

Unit 2: Issue and Redemption of Debentures

NCERT · Class 12 · Accountancy · Part 2

Short Questions for NCERT Accountancy Solutions Part 2 Class 12 Chapter 2

Question 1

What is meant by a Debenture?

Solution

The term debenture is derived from the Latin word “debere”, which translates to borrow. Debentures are not backed by any collaterals. These are issued by governments and corporations to raise funds or capital for long-term borrowing.

Question 2

What does a Bearer Debenture mean?

Solution

When records are not maintained for debenture and holders, and the debenture can be transferred by delivery, such debentures are known as Bearer Debentures. These debentures are issued physically on paper and are payable to the bearer of the debenture. These are also called unregistered debentures.

Question 3

State the meaning of ‘Debentures issued as a Collateral Security’.

Solution

Collateral security refers to an additional layer of security over and above the primary security. In case a company takes a loan from a financial institution, the company issues debentures which are additional security or collateral security. The money lender will not be receiving any interest on these debentures. In case the company defaults in making payment and the primary security is not sufficient to cover the debt, then debentures can be used to recover the amount.

Question 4

What is meant by 'Issue of debentures for Consideration other than Cash'?

Solution

A company purchases any asset from its vendors or suppliers and issues debentures to them instead of paying in cash. This process is known as the issue of debenture for consideration other than cash. It helps both the seller and purchaser as the seller gets interest on debentures issued, and the purchaser does not need to arrange cash immediately. Debentures are issued at par, premium or at a discounted rate to the seller.



Question 5

What is meant by 'Issue of debenture at discount and redeemable at premium'?

Solution

It may happen that due to challenging market conditions, a company has to raise funds from the market by issuing debenture below its par value and, to attract investors' interest, has to offer redeemable value higher than its par value. This is termed as the issue of debenture at discount and redeemable at premium. The difference that is generated due to such an arrangement is treated as a loss on the issue of a debenture.

Question 6

What is 'Capital Reserve'?

Solution

The reserve that is created from the capital profits is called a Capital Reserve. These are profits that are obtained from activities that are different from normal business activities. Examples of such activities are profit obtained from reissuing of debentures, premium on issue of share and debenture, profit redemption on debenture, profits obtained from the sale of fixed assets, etc. These can be used to issue bonus shares but cannot be used for paying dividends. The capital reserve is used to meet future capital losses.

Question 7

What is meant by an 'Irredeemable Debenture'?

Solution

Debentures that are not redeemable by a company during its lifetime are called irredeemable debentures. These debentures are only payable at the time of winding up of the company. They are also called perpetual debentures because of their indefinite life span. These types of debentures are not issued in India.

Question 8

What is a 'Convertible Debenture'?

Solution

Debentures that can be converted to equity shares after a specified time are called Convertible Debentures. The time at which it can be converted to equity shares is mentioned when the debentures are issued. There are two types:

1. Partly convertible debentures: In this, only a part of debentures is eligible to be converted into equity shares.
2. Fully convertible debentures: In this, all of the debentures can be converted to equity shares.

Question 9

What is meant by 'Mortgaged Debentures'?

Solution

Debentures that are secured against the asset/assets of a company are called Mortgaged Debentures. These are also called secure debentures. There are two types:

1. Fixed Charge: Debentures secured against a specific asset or the firm of the computer
2. Floating Charge: Debentures secured against all assets of a company

Question 10

What is discount on issue of debentures?

Solution

Debentures which are issued at a value less than their face value (nominal value) are said to be issued at a discount. There is no restriction on companies for issuing debentures at a discount.

Question 11

What is meant by 'Premium on Redemption of Debentures'?

Solution

Debenture redeemed at premium refers to the situation where Debentures are redeemed at a price which is more than its face value or nominal value. The difference between the redeemed price and face value of the debenture is regarded as a capital loss and hence needs to be written off. The premium obtained on redemption of the debenture is shown on the liabilities side of the balance sheet.

Question 12

How are debentures different from shares? Give two points.

Solution

Basis of Comparison	Debentures	Shares
1. Meaning	The holders of debentures are regarded as creditors of the company, as debentures are a part of a loan.	As shares are a part of the capital, shareholders are owners of the company.
2. Voting Rights	No voting rights for holders.	Holders have voting rights.

Question 13

Name the head under which 'discount on issue of debentures' appears in the Balance Sheet of a company.

Solution

Discount on issue of debentures is treated as a capital loss. As per the revised schedule VI of the Companies Act, it should be shown on the Asset side of balance sheet under “Miscellaneous Expenditures” heading until it is written off.

Question 14

What is meant by redemption of debentures?

Solution

It refers to the repayment of debentures by the company to the debenture holders. In this process, debenture holders get payment for the debentures they were issued, and the repayment is made as per terms and conditions determined at the time of debenture issue. It may be redeemable at par, discount or premium. Redemption takes place from profits or from a fresh batch of debentures. The following methods are used in redeeming debentures:

1. By conversion into equity shares and new debentures
2. By annual drawing in instalments
3. By purchasing debentures in an open market
4. Lump sum payment on the maturity date
5. Utilizing the call or put option

Question 15

Can the company purchase its own debentures?

Solution

Yes, it is possible if a company which is authorised by its Article of Association is able to purchase its own debentures. The debentures are purchased to serve the following purpose:

1. As a source of investment which can be sold at a higher price on a later date to earn more profit
2. To cancel debenture liabilities if the debenture rate is higher than the rate of interest in the market.

Question 16

What is meant by redemption of debentures by conversion?

Solution

The situation in which a debenture holder is able to convert existing debentures into equity shares or new debentures after the expiry of the existing debentures' time period is known as the redemption of debentures by conversion.

Question 17

How would you deal with 'Premium on Redemption of Debentures'?

Solution

Debentures which are redeemed for a price which is more than its par value or nominal value is known as debentures redeemed at a premium. The difference between the par value (face value) and the price at which it is redeemed is known as capital loss, and this will be written off till debentures are redeemed. It is shown on the liabilities part of the Balance Sheet till debentures are redeemed. The accounting treatment can be represented as:

Accounting Treatment for Premium on Redemption of Debentures:

1. Time of Issuing Debenture:

Bank/Debenture Allotment A/c	Dr.
Loss on issue of Debenture A/c	Dr.
To Debenture A/c	
To Premium on Redemption	
(Debenture issued with the term of redemption at premium)	

2. Time of redeeming debenture:

Debenture A/c	Dr.
Premium on Redemption A/c	Dr.
To Debenture Holder A/c	
(Amount of debentures due to debenture holders)	

Question 18

What is meant by 'Redemption out of Capital'?

