bank A/c (Being payment made to debenture holders)	Dr		10,00,000	10,00,000
(iii)	12% Debenture A/c To Debenture Holders A/c (Being amount due on redemption of debentures)	Dr		50,00,000	50,00,000
	Debenture Holders A/c To Bank A/c (Being payment made to debenture holders)	Dr		50,00,000	50,00,000
(iv)	12% Debenture A/c To Vendor A/c (Being amount due to vendor)	Dr		1,00,000	1,00,000
	Vendor A/c To Bank A/c (Being payment made to vendor)	Dr		1,00,000	1,00,000
(v)	12% Debenture A/c To Debenture Suspense A/c (Being debenture and debenture suspense account closed)	Dr		30,000	30,000

16. A company issued debentures of the face value of Rs,5,00,000 at a discount of 6% on January 01, 2001. These debentures are redeemable by annual drawings of Rs,1,00,000 made on December 31 each year. The directors decided to write off discount based on the debentures outstanding each year.

Calculate the amount of discount to be written-off each year. Give journal entries also.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2001 Jan 1	Bank A/c To Debenture Application and Allotment A/c (Being debenture application money received)	Dr		4,70,000	4,70,000
Jan 1	Debenture Application and Allotment A/c Discount on Issue of Debenture A/c To Debenture A/c (Being debenture application money transferred to debenture account)	Dr Dr		4,70,000 30,000	5,00,000

$$\text{Amount of Discount on Issue of Debenture} = 5,00,000 \times \frac{6}{100} = 30,000$$

Year	Debenture Outstanding	Ratio	Amount Written off Every Year
2001	5,00,000	5	$30,000 \times \frac{5}{15} = 10,000$
2002	4,00,000	4	$30,000 \times \frac{4}{15} = 8,000$
2003	3,00,000	3	$30,000 \times \frac{3}{15} = 6,000$
2004	2,00,000	2	$30,000 \times \frac{2}{15} = 4,000$
2005	1,00,000	1	$30,000 \times \frac{1}{15} = 2,000$
		15	₹ 30,000

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2001 Dec 31	Profit and Loss A/c Dr To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off)		10,000	10,000
2002 Dec 31	Profit and Loss A/c Dr To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off)		8,000	8,000
2003 Dec 31	Profit and Loss A/c Dr To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off)		6,000	6,000
2004 Dec 31	Profit and Loss A/c Dr To Discount on Issue of Debentures A/c (Being discount on issue of debenture written off)		4,000	4,000
2005 Dec 31	Profit and Loss A/c Dr To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off)		2,000	2,000

17. A company issued 10% Debentures of the face value of Rs,1,20,000 at a discount of 6% on January 01, 2001. The debentures are payable by annual drawings of Rs.40,000 commencing from the end of third year.
How will you deal with discount on debentures? Show the discount on debentures account in the company ledger for the period of duration of debentures. Assume accounts are closed on December 31.

Answer

Dr Discount on Issue of Debentures Account Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars		Amt. (₹)
2001 Jan 1	To 10% Debenture		7,200	2001 Dec 31	By Profit and Loss		1,800
					By Balance c/d		5,400
			7,200				7,200
2002 Jan 1	To Balance b/d		5,400	2002 Dec 31	By Profit and Loss		1,800
					By Balance c/d		3,600
			5,400				5,400
2003 Jan 1	To Balance b/d		3,600	2003 Dec 31	By Profit and Loss		1,800
					By Balance c/d		1,800
			3,600				3,600
2004 Jan 1	To Balance b/d		1,800	2004 Mar 31	By Profit and Loss		1,200
					By Balance c/d		600
			1,800				1,800
2005 Jan 1	To Balance b/d		600	2005 Mar 31	By Profit and Loss		600
			600				600

Working Note

Amount of Discount on Issue of Debenture $= 1{,}20{,}000 \times \frac{6}{100} = 7{,}200$

Year	Debenture Outstanding	Ratio	Amount Written off Every Year
2001	1,20,000	3	$7{,}200 \times \frac{3}{12} = 1{,}800$
2002	1,20,000	3	$7{,}200 \times \frac{3}{12} = 1{,}800$
2003	1,20,000	3	$7{,}200 \times \frac{3}{12} = 1{,}800$
2004	80,000	2	$7{,}200 \times \frac{2}{12} = 1{,}200$
2005	40,000	1	$7{,}200 \times \frac{1}{12} = 600$
		12	₹ 7,200

18. B.Ltd. issued debentures at 94% for Rs.4,00,000 on April 01, 2000 repayable by five equal drawings of Rs.80,000 each. The company prepares its final accounts on December 31 every year.
Indicate the amount of discount to be written-off every accounting year assuming that the company decides to write off the debentures discount during the life of debentures. (Amount to be written-off: 2000 Rs.6,000; 2001 Rs.6,800; 2002 Rs.5,200; 2003 Rs.3,600; 2004 Rs.2,000; 2005 Rs.400).

