

Chapter 3 – Company Account – Redemption of Debenture

Question 1.

Dow Ltd. Issued 2,00,000; 8% Debentures of Rs.10 each at a premium of 8% on 30th June, 2013 redeemable on 31st March, 2015. How much amount of Debenture Redemption Reserve is to be created before redemption of debentures?

Solution:

Section 71 (4) of the Companies Act, 2013 requires that an amount equal to at least 25% of the value of debentures is to be transferred to the Debenture Redemption Reserve Account. Accordingly, its Rs.50,000 is required to be transferred to DRR (i.e. 25% of Rs.2,00,000) before the actual date of redemption of debentures.

Question 2.

Nirbhai Chemicals Ltd. issued 10,00,000; 6% Debentures of Rs.50 each at a premium of 8% on 30th June, 2013 redeemable on 30th June, 2014. The issue was fully subscribed. Pass Journal entries for issue and redemption of debentures. How much amount of Debenture Redemption Reserve is to be created before redemption of debentures? Also, state how much amount should be invested in specified securities?

Solution:

Section 71 (4) of the Companies Act, 2013 requires that an amount equal to at least 25% of the value of debentures is to be transferred to the Debenture Redemption Reserve Account. So, its Rs.2,50,000 is required to be transferred to DRR (i.e. 25% of Rs.10,00,000). Further, Rule 18 (7) requires every company that is required to create DRR to invest an amount at least equal to 15% of the value of debentures in specified securities. So, Its Rs.1,50,000 is to be invested in specified securities (i.e. 15% of Rs.10,00,000).

Journal
In the Books of Nirbhai Chemicals Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
2013 Jun.30	Bank A/c To 6% Debenture A/c To Securities Premium Reserve A/c (Being debenture issued)	Dr.	10,80,000	10,00,000 80,000
2014 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being DRR created)	Dr.	2,50,000	2,50,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment made in specified securities)	Dr.	1,50,000	1,50,000
Jun.30	Bank A/c To Debenture Redemption Investment A/c (Being investment encashed)	Dr.	1,50,000	1,50,000
Jun.30	6% Debenture A/c To Debenture holders' A/c (Being amount on 6% debenture due)	Dr.	10,00,000	10,00,000
Jun.30	Debenture holders' A/c To Bank A/c (Being payment made on redemption of debentures)	Dr.	10,00,000	10,00,000
Jun.30	Debenture Redemption Reserve A/c To General Reserve A/c (Being transfer of debenture redemption reserve to general reserve)	Dr.	2,50,000	2,50,000

Note :

Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However. The students' may Journalize the entries related to interest on debentures as given below.

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2014 Mar.31	Debenture Interest A/c To Debenture holders' A/c (Being interest on 6% debenture due for 9 months)	Dr.	45,000	45,000
Mar.31	Debenture holders' A/c To Bank A/c (Being payment of interest to debenture holders)	Dr.	45,000	45,000
Mar.31	Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	45,000	45,000

Question 3.

IFCI Ltd. (an All India Financial Company) issued 10,00,000; 9% Debentures of Rs.50 each on 1st April, 2008 redeemable on 1st April, 2015. How much amount of Debenture Redemption Reserve is required before the redemption of debentures? Also, pass Journal entries for issue and redemption of debentures.

Solution:**Books of IFCI Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2008 Apr.01	Bank A/c To 9% Debenture Application A/c (Being debenture Application money received)	Dr.	5,00,00,000	5,00,00,000
Apr.01	9% Debenture Application A/c To 9% Debenture A/c (Being debenture application money transferred to debenture account)	Dr.	5,00,00,000	5,00,00,000
2015 Apr.01	9% Debenture A/c To Debenture holders' A/c (Being debentures due for redemption)	Dr.	5,00,00,000	5,00,00,000
Apr.01	Debenture holders' A/c To Bank A/c (Being amount due for redemption paid to debenture holders)	Dr.	5,00,00,000	5,00,00,000

Notes:

- All India Financial Institutions are exempted from creating DRR. Hence, in this case, no DRR is to be created.
- Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalize the entries related to interest on debentures every year from April 01, 2008 to March 31, 2015 as given below.

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2008 Mar.31	Debenture Interest A/c To Debenture holders' A/c (Being interest on 9% debentures due)	Dr.	45,00,000	45,00,000
Mar.31	Debenture holders' A/c To Bank A/c (Being payment of interest to debenture holders')	Dr.	45,00,000	45,00,000
Mar.31	Statement of Profit and Loss To Debenture Interest A/c (Being transfer of debenture interest to Statement of Profit and Loss)	Dr.	45,00,000	45,00,000

Question 4.

On 31st March, 2003, G Ltd. had 8,00,000; 9% Debentures due for redemption. The company had a balance of Rs.1,40,000 in its Debenture Redemption Reserve. Pass necessary Journal entries for redemption of debentures

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2002 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being surplus amount is transferred to DRR)	Dr.	60,000	60,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed)	Dr.	1,20,000	1,20,000
2003 Mar.31	9% Debenture A/c To Debenture holders' A/c (Being debenture due for redemption)	Dr.	8,00,000	8,00,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in specified securities is now encased)	Dr.	1,20,000	1,20,000
Mar.31	Debenture holders' A/c To Bank A/c (Being amount paid to debenture holders)	Dr.	8,00,000	8,00,000
Mar.31	Debenture Redemption Reserve A/c To General Reserve A/c (Being DRR transferred to general reserve)	Dr.	2,00,000	2,00,000

Working Notes :

Amount for DRR (25% of Debentures Issued) = $8,00,000 \times \frac{25}{100} = ₹2,00,000$

Less: Amount already exist in DRR = ₹1,40,000

DRR to be created for redemption = ₹60,000

Notes:

1. Interest is not calculated on Investment as rate of interest is not provided.

2. Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalise the entries related to interest on debentures for the years ending March 31, 2002 and March 31, 2003 as given below.

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2002 Mar.31	Debenture Interest A/c To Debenture holder' A/c (Being interest on 9% debenture due)	Dr.	72,000	72,000
Mar.31	Debenture holder' A/c To Bank A/c (Being payment of interest to debenture holders')	Dr.	72,000	72,000
Mar.31	Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	72,000	72,000

As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed in the previous accounting year.

Question 5.

On 31st March, 2015, W Ltd. had the following balances in its books:

	₹
9% Debentures	6,00,000
Debenture Redemption Reserve	50,000

On that date, the company decided to transfer ₹1,00,000 to Debenture Redemption Reserve. It also decided to redeem debentures of ₹3,00,000.

Pass necessary Journal entries in the books of the company.

Solution:

**Books Of W Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2015 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being surplus transferred to debenture redemption reserve)	Dr.	1,00,000	1,00,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed)	Dr.	45,000	45,000
2016 Mar.31	9% Debenture A/c To Debenture holders' A/c (Being debenture due for redemption)	Dr.	3,00,000	3,00,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in specified is now encased)	Dr.	45,000	45,000
Mar.31	Debenture holders A/c To Bank A/c (Being amount due to debenture holders Paid)	Dr.	3,00,000	3,00,000

Working Notes :

Investment made in Specified Securities = $3,00,000 \times \frac{15}{100} = ₹45,000$

The date of redemption has been assumed to be March 31, 2016 in order to maintain consistency with the guidelines issued by Ministry of Corporate Affairs which requires that every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and investment if passed in any of the year then redemption would take place in the following year.

Notes :

- Here, the entry for transferring the amount of DRR to General Reserve Arc has not been passed, since the company has not fully redeemed all its debentures. It is still left with ₹3,00,000 of debentures. Once these debentures are redeemed, the amount of DRR can be transferred to General Reserve A/c.
- Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However. The students' may journalise the entries related to interest on debentures as given below.

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2016 Mar.31	Debenture Interest A/c To Debenture holder A/c (Being interest on 9% debenture due for 12 month)	Dr.	54,000	54,000
Mar.31	Debenture holders' A/c To Bank A/c (Being payment of interest to debenture holders')	Dr.	54,000	54,000
Mar.31	Statement of Profit and Loss To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	54,000	54,000

Question 6.

A Ltd. has credit balance of Rs.1,26,000 in Surplus, i.e., Balance in Statement of Profit and Loss. Instead of declaring

dividend it is resolved to utilize the profits to repay its Rs.1,20,000 Debentures now redeemable at a premium of 5%. Pass necessary Journal entries in the books of the company.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2015 Mar.31	Statement of profit or Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)		1,20,000	1,20,000
2016 Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed)		18,000	18,000
Mar.31	Debentures A/c Dr. Premium on Redemption of Debenture A/c Dr. To Debenture holders' A/c (Being debenture due for redemption along with Premium)		1,20,000 6,000	1,26,000
Mar.31	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in specified securities is now encased)		18,000	18,000
Mar.31	Debenture holders' A/c Dr. To Bank A/c (Being payment made to debenture holders)		1,26,000	1,26,000
Mar.31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to capital reserve)		1,20,000	1,20,000

In case of redemption of debentures by profits, 100% of the nominal value of debentures is transferred to DRR Arc.

