

6. ISSUE AND REDEMPTION OF DEBENTURES

1. Choose the correct answer :

A. Debentures which are transferrable by mere delivery are :

- (a) Registered debentures (b) First Debentures
(c) **Bearer debentures** (d) None of these

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

Bank a/c	Dr.		9,50,000
Loss on issue of debenture a/c	Dr.		1,50,000
To 12 % Debentures a/c			10,00,000
To Premium on Redemption of Debenture A/c			

1,00,000

Debentures have been issued at a discount of :

- (a) 15 % (b) **5 %**
(c) 10 % (d) 8 %

C. X Co. Ltd purchased assets worth Rs 14, 40,000. It issued debentures of Rs 100 each at a discount of 4 percent in full satisfaction of the purchase consideration. The number of debentures issued to vendor is :

- (a) **15, 000** (b) 14,400
(c) 16,000 (d) 30,000

D. Convertible debentures cannot be issued at a discount if :

- (a) **They are to be immediately converted;** (b) They are not to be immediately converted,
(c) None of the above (d) Both a and b

E. Discount on issue of debentures is shown under the following head in the Balance sheet :

- (a) Statement of profit and Loss, (b) Other non-Current Assets,
(c) Debentures account (d) **None of these**

F. Debentures can be issued at :

- (a) Par (b) Discount
(c) Premium (d) **All of them**

G. Debenture is also named as :

- (a) Share (b) **Bond**
(c) Equity (d) Reserve

H. 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** (d) Securities Premium Reserve Account

I. When all the debentures are redeemed, balance in the debentures redemption fund account is transferred to :

- (a) Capital reserve, (b) **General reserve,**
(c) Statement of profits and loss (d) Any of these

2. Fill in the blanks

a) A may be defined as subsidiary or secondary or additional security beside the primary security when a company obtains a loan or overdraft from a bank or any other financial Institution .

Ans – **collateral security**

b) is a written instrument acknowledging a debt under the common seal of the company .

Ans– **Debenture**

c) refer to those debentures where a charge is created on the assets of the company for the purpose of payment in case of default . The charge may be fixed or floating . Ans– **Secured debentures**

d) Debentures which are convertible into equity shares or in any other security either at the option of the company or the debenture holders are called

Ans– **convertible debentures**

e) can be issued at discount but cannot be issued at discount except ESOP .

Ans– **Debentures, Shares**

f) refers to extinguishing or discharging the liability on account of debentures in accordance with the terms of issue .

Ans– **Redemption of debentures**

g) The amount credited to the Debenture Redemption Reserve shall not be utilised by the company except for the purpose of

Ans– **redemption of debentures**

h) No DRR is required for debentures issued by regulated by Reserve Bank of India Companies for both public as well as privately placed debentures .

Ans– **All India Financial Institutions (AIFIs) Banking**

3. Z Ltd issued 2000, 10% debentures of Rs 100 each, at par . Debentures payable as follows :

Application Rs . 40 Allotment Rs . 60

The debentures were fully subscribed and all the amount was duly received . Pass the necessary journal entry .

Solution : [DEBENTURES ISSUED AT PAR]

IN THE BOOKS OF Z LTD .
JOURNALS

Date	Particulars	LF .	Dr .	Cr .
	Bank A/c Dr . To Debentures Application A/C (Being debentures application money received)		80,000	80,000
	Debentures Application A/C Dr . To 10% Debentures A/C (Being 2000; 10% debentures allotted)		80,000	80,000
	Debentures Allotment A/C Dr . To 10% Debentures A/C (Being the allotment money due)		1,20,000	1,20,000
	Bank A/C Dr . To Debentures Allotment A/C (Being the amount due on allotment received)		1,20,000	1,20,000

4. X Ltd issued 5000; 9% Debentures of Rs . 100 each at a premium of 20% payable :
On Application– Rs . 50, On Allotment– Balance

Applications were received for the debentures issued and also the amount due on allotment including premium was received . Pass journal entries for the above .