Answer

Debentures face value = 100%

Debenture issued = 94%

Therefore Discount on issue = 6%

Amount of Discount on issue of debenture $= 4{,}00{,}000 \times \frac{6}{100} = 24{,}000,$

Amount of discount to written off every year

In 2000 = ₹ 6,000

In 2001 = 2,000 + 4,800 = ₹ 6,800

In 2002 = 1,600 + 3,600 = ₹ 5,200

In 2003 = 1,200 + 2,400 = ₹ 3,600

In 2004 = 800 + 1,200 = ₹ 2,000

In 2005 = ₹ 400

Working Note

(i) **Amount of discount to be written off every year**

Year	Debenture Outstanding	Ratio	Months	New Ratio (Ratio × Months)	Amount Written off
2000 Apr-Dec	4,00,000	5	9	45	$24{,}000 \times \frac{45}{180} = 6{,}000$
2001 Jan-Mar	4,00,000	5	3	15	$24{,}000 \times \frac{15}{180} = 2{,}000$
Apr-Dec	3,20,000	4	9	36	$24{,}000 \times \frac{36}{180} = 4{,}800$
2002 Jan-Mar	3,20,000	4	3	12	$24{,}000 \times \frac{12}{180} = 1{,}600$
Apr-Dec	2,40,000	3	9	27	$24{,}000 \times \frac{27}{180} = 3{,}600$

Year	Debenture Outstanding	Ratio	Months	New Ratio (Ratio × Months)	Amount Written off
2003					
Jan-Mar	2,40,000	3	3	9	$24{,}000 \times \frac{9}{180} =$ 1,200
Apr-Dec	1,60,000	2	9	18	$24{,}000 \times \frac{18}{180} =$ 2,400
2004					
Jan-Mar	1,60,000	2	3	6	$24{,}000 \times \frac{6}{180} =$ 800
Apr-Dec	80,000	1	9	9	$24{,}000 \times \frac{9}{180} =$ 1,200
2005					
Jan-Dec	80,000	1	3	3	$24{,}000 \times \frac{3}{180} =$ 400
				180	24,000

19. B. Ltd. issued 1,000, 12% debentures of Rs.100 each on January 01, 2005 at a discount of 5% redeemable at a premium of 10%. Give journal entries relating to the issue of debentures and debentures interest for the period ending December 31, 2005 assuming that interest is paid half yearly on June 30 and December 31 and tax deducted at source is 10%. B.Ltd. follows calendar year as its accounting year.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2001					
Jan 1	Bank A/c	Dr		95,000	
	Loss on Issue on Debentures A/c (W.Note)	Dr		15,000	
	To 12% Debenture A/c				1,00,000
	To Premium on Redemption of Debenture A/c				10,000
	(Being debenture issued at discount and redeemable at premium)				
Jun 30	Debenture Interest A/c	Dr		6,000	
	To Income Tax Payable A/c (TDS)				600
	To Debenture Holder A/c				5,400
	(Being amount of interest on 12% debentures ₹ 10,00,000 due for 6 months and 10% tax deducted at source)				

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
Jun 30	Debenture Holders A/c	Dr		5,400	
	To Bank A/c				5,400
	(Being interest paid to debenture holders)				
Dec 31	Debenture Interest A/c	Dr		6,000	
	To Income Tax Payable A/c				600
	To Debenture Holders A/c				5,400
	(Being amount of interest on 12% debentures ₹ 1,00,000 due for 6 months and 10% tax deducted at source)				
Dec 31	Debenture Holders A/c	Dr		5,400	
	To Bank A/c				5,400
	(Being interest paid to debenture holders)				
Dec 31	Profit and Loss A/c	Dr		12,000	
	To Debenture Interest A/c				12,000
	(Being interest on debentures transferred to profit and loss account)				

20. What journal entries will be made in the following cases when company redeems debentures at the expiry of period by serving the notice: (a) when debentures were issued at par with a condition to redeem them at premium; (b) when debentures were issued at premium with a condition to redeem that at par; and (c) when debentures were issued at discount with a condition to redeem them at premium?

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(a)	Debenture A/c	Dr			
	Premium on Redemption of Debenture A/c	Dr			
	To Debenture Holders A/c				
	(Being amount due on redemption of debentures)				
	Debenture Holders A/c	Dr			
	To Bank A/c				
	(Being payment made to debenture holders)				

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(b)	Debenture A/c	Dr			
	To Debenture Holders A/c				
	(Being amount due for redemption of debentures that were issued at premium with term of redeemable at par)				
	Debenture Holders A/c	Dr			
	To Bank A/c				
	(Being payment made to debenture holders)				
(c)	Debenture A/c	Dr			
	Premium on Redemption of Debenture A/c	Dr			
	To Debenture Holders A/c				
	(Being amount due for redemption on debentures that were issued at discount with the term of redeemable at premium)				
	Debenture Holders A/c	Dr			
	To Bank A/c				
	(Being payment made to debenture holders)				