As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed in the previous accounting year

Question 7.

Mansi Ltd. had 6,000; 10% Debentures of Rs.100 each due for redemption on 31st March, 2015. Assuming that the debentures were redeemed out of profits, pass necessary Journal entries for the redemption of debentures. There was a credit balance of Rs.6,00,000 in Surplus, i.e., Balance in Statement of Profit and Loss.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2014 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)	Dr.	6,00,000	6,00,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified equal to 15% of the value of debenture redeemed)	Dr.	90,000	90,000
2015 Mar.31	10% Debenture A/c To Debenture holders A/c (Being debenture due for redemption)	Dr.	6,00,000	6,00,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encased)	Dr.	90,000	90,000
Mar.31	Debenture holders' A/c To Bank A/c (Being payment made to debenture holders)	Dr.	6,00,000	6,00,000
Mar.31	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.	6,00,000	6,00,000

In case of redemption of debentures by profits, 100% of the nominal value of debentures is transferred to DRR A/c.

As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed in the previous accounting year.

Note:

Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalise the entries related to interest on debentures as given below.

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2014 and 2015 Mar.31	Debenture Interest A/c To Debenture Holders A/c (Being interest on 10% debenture due)	Dr.	60,000	60,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment of interest to debenture holders)	Dr.	60,000	60,000
Mar.31	Statement of Profit and Loss A/c To Debenture Interest A/c (Being payment of interest to debenture holders')	Dr.	60,000	60,000

Question 8.

India Textiles Corporation Ltd. has outstanding 50,00,000; 9% Debentures divided into debenture of Rs.100 each due for redemption on 31st March, 2016. Pass Journal entries regarding redemption assuming that there is a balance of Rs.3,00,000 in Debenture Redemption Reserve on the date of redemption.

Solution:

Books of India Textiles Corporation Ltd
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2015 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption to Debenture A/c (Being profit transferred to debenture redemption reserve)		9,50,000	9,50,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified equal to 15% of the value of debenture redeemed)		7,50,000	7,50,000
2016 Mar.31	9% Debenture A/c Dr. To Debenture holders A/c (Being debenture due for redemption)		50,00,000	50,00,000
Mar.31	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now encased)		7,50,000	7,50,000
Mar.31	Debenture holders' A/c Dr. To Bank A/c (Being payment made to debenture holders)		50,00,000	50,00,000
Mar.31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		12,50,000	12,50,000

Working Notes:**1: Calculation of amount transferred to DRR)**

Amount for DRR (25% of Debenture Issued) = $50,00,000 \times \frac{25}{100} = ₹12,50,000$

Less : Amount already exist in DRR = ₹3,00,000

DRR to to be created for redemption = ₹9,50,000

2: Calculation of amount invested in Specified Securities

Investment made in Specified Securities = $50,00,000 \times \frac{15}{100} = ₹7,50,000$

As per circular no. 0412015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed in the previous accounting year.

Note: Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalise the entries related to interest on debentures as given below.

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2015 and 2016 Mar.31	Debenture Interest A/c To Debenture Holders A/c (Being interest on 9% debenture due)	Dr.	4,50,000	4,50,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment of interest debenture holders)	Dr.	4,50,000	4,50,000
Mar.31	Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	4,50,000	4,50,000

Question 9.

Manish Ltd. issued 40,00,000; 8% Debentures of Rs.100 each on 1st April, 2013. The terms of issue stated that the debentures were to be redeemed at a premium of 5% on 30th June, 2015. The company decided to transfer Rs.10,00,000 out of profits to Debenture Redemption Reserve on 31st March, 2014 and Rs.10,00,000 on 31st March, 2015.

Pass Journal entries regarding the issue and redemption of debentures, DRR and Investment without providing for the interest or loss on issue of debentures.

Solution:

**Books of Textiles Corporation Ltd
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2013 Apr.01	Bank A/c Dr. To Debenture Application A/c (Being debenture application money received)		40,00,000	40,00,000
	Debenture Application A/c Dr. Loss on Issue of Debenture A/c Dr. To 8% Debenture A/c To Premium on Redemption of Debenture A/c (Being debenture issued with the term repayable at 5% Premium)		40,00,000 2,00,000	40,00,000 2,00,000
2014 Mar.31	Statement of Profit and Loss A/c (Note 1) Dr. To Debenture Redemption Reserve A/c (Being Surplus amount is transferred to debenture redemption Reserve)		10,00,000	10,00,000
2015 Mar.31	Statement of Profit and Loss A/c (Note 1) Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption Reserve))		10,00,000	10,00,000
Apr.30	Debenture Redemption investment A/c (Note 2) Dr. To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed)		6,00,000	6,00,000
Mar.31	8% Debenture A/c Dr. Premium on Redemption of Debenture A/c Dr. To Debenture holders A/c (Being debenture due to redemption along with premium)		40,00,000 2,00,000	42,00,000
Jun.30	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now encased)		6,00,000	6,00,000
Jun.30	Debenture holders A/c Dr. To Bank A/c (Being amount paid to debenture holders)		42,00,000	42,00,000
Jun.30	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		20,00,000	20,00,000

Note:

- As prescribed by Section 71(4) of the Companies Act, 2013, companies are required to create DRR at 25% of the total value of debentures. However, it purely depends upon a company and its discretion to transfer more Amounts to DM than the prescribed amount of 25% in the case of companies for whom it is mandatory to create DRR out of profits. in this case, as explicitly specified about company's discretion, DM has been created for a total of ₹20,00,000 which is 50% of the total value of redeemable debentures.
- As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed in the previous accounting year.
- As explicitly stated in the question, entries for interest on debentures has not been passed.

Question 10.

Godrej Ltd. has 20,000; 7% Debentures of Rs.100 each due for redemption on 31st March, 2015. There is a balance of Rs.3,50,000 in Debenture Redemption Reserve Account on the date of redemption. Investment, as required by the Companies Act, 2013 is made on 1st April, 2014 in fixed deposit bearing interest @ 6% p.a. Bank deducted TDS @ 10% on its maturity which is 31st March, 2015. Pass Journal entries at the time of redemption of debentures.

Solution:

Journal
In the Books of Godrej Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
2014 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being DRR created) Dr.		1,50,000	1,50,000
Apr.01	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities) Dr.		3,00,000	3,00,000
2015 Mar.31	7% Debenture A/c To Debenture holders A/c (Being amount on 7% debenture due) Dr.		20,00,000	20,00,000
Mar.31	Bank A/c (3,00,000+16,200) Tax Payable A/c To Interest on Debenture Redemption Investment A/c To Debenture Redemption investment A/c (Being investment encased and interest received) Dr. Dr.		3,16,200 1,800	18,000 3,00,000
Mar.31	Debenture holders' A/c To Bank A/c (Being payment made to redemption debenture) Dr.		20,00,000	20,00,000
Mar.31	Debenture Redemption Reserve A/c To General Reserve A/c (Being transfer debenture redemption reserve to general reserve) Dr.		5,00,000	5,00,000

Working Notes:

WN 1: Calculation of amount transferred to DRR)

Amount for DRR (25% of Debenture Issued) = $20,00,000 \times \frac{25}{100} = ₹5,00,000$

Less : Amount already exist in DRR = ₹3,50,000

DRR to be created for redemption = ₹1,50,000

Note:

1. The year of transfer to DRR and investment has been assumed to be in 2014 in order to maintain consistency with the guidelines issued by Ministry of Corporate Affairs which requires that every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and investment if passed in any of the year then redemption would take place in the following year.

2. Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalise the entries related to interest on debentures as given below.

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2014 and 2015 Mar.31	Debenture Interest A/c Dr. To Debenture holders A/c (Being interest on 7% debenture due)		1,40,000	1,40,000
Mar.31	Debenture holders A/c Dr. To Bank A/c (Being payment of interest debenture holders)		1,40,000	1,40,000
Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)		1,40,000	1,40,000

Question 11.

Apollo Ltd. issued 2,10,000; 8% Debentures of Rs.10 each on 31st March, 2008 redeemable at a premium of 8% on 30th June, 2015. The Board of Directors decided to transfer the required amount to Debenture Redemption Reserve in three equal annual installments starting with 31st March, 2013. Required investment was made in Government Securities on 30th April, 2015. Ignore interest on debentures and also investment.