Solution : [DEBENTURES ISSUED AT PREMIUM]

IN THE BOOKS OF X LTD . JOURNALS

Date	Particulars	LF	Dr .	Cr .
	Bank A/c Dr . To Debentures Application A/C (Being debentures application money received)		2,50,000	2,50,000
	Debentures Application A/C Dr . To 9% Debentures A/C (Being 5000; 9% debentures allotted)		2,50,000	2,50,000
	Debentures Allotment A/C (5000×70) Dr . To 9% Debentures A/C (5000×50) To Securities Premium Reserve A/C (5000×20) (Being the allotment money along with premium due)		3,50,000	2,50,000 1,00,000
	Bank A/C To Debentures Allotment A/C (Being the amount due on allotment received)		3,50,000	3,50,000

5. Y Ltd issued 20,000, 9% Debentures of Rs . 100 each at a discount of 4% on 1st April, 2019, payable Rs . 30 on application and the balance on allotment . The debentures are redeemable after 5 years . Pass Journal entries for the issue of debentures and writing off discount on issue of debentures .

Solution : [DEBENTURES ISSUED AT A DISCOUNT]

IN THE BOOKS OF Y LTD .

JOURNALS

Date	Particulars	LF	Dr .	Cr .
1042019	Bank A/c Dr . To Debentures Application A/C (Being debentures application money received)		6,00,000	6,00,000
1042019	Debentures Application A/C Dr . To 9% Debentures A/C (Being the debentures application money transferred to 9% Debentures Account)		6,00,000	6,00,000
1042019	Debentures Allotment A/C (20000×66) Dr . Discount on issue of Debentures A/C (20000×4) Dr . To 9% Debentures A/C (20000×70) (Being the allotment money due on 20000; 9% Debentures)		13,20,000 80,000	14,00,000
1042019	Bank A/C Dr . To Debentures Allotment A/C (Being the amount due on allotment received)		1320000	1320000
31– 032020	Statement of Profit and Loss Dr To Discount on issue of Debentures A/C (Being discount on issue of debentures written off)		80,000	80,000

6. Jyoti Ltd . invited applications for 3000;12% Debentures of Rs . 100 each at a premium of Rs . 50 per Debentures . Full amount was payable on application . Application were received for 4000 debentures . Applications for 1000 debentures were rejected and application money was refunded . Debentures were allotted to the remaining applicants .

Solution : [OVER SUBSCRIPTION]

IN THE BOOKS OF JYOTI LTD .

JOURNALS

Date	Particulars	LF .	Dr .	Cr .
	Bank A/c Dr . To Debentures Application and allotment A/C (Being application money of Rs . 150 received on 4000 debentures)		6,00,000	6,00,000

	Debentures Application and allotment Dr . To 12% Debentures A/C To Securities Premium Reserve A/C To Bank A/C (Being 3000; 12% issued at a premium of Rs50 each and application money for 1000 debentures refunded)		6,00,000			3,00,000 1,50,000 1,50,000
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7. Honey Ltd issued 10,000, 9% Debentures of Rs . 100 each for subscription, payable Rs . 60 on application and balance on allotment . Subscription was received for 9000 debentures . Allotment was made and due amount was received .

Pass necessary journal entries for issue and allotment of debentures .

Solution : [UNDER SUBSCRIPTION]

IN THE BOOKS OF HONEY LTD .

JOURNALS

Date	Particulars	LF .	Dr .	Cr .
	Bank A/c Dr . To Debentures Application A/C (Being debentures application money received for 9000; 9% debentures @Rs . 60 per debentures)		540000	540000
	Debentures Application A/C Dr . To 9% Debentures A/C (Being 9000; 9% debentures allotted)		540000	540000
	Debentures Allotment A/C Dr . To 9% Debentures A/C (Being the allotment money due)		360000	360000
	Bank A/C Dr . To Debentures Allotment A/C (Being the amount due on allotment received)		360000	360000

8. A company purchased assets of Rs . 9,90,000 from another firm . Payment was by issuing, 11% Debenture of Rs . 100 each . Pass journal entries when debentures have been issued at par .