Solution

It refers to the condition when the debentures are redeemed from the capital without utilising the profits for redemption. Such a condition results in no profit being transferred to the Debenture Redemption Reserve, a reserve that needs to be created as debentures cannot be redeemed entirely from the capital. SEBI has issued guidelines for the redemption of debenture by creating a Debenture Redemption Reserve. However, there are some industries that are exempted from creating a reserve, and they are:

1. Companies that issue debentures with a maturity of 18 months
2. Companies involved in the infrastructure sector, like maintenance, construction, business development activities

Question 19

What is meant by redemption of debentures by 'Purchase in the Open Market'?

Solution

Redemption of debentures by purchase in open market refers to the condition when a company is authorised by its Article of Association to be able to purchase its own debentures. The debentures are purchased to serve the following purpose:

1. As a source of investment which can be sold at a higher price on a later date to earn more profit
2. To cancel debenture liabilities if the debenture rate is higher than the rate of interest in the market.

Question 20

Under which head is the 'Debenture Redemption Reserve' shown in the Balance Sheet?

Solution

The Debenture Redemption Reserve (DRR) is shown on the balance sheet under the header Reserves and Surplus as per the revised Schedule VI of the Company Act.

Long Questions for NCERT Accountancy Solutions Part 2 Class 12 Chapter 2

Question 1

Explain the different types of debentures?

Solution

Debenture refers to a long-term instrument that companies use to borrow money from the market. It is the acknowledgement of a debt that is taken by a company. There are many types of debentures based on their nature, which are:

1. Based on the tenure

- i. Redeemable Debenture: Debentures that have a specific date of redemption that is mentioned on the certificate, and the company is bound to pay the person/persons holding the debenture, the principal amount on that date.
- ii. Perpetual/Irredeemable Debenture: Debentures that do not mention a specific date for redemption. The only way these can be redeemed is when the company is liquidated.

2. Based on Convertibility

- i. Convertible Debenture: Those types of debentures that have the flexibility to convert into equity shares. The terms and conditions governing the conversion are clearly mentioned at the time of the issue of a debenture.
- ii. Non-Convertible Debenture: These are debentures that do not have any special features and are not converted into equity shares.

3. Based on Security

- i. Mortgage Debenture: A type of debenture that is backed by some asset or assets, and such asset can be used to recover funds in case
- ii. Naked Debenture: Debenture that is issued based solely on the basis of credibility of the issuer.

4. Based on Priority

- i. First Debenture: Also known as a preferred debenture. These debentures are the first to be paid in case of the winding up of a company.
- ii. Second Debenture: These are ordinary debentures and are paid after the first debenture.

5. Based on registration:

i. Registered Debenture: Debentures that are registered with the age, name, address etc., are added to the debenture.

ii. Bearer Debenture: These debentures are transferred by delivery to the new holder.

Question 2

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

Solution

Basis of Comparison	Shares	Debenture
Meaning	Shares are funds that are owned by a company	Debentures are funds that are borrowed from outside, i.e. it is debt for a company
Dividend	Shareholders earn dividends from the profit of the company	Debenture holders earn interest for the amount taken as debt
Deduction	Being an appropriation of profit, not liable to be deducted	Being an expense for business, deducted from profit
Conversion	Shares cannot be converted into debentures	Some debentures can be converted into shares after a period of time
Voting Right	Shareholders have voting right	No voting right
Risk	Shareholders have the highest risk	Debenture holders have the lowest risk
Compulsion to return	It is not mandatory to declare a dividend	It is mandatory to pay interest to creditors.
Status of Holders	Shareholders are owners	Debenture holders are creditors
Position in Financial Statement	Shown under Shareholder Funds on the equity and liabilities side of the Balance Sheet	Shown as non-current liabilities in the equity and liabilities side of the Balance Sheet.

Status at Liquidation	Payment made after clearing all liabilities	Payment made before shareholders.
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Debentures are also called long-term debts. A company issues debentures to get funding for achieving growth in the long term. Interest needs to be paid on those loans. This interest is an expense for the business and is deducted as per applicable tax laws. Hence, debentures are known as loan capital.

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?

Solution

Collateral security refers to an additional layer of security over and above the primary security. It is seen in the case of a company taking a loan from a financial institution. In such cases, the company issues debentures which are additional security or collateral security. The money lender will not be receiving any interest on these debentures. In case the company defaults in making payment and the primary security is not sufficient to cover the debt, then debentures can be used to recover the amount.

Treatment of Debentures:

Debentures, when issued for the first time by a company, are not active, and to make them active an accounting entry is required to be passed

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)			

For creating an accounting record, Debenture Suspense A/C is debited, and the debenture account is credited. Debentures are represented on the liabilities side, and Debenture suspense A/c is shown on the credit side. When the debt is paid off by the business debenture account is debited, and the debenture suspense account gets credited.

Question 4

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

Solution

Debentures which are issued at a value less than their face value (nominal value) are said to be issued at a discount. There is no restriction on companies for issuing debentures at a discount.

The following treatment is given when a discount is applied on the issue of debentures

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)			

There are two methods that are applicable when debentures are redeemed in instalments.

1. Fixed Instalment Method: Also known as the equal instalment method, this method is used when debentures are redeemed in a lump sum and after a specific time period. In this method, an equal amount of discount or loss is written off till the debenture is not paid off. The formula used to calculate the discount amount is given below

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

2. Variable Instalment Method: This method is also known as Fluctuating or Reducing Instalment Method or Proportion Method. In this method, debentures are paid in annual drawings or instalments. The amount of discount that is written off every year should be in proportion to debentures that are outstanding at the beginning of each year. Therefore the amount of discount will vary each year, and it will be more in the initial years and will subsequently reduce at the end of redemption.

Question 5

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

Solution

Debentures can be issued in three ways: at par, premium and at a discount, while the debentures can be redeemed only at par and at a premium. The following combinations can be discussed:

1. Issued at Par and Redeemable at Par: This is the condition when debentures are issued and redeemed at their par value or face value. The following entries can be seen

Bank A/c	Dr. (with the amount received)
To Debenture Application A/c	(with the face value)
(Debenture Application money received)	

Debenture Application A/c	Dr.
To Debenture A/c	
(Application money transferred to Debenture Account)	

2. Issued at Premium and Redeemable at Par: A situation where debenture is issued at a premium and is redeemable at par. Issuing debentures at a premium is gain, so it is credited.