21. On January 01, 1998, X. Ltd. issues 5,000, 8% Debentures of Rs.100 each repayable at par at the end of three years. It has been decided to set up a cumulative sinking fund for the purpose of their redemption. The investments are expected to realise 4% net. The Sinking Fund Table shows that Rs.0.320348 amounts to one rupee @4% per annum in three years. On December 31, 2000 the balance at bank was Rs.2,42,360 and the investments realised Rs.3,25,000. The debentures were paid off. Give journal entries and show ledger account.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2011					
Jan 1	Bank A/c	Dr		5,00,000	
	To Debenture A/c				5,00,000
	(Being issued 5,000 debentures @ ₹ 100 each)				
Dec 31	Profit and Loss Appropriation A/c	Dr		1,60,174	
	To Cumulative Sinking Fund A/c				1,60,174
	(Being annual instalment of cumulative sinking fund debited to Profit and loss appropriation account) $(5,00,000 \times 0.320348)$				
	Cumulative Sinking Fund Investment A/c	Dr		1,60,174	
	To Bank A/c				1,60,174
	(Being amount invested into cumulative sinking fund)				

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2012 Dec 31	Bank A/c	Dr		6,407	
	To Interest on Cumulative Sinking Fund Investment A/c				6,407
	(Being interest received @ 4% on cumulative sinking fund investment)				
	Interest on Cumulative Sinking Fund Investment A/c	Dr		6,407	
	To Cumulative Sinking Fund A/c				6,407
	(Being interest on cumulative sinking fund investment transferred to cumulative fund)				
	Profit and Loss Appropriation A/c	Dr		1,60,174	
	To Cumulative Sinking Fund A/c				1,60,174
	(Being annual instalment of cumulative sinking fund debited to profit and loss appropriation account)				
	Cumulative Sinking Fund Investment A/c	Dr		1,66,581	
	To Bank A/c (1,60,174 + 6,407)				1,66,581
	(Being amount invested in cumulative sinking fund investment)				
2013 Dec 31	Bank A/c	Dr		13,070	
	To Interest on Cumulative Sinking Fund Investment A/c				13,070
	(Being interest received @ 4% on cumulative sinking fund investment)				

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Interest on Cumulative Sinking Fund Investment A/c	Dr		13,070	
	To Cumulative Sinking Fund A/c				13,070
	(Being interest on cumulative sinking fund investment transferred to cumulative sinking und account)				
	Profit and Loss Appropriation A/c	Dr		1,60,174	
	To Cumulative Sinking Fund A/c				1,60,174
	(Being annual instalment of cumulative sinking fund debited to profit and loss appropriation account)				
	Bank A/c	Dr		3,25,000	
	To Cumulative Sinking Fund Investment A/c				3,25,000
	(Being cumulative sinking fund investment sold)				
	Cumulative Sinking Fund A/c	Dr		1,755	
	To Cumulative Sinking Fund Investment A/c				1,755
	(Being loss on sale of cumulative sinking fund investment transferred to cumulative sinking fund account)				
	Debenture A/c	Dr		5,00,000	
	To Debenture Holders A/c				5,00,000
	(Being amount of debentures due to debenture holders)				
	Debenture Holders A/c	Dr		5,00,000	
	To Bank A/c				5,00,000
	(Being amount due for debentures paid to debenture holders)				
	Cumulative Sinking Fund A/c	Dr		4,89,245	
	To General Reserve A/c				4,89,245
	(Being transfer of credit balance of cumulative sinking fund account to general reserve account)				

Dr **8% Debentures Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2011			
Dec 31	To Balance c/d		5,00,000	Jan 1	By Bank A/c		5,00,000
			5,00,000				5,00,000
2012				2012			
Dec 31	To Balance c/d		5,00,000	Jan 1	By Balance b/d		5,00,000
			5,00,000				5,00,000
2013				2013			
Dec 31	To Debenture Holders		5,00,000	Jan 1	By Balance c/d		5,00,000
			5,00,000				5,00,000

Dr **Cumulative Sinking Fund Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2011			
Dec 31	To Balance c/d		1,60,174	Dec 31	By Profit and Loss Appropriation		1,60,174
			1,60,174				1,60,174
2012				2012			
Dec 31	To Balance c/d		3,26,755	Jan 1	By Balance b/d		1,60,174
				Dec 31	By Profit and Loss Appropriation		1,60,174
					By Interest on Cumulative Sinking Fund Investment A/c		6,407
			3,26,755				3,26,755
2013				2013			
Dec 31	To Cumulative Sinking Fund Investment A/c		1,755	Jan 1	By Balance b/d		3,26,755
	To General Reserve (Balancing Figure)		4,89,245	Dec 31	By Interest on Cumulative Sinking Fund Investment A/c		13,071
					By Profit and Loss Appropriation A/c		1,60,174
			5,00,000				5,00,000

Dr **Cumulative Sinking Fund Investment Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2011			
Dec 31	To Bank		1,60,174	Dec 31	By Balance c/d		1,60,174
			1,60,174				1,60,174
2012				2012			
Jan 1	To Balance b/d		1,60,174	Dec 31	By Balance c/d		3,26,755
Dec 31	To Bank		1,66,581				
			3,26,755				3,26,755
2013				2013			
Jan 1	To Balance b/d		3,26,755	Dec 31	By Bank		3,25,000
					By Cumulative Sinking Fund (Balancing figure)		1,755
			3,26,755				3,26,755