Solution : [ISSUE OF DEBENTURES FOR CONSIDERATION OTHER THAN CASH]

IN THE BOOKS OF..... .

JOURNALS

Date	Particulars	L . F .	Dr .	Cr .
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	Sundry Assets A/C To Vendors A/C (Being the sundry assets purchased from Vendor for Rs . 990000)		990000	990000
	Vendors A/C To 11% Debentures A/C (Being the allotment of 9900; 11% Debentures of Rs . 100 each at par to the Vendor)		990000	990000

9. A company purchased assets of Rs . 990000 from another firm . Payment was by issuing, 11% Debenture of Rs . 100 each . Pass journal entries when debentures have been issued at a premium of 10% .

Solution :

IN THE BOOKS OF
JOURNALS

Date	Particulars	L . F .	Dr .	Cr .
	Sundry Assets A/C To Vendors A/C (Being the sundry assets purchased from Vendor for Rs . 990000)		990000	990000
	Vendors A/C To 11% Debentures A/C To Securities Premium Reserve A/C (Being the allotment of 9000 (i . e 990000÷110) ; 11% Debentures of Rs . 100 each issued at a premium of 10% to the Vendor)		990000	900000 90000

10. A company purchased assets of Rs . 990000 from another firm . Payment was by issuing, 11% Debenture of Rs . 100 each . Pass journal entries when debentures have been issued at a discount of 10% .

Solution :

Date	Particulars	L . F .	Dr .	Cr .
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Sundry Assets A/C To Vendors A/C (Being the sundry assets purchased from Vendor for Rs . 990000)		990000	990000
Vendors A/C Discount on issue of Debentures A/C To 11% Debentures (Being the allotment of 11000 (i . e 990000÷90) ; 11% Debentures of Rs . 100 each issued at a premium of 10% to the Vendor)		990000 110000	1100000
Statement of Profit and Loss To discount on issue of Debentures		110000	110000

11. X ltd purchased building for Rs . 22,00,000 . Half the payment was made by cheque and the balance half by issue of 9% Debentures of Rs . 100 each at a premium of 10% . Pass necessary Journal entries .

Solution :

Date	Particulars	L . F	Dr .	Cr .
	Building A/C To Vendors A/C (Being the building purchased)		22,00,000	22,00,000
	Vendors' s A/C To Bank A/C (Being the half payment made by cheque)		11,00,000	11,00,000
	Vendor' s A/C To 9% Debentures A/C To Securities Premium Reserve A/C (Being the balance payment made by issue of 10000; 9% Debentures at 10%)		11,00,000	10,00,000 1,00,000

Number of Debentures issued= (2200000-1100000) ÷110=10000 Debentures

12. Pass Journal entries to record the following transaction :

- (i) A Ltd. issued 15000; 8% Debentures of Rs. 100 each at discount of 5% to be repaid at par at the end of 5 years .
- (ii) A Ltd. Issues 10% Debentures of ` 100 each for the total nominal value of Rs . 80,00,000 at a premium of 5% to be redeemed at par .
- (iii) A Ltd. Issues ` 50,00,000; 9% Debentures of ` 100 each at par but redeemable at the end of 10 years at 105% .
- (iv) A Ltd. Issued ` Rs40,00,000, 12% debentures of ` 100 each at a discount of 5% repayable at a premium of 10% at the end of 5 years .
- (v) A Ltd issued ` 70,000; 12% debentures of ` 100 each at a premium of 5% repayable at 110% at the end of 10 years .

