

Chapter 9- Issue of Debentures

Question 1

X company issued 4,000; 10% debentures of ₹. 100/- each, payable ₹. 20/- on the application and balance amount on the allotment. The debentures are redeemable after 5 years. Applications were received for the issued debentures and allotment was made to all the applicants. The amount was received on due dates.

Pass the necessary journal entries.

Solution:

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Date	Particulars		L.F.	Dr (₹)	Cr (₹)
	Bank A/c	Dr.		80,000	
	To Debentures application A/c				80,000
	(Being the application money received on 4,000; 10% debentures @ ₹. 20/ debenture)				
	Debenture application A/c	Dr.		80,000	
	To 10% debentures A/c				80,000
	(Being the allotment of 4,000; 10% debentures of ₹. 100 each)				
	Debenture allotment A/c	Dr.		3,20,000	
	To 10% debentures A/c				3,20,000
	(Being the amount due on 4,000; 10% debentures on allotment @ ₹.80/- debenture)				
	Bank A/c	Dr.		3,20,000	
	Debenture allotment A/c				3,20,000
	(Being the amount received against allotment)				

Question 2

Axe Ltd. issued 20,000; 9% debentures of ₹. 100/- each at a discount of 4% on 1st April 2018, payable ₹. 30/- on the application and the balance on the allotment. The debentures are redeemable after 5 years. Pass necessary journal entries.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr (₹)	Cr (₹)
2018 April 1	Bank A/c	Dr.		6,00,000	

To Debentures application A/c				6,00,000
(Being the application money on 20,000; 9% debentures @ ₹. 30/- each received)				
Debentures application A/c	Dr.		6,00,000	
To 9% debentures A/c				6,00,000
(Being the debentures application money transferred to 9% debenture A/c)				
Debenture allotment A/c	Dr.		13,20,000	
Discount on issue of debentures A/c	Dr.		80,000	
To 9% debentures A/c				14,00,000
(Being the allotment money due on 20,000; 9% debentures)				
Bank A/c	Dr.		13,20,000	
To Debenture allotment A/c				13,20,000
(Being the amount received on allotment)				

Question 3

Titan Watches Ltd. issued 7,500, 8% debentures of ₹. 100/- each at par for a subscription payable along with the applications. The subscription was received for 7,000 debentures. The debentures were duly allotted. Pass the journal entries.

Solution:

In the books of Titan Watches Ltd.

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Date	Particulars		L.F.	Dr (₹)	Cr (₹)
	Bank A/c	Dr.		7,00,000	
	To debentures application and allotment A/c				7,00,000
	(Being the applications received for 7,000; 8% debentures @ ₹. 100/- debenture)				
	Debentures application and allotment A/c	Dr.		7,00,000	
	To 8% debentures A/c				7,00,000
	(Being 7,000; 8% debentures of ₹. 100/- each allotted)				

Question 4

Hibiscus Ltd. purchased a piece of land from JNR Ltd. and paid the consideration as follows:

- Issued a cheque for ₹. 10,00,000/-

- Issued a bill exchange for 3 months for ₹. 5,00,000/-
- Issued 5,000; 9% Debentures of ₹. 100/- each at par redeemable at 10% premium after 5 years.

Pass the journal entry.

Solution:

Date	Particulars		L.F.	Dr (₹)	Cr (₹)
	Land A/c	Dr.		20,00,000	
	Loss on the issue of debentures A/c	Dr.		50,000	
	To Bank A/c				10,00,000
	To Bills Payable A/c				5,00,000
	To 9% Debentures A/c				5,00,000
	To premium on redemption of debentures A/c				50,000
	(Being the land purchased and consideration paid)				

Question 5

V Ltd. issued 5,000; 9% debentures of ₹. 100/- each at par and also raised a loan of ₹. 80,000/- from the bank, collaterally secured by ₹. 1,00,000/-; 9% debentures. How will be the debentures shown in the balance sheet of the company assuming that the company has passed journal entry for the issue of debentures as collateral security in the books?

Solution:

An Extract of Balance Sheet of V Ltd. as at...

Particulars	Note No.	₹
• EQUITY AND LIABILITIES		
Non-Current Liabilities	1	
Long-term Borrowings		5,80,000

Note to Accounts

• Long-term Borrowings		₹
		5,00,000
5,000; 9% debentures of ₹.100/- each		80,000
Loan from bank		
1,000; 9% debentures of ₹. 100/- each issued as Collateral Security	1,00,000	
Less: Debentures Suspense A/c	1,00,000	
		5,80,000

Question 6

Debentures are shown in the Balance Sheet of a firm below the head of,

- Non-current liabilities
- Current liabilities
- Share capital
- None of these

Answer: Non-current liabilities

Question 7

Debentureholders are,

- Owners of the company
- Lenders of the company
- Vendors of the company
- Customers of the company

Answer: Lenders of the company