Dr **Bank Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011 Dec 31	To Balance b/d		2,42,360	2013 Dec 31	By Debenture Holders		5,00,000
	To Debenture Redemption Fund Investment		3,25,000		By Balance c/d		67,360
			5,67,360				5,67,360
2014 Jan 1	To Balance b/d		67,360				

Note *Sinking fund is not in syllabus of CBSE.*

Answer

Dr **15% Debentures Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011 Dec 31	To Balance c/d		10,00,000	2011 Jan 1	By Bank		10,00,000
			10,00,000				10,00,000
2012 Dec 31	To Balance c/d		10,00,000	2012 Jan 1	By Balance b/d		10,00,000
			10,00,000				10,00,000
2013 Dec 31	To Debenture Holders		10,00,000	2013 Jan 1	By Balance b/d		10,00,000
			10,00,000				10,00,000

22. On January 01, 2003 a company issued 15% debentures of Rs.10,00,000 at par. The debentures were redeemable at par after three years on December 31, 2003. A sinking fund was set up to raise funds for redemption of debentures. The amount for the purpose was invested in 6% Government securities of Rs.100 each available at par. The sinking fund table shows that if investments earn 6% per annum, to get Re.1 at the end of 3 years, one has to invest Rs.0.31411 every year together
with interest that will be earned. On December 31, 2005, all the Government securities were sold at a total loss of Rs. 6,000 and the debentures were redeemed at par. Prepare Debentures Account Sinking Fund Account, Sinking Fund Investment Account and Interest on Sinking Fund Investment Company closes its books of accounts every year on December 31.

Answer

Dr **15% Debentures Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011 Dec 31	To Balance c/d		10,00,000	2011 Jan 1	By Bank		10,00,000
			10,00,000				10,00,000
2012 Dec 31	To Balance c/d		10,00,000	2012 Jan 1	By Balance b/d		10,00,000
			10,00,000				10,00,000
2013 Dec 31	To Debenture Holders		10,00,000	2013 Jan 1	By Balance b/d		10,00,000
			10,00,000				10,00,000

Dr **Sinking Fund Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011 Dec 31	To Balance c/d		3,14,110	2011 Dec 31	By Profit and Loss Appropriation		3,14,110
			3,14,110				3,14,110

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2012				2012			
Dec 31	To Balance c/d		6,47,066	Jan 1	By Balance b/d		3,14,110
				Dec 31	By Profit and Loss Appropriation		3,14,110
				Dec 31	By Interest on Sinking Fund Investment		18,846
			6,47,066				6,47,066
2013				2013			
Dec 31	To Sinking Fund Investment		6,000	Jan 1	By Balance b/d		6,47,066
	To General Reserve (Balancing figure)		9,94,000	Dec 31	Profit and Loss Appropriation		3,14,110
				Dec 31	By Interest on Sinking Fund Investment		38,824
			10,00,000				10,00,000

Dr **Sinking Fund Investment Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2011			
Dec 31	To Bank (Investment)		3,14,110	Dec 31	By Balance c/d		3,14,110
			3,14,110				3,14,110
2012				2012			
Jan 1	To Balance b/d		3,14,110	Dec 31	By Balance c/d		6,47,066
Dec 31	To Bank (Investment)		3,32,956				
			6,47,066				6,47,066
2013				2013			
Jan 1	To Balance b/d		6,47,066	Dec 31	By Bank (Investment sold)		6,41,066
					By Sinking Fund (Balancing figure)		6,000
			6,47,066				6,47,066

Dr **Interest on Sinking Fund Investment Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2012				2012			
Dec 31	To Sinking Fund		18,846	Dec 31	By Bank		18,846
			18,846				18,846
2013				2013			
Dec 31	To Sinking Fund		38,824	Dec 31	By Bank		38,824
			38,824				38,824

Note *Sinking Fund is not in syllabus of CBSE.*

23. On January 01, 2004 the following balances appeared in the books of Z. Ltd.:

Items	(₹)
6% Debentures	1,00,000
Debentures Redemption Reserve Fund	80,000
Debentures Redemption Reserve Fund Investments	80,000

The investments consisted of 4% Government securities of the face value of Rs.90,000. The annual instalment was Rs.16,400. On December 31, 2004, the balance at Bank was Rs.26,000 (after receipt of interest on D.R.Reserve Fund Investment). Investments were realised at 92% and the Debentures were redeemed. The interest for the year had already been paid. Show the ledger accounts affecting redemption.

Answer

Dr **6% Debentures Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2011			
Dec 31	To Debenture Holders		1,00,000	Jan 1	By Balance b/d		1,00,000
			1,00,000				1,00,000

Dr **Debentures Redemption Reserve Fund** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2011			
Dec 31	To General Reserve (Balanciing figure)		1,02,800	Jan 1	By Balance b/d		80,000
				Dec 31	By Interest on Debenture Redemption Reserve Fund Investment (4% of 90,000)		3,600
					By Profit and Loss Appropriation (Instalment)		16,400
					By Debentures Redemption Reserve Fund Investment		2,800
			1,02,800				1,02,800

Dr **Debenture Redemption Reserve Fund Investment Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2011			
Jan 1	To Balance b/d (face value ₹ 90,000)		80,000	Dec 31	By Bank (92% of 90,000)		82,800
	To Debentures Redemption Reserve Fund (Balancing figure)		2,800				
			82,800				82,800

24. The following balances appeared in the books of A.Ltd. on January 01, 2004

Items	(₹)
12% Debentures	4,00,000
Debentures Redemption Fund	3,60,000
Debentures Redemption Fund Investment	3,60,000
Securities Premium	30,000
Bank Balance	1,00,000

On January 01, 2004, the company redeemed all the debentures at 105 per cent out of funds raised by selling all the investments at Rs.3,48,000. Prepare the necessary ledger accounts.