Solution : [Issue of debentures from terms of Redemption]

DATE	PARTICULARS		Dr. (Rs)	Cr. (Rs)
(i)	Bank A/c Dr. To debenture application and allotment A/C (Being the debenture application money record)		14,25,000	14,25,000
	Debenture application & Allotment A/c Dr. Discount on issue of Deb. A/c Dr. To 10 Debentures A/c (Being the issue of 15,000, 8% debentures of Rs. 100 each at a discount of 5%)		14,25,000 75,000	15,00,000
(ii)	Bank A/c Dr. To debenture application and allotment A/c (Being the debenture application money received)		84,00,000	84,00,000
	Debenture application and allotment A/C Dr. To 10% debenture A/C To security premium A/C (Being the issue of 80,000, 10% debenture of Rs. 100 each at a premium of 5%)		84,00,000	80,00,000 4,00,000

(iii)	Bank A/C Dr. To debenture application and allotment A/C (Being the debenture application money received)		50,00,000	50,00,000
	Debenture application and allotment A/C Dr. Loss on issue of debenture A/c Dr. To 12% Debenture A/c		50,00,000 250000	5000000 250,000
	To premium on Redemption of Debenture A/c (Being the issue of 50,000, 12% debenture of Rs. 100 each at par redeemable at 105%)			
(iv)	Bank A/C Dr. To debenture application and allotment A/C (Being the debentures application money received)		38,00,000	38,00,000
	Debenture application and allotment A/C Dr. Loss on issue of debenture A/C Dr. To 12% debenture A/C To premium on redemption of debenture A/c (Being the issue of 40,000, 12% debenture of Rs. 100 each at a discount of 5% and repayable at a premium 10%)		38,00,000 6,00,000	4000000 400000
(vi)	Bank A/c Dr. To debenture application and allotment A/c (Being the debenture application money second)		73,50,000	73,50,000
	Debenture application and allotment A/c Dr. Loss on issue of debenture A/c Dr. To 12% debenture A/c To security Premium Reserve A/c To premium on redemption of debenture A/c. (Being the issue of 70,000, 12% debentures of Rs. 100 each at a premium of 5% and repable at a premium of 10%)		73,50,000 7,00,000	70,00,000 3,50,000 7,00,000

13. Moti Ltd . Obtained loan of Rs . 120000 from Bank of India and issued 1500; 9% Debentures of Rs . 100 each as collateral security . How will be issues of Debentures shown in the Balance Sheet?

Case I . when journal entry is **NOT** passed .

Case II . When journal entry is passed .

Solution : [Debentures as collateral Security]

Case I . An extract of Balance Sheet of Moti Ltd .

Particulars	Note NO .	Rs .
1. EQUITY AND LIABILITIES		
Non-Current liabilities		
Long term Borrowings	1	120000

Notes to Accounts

1. Long-term Borrowings Loan from Bank of India (Secured by issue of 1500;9% Debentures of Rs100 each as collateral Security)	120000
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Case II Journal Entry

DATE	PARTICULARS		Dr. (Rs)	Cr. (Rs)
(i)	Debenture Suspense A/C Dr . To 9% Debentures A/C (Being the issue of 1500;9% debentures of Rs . 100 each as collateral security for a loan from a bank as per Board' s resolution No... . Dated...)		150000	150000

An extract of Balance Sheet Moti Ltd .

Particulars	Note NO .	Rs .
1. EQUITY AND LIABILITIES		
Non-Current liabilities		
Long term Borrowings	1	120000

Notes to Accounts

1. Long-term Borrowings		
Loan from Bank of India		120000
1500;9% Debentures of par value Rs . 100 each issued as collateral security	150000	
Less : Debenture Suspense A/C	
<u>150000</u>		
		120000

14. Times Ltd issued 20000; 10% Debentures of Rs . 100 each on 1st April 2018 . The issue was fully subscribed . According to the terms of issue, interest is payable on half yearly basis . Pass journal entries for the year ended 31st March,2019 (Ignore TDS)

Solution : [Interest on Debentures]

In the books of Times Ltd

JOURNAL

DATE	PARTICULARS	Dr. (Rs)	Cr. (Rs)
2014 Sep . 30	Debenture Interest A/C To Debentureholder ' s A/C (Being the interest on debentures payable for the half-year ended 30 th sep,2018	1,00,000	1,00,000
	Debentureholder ' s A/C	1,00,000	
	To Bank A/C (Being the interest paid to debentureholders)		1,00,000
2015 March 31	Debenture Interest A/C To Debentureholder ' s A/C (Being the interest on debenture payable for the half year ended 31 st March, 2015)	1,00,000	1,00,000
	Debentureholder ' s A/C To Bank A/C (Being the interest paid to debentureholders)	1,00,000	1,00,000