Bank A/c	Dr.
To Debenture Application A/c	
(Debenture Application money received)	

Debenture Application A/c	Dr.
To Debenture A/c	
To Securities Premium A/c	
(Debentures issued at premium and redeemable at par)	

3. Issue at Discount and Redeemable at Par: The situation in which debenture is issued at a discount and is redeemable at par. Discount being a loss is recorded as a debit entry.

Bank A/c	Dr.
To Debenture Application A/c	
(Debenture Application money received)	

Debenture Application A/c	Dr.
Discount on Issue of Debenture A/c	Dr.
To Debenture A/c	
(Debentures issued at discount and redeemable at par)	

4. Issue at Par and Redeemable at Premium: Here, the share is issued at par and is redeemable at a premium. The following entries are recorded

Bank A/c	Dr.
To Debenture Application A/c	
(Debenture Application money received)	
Debenture Application A/c	Dr.
Loss on Issue of Debenture A/c	Dr. (with the amount of premium on redemption)
To Debenture A/c	(with the face value of the debentures)
To Premium on Redemption of Debenture A/c	(with the amount of premium on redemption)
(Debentures issued at par and redeemable at premium)	

5. Issued at Premium and Redemption at Premium: In this situation, both the issue and redemption of the debenture are at a premium. It will give rise to the following entries

Bank A/c	Dr.
To Debenture Application A/c	
(Debenture Application money received)	
Debenture Application A/c	Dr.
Loss on Issue of Debenture A/c	Dr. (with the amount of premium on redemption)
To Debenture A/c	(with the face value of the debentures)
To Securities Premium A/c	(with the amount of premium on issue)
To Premium on Redemption of Debenture A/c	(with the amount of premium on redemption)
(Debentures issued at premium and redeemable at premium)	

6. Issue of Discount and Redemption at Premium: When debentures are issued at a discount and redeemable at a premium. The following entries can be recorded

Bank A/c	Dr.
To Debenture Application A/c	
(Debenture Application money received)	
Debenture Application A/c	Dr.
Loss on Issue of Debenture A/c	Dr. (with the amount of discount on issue <i>plus</i> amount of premium on redemption)
To Debenture A/c	(with the face value of the debentures)
To Premium on Redemption of Debenture A/c	(with the amount of premium on redemption)
(Debentures issued at discount and redeemable at premium)	

Question 6

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

Redemption of Debentures Out of Capital

Solution

It refers to the condition when the debentures are redeemed from the capital without utilising the profits for redemption. Such a condition results in no profit being transferred to the Debenture Redemption Reserve, a reserve that needs to be created as debentures cannot be redeemed entirely from the capital. SEBI has issued guidelines for the redemption of debenture by creating a Debenture Redemption reserve. However, there are some industries that are exempted from creating a reserve, and they are:

1. Companies that issue debentures with a maturity of 18 months
2. Companies involved in the infrastructure sector, like maintenance, construction, and business development activities

Redemption of Debenture Out of Profits

Debentures, when redeemed out of profit, do not utilize the capital for redemption. It is mandatory to create a DRR before redeeming the debenture. This rule has been created by SEBI (Securities and Exchange Board of India), and as per that, a company should transfer an amount equal to 50% of debentures issued to DRR before redeeming the debentures. Profit gets transferred to DRR from the

Profit and Loss Appropriation Account. This reduces the total profit, and therefore this process is called Redemption of Debenture out of profits. DRR is shown under the Reserve and Surplus section of the Liabilities part of the balance sheet. After all debentures are redeemed, a DRR account is closed by transferring it to the general reserve.

Question 7

Explain the guidelines of SEBI for creating Debenture Redemption Reserve.

Solution

These points need to be followed while creating Debenture Redemption Reserve (DRR):

1. DRR needs to be created for companies which issue debentures with a maturity of more than 18 months.
2. For partly convertible debentures, DRR needs to be created for the non-convertible portion of the debenture in the same way as is done for fully non-convertible debenture issue.
3. Company should create DRR equivalent to 50% of the debenture issue before debenture redemption commences.
4. Withdrawal from DRR is permissible only after 10% of the debenture liability has been actually redeemed by the company.

As per SEBI's guidelines the following type of companies will be exempted from creating DRR:

1. Company issuing debentures with a maturity of up to 18 months.
2. Companies involved in the infrastructure sector, like maintenance, construction, and business development activities

Question 8

Describe the steps for creating Sinking Fund for redemption of debentures.

Solution

The following steps are involved:

1. Calculate the amount from the profit that needs to be set aside every year with information obtained from Sinking Fund Table.

2. This amount that is set aside every year in Step 1 is transferred to a Debenture Redemption Fund (Sinking Fund) by debiting P & L Appropriation Account.
3. The instalment hence determined is invested in obtaining the amount essential for redeeming the debenture by debiting the DRF (Debenture Redemption Fund).
4. The interest on the amount thus invested will be received on a bi-annual or annual basis.
5. The total investment, which includes investment and the interest, is re-invested in the following year.
6. Repeat the steps of transferring and investing till the last instalment, which will be debited from the P & L appropriation account.
7. The investment is sold off at the year of redemption
8. The profit/loss that is obtained from the sale of investment is transferred appropriately by debiting/crediting Debenture Redemption Fund (DRF) investment account to the DRF Account.
9. Payment is processed for the holders of the debenture
10. The balance remaining, if any, from the DRF Account is transferred to the General Reserve.

Question 9

Can a company purchase its own debentures in the open market? Explain.

Solution

Redemption of debentures by purchase in the open market refers to the condition when a company is authorised by its Article of Association to be able to purchase its own debentures. The debentures are purchased to serve the following purpose:

1. As a source of investment which can be sold at a higher price on a later date to earn more profit
2. To cancel debenture liabilities if the debenture rate is higher than the rate of interest in the market.



Question 10

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

Solution

The situation where a debenture holder is able to convert existing debentures into equity shares or new debentures after the expiry of the existing debenture's time period is known as redemption of debentures by conversion. The issue price of shares must be equal to or less than the amount that is received from debentures, this should be kept in mind by the debenture holder when exercising the conversion option.

Debentures that can be converted to equity shares after a specified time are called Convertible Debentures. The time at which it can be converted to equity shares is mentioned when the debentures are issued. There are two types:

1. Partly convertible debentures: In this, only a part of the debentures is eligible to be converted into equity shares.
2. Fully convertible debentures: In this, all of the debentures can be converted to equity shares.