Answer

Dr **12% Debentures Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2011			
Jan 1	To Debenture Holders		4,00,000	Jan 1	By Balance b/d		4,00,000
			4,00,000				4,00,000

Dr **Debenture Redemption Reserve Fund Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2011			
Jan 1	To Debentures Redemption Fund Investment		12,000	Jan 1	By Balance b/d		3,60,000
	To General Reserve		3,48,000				
			3,60,000				3,60,000

Dr **Debenture Redemption Reserve Fund Investment Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2011			
Jan 1	To Balance b/d		3,60,000	Jan 1	By Bank		3,48,000
					By Debentures Redemption Fund (Loss)		12,000
			3,60,000				3,60,000

Dr **Cash Book** (Bank Column) Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2012			
Jan 1	To Balance b/d		1,00,000	Jan 1	By Debenture Holders		4,20,000
	To Debentures Redemption Fund Investment		3,48,000		By Balance c/d		28,000
			4,48,000				4,48,000

Dr **Securities Premium Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2011				2011			
Jan 1	To Premium on Redemption of Debentures		20,000	Jan 1	By Balance b/d		30,000
	To Balance c/d		10,000				
			30,000				30,000

Dr **Debenture Holder's Account** Cr

Date	Particulars	Amt. (₹)	JF	Date	Particulars	JF	Amt. (₹)
2011				2011			
Jan 1	To Bank	4,20,000		Jan 1	By Debentures		4,00,000
					By Premium on Redemption of Debentures		20,000
		4,20,000					4,20,000

25. The following balances appeared in the books of Z.Ltd. on January 01, 2004

Items	(₹)
12% Debentures	1,50,000
Debentures Redemption Fund	1,25,000
Debentures Redemption Fund Investment	1,25,000
(Represented by ₹ 1,47,500, 3% Govt. Securities)	1,25,000

The annual instalment added to the fund is Rs.20,575. On December 31, 2004, the bank balance after the receipt of interest on the investment was Rs.39,100. On that date, all the investments were sold at 83 per cent and the debentures were duly redeemed. Show the necessary ledger accounts for the year 2004.

Answer

Dr **12% Debentures Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2004				2004			
Dec 31	To Debenture Holders		1,50,000	Jan 1	By Balance b/d		1,50,000
			1,50,000				1,50,000

Dr **Debenture Redemption Reserve Fund Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2004				2004			
Dec 31	To Debenture Redemption Fund Investment		2,575	Jan 1	By Balance b/d		1,25,000
Dec 31	To General Reserve (Balancing Figure)		1,47,425	Dec 31	By Profit and Loss Appropriation		20,575
				Dec 31	By Interest on Debentures Redemption Fund Investment		4,425
			1,50,000				1,50,000

Dr **Debenture Redemption Reserve Fund Investment Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2004				2004			
Jan 1	To Balance b/d (for value ₹ 1,47,500)		1,25,000	Dec 31	By Bank (W Note)		1,22,425
					By Debentures Redemption Fund (Loss) (Balancing Figure)		2,575
			1,25,000				1,25,000

Dr **Bank Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
2004				2004			
Dec 31	To Balance b/d		39,100	Dec 31	By Debenture Holders		1,50,000
	To Debenture Redemption Fund		1,22,425		By Balance c/d		11,525
			1,61,525				1,61,525

Working Note

Value of Investments sold = Face value × 83%

$$= 1,47,500 \times \frac{83}{100} = ₹\,1,22,425$$

26.What entries for the redemption of debentures will be done when : (a) debentures are redeemed by annual drawings out of profits; (b) debentures are redeemed by drawing a lot out of capital; and (c) debentures are redeemed by purchasing them in the open market when sinking fund for the redemption of debentures is not maintained – (i) when out of profit, and (ii) when out of capital?

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(a)	Profit and Loss Appropriation A/c Dr To Debentures Redemption Reserve A/c (Being Profit transferred to debentures redemption reserve)			
	Debenture A/c Dr To Debenture Holders A/c (Being amount due of debentures to debenture holders)			
	Debenture Holders A/c Dr To Bank A/c (Being amount of debentures paid to debenture holders)			
	Debenture Redemption Reserve A/c Dr To General Reserve A/c (Being amount of debentures redemption reserve transferred to general reserve)			

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(b)	Debenture A/c Dr To Debenture Holders A/c (Being amount of debentures due to debenture holders)			
	Debenture Holders A/c Dr To Bank A/c (Being amount of debentures paid to debenture holders)			
(c)(i)	Profit and Loss Appropriation A/c Dr To Debenture Redemption Reserve A/c (Being transfer of profit to debenture redemption reserve)			
	Own Debentures A/c Dr To Bank A/c (Being own debentures purchased from open market)			
	Debenture A/c Dr To Own Debentures A/c (Being own debentures cancelled)			
(ii)	Own Debenture A/c Dr To Bank A/c (Being own debentures purchased from open market)			
	Debenture A/c Dr To Own Debenture A/c (Being own debentures cancelled)			

27. A. Ltd. Company issued Rs,5,00,000 Debentures at a discount of 5% repayable at par by annual drawings of Rs.1,00,000.
Make the necessary ledger accounts in the books of the company for the first year.