15. Rohit Ltd . Has issued 50000, 8% Debentures of Rs . 100 each at a discount of 9% on July 1, 2019 . The company has balance of Rs . 5,00,000 in Securities Premium Reserve . Pass necessary journal entries for issue of debentures and to write off discount/loss on issue of debentures . The debentures are redeemable after 5 years at a premium of 7% .

Solution : [Writing off discount/loss on issue of debentures]

DATE	PARTICULARS		Dr. (Rs)	Cr. (Rs)
July 1,19	Bank A/c To debenture application and allotment A/C (Being the debenture application money record)	Dr .	4550000	4550000
July 1,19	Debenture application & Allotment A/c Loss on issue of Deb . A/c Dr . To 8% Debentures A/c To premium on redemption of debenture A/C (Being 50000 debentures of Rs . 100 each issued at a discount of 9% redeemable at 7% premium)	Dr .	4550000 800000	5000000 350000
July 1,19	Securities Premium Reserve A/C Statement of Profit and Loss To loss on issue of debentures A/C (loss on issue of debentures written off)		500000 300000	800000

16. On April 1st 2019 X Ltd issued 10,000 ,8% Debentures of Rs . 100 each at a premium of 5%, to be redeemable at a premium of 10%, after 5 years . The entire amount was payable on application . The issue was oversubscribed to an extent of 10,000 debentures and the allotment was made proportionately to all the applicants . The securities premium account has not been utilised for any other purpose during the year . Give journal entries for the issue of debentures and writing off loss on issue of debentures .

Solution :

In the books of X Ltd .

Journals

DATE	PARTICULARS		Dr. (Rs)	Cr. (Rs)
1-04-2019	Bank A/C To Debenture Application and Allotment A/C (Being Application money received on 20000 8% Debentures)	DR	21,00,000	21,00,000

1-04-2019	Debenture Application and Allotment A/C Dr Loss on issue of Debenture A/C To 8% Debentures To Security Premium Reserve To Premium on redemption of debentures To Bank (Being the Debentures allotted and the balance refunded)	Dr	21,00,000 1,00,000	10,00,000 50,000 1,00,000 10,50,000
31-03-2020	Security Premium Reserve A/C Statement of Profit and Loss A/C Dr To loss on issue of Debentures A/C (Being loss on issue of Debentures written off)	Dr	50,000 50,000	1,00,000

17. X Ltd took over the business of Y Ltd . on 01-04-2020 . The details of the agreement regarding the assets and liabilities to be taken over are :

Particulars	Book value	Agreed Value
Land and building	2000000	35,00,000
Machinery	12,00,000	8,00,000
Stock	4,00,000	4,00,000
Debtors	5,00,000	4,00,000
Creditors	2,00,000	3,00,000
Outstanding expenses	50,000	1,00,000

It was decided to pay for purchase consideration as Rs . 700,000 through cheque and balance by issue of 2,00,000 9% Debentures of Rs . 20 each at a premium of 25% .

Journalise .

Solution :

In the books of X Ltd . Journals

DATE	PARTICULARS		Dr . (Rs)	Cr . (Rs)
	Land and Building A/C	Dr	35,00,000	
	Machinery A/C	Dr	8,00,000	
	Stock A/C	Dr	4,00,000	

Debtors A/C Goodwill A/C Dr To Creditors A/C To Outstanding Expenses A/C To Y Ltd A/C (Being the assets and liabilities of business taken over, recorded at agreed value)	Dr	4,00,000 10,00,000	3,00,000 1,00,000 57,00,000
Y Ltd A/C Dr To Bank A/C To 9% Debentures A/C To Securities Premium Reserve A/C (Being Purchase consideration paid to Y Ltd)		57,00,000	7,00,000 40,00,000 10,00,000

18. A ltd . issued 2,000 : 9% Debentures of Rs . 100 each on the following terms :
Rs . 20 on Application : Rs . 20 on allotment : Rs . 30 on first call : Rs . 30 on final call .

