

## ISSUE AND REDEMPTION OF DEBENTURES

1. Reliance Co. purchased assets of Rs.5,00,000 and took over liabilities of Rs.90,000 at an agreed value of Rs.3,80,000. Reliance Co. issued debentures of Rs.100 each at 5% discount in full satisfaction of the purchase price. Give journal entries in the books of Reliance Co.
2. Y Ltd. purchased plant and machinery for Rs.2,00,000 from Z Ltd. 20% of the amount was paid by Y Ltd. by accepting a bill of exchange in favour of Z Ltd. and the balance was paid by issuing 6% debentures of Rs.1,000 each at a premium of 25%. Journalise the above transactions.
3. X Ltd. purchased assets of Y Ltd. as under:  
  
Plant and Machinery of Rs.20,00,000 at Rs.18,00,000; Land and Buildings of Rs.30,00,000 at Rs.42,00,000 for purchase consideration of Rs.55,00,000 and paid Rs.10,00,000 in cash and remaining by issue of 8% Debentures of Rs.100 each at a premium of 20%. Record necessary entries in the books of X Ltd.
4. Meghnath Limited took a loan of Rs.1,20,000 from a bank and deposited 1,400, 8% debentures of Rs.100 each as collateral security along with primary security worth Rs.2 lakhs. Company again took a loan of Rs.80,000 after two months from a bank and deposited 1,000, 8% debentures of Rs.100 each as collateral security. Record necessary journal entries and prepare the balance sheet of the company.
5. A Ltd. Company issued debentures of Rs.1,00,000 which were issued as follows:
 

(1) For cash at 90%	Rs.50,000(Nominal)
(2) For creditor for Rs.20,000	
Capital Expenditure in satisfaction of his claim	Rs.25,000(Nominal)
(3) To Bankers for a loan of Rs.15,000 as collateral security	Rs.25,000(Nominal)

The issue (1) and (2) are redeemable at the end of 10 years at par. How should the debentures be dealt with in preparing the Balance Sheet of the Company?
6. Kussum Steel Industries Ltd. issued 21,00,000, 7.5% Debentures of Rs.100 each on March 31,2002 redeemable at a premium of 8% on 30th June,2009. The Board of Directors decided to transfer the required amount to Debenture Redemption Reserve in three equal annual instalments starting with March 31,2007. Record necessary journal entries regarding issue and redemption of debentures. Ignore entries relating to interest paid on debentures.
7. Akanksha enterprises Ltd. issued 10,00,00,000, 6% Debentures of Rs.10 each on September 1, 2001 redeemable at a premium of 7% as under:
 

On March 31,2005	5,00,00,000 Debentures
On March 31,2007	2,50,00,000 Debentures

On March 31, 2009

2,50,00,000 Debentures

The Board of Directors has also decided to transfer the required amount to Debenture Redemption Reserve in four equal annual instalments starting with March 31, 2002. record necessary journal entries. Ignore entries for interest.

8. D Ltd. redeemed Rs.30,00,000, 8% debentures issued at a premium of 5% as follows:

Rs.12,00,000, 8% debentures were converted into equity shares of Rs.100 each at a premium of Rs.25 per share and the balance by converting them into 8% preference shares of Rs.100 each issued at a discount of Rs.10 per share. Pass the necessary journal entries in the books of the company. Show your workings clearly.

9. Journalise the following transactions:

(1) X Ltd. redeemed 1,000, 15% debentures of rs.100 each which were issued at a discount of 6% by converting them into equity shares of Rs.10 each issued at par.

(2) Y Ltd. redeemed 400, 12% debentures of Rs.100 each which were issued at a discount of 5% by converting them into 11% preference shares of Rs.100 each at a premium of Rs.25 per share.

(3) Z Ltd. converts 500, 12% debentures of Rs.200 each issued at a discount of 10% into 2,000 equity shares of Rs.50 each, Rs.45 paid-up.

All of the above debentures were converted at the option of the debentureholders before the date of redemption.

10. On 1st April, 2011, a company issued 1,000, 12% debentures of Rs.500 each at Rs. 450 each. Debentureholders were given an option to get their debentures converted into Equity Shares of Rs.100 each at a premium of Rs.50 per share. On 31st March 2012, one year's interest had accrued on these debentures which was not paid. A holder of 100 debentures informed that he wanted to exercise the option for conversion of debentures into Equity Shares. The company, therefore, accepted his request and redeemed these 100 debentures by issuing him Equity shares. The interest, however, on these 100 debentures was paid to the debentureholder.

Pass the necessary journal entries to record the above transactions in the books of the company.

11. Company gave notice of its intention to redeem its outstanding Rs.4,00,000, 12% Debenture Stock at Rs.102 per cent, and offered the holders the following options:

To apply the redemption money for subscribing:

(a) 8% Cumulative Preference Shares of Rs.20 each at Rs.22.50 per share.

(b) 10% Debenture Stock at 96%.

(c) To have their holding redeemed for cash.

Holders of Rs.1,71,000 stock accepted the proposal(a).

Holders of Rs.1,44,000 stock accepted the proposal(b).

And the remaining stock holders accepted the proposal(c).

Pass the journal entries to record the above transactions.

12. Pass necessary journal entries for the redemption of debentures in the following cases in the books of Jain Ltd.:

(i) redeemed 5,400, 12% debentures of rs.100 each by draw of lots.

- (ii) Converted 667, 12% debentures of Rs.100 each into equity shares of Rs.100 each issued at a premium of 25%.

### **VALUE BASED QUESTION:**

13. X Ltd. issued 6,00,000, 10% Debentures of Rs.100 each to be redeemed in three equal instalments beginning 1st April,2009. It duly redeemed the debentures as per the terms of issue. Identify the values followed by X Ltd. in redeeming debentures on time.