Answer

Dr **Debenture Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Bank (Redemption)		1,00,000		To Bank		4,75,000
	To Balance c/d		4,00,000		To Discount on Issue of Debentures		25,000
			5,00,000				5,00,000

Dr **Discount on Issue of Debentures Account** Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
1st year	To Debentures A/c		25,000	1st year	By Profit and Loss		8,333
					By Balance c/d		16,667
			25,000				25,000

Working Note

$$\text{Discount on Issue of Debenture} = 500000 \times \frac{5}{100} = 25,000$$

Writing off Discount of Issue of Debenture

Year	Debenture Outstanding	Ratio	Amount Written off
2001	5,00,000	5	25,000 × 5/15 = 8,333
2002	4,00,000	4	25, 000 × 4/15 = 6,667
2003	3,00,000	3	25,000 × 3/15 = 5,000
2004	2,00,000	2	25,000 × 2/15 = 3,333
2005	1,00,000	1	25,000 × 1/15 = 1,667
		15	25,000

28. X.Ltd. issued 5,000, 15% debentures of Rs.100 each on January 01, 2004 at a discount of 10%, redeemable at a premium of 10% in equal annual drawings in 4 years out of capital.
Give journal entries both at the time of issue and redemption of debentures.
(Ignore the treatment of loss on issue of debentures and interest.)

Answer **Journal Entries**

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2004 Jan 1	Bank A/c Dr		4,50,000	
	To Debenture Application and Allotment A/c			4,50,000
	(Being application and allotment money received for 5,000 15% debentures @ ₹ 90 each)			
	Debenture Application and Allotment A/c Dr		4,50,000	
	Loss on Issue of Debenture A/c (W Note) Dr		1,00,000	
	To 15% Debentures A/c			5,00,000
	To Premium on Issue of Debentures A/c			50,000
	(Being 5,000, 15% debentures @ ₹ 100 each with the term of 10% discount on issue and repayable at 10% premium allotted)			
Dec 31	15% Debenture A/c Dr		1,25,000	
	Premium on Redemption of Debentures A/c Dr		12,500	
	To Debenture Holders A/c			1,37,500
	(Being 1250, 15% debentures @ ₹ 100 each due for redemption at 10% premium)			
	Debenture Holder A/c Dr		1,37,500	
	To Bank A/c			1,37,500
	(Being amount of debentures paid to debenture Holders)			
2005 Dec 31	15% Debenture A/c Dr		1,25,000	
	Premium on Redemption of Debentures A/c Dr		12,500	
	To Debenture Holders			1,37,500
	(Being 1250, 15% debentures @ ₹ 100 each due for redemption at 10% premium)			
	Debenture Holder Dr		1,37,500	
	To Bank A/c			
	(Being amount of debentures paid to debenture holder)			1,37,500

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2006 Dec 31	15% Debenture A/c	Dr		1,25,000	
	Premium on Redemption of Debentures A/c	Dr		12,500	
	To Debenture Holder				1,37,500
	(Being 1250, 15% debentures @ ₹ 100 each due for redemption at 10% premium)				
	Debenture Holder	Dr		1,37,500	
	To Bank A/c				1,37,500
	(Being amount of debentures paid to debenture holders)				
2007 Dec 31	15% Debenture A/c	Dr		1,25,500	
	Premium on Redemption of Debentures A/c	Dr		12,500	
	To Debenture Holder				1,37,500
	(Being 1250, 15% debentures @ ₹ 100 each due for redemption at 10% premium)				
	Debenture Holder	Dr		1,37,500	
	To Bank A/c				1,37,500
	(Being amount of debentures paid to debenture holders)				

Working Note

Loss on issue o of Debenture includes 10% discount of issue and 10% premium of redemption *i.e.*, 20% on face value $\left(\frac{20}{100} \times 5{,}00{,}000 = 1{,}00{,}000\right)$

29. Z.Ltd. issued 2,000, 14% debentures of Rs.100 each on January 01, 2005 at a discount of 10%, redeemable at a premium of 10% in equal annual drawings in 4 years out of profits.
Give journal entries both at the time of issue and redemption of debentures.
(Ignore the treatment of loss on issue of debentures and interest.)