The following treatment is provided for the conversion:

1. For amount due to debenture holders		
Debenture A/c	Dr.	
To Debenture holders A/c		
(Redemption of Debentures)		
2. For discharging liability to the debenture holders		
Debenture holders A/c	Dr.	
To Shares/Debentures (New) A/c		
(Discharging amount due to debenture holder)		

Numerical Questions for NCERT Accountancy Solutions Part 2 Class 12 Chapter 2

Question 1

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

Solution

The solution to this question is as follows:

Book of G. Ltd.					
Journal					
Date	Particulars		L. F.	Debit Amount ₹	Credit Amount ₹
	Bank A/c	Dr.		11,25,00,000	
		To 6% Debenture Application A/c			11,25,00,000
	(Application money @ ₹ 15 each received for 75,00,000 debentures)				
	6% Debenture Application A/c	Dr.		11,25,00,000	
		To 6% Debenture A/c			11,25,00,000
	(Application money of 75,00,000 debentures transferred to 6% Debentures Account)				
	6% Debenture Allotment A/c	Dr.		26,25,00,000	
		To 6% Debenture A/c			26,25,00,000
	(Allotment money @ ₹ 35 each due for 75,00,000 debentures)				

	Bank A/c		Dr.		26,25,00,000		
		To 6% Debenture Allotment A/c				26,25,00,000	
	(Allotment money received @ ₹ 35 each on 75,00,000 debentures)						

Question 2

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

Solution

The solution to this question is as follows:

Books of Y Ltd.					
Journal					
Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹	
	Bank A/c	Dr.	50,000		
		To 6% Debentures Application A/c		50,000	
	(Application money @ ₹ 25 each received for 2,000 6% Debentures)				
	6% Debenture Application A/c	Dr.	50,000		

		To 6% Debenture A/c			50,000
	(Application money on 2,000 debentures transferred to 6% Debentures Account)				
	6% Debenture Allotment A/c	Dr.		1,00,000	
		To 6% Debenture A/c			1,00,000
	(Debenture Allotment money @ ₹ 50 each due on 2,000 6% Debentures)				
	Bank A/c	Dr.		1,00,000	
		To 6% Debenture Allotment A/c			1,00,000
	(Allotment money for 2,000 6% Debentures received)				
	6% Debenture First and Final Call A/c	Dr.		50,000	
		To 6% Debenture A/c			50,000
	(Debenture First and Final Call @ 25 each due on 2,000 6% Debentures)				
	Bank A/c	Dr.		50,000	
		To 6% Debenture First and Final Call A/c			50,000
	(First and Final Call for 2,000 6% Debentures received)				

Question 3

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

₹ 10 on Application;

₹ 20 along with premium on allotment and balance on First and Final call. Record necessary Journal Entries.

Solution

The solution to this question is as follows:

Books of A. Ltd.				
Journal				
Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
	Bank A/c Dr.		1,00,000	
	To 10% Debentures Application A/c			1,00,000
	(Application money received for 10,000, 10% Debenture Application @ ₹ 10 each)			
	10% Debentures Application A/c Dr.		1,00,000	
	To 10% Debenture A/c			1,00,000
	(Application money @ ₹ 10 each transferred to 10% Debenture Account)			
	10% Debenture Allotment A/c Dr.		2,50,000	
	To 10% Debentures A/c			2,00,000

		To Securities Premium A/c			50,000
	(Allotment due @ ₹ 25 each including premium ₹ 5 on 10,000, 10% Debentures)				
	Bank A/c	Dr.		2,50,000	
		To 10% Debenture Allotment A/c			2,50,000
	(Allotment money received on allotment @ ₹ 25 each for 10,000 10% Debentures)				
	10% Debenture First and Final Call A/c	Dr.		7,00,000	
		To 10% Debenture A/c			7,00,000
	(First and Final Call @ ₹ 70 each on 10,000 10% Debentures due)				
	Bank A/c	Dr.		7,00,000	
		To 10% Debenture First and Final Call A/c			7,00,000
	(Debenture First and Final Call received @ ₹ 70 each for 10,000 10% Debentures)				

Question 4

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

Solution

The solution to this question is as follows

Books of A. Ltd.				
Journal				
Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
	Bank A/c Dr.		41,40,00,000	
	Discount on Issue of Debenture A/c Dr.		3,60,00,000	
	To 9% Debenture A/c			45,00,00,000
	(Money received for 90,00,000 9% Debentures @ ₹ 50 each at discount of 8%)			
Alternative Method:				
	Bank A/c Dr.		41,40,00,000	
	To 9% Debentures Application A/c			41,40,00,000
	(Debenture Application money received @ ₹ 46 each on 90,00,000 9% Debentures)			
	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			4,50,00,000
(9% Debentures application money transferred to 9% Debenture Account)			

Question 5

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

₹ 20 on Application;

₹ 20 on Allotment;

₹ 30 on First call; and

₹ 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.

Solution

The solution to this question is as follows:

Books of A Ltd.					
Date	Particulars		L.F	Debit Amount ₹	Credit Amount ₹
	Bank A/c	Dr.		96,000	
		To 9% Debenture Application A/c			96,000
	(9% Debenture Application money received on 4,800 Debentures @ 20 each)				

	9% Debenture Application A/c	Dr.		96,000		
		To 9% Debenture A/c			80,000	
		To 9% Debenture Allotment A/c			8,000	
		To Bank A/c			8,000	
	(9% Debenture Application money of 4000 debentures transferred to Debentures Account, 400 debentures rejected returned and remaining amount adjusted on allotment)					
	9% Debenture Allotment A/c	Dr.		80,000		
		To 9% Debenture A/c			80,000	
	(9% Debenture Allotment due on 4,000 Debentures @ ₹ 20 each)					
	Bank A/c	Dr.		72,000		
		To 9% Debenture Allotment A/c			72,000	
	(9% Debenture Allotment money received)					
	9% Debenture First Call A/c	Dr.		1,20,000		
		To 9% Debenture A/c			1,20,000	
	(9% Debenture First Call due on 4000 debentures @ ₹ 30 each)					
	Bank A/c	Dr.		1,20,000		
		To Debenture First Call A/c			1,20,000	

	(9% Debenture first call received for 4000 debentures @ ₹ 30 each)						
	9% Debenture Final Call A/c	Dr.		1,20,000			
		To 9% Debenture A/c			1,20,000		
	(9% Debenture Final Call due on 4000 debentures @ ₹ 30 each)						
	Bank A/c	Dr.		1,20,000			
		To 9% Debenture Final Call A/c			1,20,000		
	(9% Debenture Final Call received on 4000 debentures @ ₹ 30 each)						

Question 6

T. Ltd. offered 2,00,000, 8% debenture of ₹ 500 each on June 30, 2014 at a premium of 10% payable as ₹ 200 on application (including premium) and balance on allotment, redeemable at par after 8 years. But application are received for 3, 00,000 debentures 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 debentures.