Pass necessary Journal entries regarding issue, transfer to DRR, investment, and redemption of debentures.

Solution:

Books of Apollo Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2008 Mar.31	Bank A/c Dr. To 8% Debenture application A/c (Being debenture application money received)		21,00,000	21,00,000
	8% Debenture application A/c Dr. Loss on Issue of debenture A/c Dr. To 8% Debenture A/c To Premium on Redemption A/c (Being 21,00,000 8% debenture of 10 each issued with the term repayable at 8% premium)		21,00,000 1,68,000	21,00,000 1,68,000
2013 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being profit transferred to debenture redemption reserve)		1,75,000	1,75,000
2014 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being profit transferred to debenture redemption reserve)		1,75,000	1,75,000
2015 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being profit transferred to debenture redemption reserve)		1,75,000	1,75,000
Apr.31	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in government securities equal to 15% of the value of debentures redeemed)		3,15,000	3,15,000
2015 Jun.30	8% Debenture A/c Dr. Premium on Redemption Reserve A/c To Debentures Holders' A/c (Being debenture due for redemption along with Premium)		21,00,000 1,68,000	22,68,000
	Bank A/c Dr. To Debenture Redemption Reserve A/c Dr. (Being investment made in specified securities now encased)		3,15,000	3,15,000
	Debenture holders A/c Dr. To Bank A/c (Being payment made to debenture holders)		22,68,000	22,68,000
	Debenture Redemption Reserve A/c Dr. To General reserve A/c (Being debenture redemption reserve transferred to general reserve)		5,25,000	5,25,000

Working Notes:

1: Calculation of amount transferred to DRR

As prescribed by Section 71(4) of the Companies Act, 2013, companies are required to create DRR at 25% of the total value of debentures. Here, debentures worth ₹21,00,000 are to be redeemed, so, the amount of DRR will be:

$$\text{Amount for DRR (25\% of Debenture Issued)} = 21,00,000 \times \frac{25}{100} = ₹5,25,000$$

$$\text{Annual Instalments for three years} = \frac{5,25,000}{3} = ₹1,75,000$$

Note:

1. As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed in the previous accounting year.

2. Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalise the entries related to interest on debentures as given below.

Debenture Interest A/c To Debenture Holders A/c (Being interest on 7% debenture due)	Dr.	Interest Rate Amount of Debentures Outstanding
Debenture holders A/c To Bank A/c (Being payment of Interest Debenture holders)	Dr.	
Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	Total interest paid in a year

Question 12.

JB Ltd. issued 10,00,000; 6% Debentures at a premium of 4% redeemable at a premium of 5% after four years. The debentures were issued on 1st April, 2014. Pass Journal entries at the time of issue and redemption of debentures assuming that all legal requirements were complied.

Solution:

**Books of JB Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2014 Apr.01	Bank A/c To 6% Debenture Application A/c (Being debenture application money received)	Dr.	10,40,000	10,40,000
Apr.01	6% Debenture application A/c Loss on Issue of Debenture A/c To 6% Debenture A/c To Securities Premium A/c To Premium on Redemption A/c (Being debenture of ₹10,00,000 issued 4% premium with the term redeemable at 5% premium)	Dr. Dr.	10,40,000 50,000	10,00,000 40,000 50,000
2017 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)	Dr.	2,50,000	2,50,000
Apr.31	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in government securities equal to 15% of the value of debenture redeemed)	Dr.	1,50,000	1,50,000

Apr.31	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in government securities equal to 15% of the value of debenture redeemed)	Dr.		1,50,000	1,50,000
2018 Mar.31	6% Debenture A/c Premium on Redemption A/c To Debenture holders A/c (Being debenture due for redemption along with the premium)	Dr. Dr.		10,00,000 50,000	10,50,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment is made in securities is now encashed)	Dr.		1,50,000	1,50,000
Mar.31	Debenture holders A/c To Bank A/c (Being amount paid to debenture holders)	Dr.		10,50,000	10,50,000
Mar.31	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr. Dr.		2,50,000	2,50,000

As prescribed by Section 71(4) of the Companies Act, 2013, companies are required to create DRR at 25% of the total value of debentures. Here, debentures worth ₹10,00,000 are to be redeemed, so the amount of DRR will be:

$$\text{Amount for DRR (25\% of Debenture Issued)} = 10,00,000 \times \frac{25}{100} = ₹2,50,000$$

However, it purely depends upon a company and its discretion to transfer more amounts to DRR than the prescribed amount of 25% in the case of companies for whom it is mandatory to create DRR out of profits. In this case, as nothing explicit has been specified about company's discretion, so amount equivalent to 25% of the nominal value of the redeemable debentures has been transferred to DRR similar to the earlier questions.

As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed in the previous accounting year.

Note:

Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalise the entries related to interest on debentures as given below.

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2015 and 2018 Mar.31	Debenture Interest A/c To Debenture holders A/c (Being Interest on 6% debenture due)	Dr.	60,000	60,000
Mar.31	Debenture holders A/c To Bank A/c (Being Payment of interest to Debenture holders)	Dr.	60,000	60,000
Mar.31	Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	60,000	60,000

Question 13.

On 1st January, 2010, Raja Ltd. issued 5,000; 10% Debentures of Rs.100 each at par. These debentures were redeemed at 5% premium at the end of fifth year out of profit. Give necessary Journal entries for recording the above transactions.

Solution:

Books of Raja Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2010 Jan.01	Bank A/c Dr. To 10% Debenture Application A/c (Being debenture application received)		5,00,000	5,00,000
	10% Debenture Application A/c Dr. Loss on Issue of debenture A/c Dr. To 10% Debenture A/c To Premium on Redemption A/c (Being ₹5,000 debenture of ₹100 each issued with the term redeemable at 5% Premium)		5,00,000 25,000	5,00,000 25,000
2014 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being amount transferred to debenture Redemption Reserve)		5,00,000	5,00,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in securities equal to 15% of the value of debenture redeemed)		75,000	75,000
2015 Mar.31	10% debenture A/c Dr. Premium on Redemption A/c Dr. To Debenture holders A/c (Being debenture due for redemption along with premium on redemption)		5,00,000 25,000	5,25,000
Mar.31	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment is made in specified securities is now enchased)		75,000	75,000
mar.31	Debenture holders A/c Dr. To Bank A/c (Being amount paid to debenture hordes)		5,25,000	5,25,000
Mar.31	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)		5,00,000	5,00,000

In case of redemption of debentures by profits, 100% of the nominal value of debentures is transferred to DRR A/c.

As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year. deposit or invest, as the case may be. a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed in the previous accounting year.

Amount of Investment in specified securities = $5,00,000 \times \frac{15}{100} = ₹75,000$

Note:

Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalise the entries related to interest on debentures as given below.

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2010 Mar.31	Debenture Interest A/c To Debenture holders A/c (Being interest on 7% debenture due)	Dr.	12,500	12,500
Mar.31	Debenture holders A/c To Bank A/c (Being payment of Interest debenture holders)	Dr.	12,500	12,500
Mar.31	Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	12,500	12,500
2011 to 2015 Mar.31	Debenture Interest A/c To Debenture holders A/c (Being interest on 10% debenture due)	Dr.	50,000	50,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment of interest to debenture holders)	Dr.	50,000	50,000
Mar.31	Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	50,000	50,000

Question 14.

On 1st April, 2013, following were the balances of Blue Bird Ltd.:

10% Debentures (redeemable on 31st March, 2015)	₹ 15,00,000
Debenture Redemption Reserve	2,00,000

The company met the requirements of the Companies Act, 2013 regarding Debenture Redemption Reserve and Investment and redeemed the debentures.

Pass necessary Journal entries for the above transactions in the books of the company.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2014 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being surplus amount is transferred to DRR)	Dr.	1,75,000	1,75,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed)	Dr.	2,25,000	2,25,000
2015 Mar.31	10% Debenture A/c To Debenture holders A/c (Being 10% debenture due for redemption)	Dr.	15,00,000	15,00,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in specified securities now encashed)	Dr.	2,25,000	2,25,000
Mar.31	Debenture holders A/c To Bank A/c (Being amount paid to debenture holders)	Dr.	15,00,000	15,00,000
Mar.31	Debenture Redemption Reserve A/c To General Reserve A/c (Being DRR amount is transferred to general reserve)	Dr.	3,75,000	3,75,000

Working Note:

Amount for DRR(25% of Debenture issued)= $15,00,000 \times \frac{25}{100} = ₹3,75,000$
Less: Amount already exist in DRR = ₹2,00,000

= ₹1,75,000

DRR to be created for redemption

Investment made in specified securities = $15,00,000 \times \frac{15}{100} = ₹2,25,000$

As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entries for DRR and Investment have been passed a year before redemption year.