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2005 Jan 1	Bank A/c	Dr		1,80,000	
	To Debenture Application and Allotment A/c				1,80,000
	(Being debenture application and allotment money received for 2,0000 14% debentures of ₹ 100 at ₹ 90 each)				
	Debenture Application and Allotment A/c	Dr		1,80,000	
	Loss on Issue of Debentures A/c	Dr		40,000	
	To 14% Debentures A/c				2,00,000
	To Premium on Issue of Debentures A/c				20,000
	(Being 2000 14% debentures @ ₹ 100 each allotted with the term of 10% discount on issue and repayable at 10% premium)				
Dec 31	Profit and Loss Appropriation A/c	Dr		2,00,000	
	To Debentures Redemption Reserve A/c				2,00, 000
	(Being profit transferred to debentures redemption reserve)				
	14 % Debentures A/c	Dr		50,000	
	Premium on Redemption of Debentures A/c	Dr		5,000	
	To Debenture Holders A/c				55,000
	(Being amount due for redemption of debentures)				
	Debenture Holder A/c	Dr		55,000	
	To Bank A/c				55,000
	(Being amount of 500, 14% debentures paid to debenture holders)				
2006 Dec 31	14% Debenture A/c	Dr		50,000	
	Premium on Redemption of Debentures A/c	Dr		5,000	
	To Debenture Holder A/c				55,000
	(Being amount due for redemption of debentures)				

30. A.Ltd. purchased its own debentures of the face value of Rs.2,00,000 from the open market for immediate cancellation at Rs.92. Pass the journal entries.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Profit and Loss Appropration A/c Dr		2,00,000	
	To Debenture Redemption Reserve A/c			2,00,000
	(Being Profit transferred to debenture redemption reserve)			
	Own Debentures A/c Dr		1,84,000	
	To Bank A/c			1,84,000
	(Being 2,000 own debentures @ ₹ 100 each at ₹ 92 purchased)			

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Debenture A/c Dr		2,00,000	
	To Own Debentures A/c			1,84, 000
	To Profit on Cancellation of Debentures A/c			16,000
	(Being debenture of ₹ 2,00,000 cancelled)			
	Profit on Cancellation of Debentures A/c Dr		16,000	
	To Capital Reserve A/c			16,000
	(Being transfer of profit on redemption of debenture of capital reserve account)			

Note *Number of Debenture purchase* $= \frac{2,00,000}{100} = 2,000$ *Debentures*

Profit on 2,000 debentures $= (100 - 92) \times 2,000 =$ ₹ 16,000

31.A.Ltd. purchased for cancellation Rs.50,000 of its 15% debentures at Rs.98. The expenses of purchase amounted to Rs.50. On January 01, 2002, X.Ltd. issued 40,000, 9% debentures of Rs.100 each at Rs.95. The terms of issue provided that, beginning with 1999, Rs.2,00,000 debentures
should be redeemed either by drawings at par or by purchase in the open market every year. The expenses of issue amounted to Rs.12,000 which were written-off in 2002. The company also wrote off Rs.40,000 every year from Discount on Debentures Account. At the end of 2004, debentures to be redeemed were repaid by drawings. During 2005, the company purchased for cancellation 2,000 debentures at the market price of Rs.98 on December 31, the expenses being Rs.400. Interest on
debentures is payable at the end of every calendar year. Pass the journal entries in the books of the company to record these transactions.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Own Debenture A/c Dr		49,050	
	To Bank A/c (49,000 + 50)			49,050
	(Being debentures face value ₹ 50,000 purchased for cancellation)			
	15% Debentures A/c Dr		50,000	
	To Own Debenture A/c			49,050
	To profit on Cancellation of Debentures A/c (W. note)			950
	(Being debentures face value of ₹ 50,000 cancelled)			
	Profit on Cancellation of Debentures A/c Dr		950	
	To Capital Reserve A/c			950
	(Being profit on cancellation of own debentures transferred to capital reserve account)			

Working Note

Number of Debentures Purchased $= \frac{50,000}{100} = 500$

Profit on purchase $= (100 - 98) \times 500 =$ 1,000

Less expenses of purchase = (50)

Profit on cancellation = 950

32. A.Ltd. redeemed 8,000, 12% debentures of Rs.100 each which were issued at a discount of 5%, by converting them into equity shares of Rs.10 each at par.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2012 Jan 1	Bank A/c (40000 × 95) Dr		38,00,000	
	To 9% Debenture Application and allotment A/c			38,00,000
	(Being debentures application and allotment money received)			
	Expense on Issue of Debenture A/c Dr		12,000	
	To Bank A/c			12,000
	(Being expenses paid on issue of debentures)			
	9% Debenture Application and Allotment A/c Dr		38,00,000	
	Discount on Issue of Debenture A/c Dr		2,00,000	
	To Debentures A/c			40,00, 000
	(Being debenture application money transferred to debenture account)			
Dec 31	Debenture Interest A/c Dr		3,60,000	
	To Debenture Holders A/c			3,60,000
	(Being amount of interest due)			
	Debenture Holders A/c Dr		3,60,000	
	To Bank A/c			3,60,000
	(Being interest paid)			