The public applied for 2,400 debentures . Applications for 1800 debentures were accepted in full . Applications for 400 Debentures were allotted 200 debentures and applications for 200 debentures were rejected . Pass necessary journal entries .

Solution :

In the books of X Ltd . Journals

Date	Particulars	Dr .	Cr .
	Bank A/C Dr To 9% Debenture Application A/c (being application received for 2400 debenture at Rs . 20 each)	48,000	48,000
	9% Debenture Application A/c Dr To 9% Debenture To 9% Debenture allotment To Bank A/C (Being debenture application money transferred to 9% Debenture A/C for 2000 debentures; Adjusted to debenture allotment A/C for 200 debentures and money refunded for 200 debentures)	48,000	40000 4,000 4,000
	9% debenture Allotment A/C dr To 9% Debenture A/C (Being Debenture allotment money due on 2000 9% debentures at Rs . 20 each)	40,000	40,000

Bank A/C Dr To 9% debenture allotment A/C (Being debenture allotment money received)	36,000	36,000
Debenture first call A/C Dr To 9% debenture A/C (Being debenture first call money due)	60,000	60,000
Bank A/C dr To Debenture first call A/C (Being debenture first call received)	60,000	60,000
Debenture final call A/C dr To 9% debenture A/C (Being debenture final call money due)	60,000	60,000
Bank A/C dr To Debenture final call A/C (Being debenture final call received)	60,000	60,000

19. Romi Ltd acquired assets of Rs . 20 lakhs and took over the creditors of Rs . 2 lakhs from Kapil enterprise . Romi Ltd issued 8% debentures of Rs . 100 each at a discount of 10% as purchase consideration . Record necessary journal entries in the books of Romi Ltd .

Solution :

In the books of Romi Ltd .
Journals

Date	Particulars	Dr .	Cr .
	Assets A/C dr To creditors A/C To Kapil Enterprise A/C (Being assets and liabilities taken over from Kapil enterprise)	20,00,000	2,00,000 18,00,000
	Kapil Enterprise A/C Dr Discount on issue of debenture A/C Dr To 8% Debentures (Being 20,000 8% debentures of rs . 100 each issued at a discount of 10% to Kapil Enterprise)	18,00,000 2,00,000	20,00,000

No . of debentures issued = purchase consideration / issue price
= 18,00,000 / (100 - 10) = 20000 debentures

20. Bright Ltd . issued 5000; 10% Debentures of Rs . 100 each on 1st April, 2015 . The issue was fully subscribed . According to the terms of issue, interest on debenture is payable half yearly on 30th September and 31st March and the tax deducted at source is 10% . Pass necessary journal entries related to the debenture interest for the year ending 31st March 2016 and transfer of interest on debentures of the year to the statement of profit and loss . Solution :

In the books of Bright Ltd .

Journals

DATE	PARTICULARS		Dr. (Rs)	Cr. (Rs)
30 th sep, 15	Debenture Interest A/C Dr To Debenture holders A/C To income Tax Payable A/C (Being debenture interest due)		25,000	22,500 2,500
30 th sep, 15	Debenture holder A/C Dr Income Tax payable A/C Dr To Bank A/C (Being interest on debenture paid)		22,500 2,500	25,000
31 st march 16	Debenture Interest A/C Dr To Debenture holders A/C To income Tax Payable A/C (Being debenture interest due)		25,000	22,500 2,500
31 st march 16	Debenture holder A/C Dr Income Tax payable A/C Dr To Bank A/C (Being interest on debenture paid)		22,500 2,500	25,000
31 st march 16	Statement of profit and loss A/C Dr To Debenture Interest A/C (Being interest transferred to statement of profit and loss)		50,000	50,000