Note:

Entries for interest on debentures have been ignored in the above solution as the question was silent in this regards. However, the students' may journalise the entries related to interest on debentures as given below.

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
Mar.31	Debenture Interest A/c To Debenture holders A/c (Being interest on 7% debenture due)	Dr.	1,50,000	1,50,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment of interest debenture holders)	Dr.	1,50,000	1,50,000
Mar.31	Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	1,50,000	1,50,000

Question 15.

Rich Sugar Ltd. issued Rs.20 Lakh, 8% Debentures divided into debentures of Rs.100 each on 1st April, 2013, redeemable in four equal annual installments starting from 31st March, 2016. The Board of Directors decided to transfer to Debenture Redemption Reserve Rs.2,50,000 each year on 31st March, 2014 and 2015. The company invested Rs.3,00,000 in Government securities as required by the Companies Act, 2013 and decided to encash the securities after the last redemption. Pass necessary Journal entries for the above transactions.

Solution:

**Books of Rich Sugar Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2013 Apr.01	Bank A/c To 8% Debenture Application A/c (Being debenture application money received)	Dr.	20,00,000	20,00,000
Apr.01	8% Debenture Application A/c To 8% Debentures A/c (Being debenture application transferred to 8% debenture account)	Dr.	20,00,000	20,00,000
2014 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being profit transferred to debenture redemption reserve)	Dr.	2,50,000	2,50,000
2015 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being profit transferred to debenture redemption reserve)	Dr.	2,50,000	2,50,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in government securities equal to 15% of the value of debentures redeemed)	Dr.	3,00,000	3,00,000
2016 Mar.31	8% Debenture A/c To debentures holders' A/c (Being debenture due for redemption)	Dr.	5,00,000	5,00,000

Mar.31	Debenture holders A/c To Bank A/c (Being amount of debenture paid to debenture holders)	Dr.		5,00,000	5,00,000
	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.		5,00,000	5,00,000
2017 Mar.31	8% Debenture A/c To Debenture holders' A/c (Being debenture due for redemption)	Dr.		5,00,000	5,00,000
Mar.31	Debenture holders' A/c To Bank A/c (Being amount of debenture paid to debenture holders)	Dr.		5,00,000	5,00,000
2018 Mar.31	8% Debenture A/c To Debenture holders' A/c (Being debenture due for redemption)	Dr.		5,00,000	5,00,000
Mar.31	Debenture holders' A/c To Bank A/c (Being amount of debenture paid to debenture holders)	Dr.		5,00,000	5,00,000
2019 Mar.31	8% Debenture A/c To Debenture holders' A/c (Being debenture due for redemption)	Dr.		5,00,000	5,00,000
Mar.31	Debenture holders' A/c To Bank A/c (Being amount of debenture paid to debenture holders)	Dr.		5,00,000	5,00,000
Mar.31	Bank A/c To Debenture redemption investment A/c (Being investment made in securities ,now enchased)	Dr.		3,00,000	3,00,000
Mar.31	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.		5,00,000	5,00,000

'As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entry for investment in Government securities has been passed a year before first redemption year.

Note:

Since the question is silent regarding the payment of interest, the following entries may be passed at the end of every year (i.e. on 31 March before the redemption of debentures). However, it is not essential to pass these entries u

Debenture Interest A/c To Debenture holders A/c (Being interest due)	Dr.		Interest Rate × Amount of Debentures Outstanding
Debenture holders A/c To Bank A/c (Being payment of interest debenture holders)	Dr.		
Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of Profit and Loss)	Dr.		With the total amount of interest paid in a year

Question 16.

Tata Motors Ltd. issued 40,000; 7% Debentures of ₹100 each on 1st July, 2009 redeemable at premium of 5% as under:

On 31st March, 2014 16,000 Debentures

On 31st March, 2015 16,000 Debentures

On 31st March, 2016 8,000 Debentures

It was decided to transfer Debenture Redemption Reserve ₹2,00,000 on 31st March, 2011; ₹4,00,000 on 31st March, 2012 and balance on 31st March, 2013. It invested the required amount in terms of the Companies Act, 2013 in Government Securities and decided to encase them after last redemption. Pass Journal entries ignoring interest.

Solution:

Books of Tata Motors Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2009 Jul.01	Bank A/c Dr. To Debenture Application A/c (Being debenture application money received)		40,00,000	40,00,000
	Debenture Application A/c Dr. Loss on Issue of Debenture A/c To 7% Debenture A/c To Premium on Redemption A/c (Being 40,000 7% debenture of ₹100 each issued)		40,00,000 2,00,000	40,00,000 2,00,000
2011 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption Reserve)		2,00,000	2,00,000
2012 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption Reserve)		4,00,000	4,00,000
2013 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)		4,00,000	4,00,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture)		2,40,000	2,40,000
2014 Mar.31	7% Debenture A/c Dr. Premium on Redemption A/c Dr. To debentures holders' A/c (Being 16,000 7% debenture of ₹100 each due for redemption along 5% premium on redemption)		16,00,000 80,000	16,80,000
Mar.31	Debenture holders A/c Dr. To Bank A/c (Being amount paid to debenture holders)		16,80,000	16,80,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed on march 31,2015)		2,40,000	2,40,000
2015 Mar.31	7% Debenture A/c Dr. Premium on Redemption of Debenture A/c To Debenture holders' A/c (Being 16,000 7% debenture of ₹100 each due for redemption along 5% premium on redemption)		16,00,000 80,000	16,80,000
Mar.31	Debenture holders' A/c Dr. To Bank A/c (Being amount paid to debenture holders)		16,80,000	16,80,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities equal to 15% of the value of debenture redeemed on march 31,2016)		1,20,000	1,20,000

2016 Mar.31	7% Debenture A/c Premium on Redemption of Debenture A/c To Debenture holders' A/c (Being debenture due for redemption)	Dr. Dr.	8,00,000 40,000	8,40,000
Mar.31	Debenture holders' A/c To Bank A/c (Being amount of debenture paid to debenture holders)	Dr.	8,40,000	8,40,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	6,00,000	6,00,000
Mar.31	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.	10,00,000	10,00,000

Working Notes :

1: calculation of amount of DRR

Amount for DRR(25% of debenture issued) = $40,00,000 \times \frac{25}{100} = ₹10,00,000$

Less: Amount transferred in 2011 = ₹2,00,000

Less: Amount transferred in 2012 = ₹4,00,000

Amount transferred in 2013 = ₹4,00,000

Note:

Since the question is silent regarding the payment of interest, the following entries may be passed at the end of every year (i.e. on 31 March before the redemption of debentures). However, it is not essential to pass these entries unless explicitly stated in the question.

Debenture Interest A/c To Debenture holders A/c (Being interest due)	Dr.	Interest Rate × Amount of Debentures Outstanding
Debenture holders A/c To Bank A/c (Being payment of Interest debenture holders)	Dr.	
Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of Profit and Loss)	Dr.	With the total amount of interest paid in a year

Question 17.

HP Ltd. has 1,00,000; 8% Debentures of Rs.50 each due for redemption in five equal installments starting from 31st March, 2015. Debenture Redemption Reserve has a balance of Rs.5,00,000 on that date. Pass Journal entries.

Solution:

Books of HP Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2014 Mar.31	Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)		7,50,000	7,50,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities @ 15% of the value of debentures redeemable in first installment, i.e ₹10,00,0000)		1,50,000	1,50,000
2015 Mar.31	8% Debenture A/c Dr. To Debenture holders A/c (Being 20,000 8% debenture of ₹50 each due for redemption)		10,00,0000	10,00,000
Mar.31	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now enchased)		1,50,000	1,50,000
Mar.31	Debenture holders' A/c Dr. To Bank A/c (Being payment made to debenture holders)		10,00,000	10,00,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities @ 15% of the value of debenture redeemable in second installment , i.e ₹10,00,000)		1,50,000	1,50,000
2016 Mar.31	8% Debenture A/c Dr. To Debenture holders A/c (Being 20,000 8% debenture of ₹50 each due for redemption)		10,00,000	10,00,000
Mar.31	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now enchased)		1,50,000	1,50,000
Mar.31	Debenture holders A/c Dr. To Bank A/c (Being Payment made to debenture holders)		10,00,000	10,00,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities @ 15% of the value of debenture redeemable in second installment , i.e ₹10,00,000)		1,50,000	1,50,000
2017 Mar.31	8% Debenture A/c Dr. To Debenture holders A/c (Being 20,000 8% debenture of ₹50 each due for redemption)		10,00,000	10,00,000
Mar.03	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now enchased)		1,50,000	1,50,000
Mar.31	Debenture holders A/c Dr. To Bank A/c (Being payment made to debenture holders)		10,00,000	10,00,000
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment is made in specified securities @ 15% of the value of debenture redeemable in second installment , i.e ₹10,00,000)		1,50,000	1,50,000

2018 Mar.31	8% Debenture A/c To Debenture holders A/c (Being 20,000 8% debenture of ₹50 each due for redemption)	Dr.	10,00,000	10,00,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	1,50,000	1,50,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)	Dr.	10,00,000	10,00,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @ 15% of the value of debenture redeemable in second installment , i.e ₹10,00,000)	Dr.	1,50,000	1,50,000
2019 Mar.31	8% Debenture A/c To Debenture holders A/c (Being 20,000 8% debenture of ₹50 each due for redemption)	Dr.	10,00,000	10,00,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	1,50,000	1,50,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)	Dr.	10,00,000	10,00,000
Mar.31	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.	12,50,000	12,50,000

As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entry for investment in Government securities has been passed a year before first redemption year.