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Profit and Loss A/c Dr		4,12,000	
	To Discount on Issue of Debenture A/c			40,000
	To Debenture Interest A/c			3,60,000
	To Expense on Issue of Debentures A/c			12.000
	(Being discount and expense of issue of debentures written off)			
2013 Dec 31	Debenture Interest A/c Dr		3,60,000	
	To Debenture Holders A/c			3,60,000
	(Being amount of interest due)			
	Debenture Holder A/c Dr		3,60,000	
	To Bank A/c			3,60,000
	(Being interest paid)			
	Profit and Loss A/c Dr		4,00,000	
	To Debenture Interest A/c			3,60,000
	To Discount on Issue of Debenture A/c			40,000
	(Being discount written off and interest charged to profit and loss account			

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
2014 Dec 31	Debenture Interest A/c	Dr		3,60,000	
	To Debenture Holders A/c				3,60,000
	(Being amount of interest due)				
	Debenture Holders A/c	Dr		3,60,000	
	To Bank A/c				3,60,000
	(Being interest paid)				
	Profit and Loss A/c	Dr		4,00,000	
	To Debenture Interest A/c				3,60,000
	To Discount on Issue of Debentures A/c				40,000
	(Being discount written off and Interest charged to profit and loss account)				
	9% Debenture A/c	Dr		2,00,000	
	To Bank A/c				2,00,000
	(Being 2,000, 9% debentures were redeem)				
2015 Dec 31	Debenture Interest A/c	Dr		3,42,000	
	To Debenture Holders A/c				3,42,000
	(Being amount of interest due)				

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Debenture Holders A/c	Dr		3,42,000	
	To Bank A/c				3,42,000
	(Being interest paid)				
	9% Debenture A/c	Dr		2,00,000	
	To Bank A/c				1,96,400
	To Profit on Redemption of Debentures A/c				3,600
	(Being purchase of 2,000, 9% debentures @ 98 less ₹ 400 for expenses)				
	Profit on Redemption of Debenture A/c	Dr		3,600	
	To Capital Reserve A/c				3,600
	(Being transfer of profit on redemption of debentures to capital reserve account)				
	Profit and Loss A/c	Dr		3,82,000	
	To Debenture Interest A/c				3,42,000
	To Discount on Issue of Debentures A/c				40,000
	(Being discount on issue of debenture written off and Interest charged to profit and loss account)				

Working Note

Calculation of Interest for 2002, 2003, 2004 $= 40{,}00{,}000 \times \frac{9}{100} =$ ₹ 3,60,000

Calculation of Interest for 2005 $= 38{,}00{,}000 \times \frac{9}{100} =$ ₹ 3,42,000

Note *This question is not given the serial number.*

33. Y.Ltd. redeemed 4,800, 12% debentures of Rs.100 each which were issued at par, at 110 per cent by converting them into equity shares of Rs.10 each issued at a discount of 4%. Journalise.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	12% Debenture A/c	Dr		8,00,000	
	To Debenture Holders A/c				7,60,000
	To Discount on Issue of Debentures A/c				40,000
	(Being amount of 12% debentures due to debenture holders)				
	Debenture Holders A/c	Dr		7,60,000	
	To Equity Share Capital A/c				7,60,000
	(Being equity shares issued to debenture holders in lieu of debentures)				

Working Note

$$\text{Number of shares to be issued} = \frac{\text{Amount due to Debenture Holders}}{\text{Agreed Price of share}}$$

$$= \frac{7{,}60{,}000}{10} = 76{,}000 \text{ shares}$$

34. Z.Ltd. redeemed 2,000, 12% debentures of Rs.100 each which were issued at a discount of 5%, by converting them into equity shares of Rs.10 each issued at a premium of 25%. Journalise.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	12% Debenture A/c	Dr		4,80,000	
	Premium on Redemption of Debenture A/c	Dr		48,000	
	To Debenture Holders A/c				5,28,000
	(Being amount of debentures due to debenture holders)				
	Debenture Holders A/c (55,000 × 9.60)	Dr		5,28,000	
	Discount on Issue of Shares A/c (55,000 × 40)	Dr		22,000	
	To Equity Share Capital A/c (55,000 × 10)				5,50,000
	(Being equity shares issued to debenture holder in lieu of debentures)				

Working Note

Amount due to Debenture Holders = 4,800 × 110 = ₹ 5,28,000

$$\text{Number of shares to be issued} = \frac{\text{Amount due to Debenture Holders}}{\text{Agreed Price of Share}}$$

$$= \frac{5,28,000}{9.60} = 55,000 \text{ shares}$$

35. X.Ltd. redeemed 1,000, 12% debentures of Rs.50 each by converting them into 15% New Debentures of Rs.100 each. Journalise.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	12% Debenture A/c	Dr		2,00,000	
	To Debenture Holders A/c				1,90,000
	To Discount on Issue of Debentures A/c				10,000
	(Being Amount of debentures due to debenture holders)				
	Debenture Holders A/c	Dr		1,90,000	
	To Equity Share Capital A/c (15,200 × 10)				1,52,000
	To Securities Premium A/c (15,200 × 2.50)				38,000
	(Being 15,200 equity shares @ ₹ 10 each at 25% premium issued to debenture holders in lieu of debentures)				

$$\text{Number of shares to be issued} = \frac{1,90,000}{12.50} = 15,200 \text{ shares}$$