Solution

The solution to this question is as follows:

Books of T. Ltd.
Journal

Date	Particulars	L. F.	Debit Amount (₹)	Credit Amount (₹)
2014				
Jun. 30	Bank A/c	Dr.	6,00,00 ,000	
		To 8% Debenture Application A/c		6,00,00 ,000
	(8% Debenture application money received for 3,00,000 debentures @ ₹200 each)			
Jun. 30	8% Debenture Application A/c	Dr.	6,00,00 ,000	
		To 8% Debenture A/c		3,00,00 ,000
		To 8% Debenture Allotment A/c		2,00,00 ,000
		To Securities Premium A/c		1,00,00 ,000
	(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)			
	8% Debenture Allotment A/c	Dr.	7,00,00 ,000	
		To 8% Debenture A/c		7,00,00 ,000
	(8% Debenture allotment on 2,00,000 debentures @			

	₹350 due)			
	Bank A/c	Dr.	5,00,00 ,000	
		To 8% Debenture Allotment A/c		5,00,00 ,000
	(8% Debenture Allotment money received)			

Question 7

X.Ltd. invites application for the issue of 10,000, 14% debentures of ₹ 100 each payable as to ₹ 20 on application, ₹ 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.

Solution

The solution to this question is as follows:

Books of X. Ltd.					
Journal					
Date	Particulars		L.F.	Debit Amount ₹	Credit Amount ₹
	Bank A/c	Dr.		2,70,000	
		To 14% Debenture Application A/c			2,70,000
	(14% Debenture application money for 13,500 debentures @ 20 each received)				

	14% Debenture Application A/c	Dr.		2,70,000			
		To 14% Debenture A/c				2,00,000	
		To 14% Debenture Allotment A/c				60,000	
		To Bank				10,000	
	(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)						
	14% Debenture Allotment A/c	Dr.		6,00,000			
		To 14% Debenture A/c				6,00,000	
	(14% Debenture Allotment money due on 10,000 debentures @ ₹ 60 each)						
	Bank A/c	Dr.		5,40,000			
		To 14% Debenture Allotment A/c				5,40,000	
	(14% Debenture Allotment money received)						
	14% Debenture First and Final Call A/c	Dr.		2,00,000			
		To 14% Debenture A/c				2,00,000	
	(14% Debenture First and Final Call money due on 10,000 debentures @ 20 each)						
	Bank A/c	Dr.		2,00,000			
		To 14% Debenture First and Final Call A/c				2,00,000	

	(14% Debenture First and Final Call money received on 10,000 debentures @ ₹ 20 each)			

Question 8

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

Solution

The solution to this question is as follows:

Books of R.Ltd.					
Journal					
Date	Particulars		L.F	Debit Amount ₹	Credit Amount ₹
	Bank A/c	Dr.		37,20,00,00	
		To 10% Debenture Application & Allotment A/c			37,20,00,00
	(Debenture Application and Allotment money received for 20,00,000 10% Debentures @ ₹ 200 each)				
	10% Debenture Application and Allotment A/c	Dr.		37,20,00,00	
	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
	(Allotment of 20,00,000 debenture @ ₹ 200 each at 7% discount with the term of 8% premium on redemption)				

Question 9

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

Solution

The solution to this question is as follows:

Books of M. Ltd.					
Journal					
Date	Particulars		L.F.	Debit Amount ₹	Credit Amount ₹
	Sundry Assets	Dr.		9,00,00,000	
		To Sundry Liabilities A/c			70,00,000
		To S.Ltd.			8,30,00,000
	(Assets and liabilities of S. Ltd. taken over)				
	S. Ltd.	Dr.		8,30,00,000	

		To 8% Debenture A/c			8,30,00,000
		(8,30,000 8% debentures @ 100 each issued to S Ltd. in consideration of assets and liabilities)			

Question 10

B.Ltd. purchased assets of the book value of ₹ 4, 00,000 and took over the liability of ₹ 50,000 from Mohan Bros. It was agreed that the purchase consideration, settled at ₹, 3, 80,000, be paid by issuing debentures of ₹ 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.

Solution

The solution to this question is as follows:

Case (a)

Book of B. Ltd.					
Journal					
Date	Particulars		L.F.	Debit Amount ₹	Credit Amount ₹
	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

	(Assets and liabilities of Mohan Bros. taken over)			
	Mohan Bros.	Dr.	3,80,000	
	To Debenture A/c			3,80,000
	(3,800 debentures of 100 each issued to Mohan Bros. in consideration of assets and liabilities)			

Case (b)

	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
	(Assets and liabilities of Mohan Bros. taken over)			
	Mohan Bros.	Dr.	3,80,000	
	Discount on Issue of Debenture A/c	Dr.	42,222	
	To Debenture A/c			4,22,200
	To Bank A/c			22
	(Issued 4,222 debentures of ₹ 100 each at 10% discount and balance paid in cash)			

Case (c)

	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
	(Assets and liabilities of Mohan Bros. taken over)			
	Mohan Bros	Dr.	3,80,000	
	To Debentures A/c			3,45,400
	To Securities Premium A/c			34,540
	To Bank A/c			60
	(Issued of 3,454 debentures at 10% premium and balance paid in cash)			

Question 11

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

Solution

The solution to this question is as follows

Books of X. Ltd.				
Journal				
Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹

	Machinery A/c	Dr.	4,40,000	
	To Y			4,40,000
	(Machinery purchased from Y)			
	Y	Dr.	4,40,000	
	To 12% Debentures A/c			4,00,000
	To Securities Premium A/c			40,000
	(Allotted 4,000 debentures of ₹ 100 each at a premium of ₹ 10 per debenture in consideration of Machinery purchased)			

Question 12

X.Ltd. issued 15,000, 10% debentures of ₹ 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 ₹ 12, 00,000; and
- (iv) The debentures are issued to a supplier of machinery costing ₹ 13, 50,000.