Since nothing is specified, investments will be encashed before debentures are redeemed.

Note:

Since the question is silent regarding the payment of interest, the following entries may be passed at the end of every year (i.e. on 31 March before the redemption of debentures). However, it is not essential to pass these entries unless explicitly stated in the question.

Debenture Interest A/c To Debenture Holders A/c (Being interest due)	Dr.	Interest Rate × Amount of Debentures Outstanding
Debenture holders A/c To Bank A/c (Being payment of Interest debenture holders)	Dr.	
Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of Profit and Loss)	Dr.	With the total amount of interest paid in a year

Question 18.

Shakti Enterprises Ltd. issued 30,000; 8% Debentures of Rs.100 each on 1st October, 2011 redeemable in five equal annual installments starting with 31st March, 2015. The Board decides to transfer to Debenture Redemption Reserve Rs.50,000 and Rs.4,00,000 on 31st March, 2012 and 2013 respectively and balance required to be transferred to Debenture Redemption Reserve on 31st March, 2014.

Pass Journal entries.

Solution:

Books of Shakti Enterprises Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2011 Oct.01	Bank A/c To 8% Debenture A/c (Being debentures issued)	Dr.	30,00,000	30,00,000
2012 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being DRR created)	Dr.	50,000	50,000
2013 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being DRR created)	Dr.	4,00,000	4,00,000
2014 Mar.31	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being DRR created)	Dr.	3,00,000	3,00,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @15% of the debenture redeemed in first instalment, i.e. ₹ 6,00,000)	Dr.	90,000	90,000
2015 Mar.31	8% Debenture A/c To Debenture holders' A/c (Being 6,000 8% debenture of ₹100 each due for redemption)	Dr.	6,00,000	6,00,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	90,000	90,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)	Dr.	6,00,000	6,00,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @15% of the debenture redeemed in first instalment, i.e. ₹ 6,00,000)	Dr.	90,000	90,000
2016 Mar.31	8% Debenture A/c To Debenture holders A/c (Being 6,000 8% debenture of ₹100 each due for redemption)	Dr.	6,00,000	6,00,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	90,000	90,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)	Dr.	6,00,000	6,00,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @15% of the debenture redeemed in first instalment, i.e. ₹ 6,00,000)		90,000	90,000
2017 Mar.31	8% Debenture A/c To Debenture holders A/c (Being 6,000, 8% debenture of ₹100 each due for redemption)	Dr.	6,00,000	6,00,000

Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	90,000	90,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)		6,00,000	6,00,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @15% of the debenture redeemed in first instalment, i.e. ₹6,00,000)		90,000	90,000
2018 Mar.31	8% Debenture A/c To Debenture holders A/c (Being 6,000 8% debenture of ₹100 each due for redemption)	Dr.	6,00,000	6,00,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	90,000	90,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)		6,00,000	6,00,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @15% of the debenture redeemed in first instalment, i.e. ₹6,00,000)		90,000	90,000
2019 Mar.31	8% Debenture A/c To Debenture holders A/c (Being 6,000 8% debenture of ₹100 each due for redemption)	Dr.	6,00,000	6,00,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	90,000	90,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)		6,00,000	6,00,000
Mar.31	Debenture Redemption reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve)	Dr.	7,50,000	7,50,000

As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly, entry for investment in Government securities has been passed a year before first redemption year and will be passed before redemption of debentures every year in case of draw of lots.

Note:

Since the question is silent regarding the payment of interest, the following entries may be passed at the end of every year (i.e. on 31 March before the redemption of debentures). However, it is not essential to pass these entries unless explicitly stated in the question.

Debenture Interest A/c To Debenture Holders A/c (Being interest due)	Dr.	Interest Rate × Amount of Debentures Outstanding
Debenture holders A/c To Bank A/c (Being payment of Interest debenture holders)	Dr.	
Statement of Profit and Loss A/c To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)	Dr.	With the total amount of interest paid in a year

Question 19.

Z Ltd. purchased its own debentures of the face value (Rs.100) of Rs.1,00,000 from the open market for immediate cancellation at Rs.92. Pass Journal entries.

Solution:**Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Own Debenture A/c (1,000×₹92) Dr. To Bank A/c (Being own debenture purchased)		92,000	92,000
	Debenture A/c Dr. To Own Debenture A/c To Profit on Cancellation of Own Debenture A/c (Being own debenture cancelled)		1,00,000	92,000 8,000
	Profit on Cancellation of Own Debenture A/c Dr. To Capital Reserve A/c (Being profit on cancellation transferred to capital reserve)		8,000	8,000

Note:

It is assumed that the company has sufficient balance in DRR and investment is also made.

Question 20.

On 1st April, 2010, X Ltd. had 1,000; 12% Debentures of Rs.100 each. Interest on debentures is payable half yearly on 30th September and on 31st March. On 1st July, 2010, the company purchased Rs.300 own debentures at ! Rs.93 for immediate cancellation.

Pass Journal entries for the purchase and cancellation of debentures.

Solution:**Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2010 Jul.01	Own Debenture A/c (300×93) Dr. To Bank A/c (Being own debenture purchased)		27,900	27,900
	12% Debenture A/c Dr. To Own Debenture A/c To Profit on Cancellation of Own Debenture A/c (Being own debenture cancelled)		30,000	27,900 2,100
	Profit on Cancellation of Own Debenture A/c Dr. To Capital Reserve A/c (Being profit on cancellation transferred to capital reserve)		2,100	2,100

Note:

It is assumed that the company has sufficient balance in DRR and investment is also made.

Question 21.

X Ltd. purchased for cancellation of its 25,000; 15% Debentures of Rs.100 each at Rs.98. The expenses of purchase amounted to Rs.50 Journalise.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Own Debenture A/c (250×₹98) Dr. To Bank A/c (Being own debenture purchased)		24,500	24,500
	Own Debenture A/c To Bank A/c (Being expenses for purchase of own debentures paid)		50	50
	15% Debenture A/c Dr. To Own Debenture A/c (24500+50) To Profit on Cancellation of Own Debenture A/c (Being own debenture cancelled)		25,000	24,550 450
	Profit on Cancellation of Own Debenture A/c Dr. To Capital Reserve A/c (Being profit on cancellation transferred to capital reserve)		450	450

Note:

It is assumed that the company has sufficient balance in DRR and investment is also made.

Question 22.

Gagan Ltd. has outstanding 4,20,000, 9% Debentures of Rs.10 each on 10th September, 2009. The company purchased Rs.1,00,000 of its own debentures for cancellation @ Rs.10 each. Record the above transactions in the books.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Own Debenture A/c (1,00,000×10) Dr. To Bank A/c (Being own debenture purchased)		10,00,000	10,00,000
	9% Debenture A/c Dr. To Own Debenture A/c (Being cancellation own debenture)		10,00,000	10,00,000

Note:

It is assumed that the company has sufficient balance in DRR and investment is also made.
Also, there is neither gain no loss on cancellation of own debentures.

Question 23.

On 1st April, 2013, X Ltd. issued 40,000, 9% Debentures of 100 each at par.

The terms of issue provided that, beginning 31st March, 2015, 2,00,000 debentures should be redeemed either by drawings at par or by purchase in the open market every year. The expenses of issue amounted to Rs.12,000 which were written off from Securities Premium Reserve in the year of issue. On 31st March, 2015, debentures to be redeemed were repaid by drawings. During the year ended 31st March 2016, the company purchased for cancellation 2,000 debentures at the market price of Rs.98 on 31st December, the expenses being Rs.400. Interest on debentures is payable yearly on 31st March each year.

