

**CHAPTER-DEBENTURES.**

Q-1.Yashraj Ltd. Has 40,000, 9% Debentures of Rs. 100 each due for redemption on 31<sup>st</sup> March 2015. Assume that Debenture Redemption Reserve has a balance of Rs. 7, 20,000 on that date. It was decided to invest the required amount towards Debenture Redemption Investment. Investments were realized at 102% less 0.25% brokerage and debentures were redeemed. Record the necessary entries.

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**BOOKS OF YASHRAJ LTD.**

| DATE             | PARTICULAR  | L.<br>F. | Dr.(Rs.) | Cr.(Rs.)           |
|------------------|---|----------|----------|--------------------|
| 2014<br>april 30 | Debenture redemption investment A/c Dr.<br>To bank A/c<br>(investment made @ 15% of the face value of debentures to be redeemed)                    |          | 6,00,000 | 6,00,000           |
| 2015<br>March 31 | bank A/c Dr.<br>To Debenture redemption investment A/c<br>To profit on sale of investment A/c<br>(Investment encashed at 102% less brokerage 0.25%) |          | 6,10,470 | 6,00,000<br>10,470 |
| March 31         | profit on sale of investment A/c Dr.<br>To statement of profit & loss<br>(transfer of profit on sale of investment)                                 |          | 10,470   | 10,470             |
| March 31         | Surplus in statement of profit & loss Dr.<br>To debenture redemption reserve A/c  |          | 2,80,000 | 2,80,000           |

|          |   |  |           |           |
|----------|---|--|-----------|-----------|
|          | (transfer of profits as per SEBI guidelines)  |  |           |           |
| March 31 | 9% debentures A/c Dr.<br>To Debenture holders A/c<br>(amount due to redemption)   |  | 40,00,000 | 40,00,000 |
| March 31 | Debenture holders A/c<br>To bank A/c<br>(Payment of amount due to debenture holders)  |  | 40,00,000 | 40,00,000 |
| March 31 | Debenture redemption reserve A/c Dr.<br>To general reserve A/c<br>(transfer of Debenture redemption reserve A/c<br>To general reserve A/c on the redemption of all<br>the debentures) |  | 10,00,000 | 10,00,000 |

Working note :

(1) 102% of RS.6,00,000  
Less : 0.25% of Rs.6,12,000  
6,10,470

RS.

6,12,000  
1,530

(2) Total amount required for transfer to  
Debenture redemption reserve = 25% of 40,00,000  
Less: existing balance  
Amount now required to be transferred to debenture  
Redemption reserve

Rs.  
= 10,00,000  
= 7,20,000

2,80,000

Q-2.Suruchi Garmets Ltd. Purchased for immediate cancellation 5,000, 10% debentures of Rs. 250 each for Rs. 12,00,000. Brokerage paid @ 0.5% pass necessary journal entries

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| DATE | PARTICULARS  | L.F | Dr. AMOUNT | Cr. AMOUNT          |
|------|--|-----|------------|---------------------|
|      | Own Debentures A/C Dr.<br>To Bank A/C<br>(Purchase of 5,000 own debentures)  |     | 12,06,000  | 12,06,000           |
|      | 10% debentures A/C Dr.<br>To own Debentures A/C<br>To profit on redemption of debentures A/C<br>(cancellation of 5,000 own debentures) |     | 12,50,000  | 12,06,000<br>44,000 |

|  |  |  |        |        |
|--|--|--|--------|--------|
|  | Profit on Redemption of Debentures A/C Dr.<br>To Capital Reserve A/C<br>(profits on cancellation of own debentures credited to capital reserves) |  | 44,000 | 44,000 |
|--|--|--|--------|--------|

Q-3. Z Ltd. Took over assets of Rs. 7,00,000 and liabilities of Rs. 60,000 of X Ltd. For a purchase consideration of Rs. 6,60,000. Z Ltd. Paid the purchase consideration by issuing 12% debentures of Rs. 100 each at 10% premium.

Give Journal entries in the books of Z Ltd.