Solution

The solution to this question is as follows:

(i)

Books of X. Ltd. Journal	
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Date	Particulars		L.F.	Debit Amount ₹	Credit Amount ₹
	Bank A/c	Dr.		16,50,000	
		To 10% Debentures A/c			15,00,000
		To Securities Premium A/c			1,50,000
	(Issued 15,000, 10% debentures of ₹ 100 each at 10% premium)				

X Ltd.

Balance Sheet

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Reserves and Surplus	1	1,50,000
2. Non-Current Liabilities		
a. Long-Term Borrowings	2	15,00,000
3. Current Liabilities		
Total		16,50,000
II. Assets		
1. Non-Current Assets		

2. Current Assets		
a. Cash and Cash Equivalents	3	16,50,000
Total		16,50,000

ACCOUNT NOTES

Note No.	Particulars	Amount (₹)
1	Reserves and Surplus	
	Securities Premium	1,50,000
2	Long-Term Borrowings	
	10% Debentures (Secured)	15,00,000
3	Cash and Cash Equivalents	
	Cash at Bank	16,50,000

(ii)

	Bank A/c	Dr.	14,25,000	
	Discount on Issue of Debentures A/c	Dr.	75,000	
	To 10% Debentures			15,00,000
	(Issued 15,000 10% Debenture of ₹ 100 each at 5% discount)			
X Ltd.				
Balance Sheet				

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
1. Shareholder's Funds		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	15,00,000
3. Current Liabilities		
Total		15,00,000
II. Assets		
1. Non-Current Assets		
a. Other Non-Current Assets	2	75,000
2. Current Assets		
a. Cash and Cash Equivalents	3	14,25,000
Total		15,00,000

ACCOUNT NOTES

Note No.	Particulars	Amount (₹)
1	Long-Term Borrowings	
	10% Debentures (Secured)	15,00,000
2	Other Non-Current Assets	
	Discount on Issue of Debentures	75,000
3	Cash and Cash Equivalents	

	Cash at Bank	14,25,000

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

X Ltd.		
Balance Sheet		
Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	12,00,000
3. Current Liabilities		
Total		12,00,000
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	2	12,00,000
Total		12,00,000

ACCOUNT NOTES

Note No.	Particulars	Amount (₹)
1	Long-Term Borrowings	
	Bank Loan (Secured against issue Debentures of ₹ 12,00,000)	12,00,000

2	Cash and Cash Equivalents	
	Cash at Bank	12,00,000

Alternative Method

	Debenture Suspense A/c	Dr.	15,00,000		
		To 10% Debentures A/c		15,00,000	
	(Issued 15,000 10% Debentures of ₹ 100 each as collateral security to bank against a loan of ₹ 12,00,000)				

X Ltd.**Balance Sheet**

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
1. Shareholders' Fund		
2. Non-Current Liabilities		
a. Long-Term Borrowings	1	12,00,000
3. Current Liabilities		
Total		12,00,000
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	2	12,00,000

Total		12,00,000

ACCOUNT NOTES

Note No.	Particulars	Amount (₹)
1	Long Term Borrowings	
	Secured:	
	Bank Loan	12,00,000
	10 % Debentures (Secured against issue of Debentures of ₹ 12,00,000)	15,00,000
	Less: Debenture Suspense Account	15,00,000
		—
		12,00,000
2	Cash and Cash Equivalents	
	Cash at Bank	12,00,000

(iv)

	Machinery A/c	Dr.		13,50,000	
		To Vendor A/c			13,50,000
	(Machinery purchased from vendor)				
	Vendor A/c	Dr.		13,50,000	
	Discount on Issue of Debentures A/c	Dr.		1,50,000	
		To 10% Debenture A/c			15,00,000

(15,000 10% Debentures @ ₹ 100 each issued at 10% discount to the vendor in consideration of Machinery of ₹ 13,50,000)			
X Ltd.			
Balance Sheet			
Particulars	Note No.	Amount (₹)	
I. Equity and Liabilities			
1. Shareholders' Funds			
2. Non-Current Liabilities			
a. Long Term Borrowings	1	15,00,000	
3. Current Liabilities			
Total		15,00,000	
II. Assets			
1. Non-Current Assets			
a. Fixed Assets			
i. Tangible Assets	2	13,50,000	
b. Other Non-Current Assets	3	1,50,000	
2. Current Assets			
Total		15,00,000	

ACCOUNT NOTES

Note No.	Particulars	Amount (₹)
1	Long Term Borrowings	
	10% Debentures (Secured)	15,00,000
2	Tangible Assets	
	Plant and Machinery	13,50,000
3	Other Non-Current Assets	
	Discount on Issue of Debentures	1,50,000

Question 13

Journalise the following:

- (i) A debenture issued at ₹ 95, repayable at ₹ 100;
- (ii) A debenture issued at ₹ 95, repayable at ₹ 105; and
- (iii) A debenture issued at ₹ 100, repayable at ₹ 105;

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

Solution

The solution to this question is as follows:

S.No.	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
(i)	Bank A/c	Dr.	95	
	Discount on Issue of Debenture A/c	Dr.	5	
	To Debenture A/c			100

	(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			5	
	(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 Debenture A/c			5	
	(Debenture of ₹ 100 issued with the term repayable at ₹ 105)					

Question 14

A.Ltd. Issued 50, 00,000, 8% Debenture of ₹ 100 at a discount of 6% on April 01, 2009 redeemable at premium of 4% by draw of lots as under:

20, 00,000 Debentures on March, 2011

10, 00,000 Debentures on March, 2013

20, 00,000 Debentures on March, 2014

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.