Pass necessary Journal entries in the books of the company to record the transactions including those for DRR and Investment.

Solution:**Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2013 Apr.01	Bank A/c To Debenture Application and Allotment A/c (Being amount received on issue of 40,000 debentures)	Dr.	40,00,000	40,00,000
Apr.01	Debenture application and Allotment A/c To 9% debenture A/c (Being allotment of 40,000 debentures made)	Dr.	40,00,000	40,00,000
Apr.01	Securities premium reserve A/c To Expenses on issue of debenture A/c (Being expenses on issue of debenture written off)	Dr.	12,000	12,000
2014 Mar.31	Debenture's Interest A/c To Bank A/c (Being interest paid on debenture)	Dr.	3,60,000	3,60,000
Mar.31	Statement of Profit and Loss A/c (25% of ₹40,00,000) To Debenture Redemption Reserve A/c (Being amount transferred to debenture redemption reserve)	Dr.	10,00,000	10,00,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @ 15% of the value of debenture redeemable in second installment , i.e ₹2,00,000)	Dr.	30,000	30,000

2015 Mar.31	Debenture's Interest A/c To Bank A/c (Being interest paid on debenture)	Dr.	3,60,000	3,60,000
Mar.31	9% Debenture A/c To Debenture holders A/c (Being debenture due for payment)	Dr.	2,00,000	2,00,000
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment were encashed)	Dr.	30,000	30,000
Mar.31	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)	Dr.	2,00,000	2,00,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment is made in specified securities @ 15% of the value of debenture redeemable in second installment , i.e ₹2,00,000)	Dr.	30,000	30,000
2016 Mar.31	Debenture's Interest A/c To Bank A/c (Being interest paid on debenture)	Dr.	3,42,000	3,42,000
Mar.31	Own Debenture A/c To Bank A/c (Being own debenture purchased)	Dr.	1,96,000	1,96,000
Mar.31	Own Debenture A/c To Bank A/c (Being expenses on issue of own debentures)	Dr.	400	400

Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment were encashed)	Dr.	30,000	30,000
Mar.31	9% debenture A/c To Own Debenture A/c To Profit on Cancellation of own debenture A/c (Being own debenture cancelled)	Dr.	2,00,000	196,400 3,600
Mar.31	Profit on Cancellation of own debenture A/c To capital Reserve A/c (Being profit on cancellation transferred to capital reserve)	Dr.	3,600	3,600

Notes:

1. As per circular no. 04/2015 issued by Ministry of Corporate Affairs (dated 11.02.2013), every company required to create/maintain DRR shall on or before the 30th day of April of each year, deposit or invest, as the case may be, a sum which shall not be less than fifteen percent of the amount of its debentures maturing during the year ending on the 31st day of March next following year. Accordingly; entries for DRR and Investment have been passed in the previous accounting year.
2. DRR is created for the full amount of debentures, i.e. ₹40,00,000, whereas, Debenture Redemption Investment is created for the nominal value of debentures redeeming on March 31, 2015
3. We have assumed that investments were encashed every year before redemption of debentures. However, there can be another possibility where investments were not encashed after every redemption and it remain invested in the specified securities since debentures of ₹2,00,000 are to be redeemed every year. Thus, any one method can be followed by giving an appropriate note.
4. Redemption entries were made for 2015 and 2016 only since nothing is specified in the question regarding the redemption of the remaining debentures.
5. In order to align with the solution of the book we have provided only payment entry for interest on debentures. However: it is purely at student's discretion to pass the below-given entries for interest on debentures and these entries will be repeated every time with interest.

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Debenture Interest A/c Dr. To Debenture Holders A/c (Being interest due on 9% debenture)		3,60,000	3,60,000
	Debenture holders A/c Dr. To Bank A/c (Being payment of interest to debenture holders)		3,60,000	3,60,000
	Statement of Profit and Loss A/c Dr. To Debenture Interest A/c (Being transfer of debenture interest to statement of profit and loss)		3,60,000	3,60,000

1. In redemption of debentures by purchase from open market, there can be two possibilities When debentures are redeemed only by open market purchase: In this case we will create DRR and Debenture Redemption Investment only if it is specified in the question. When debentures are redeemed using combination of any two methods (say, draw of lots and open-market or lump-sum and open market): In such a case, Debenture Redemption Investment will be made, even if nothing is stated in the question. Investments will be created for the 15% of value of debentures getting redeemed on March 31 of the year. Assuming adequate investment has been made in DRI will not be accepted, since this is not a pure case of open-market purchase.

2. The amount of DRR is not transferred to General Reserve, since the company is still left with some amount of debentures that are yet to be redeemed. Hence, the amount of DRR will be transferred to General Reserve once all the debentures are redeemed.

Question 24.

AAA Ltd. purchased its own 1,000; 10% Debentures of Rs.100 each @ Rs.100 from open market for immediate cancellation. As per the terms of issue, these debentures were redeemable at 5% premium. Pass necessary journal entries for purchase and cancellation of debentures.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Own Debenture A/c (1,000×100) Dr. To Bank A/c (Being 1,000, 10% debenture purchased @₹100 per debenture)		1,00,000	1,00,000
	10% Debenture A/c Dr. Premium on Redemption of Debenture A/c Dr. To Own Debenture A/c To Gain on Cancellation of Own Debenture A/c (Being debenture cancelled)		1,00,000 5,000	1,00,000 5,000
	Gain on Cancellation of Own Debenture A/c Dr. To Capital Reserve A/c (Being gain on cancellation of own debentures transferred to capital reserve)		5,000	5,000

Question 25.

BBB Ltd. purchased its own 1,500; 11% Debentures of Rs.100 each redeemable at 10% premium @ Rs.95 per debenture. Pass necessary Journal entries for purchase and cancellation of debentures.

Solution:**Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Own Debenture A/c (1,500×₹95) Dr. To Bank A/c (Being 1,500, 11% debenture purchased @₹95 per debenture)		1,42,500	1,42,500
	11% Debenture A/c (1,500× 100) Dr. Premium on Redemption of Debenture A/c (1,500×₹10) Dr. To Own Debenture A/c To Gain on Cancellation of Own Debenture A/c (Being debenture cancelled)		1,50,000 15,000	1,42,500 22,500
	Gain on Cancellation of Own Debenture A/c Dr. To Capital Reserve A/c (Being gain on cancellation of own debentures transferred to capital reserve)		22,500	22,500

Question 26.

CCC Ltd. purchased its own 2,000; 11% Debentures of Rs.100 each redeemable at 10% premium @Rs.103 per debenture for immediate cancellation.

Pass necessary Journal entries for purchase and cancellation of debentures.

Solution:**Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Own Debenture A/c (2,000×103) Dr. To Bank A/c (Being 2,000, 11% debenture purchased @₹103 per debenture)		2,06,000	2,06,000
	11% Debenture A/c (2,000× 100) Dr. Premium on Redemption of Debenture A/c (2,000× 10) Dr. To Own Debenture A/c To Gain on Cancellation of Own Debenture A/c (Being own debenture cancelled)		2,00,000 20,000	2,06,000 14,000
	Gain on Cancellation of Own Debenture A/c Dr. To Capital Reserve A/c (Being gain on cancellation of own debentures transferred to capital reserve)		14,000	14,000

Question 27.

DDD Ltd. purchased its own 2,500; 10% Debentures of Rs.100 each redeemable at 10% premium @Rs.112 per debenture for immediate cancellation.

Pass necessary Journal entries for purchase and cancellation of debentures.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Own Debenture A/c (2,500×112) Dr. To Bank A/c (Being 2,500, 10% debenture purchased @₹112 per debenture)		2,80,000	2,80,000
	10% Debenture A/c (2,500× 100) Dr. Premium on Redemption of Debenture A/c (2,500× 10) Dr. Loss on Cancellation of Debenture A/c Dr. To Own Debenture A/c (Being own debenture cancelled)		2,50,000 25,000 5,000	2,80,000

Question 28.

EEE Ltd. issued on 1st April, 2013, 4,500; 10% Debentures of Rs.100 each at a premium of 5% redeemable at a premium of 10% by purchase from open market or by draw of lots every year debentures of nominal value of Rs.1,50,000 beginning 31st March, 2016. The company transferred the required amount to DRR on 31st March, 2015. It also invested the required amount in Debenture Redemption Investment as required by law, which it encashed at the time of last cancellation. The company purchased 1,500; 10% Debentures on 1st January, 2016 @ Rs.98 and cancelled them on 31st March, 2016. It purchased another lot of 1,500; 10% Debentures on 1st March, 2017 @Rs.106 per debenture and cancelled them on 31st March, 2017.