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#### JOURNAL OF Z LTD.

|  | <i>Particulars</i>  | <i>L.F.</i> | <i>Dr.<br/>Amount</i> | <i>Cr.<br/><u>Amount</u></i> |
|--|---|-------------|-----------------------|------------------------------|
|  | <b>D</b><br>a<br>t<br>e   |             |                       |                              |
|  | Sundry Assets A/c Dr.<br>Goodwill A/c Dr.<br>To Sundry Liabilities A/c<br>To X Ltd.<br>(Purchase of assets and liabilities of X Ltd.)   |             | 7,00,000<br>20,000    | 60,000<br>6,60,000           |
|  | X Ltd. Dr.<br>To 12% Debentures A/c<br>To Securities Premium A/c<br>( Issue of 6,000 Debenture of Rs.100 each at 10% premium,<br>Calculated as follows : 660000/110<br>= 6,000 Debentures ) |             | 6,60,000              | 6,00,000<br>60,000           |

Q-4. X Ltd., decided to redeem Rs. 5,00,000, 8% debentures on 31<sup>st</sup> March 2015. On the same date in purchased Rs. 4,00,000 debentures in open market at Rs. 98.50 each. The expenses being Rs. 1,500 and redeemed the balance of Rs. 1, 00,000 debentures by draw of lots. Journalise.

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X Ltd.

## JOURNAL

| Date                    | Particular  | L.F | Dr. Amount    | Cr. Amount        |
|-------------------------|---|-----|---------------|-------------------|
| 2014<br>A p r i l<br>30 | Debenture Redemption Investment Ac Dr.<br>To Bank A/c<br>(Investment made @ 15% of the face value of debentures to be redeemed )                    |     | Rs.<br>75,000 | Rs.<br>75,000     |
| 2015<br>M a r c h<br>31 | Bank A/c Dr<br>To debenture Redemption Investment A/c<br>(Investment encashed ).  |     | 75,000        | 75,000            |
| M a r c h<br>31         | Own Debenture A/c Dr.<br>To Bank A/c<br>(4,000 debentures purchased for immediate cancellation at Rs. 98.50 each plus Rs. 1,500 paid for expenses ) |     | 3,95,500      | 3,95,500          |
| M a r c h<br>31         | 8% Debentures A/c Dr.<br>To Own Debentures A/c<br>To Profit on Redemption of Debenture A/c<br>(Cancellation of 4,000 debentures )                   |     | 4,00,000      | 3,95,500<br>4,500 |
| March<br>31             | 8% Debentures A/c Dr.<br>To debenture holder A/c<br>(Payment due on redemption of debentures<br>By drawing lot )                                    |     | 1,00,000      | 1,00,000          |

|             |   |     |          |          |
|-------------|---|-----|----------|----------|
| March<br>31 | Debenture holders A/c<br>To Bank A/c<br>(Payment made to debentureholders )   | Dr. | 1,00,000 | 1,00,000 |
| March<br>31 | Profit on redemption of Debentures A/c<br>To capital Reserve A/c<br>(Profit on Redemption transferred to Capital Reserve A/c ). | Dr. | 4,500    | 4,500    |

Notes : Entries for debenture Redemption Investment should be passed when in addition to Purchase in the open market debentures are redeemed by draw of lots.

Q-5. What entry may be passed when debentures are issued as Collateral Security?

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1. Debentures suspense A/c  
To debentures A/c

(debentures issued as collateral security)

Q-6. Madhu Ltd. issued 5,000, 9% Debentures of Rs. 1,000 each on April 1, 2012 redeemable at a premium of 8% after 10 years. According to the terms of prospectus Rs. 400 is payable on application and balance on allotment of debentures. Record necessary entries regarding issue of debentures.

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Books of Madhu Ltd.