Solution

The solution to this question is as follows:

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

At the end of	Debenture Outstanding	Ratio	Loss to be written off every year		
March 2010	50,00,00,000	5	=		1,38,88,889
March 2011	50,00,00,000	5	=		1,38,88,889
March 2012	30,00,00,000	3	=		83,33,333
March 2013	30,00,00,000	3	=		83,33,333
March 2014	20,00,00,000	2	=		55,55,556
		18			Rs 5,00,00,000

Loss on Issue of Debenture Account							
Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2009 April 01	Debenture		5,00,00,000	2010 March 31	Profit and Loss		1,38,88,889
					Balance c/d		3,61,11,111
			5,00,00,000				5,00,00,000
2010 April 01	Balance b/d		3,61,11,111	2011 March 31	Profit and Loss		1,38,88,889
					Balance c/d		2,22,22,222
			3,61,11,111				3,61,11,111
2011 April 01	Balance b/d		2,22,22,222	2012 March 31	Profit and Loss		83,33,333
					Balance c/d		1,38,88,889

			2,22,22,222				2,22,22,222
2012 April 01	Balance b/d		1,38,88,889	2013 March 31	Profit and Loss		83,33,333
					Balance c/d		55,55,556
			1,38,88,889				1,38,88,889
2013 April 01	Balance b/d		55,55,556	2014 March 31	Profit and Loss		55,55,556
			55,55,556				55,55,556

Question 15

A company issues the following debentures:

- (i) 10,000, 12% debentures of ₹ 100 each at par but redeemable at premium of 5% after 5 years;
- (ii) 10,000, 12% debentures of ₹ 100 each at a discount of 10% but redeemable at par after 5 years;
- (iii) 5,000, 12% debentures of ₹ 1,000 each at a premium of 5% but redeemable at par after 5 years;
- (iv) 1,000, 12% debentures of ₹ 100 each issued to a supplier of machinery costing ₹ 95,000. The debentures are repayable after 5 years; and
- (v) 300, 12% debentures of ₹ 100 each as a collateral security to a bank which has advanced a loan of ₹ 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.

Solution

The solution to this question is as follows

In the books of
Journal

a) Issue of Debentures

S. No.	Particulars			L. F.	Debit Amount ₹	Credit Amount ₹
(i)	Bank A/c			Dr.	10,000	
		To 12% Debenture Application A/c				10,000
	(Debenture Application money of 10,000 12% debentures @ 100 each received)					
	12% Debenture Application A/c			Dr.	10,000	
	Loss on Issue of Debenture A/c			Dr.	500	
		To 12% Debenture A/c				10,000
		To Premium on Redemption of Debenture A/c				500
	(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
	(Debenture Application money received excluding discount on issue)			
	12% Debenture Application & Allotment A/c	Dr.	9,00,000	
	Discount on Issue of Debenture A/c	Dr.	1,00,000	
	To Debentures A/c			10,00,000
	(Debenture Allotment made due)			
(iii)	Bank A/c	Dr.	52,50,000	
	To Debenture Application and Allotment A/c			52,50,000
	(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			2,50,000

	(Allotment of debenture at premium)			
(iv)	Machinery A/c	Dr.	95,000	
	To Vender A/c			95,000
	(Machinery purchased from supplier)			
	Vender A/c	Dr.	95,000	
	Discount on Issue of Debenture	Dr.	5,000	
	To 12% Debenture A/c			1,00,000
	(Debenture issue at discount to vender of machinery)			
(v)	12% Debenture Suspense A/c	Dr.	30,000	
	To Debenture A/c			30,000
	(300, 12% Debentures of ₹ 100 each issued as collateral security to the bank against a loan of ₹ 25,000)			

b) Repayment of Debentures

S.No.	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
(i)	12% Debentures A/c	Dr.	10,00,000	
	Premium on Redemption of Debenture A/c	Dr.	50,000	

		To Debenture Holders A/c			10,50,000
	(Amount due on redemption of debentures)				
	Debenture Holders A/c	Dr.	10,50,000		
		To Bank A/c			10,50,000
	(Payment made to Debenture Holders)				
(ii)	12% Debenture A/c	Dr.	10,00,000		
		To Debenture Holders A/c			10,00,000
	(Amount due on redemption of debentures)				
	Debenture Holders A/c	Dr.	10,00,000		
		To Bank A/c			10,00,000
	(Payment made to Debenture Holders)				
(iii)	12% Debenture A/c	Dr.	50,00,000		
		To Debenture Holders A/c			50,00,000
	(Amount due on redemption of debentures)				
	Debenture Holders A/c	Dr.	50,00,000		
		To Bank A/c			50,00,000
	(Payment made to Debenture Holders)				
(iv)	12% Debenture A/c	Dr.	1,00,000		
		To Vender A/c			1,00,000
	(Amount due to vender)				
	Vender A/c	Dr.	1,00,000		

		To Bank			1,00,000
	(Payment made to vender)				
(v)	12% Debenture A/c	Dr.		30,000	
		To Debenture Suspense A/c			30,000
	(Debenture and debenture Suspense Account closed)				

Question 16

A company issued debentures of the face value of ₹ 5, 00,000 at a discount of 6% on April 01, 2012. These debentures are redeemable by annual drawings of ₹, 1, 00,000 made on March 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.

Solution

The solution to this question is as follows

Journal					
Date	Particulars		L.F.	Debit Amount ₹	Credit Amount ₹
2012					
Apr 1	Bank A/c	Dr.		4,70,000	
		To Debenture Application and Allotment A/c			4,70,000
	(Debenture Application money received)				
Apr 1	Debenture Application and Allotment A/c	Dr.		4,70,000	
	Discount on Issue of Debenture A/c	Dr.		30,000	

		To Debentures A/c			5,00,000
		(Debenture Application money transferred to Debenture Account)			

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

Assuming that the amount of discount on issue of debentures is to be written off in 5 years.

Year	Debenture outstanding	Ratio	Amount written off		
2012	5,00,000	5	=	10,000	
2013	4,00,000	4	=	8,000	
2014	3,00,000	3	=	6,000	
2015	2,00,000	2	=	4,000	
2016	1,00,000	1	=	2,000	
		15		30,000	

Date	Particulars		L.F.	Debit Amount ₹	Credit Amount ₹
2013 Mar 31	Profit and Loss A/c	Dr.		10,000	
	To Discount on Issue of Debentures A/c				10,000
	(Discount on issue of debentures written off)				
2014					
Mar 31	Profit and Loss A/c	Dr.		8,000	
	To Discount on Issue of Debentures A/c				8,000
	(Discount on issue of debentures written off)				

2015					
Mar 31	Profit and Loss A/c	Dr.		6,000	
	To Discount on Issue of Debenture A/c				6,000
	(Discount on issue of debentures written off)				
2016					
Mar 31	Profit and Loss A/c	Dr.		4,000	
	To Discount on issue of Debentures A/c				4,000
	(Discount on issue of debenture written off)				
2017					
Mar 31	Profit and Loss A/c	Dr.		2,000	
	To Discount on Issue of Debenture A/c				2,000
	(Discount on issue of debenture written off)				

Question 17

A company issued 10% Debentures of the face value of ₹, 1, 20,000 at a discount of 6% on April 01, 2011. The debentures are payable by annual drawings of ₹ 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 March 31 every year.