Remaining debentures were purchased on 15th March, 2018 @ Rs.115 per debenture and cancelled them on 31st March, 2018.

You are required to pass necessary Journal entries.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2013 Apr.01	Bank A/c (4,500×105) Dr. To Debenture Application A/c (Being received application money on 4,500 debenture)		4,72,500	4,72,500
Apr.01	Debenture Application A/c Dr. Loss on Issue of Debenture A/c (4,500×10) Dr. To 10% Debenture A/c (4,500×100) To Securities Premium Reserve A/c To Premium on Redemption Debenture A/c (4,500×10) (Being transfer of application money to share capital)		4,72,500 45,000	4,50,000 22,500 45,000
2015 Mar.31	Surplus ,i.e Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being DRR created of amount equal to 25% of the value of debentures)		1,12,500	1,12,500
Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being 15% of amount of debenture to be redeemed on march 31,2016 invested)		22,500	22,500
2016 Jan.01	Own Debenture A/c (1,500×98) Dr. To Bank A/c (Being 1,500, 10% debenture purchased @ 98 per debenture)		1,47,000	1,47,000

Mar.31	10% Debenture A/c (1,500×100) Premium on Redemption of Debenture A/c (1,500×10) To Own Debenture A/c To Gain on Cancellation of Own Debenture A/c (Being own debenture cancelled)	Dr. Dr.	1,50,000 15,000	1,47,000 18,000
Mar.31	Gain on Cancellation of Own Debenture A/c To Capital Reserve A/c (Being gain on cancellation of own debenture transferred to capital reserve)	Dr.	18,000	18,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being 15% of the amount of debenture to be redeemed on march 31,2017)	Dr.	22,500	22,500
2017 Mar.01	Own Debenture A/c (1,500×106) To Bank A/c (Being 1,500, 10% debenture purchased @ ₹106 per debenture)	Dr.	1,59,000	1,59,000
Mar.31	10% Debenture A/c (1,500×100) Premium on Redemption of Debenture A/c To Own Debenture A/c To Gain on Cancellation of Own Debenture A/c (Being own debenture cancelled)	Dr. Dr.	1,50,000 15,000	1,59,000 6,000
Mar.31	Gain on Cancellation of Own Debentures A/c To Capital Reserve A/c (Being gain on cancellation of own debenture transferred to capital reserve)	Dr.	6,000	6,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being 15% of the amount of debenture to be redeemed on march 31,2016)	Dr.	22,500	22,500
2018 Mar.15	Own Debenture A/c (1,500×115) To Bank A/c (Being 1,500, 10% debenture purchased @ ₹115 per debenture)	Dr.	1,72,500	1,72,500
Mar.31	10% Debenture A/c Premium on Redemption of Debenture A/c Loss on Cancellation of Own Debenture A/c To Own Debenture A/c (Being own debenture cancelled)	Dr. Dr. Dr.	1,50,000 15,000 7,500	1,72,500
Mar.31	Bank A/c To Debenture Redemption Investment A/c (Being investment encashed)	Dr.	67,500	67,500
Mar.31	Debenture Redemption Reserve A/c To General Reserve A/c (Being DRR transferred to general reserve)	Dr.	1,12,500	1,12,500

Question 29.

Draft the Journal entries in respect of the following:

In 2005-06, ABC Ltd. had issued 5,000; 10% Debentures of 100 each. On 1st April, 2013, the company purchased 500 of its own 10% Debentures at Rs.48,000. On the same date the balance of Debenture Redemption Reserve was Rs.5,00,000. The debentures were held as investment until 31st March, 2014 when it was decided to cancel them. Interest is payable half-

yearly on 30th September and 31st March and the books are closed on 31st March every year.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2005-06	Bank A/c (4,500×105) To Debenture Application A/c (Being amount received on issue of 5,000 debenture)	Dr.	5,00,000	5,00,000
Apr.01	Debenture Application A/c To 10% Debenture A/c (Being allotment of 5,000 debenture done)	Dr.	5,00,000	5,00,000
2005 Sept.30	Debenture's Interest A/c To Debenture holders A/c (Being interest due on debenture)	Dr.	25,000	25,000
	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)	Dr.	25,000	25,000
2006 Mar.31	Debenture's Interest A/c To Debenture holders A/c (Being interest due on debentures)	Dr.	25,000	25,000
	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)	Dr.	25,000	25,000
	Statement of Profit and Loss A/c To Debenture's Interest A/c (Being debenture interest transferred of profit and loss)	Dr.	50,000	50,000

From Sep.30 2006 Mar.31, 2013	Pass the above journal entries every year on September 30 and march 31 of the following years- (2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013)			
2013 Apr.01	Investment in Own Debenture A/c To Bank A/c (Being own debenture purchased)	Dr.	48,000	48,000
Apr.30	Debenture Redemption Investment A/c To Bank A/c (Being investment made @15% of the face value of debenture redeeming on march 31,2014)	Dr.	7,500	7,500
Sept.30	Debenture's Interest A/c To Debenture holder's A/c To Interest on Own Debenture A/c (Being interest due on debentures)	Dr.	25,000	22,500 2,500
	Debenture holder's A/c To Bank A/c (Being payment of interest on debenture to outsiders)	Dr.	22,500	22,500
2014 Mar.31	Debenture's Interest A/c To Debenture holder's A/c To Interest on Own Debenture A/c (Being interest due on debenture)	Dr.	25,000	22,500 2,500
	Debenture holder's A/c To Bank A/c (Being payment of interest on debenture to outside ₹)	Dr.	22,500	22,500
	Interest on Own Debenture A/c To Statement of Profit and Loss A/c (Being interest on own debenture credited to statement of Profit and loss)	Dr.	5,000	5,000
	Statement of Profit and Loss A/c To Debenture Interest A/c (Being debenture interest transferred of profit and loss)	Dr.	50,000	50,000
	Bank A/c To Debenture Redemption Investment A/c (Being investment were enchased)	Dr.	7,500	7,500
	10% Debenture A/c To Investment in Own debenture A/c To Profit on Cancellation of Own Debenture A/c (Being own debenture cancelled)	Dr.	50,000	48,000 2,000
	Profit on Cancellation of Own Debenture A/c To Capital Reserve A/c (Being profit on cancellation transferred capital reserve)	Dr.	2,000	2,000

Note:

In this question the balance of Debenture Redemption Reserve is already given to us. Thus, there is no need to create DRR in this case. However, since nothing is mentioned about the debenture redemption investment, thus, we will create it @ 15% of the debentures redeeming, i.e. ₹50,000.

Question 30.

Solution:

'Ananya Ltd.' had an authorised capital of ₹10,00,00,000 divided into 10,00,000 equity shares of ₹100 each. The company had already issued 2,00,000 shares. The dividend paid per share for the year ended 31st March, 2007 was ₹30. The management decided to export its products to African countries. To meet the requirements of additional funds, the finance manager put up the following three alternate proposals before the Board of Directors:

- Issue 47,500 equity shares at a premium of ₹100 per share.
- Obtain a long-term loan from bank which was available at 12% per annum.
- Issue 9% debentures at a discount of 5%.

After evaluating these alternatives, the company decided to issue 1,00,000, 9% debentures on 1st April, 2008. The face value of each debenture was ₹100. These debentures were redeemable in four installments starting from the end of third year, which were as follows:

Year	III	IV	V	VI
Amount (₹)	10,00,000	20,00,000	30,00,000	40,00,000

Prepare 9% Debenture Account from 1st April, 2008 till all the debenture were redeemed.

9% Debenture

Dr.				Cr.			
Date	Particulars	J.F.	Rs.	Date	Particulars	J.F.	Rs.
2009 Mar.31	To Balance c/d		1,00,00,000	2008 Apr.01	By Debenture Application A/c		95,00,000
				Apr.01	By Discount on Issue of Debenture A/c		5,00,000
			1,00,00,000				1,00,00,000
2010 Mar.31	To Balance c/d		1,00,00,000	2009 Apr.01	By Balance b/d		1,00,00,000
			1,00,00,000				1,00,00,000
2011 Mar.31	To Debenture holders A/c		10,00,000	2010 Apr.01	By Balance b/d		1,00,00,000
Mar.31	To Balance c/d		90,00,000				1,00,00,000
			1,00,00,000				1,00,00,000
2012 Mar.31	To Debenture holders A/c		20,00,000	2011 Apr.01	By Balance b/d		90,00,000
Mar.31	To Balance c/d		70,00,000				90,00,000
			90,00,000				90,00,000
2013 Mar.31	To Debenture holders A/c		30,00,000	2012 Apr.01	By Balance b/d		70,00,000
Mar.31	To Balance c/d		40,00,000				70,00,000
			70,00,000				70,00,000
2014 Mar.31	To Debenture holders A/c		40,00,000	2013 Apr.01	By Balance b/d		40,00,000
			40,00,000				40,00,000

Question 31.