### JOURNAL

| Date            | Particular  | L.F | Dr.<br>amount    | Cr.<br>amount    |
|-----------------|---|-----|------------------|------------------|
| 2012<br>April 1 | Bank A/c<br>To 9%debenture application A/c<br>(application money received on 5,000 debentures @ Rs. 400 each) | Dr. | Rs.<br>20,00,000 | Rs.<br>20,00,000 |
|                 | 9% Debenture Application A/c<br>To 9% Debentures A/c<br>(application money transferred to 9%                  | Dr. | 20,00,000        | 20,00,000        |

|  |     |           |           |  |
|--|-----|-----------|-----------|--|
| Debtures A/c<br>Consequent to allotment)   |     |           |           |  |
| 9% Debenture allotment A/c   | Dr. | 30,00,000 |           |  |
| Loss on issue of Debtures A/c  | Dr. | 4,00,00   |           |  |
| To 9% Debtures A/c   |     |           | 30,00,000 |  |
| To premium on redemption A/c<br>(allotment due @ Rs. 600 each on 5,000<br>debentures issued at par, redeemable at 8%<br>premium) |     |           | 4,00,00   |  |
| Bank A/c   | Dr. | 30,00,000 |           |  |
| To 9% Debenture allotment A/c<br>(allotment money received)  |     |           | 30,00,000 |  |

Q-7. Dhariwal Ltd. had issued 40,000, 11% Debentures of Rs. 100 each which are due for redemption on March 31<sup>st</sup> 2015. It was decided to invest the required amount Redemption Reserve Account a balance of Rs. 3, 10,000. Record the necessary journal entries at the time of Redemption of Debentures.

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Books of Dhariwal Ltd.

## JOURNAL

| Date             | Particulars   | L.<br>F | Dr. (Rs.) | Cr. (Rs.) |
|------------------|---|---------|-----------|-----------|
| 2014<br>April 30 | Debenture redemption investment A/c Dr.<br>To bank A/c<br>(investment made @ 15% of the face value of<br>Debentures to be redeemed i.e. 15% of Rs. 40,00,000) |         | 6,00,000  | 6,00,000  |
| 2015<br>March 31 | Bank A/c Dr.<br>To debenture redemption investment A/c<br>(investment encashed)   |         | 6,00,000  | 6,00,000  |
| March 31         | Surplus in statement of profit and loss Dr.<br>To debenture redemption reserve A/c<br>(transfer of profit to Debenture redemption reserve)                    |         | 6,90,000  | 6,90,000  |
| March 31         | 11% Debenture holders A/c Dr.<br>To debentureholders A/c<br>(amount due to debenture holders on redemption of   |         | 40,00,000 |           |

|          |  |     |           |           |
|----------|--|-----|-----------|-----------|
| March 31 | debentures)  |     |           | 40,00,000 |
|          | Debentureholders A/c                                       | Dr. | 40,00,000 |           |
|          | To bank A/c<br>(payment of amount due to debentureholders) |     |           | 40,00,000 |

Notes:

Rs.

|   |                 |
|---|-----------------|
| (1) Total amount required for transfer to debenture redemption Reserve = 25% of Rs. 40,00,000 | 10,00,000       |
| Less: Existing Balance  | 3,10,000        |
| Amount now required to be transferred to Debenture Redemption reserve                         | <u>6,90,000</u> |

(2) *Debenture redemption reserve will be transferred to General Reserve when all debentures are redeemed.*

Q.8 Pass the necessary journal entries form the following cases for issue of debentures.

(i) 10000, 10% debentures of Rs. 120 each issued at 5% premium, repayable at par.

(ii) 20,000, 9% Debentures of Rs. 200 Each issued at 20% premium, repayable at 30% premium.

| Date   | Particular   | L.F. | Dr. Rs.            | Cr. Rs.                      |
|--------|--|------|--------------------|------------------------------|
| (i)1.  | Bank A/c Dr<br>To 10%debentures app and allot ac   |      | 1260000            | 1260000                      |
| 2      | 10%debentures app and allot ac Dr.<br>To 10% Debentures ac<br>To security prem res ac  |      | 1260000            | 1200000<br>60000             |
| (ii)1. | Bank A/c Dr.<br>To 9% Debentures app and allot ac  |      | 4800000            | 4800000                      |
| 2.     | 9% Debentures app and allot ac Dr.<br>Loss on issue of debentures ac Dr.<br>To 9% Debentures Ac<br>To Security prem res. Ac<br>To Prem on red on debentures ac |      | 4800000<br>1200000 | 4000000<br>800000<br>1200000 |