Solution

The solution to this question is as follows

In the books of..... Journal	
--	--

Date	Particulars	L.F	Debit Amount ₹	Credit Amount ₹
2011 Apr. 01	Bank A/c Dr.		1,12,800	
	To Debenture Application and Allotment A/c			1,12,800
	(Debentures Application Money received)			
Apr. 01	Debentures Application and Allotment A/c Dr.		1,12,800	
	Discount on issue of Debenture A/c Dr.		7,200	
	To 10% Debenture A/c			1,20,000
	(Debenture Application Money transferred to Debenture Account)			
2012 Mar. 31	Profit and Loss A/c Dr.		1,800	
	To Discount on Issue of Debentures A/c			1,800
	(Discount on issue of debenture written off)			
2013 Mar. 31	Profit and Loss A/c Dr.		1,800	
	To Discount on Issue of Debenture A/c			1,800
	(Discount on issue of debenture written off)			

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Discount on Issue of Debentures							
Dr.							Cr.
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
2011 Apr. 01	10% Debentures		7,200	2012 Mar. 31	Profit and Loss		1,800
					Balance c/d		5,400
			7,200				7,200

2012 Apr. 01	Balance b/d		5,400	2013 Mar. 31	Profit and Loss		1,800
					Balance c/d		3,600
			5,400				5,400
2013 Apr. 01	Balance b/d		3,600	2014 Mar. 31	Profit and Loss		1,800
					Balance c/d		1,800
			3,600				3,600
2014 Apr. 01	Balance b/d		1,800	2015 Mar. 31	Profit and Loss		1,200
					Balance c/d		600
			1,800				1,800
2015 Apr. 01	Balance b/d		600	2016 Mar 31	Profit and Loss		600
			600				600

i) 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		
2011-12	1,20,000	3	=	1,800	
2012-13	1,20,000	3	=	1,800	
2013-14	1,20,000	3	=	1,800	

2014-15	80,000	2	=	1,200
2015-16	40,000	1	=	600
		12		₹ 7,200

Question 18

B. Ltd. issued debentures at 94% for ₹ 4, 00,000 on April 01, 2011 repayable by five equal drawings of ₹ 80,000 each. The company prepares its final accounts on March 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: 2012 ₹ 8,000; 2013 ₹ 6,400; 2014 ₹ 4,800; 2015 ₹ 2,000; 2016 ₹ 1,600).

Solution

The solution to this question is as follows:

Debenture issued = 4,00,000 @ 94%

Discount on Issue = 6%

Amount on Discount on Issue of Debenture

$$= 4,00,000 \times \frac{6}{100} = 24,000$$

Amount of discount to written off every year

In 2012 = ₹8,000

In 2013 = ₹6,400

In 2014 = ₹4,800

In 2015 = ₹3,200

In 2016 = ₹1,600

Working Notes:

Year	Debentures Outstanding	Ratio	Months	New Ratio (Ratio × Months)	Amounts written off
------	------------------------	-------	--------	----------------------------	---------------------

2012					
Apr-Mar	3,20,000	5	12	60	$24,000 \times 60180 = ₹8,000$ $24,000 \times 60180 = ₹8,000$
2013					
Apr-Mar	2,40,000	4	12	48	$24,000 \times 48180 = ₹6,400$ $24,000 \times 48180 = ₹6,400$
2014					
Apr-Mar	1,60,000	3	12	36	$24,000 \times 36180 = ₹4,800$ $24,000 \times 36180 = ₹4,800$
2015					
Apr-Mar	80,000	2	12	24	$24,000 \times 24180 = ₹3,200$ $24,000 \times 24180 = ₹3,200$
2016					
Apr-Mar	80,000	1	12	12	$24,000 \times 12180 = ₹1,600$ $24,000 \times 12180 = ₹1,600$
				180	

Important Note: As per NCERT textbook, ₹2,000 discount has been written off in the year 2015 which is incorrect because then the total discount amounts to ₹22,800. Therefore, it should be ₹3,200.

Question 19

B. Ltd. issued 1,000, 12% debentures of ₹ 100 each on April 01, 2014 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 March 31, 2015 assuming that interest is paid half yearly on September 30 and March 31 and tax deducted at source is 10%.

Solution

The solution to this question is as follows

Date	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
2014				
Apr. 01	Bank A/c	Dr.	95,000	
	Loss on Issue on Debentures A/c	Dr.	15,000	
	To 12% Debenture A/c			1,00,000
	To Premium on Redemption of Debentures A/c			10,000
	(Debenture issued at discount and redeemable at Premium)			
Sept. 30	Debenture Interest A/c	Dr.	6,000	
	To Income Tax Payable A/c			600
	To Debenture Holders A/c			5,400
	(Amount of interest on 12% debentures ₹ 1,00,000 due for 6 months and 10% tax deducted at source)			
Sept. 30	Debenture Holders A/c	Dr.	5,400	
	To Bank A/c			5,400
	(Interest paid to Debenture Holders)			
2015 Mar. 31	Debenture Interest A/c	Dr.	6,000	

		To Income Tax Payable A/c			600
		To Debenture Holders A/c			5,400
	(Amount of interest on 12% Debentures ₹ 1,00,000 due for 6 months and 10% tax deducted at source)				
Mar. 31	Debenture Holders A/c	Dr.			5,400
		To Bank A/c			5,400
	(Interest paid to Debenture Holders)				
Mar. 31	Profit and Loss A/c	Dr.		12,000	
		To Debenture Interest A/c			12,000
	(Interest on debentures transferred to Profit and Loss Account)				

Question 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?

Solution

The solution to this question is as follows:

S.No.	Particulars	L.F.	Debit Amount ₹	Credit Amount ₹
(a)	Debenture A/c	Dr.		
	Premium on Redemption of Debenture A/c	Dr.		

		To Debenture Holders A/c			
	(Amount due for redemption of Debentures)				
	Debenture Holders A/c	Dr.			
		To Bank A/c			
	(Payment made to Debenture Holders)				
(b)	Debenture A/c	Dr.			
		To Debenture Holders A/c			
	(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			
	(Payment made to Debenture Holders)				
(c)	Debenture A/c	Dr.			
	Premium on Redemption of Debenture A/c	Dr.			
		To Debentures Holders A/c			
	(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			
	(Payment made to Debenture Holders)				

Concepts covered in this chapter –

- Meaning and definition of debentures

- Difference between Shares and Debentures
- Types of debentures
- Issue of debentures
- Over subscription
- Interest on debentures
- Sinking fund method

Conclusion
