

Unit 3 & 4: ACCOUNTING FOR SHARE CAPITAL & DEBENTURE

THEORETICAL QUESTIONS

Q.1 Jain Ltd has incurred a loss of Rs. 8,00,000 before payment of interest on debentures. The directors of the company are of the opinion that interest on debentures is payable only when company earn profit. Do you agree?

Q.2 As per latest guidelines governing the servicing of debentures a company is required to create on special account. Name that account.

Q.3 Name the method of redemption of debentures in which there is no requirement of creating Debenture Redemption Reserve.

Q.4 What is the nature of receipt of premium on issue of shares?

Q.5 Can a company issue shares at a premium in the absence of any express authority in its articles?

Q.6 What is the maximum rate of interest which the board of directors of a company can normally pay on calls-in-advance if the articles are silent on the matter of such interest?

Q.7 State with reason whether a company can issue its shares at a discount in its Initial Public Offer (IPO).

Q.8 Why securities premium money can not be used for payment of cash dividend among shareholders?

Q.9 Jamuna Ltd. with paid-up share capital of Rs. 60,00,000 has a balance of Rs. 15,00,000 in securities premium account. The company management does not want to carry over this balance. You are required to suggest the method for utilizing this premium money that would achieve the objectives of the management and maximize the return to shareholders.

Q.10 Distinguish between a share and a Debenture.

Q.11 Can share premium be utilised for the purchase of fixed assets?

Q.12 State in brief, the SEBI guidelines regarding Debenture Redemption Reserve(DRR).

Q.13 Which companies are exempted from the obligation of creating DRR by SEBI?

Q.14 What is the restriction on reissue of forfeited shares at discount?

PRACTICAL QUESTIONS

Q.1 X Ltd. issued 20,000 shares of Rs. 10 each at a premium of 10% payable as follows:-

On application Rs. 2 (1st Jan 2001), on allotment Rs. 4 (including premium) (1st April 2001), On first call Rs. 3 (1st June 2001), on second call & final call Rs. 2 (1st Aug. 2001).

Applications were received for 18,000 shares and the directors made allotment in full. One shareholder to whom 40 shares were allotted paid the entire balance on his share holdings with allotment money and another shareholder did not pay allotment and 1st call money on his 60 shares but which he paid with final call.

Calculate the amount of interest paid and received on calls-in-advance and calls-in-arrears respectively on 1st Aug. 2001.

Q.2 X Ltd took over the assets of Rs. 6,60,000 and liabilities of Rs. 80,000, Y Ltd for Rs. 600,000. Show the necessary journal entries in the book of X Ltd. assuming that

Case-I : The consideration was payable 10% in cash and the balance in 54000 equity shares of Rs. 10 each.

Case-II : The consideration was payable 10% in cash and the balance in 45000 equity shares of Rs. 10 each.

Case-III : The consideration was payable 10% in cash and the balance in 60,000 equity shares of Rs. 10 each.

Q.3 X Ltd. was formed with a capital of Rs. 500,000 divided into shares of Rs. 10 each out of these 2000 shares were issued to the vendors as fully paid as purchase consideration for a building acquired, 1000 shares were issued to signatories to the memorandum of association as fully paid. The directors offered 6500 shares to the public and called up Rs. 6 per and received the entry called up amount on share allotted. Show these transaction in the Balance sheet of a company.

Q.4 X Ltd. invited applications for 11,000 shares of Rs. 10 each issued at 10% premium payable as:

On application Rs. 3 (including Rs. 1 premium)

On allotment Rs. 4 (including Rs. 1 premium)

On 1st Call Rs. 3

On 2nd & final call Rs. 2

Application were received for 24000 shares.

Category I : One fourth of the shares applied for allotted 2000 shares.

Category II: Three fourth the shares applied for allotted 9000 shares.

Remaining applicants were rejected. Mr. Mohan holding 300 shares out of category II failed to pay allotment and two calls and his shares were re issued @ Rs. 11 fully paid-up. Pass necessary journal entries.

Q.5 A company forfeited 240 shares of Rs. 10 each issued to raj at a premium of 20%. Raman had applied for 300 shares and had not paid anything after paying Rs 6 per share including premium on application. 180 shares were reissued at Rs. 11 per share fully paid up. Pass journal entries relating to forfeiture and reissue of shares.

Q.6 On 1st July 2007. A Ltd gave notice of their intention to redeem their outstanding Rs. 400,000 8% Debentures on 1st January, 2008 @ Rs. 102 each and offered the holders the following options-

- (a) To subscribe for (i) 6% cumulative preference shares of Rs. 20 each at Rs. 22.50 per share, accepted by debenture holders of Rs. 1,71,000 or (ii) 12% debentures were issued @96% accepted by the holders of Rs. 1,44,000 Debentures.
- (b) Remaining debentures to be redeemed for cash if neither of the option under (a) was accepted. Pass necessary journal entries.

Q. 7 Sonu Ltd. company issued 15,000 shares of Rs. 10 each. Payment on there shares is to be made as follows:

On application Rs. 4 (1st Feb, 2003)

On allotment Rs. 3 (1st April, 2003)

On final call Rs. 3 (1st May, 2003)

Rakesh to whom 1000 shares were allotted paid the full amount on application and moham to whom 200 shares were allotted paid the final call money on allotment. Interest @ 6% was paid on 1st May, 2003. Pass necessary journal entries.

Q.8 TPT Ltd. invited applications for issuing 1,00,000 equity shares of Rs. 10 each at a premium of Rs. 3 per share. The whole amount was payable on application. The issue was over subscribed by 30,000 shares and allotment was made on pro-rata basis. Pass necessary journal entries in the books of the company.

Q9 What is Zero Coupon Bond ?

Q10 What is a Debenture Trust Deed?

Q.11 On 01-04-1999, A Ltd., issued 2000, 7% debentures of Rs. 100 each at a discount of 10% redeemable at par after 4 years by converting them into equity shares of Rs. 100 each issued at a premium of 25%.

Pass journal entries in the following cases:

- (i) If debentures are redeemed on maturity.
- (ii) If debentures are redeemed before maturity.

Q.12 Pass journal entries for the following at the time of issue of debentures:

- (a) B Ltd. issues 30,000, 12% Debentures of Rs. 100 each at a discount of 5 % to be repaid at par at the end of 5 years.
- (b) E Ltd. issues Rs. 60,000, 12% Debentures of Rs. 100 each at a discount of 5 % repayable at a premium of 10% at the end of 5 years.
- (c) F Ltd. issues Rs. 70,000, 12% Debentures of Rs. 100 each at a premium of 5 % redeemable at 110%.

Q.13 500 shares of Rs. 100 each issued at a discount of 10% were forfeited for the non-payment of allotment money of Rs. 50 per share. The first and final call of Rs.10 per share on these shares were not made. The forfeited shares were reissued at Rs. 80 per share fully paid-up.

Q.14 200 shares of Rs. 100 each issued at a discount of 10% were forfeited for the non payment of allotment money of Rs. 50 per share. The first and final call of Rs. 10 per share on these shares were not made. The forfeited share were reissued at Rs. 14 per share fully paid up.

Q.15 800 Shares of Rs. 10 each issued at per were forfeited for the non-payment of final call of Rs. 2 per share. These shares were reissued at Rs. 8 per share fully paid-up.