Pass necessary Journal entries for issue and redemption of Debentures in the following cases:

20,000; 12% Debentures of Rs.50 each were issued and to be redeemed as follows:

- Issued at par and redeemed at a premium of 10%.
- Issued at a premium of 10% and redeemable at a premium of 20%.

Solution:

(i) Case

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	At the time of Issue Bank A/c (4,500×105) Dr. To 12% Debenture Application A/c (Being received application money received)		10,00,000	10,00,000
	12% Debenture Application A/c Dr. Loss on Issue of Debenture A/c Dr. To 12% Debenture A/c To Premium on Redemption Debenture A/c (Being 20,000 12% debentures of ₹50 each issued at par repayable at 10% premium)		10,00,000 1,00,000	10,00,000 1,00,000
	Before Redemption Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)		2,50,000	2,50,000
	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made in specified securities)		1,50,000	1,50,000
	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)		1,50,000	1,50,000
	At the time Redemption 12% Debenture A/c Dr. Premium on Redemption A/c Dr. To Debenture holders A/c (Being 2,000 12% debenture of ₹50 each repayable at 10% premium due for redemption)		10,00,000 1,00,000	11,00,000

	Debenture holders A/c To Bank A/c (Being payment made to debenture holders)	Dr.		11,00,000	11,00,000
	Debenture Redemption Reserve A/c To Capital Reserve A/c (Being DRR transferred to reserve upon redemption)	Dr.		2,50,000	2,50,000

Case (ii)

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	At the time of Issue			
	Bank A/c To 12% Debenture Application A/c (Being debenture application money received)	Dr.	11,00,000	11,00,000
	12% Debenture Application A/c Loss on Issue of Debenture A/c To 12% Debenture A/c To Securities Premium A/c To Premium on Redemption Debenture A/c (Being 20,000 12% debentures of ₹50 each issued at 10% premium repayable at 20% premium)	Dr. Dr.	11,00,000 2,00,000	10,00,000 1,00,000 2,00,000
	Before Redemption			
	Statement of Profit and Loss A/c To Debenture Redemption Reserve A/c (Being surplus amount is transferred to debenture redemption reserve)	Dr.	2,50,000	2,50,000
	Debenture Redemption Investment A/c To Bank A/c (Being investment made in specified securities)	Dr.	1,50,000	1,50,000
	Bank A/c To Debenture Redemption Investment A/c (Being investment made in securities, now encashed)	Dr.	1,50,000	1,50,000
	At the time Redemption			
	12% Debenture A/c Premium on Redemption A/c To Debenture holders A/c (Being 2,000 12% debenture of ₹50 each due for redemption premium at 20%)	Dr. Dr.	10,00,000 2,00,000	12,00,000
	Debenture holders A/c To Bank A/c (Being amount paid to debenture holders)	Dr.	12,00,000	12,00,000
	Debenture Redemption Reserve A/c To Capital Reserve A/c (Being DRR transferred to reserve upon redemption)	Dr.	2,50,000	2,50,000

Note:

In this case debenture redemption reserve and debenture redemption investment is created because the question does not specify the redemption of debenture from purchase in open market.

Question 32.

D Ltd. redeemed 1,000; 9% Debentures of Rs.100 each which were issued at par by converting them into equity shares of Rs.10 each issued at a premium of 25%. Journalise.

Solution:

Books of D Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	9% Debenture A/c Dr. To Debenture holders A/c (Being 1,000 9% debenture of ₹100 each due redemption)		1,00,000	1,00,000
	Debenture holders A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being 8,000 equity share of ₹10 each issued at premium of 25% to debenture holders)		1,00,000	80,000 20,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{1,00,000}{(10 + 2.5)} = \frac{1,00,000}{12.5} = 8,000 \text{ Share}$$

Question 33.

A Ltd. redeemed 1,000; 9% Debentures of Rs.50 each by converting them into 15% New Debentures of Rs.100 each. Journalise.

Solution:

Books of D Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	9% Debenture A/c Dr. To Debenture holders A/c (Being 1,000 9% debenture of ₹50 each due redemption)		50,000	50,000
	Debenture holders A/c Dr. To 15% Debenture A/c (Being 500 15% debenture issued to debenture holders)		50,000	50,000

Working Note:

$$\text{Number of Debentures to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{50,000}{100} = 500 \text{ debenture}$$

Question 34.

A company redeemed 1,000; 8% Debentures of Rs.100 each by converting them to 12% preference shares of Rs.100 each at 25% premium. Give Journal entries.

Solution:**Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	8% Debenture A/c To Debenture holders A/c (Being 1,000 8% debenture of ₹100 each due redemption)	Dr.	1,00,000	1,00,000
	Debenture holders A/c To 12% Preference Share Capital A/c To Securities Premium A/c (Being 800 12% Preference share of ₹100 each issue at ₹25 premium to debenture holders)	Dr.	1,00,000	80,000 20,000

Working Note:

$$\text{Number of Preference Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{1,00,000}{(100 + 25)} = \frac{1,00,000}{125} = 800 \text{ Shares}$$

Question 35.

On 1st April, 2010, X Ltd. issued 1,00,000; 8% Debentures of Rs.100 each at par redeemable after 5 year at a premium of 10% by converting them into equity shares of Rs.100 each issued at a premium of 25%. Pass necessary Journal entries for the issue and redemption of debentures.

Solution:**Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2010 Apr.01	Bank A/c To Debenture Application A/c (Being received application money received)	Dr.	1,00,00,000	1,00,00,000
	Debenture Application A/c Loss on Issue of Debenture A/c To 8% Debenture A/c To Premium on Redemption A/c (Being 1,00,000 8% debentures of ₹100 each issued at 10% premium repayable at 10% premium)	Dr. Dr.	1,00,00,000 10,00,000	1,00,00,000 10,00,000
2015 Apr.01	8% Debenture A/c Premium on Redemption A/c To Debenture holders A/c (Being 1,00,000 8% debenture due for redemption)	Dr. Dr.	1,00,00,000 10,00,000	1,10,00,000
	Debenture holders A/c To Equity Share Capital A/c To Securities Premium A/c (Being 84000 equity shares of ₹100 each issued at ₹252 premium to debenture holders)	Dr.	1,10,00,000	88,00,000 22,00,000

WorkingNote :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{1,00,000}{(100 + 25)} = \frac{1,10,00,000}{125} = 88,000 \text{ Shares}$$

Question 36.

Iron and Steel Ltd. redeemed 6,000; 8% Debentures of Rs.100 each which were issued at a discount of 5%, by converting

them into equity shares of Rs.10 each at par. Journalise.

Solution:

**Books of Iron and Steel Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	8% Debenture A/c Dr. To Debenture holders A/c To Discount on Issue of Debenture A/c (Being 6,000 8% debenture of ₹100 each issued at a discount of 5% due for redemption)		6,00,000	5,70,000 30,000
	Debenture holders A/c Dr. To Equity Share Capital A/c (Being 57,000 equity share of ₹10 each issued to debenture holders)		5,70,000	5,70,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{5,70,000}{10} = 57,000 \text{ Shares}$$

Question 37.

D Ltd. redeemed 1,000; 9% Debentures of Rs.100 each which were issued at a discount of 5% by converting them into equity shares of Rs.10 each issued at a premium of 25%. Journalise.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	9% Debenture A/c Dr. To Debenture holders A/c To Discount on Issue of Debenture A/c (Being 1000 9% debenture of ₹100 each issued at 5% discount of due for redemption)		1,00,000	95,000 5,000
	Debenture holders A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being 7,600 Equity share issued at premium of 25% to debenture holders)		95,000	76,000 19,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{95,000}{(10 + 2.5)} = \frac{95,000}{12.5} = 7,600 \text{ Shares}$$

Question 38.

A Ltd. redeemed 1,000; 9% Debentures of Rs.50 each by converting them into 15% New Debentures of Rs.100 each. Journalise.

Solution:**Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	9% Debenture A/c To Debenture holders A/c (Being 1,000 9% debenture of ₹50 each due for redemption)	Dr.	50,000	50,000
	Debenture holders A/c To 15% Debentures A/c (Being 500, 15% debenture issued to debenture holders)	Dr.	50,000	50,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{50,000}{100} = 500 \text{ debentures}$$

Question 39.

Pass necessary Journal entries for the following transactions in the books of XYZ Ltd:

- Converted 100; 8% Debentures of Rs.100 each into 10% preference shares of Rs.100 each. The preference shares were issued at a premium of 25%.
- Redeemed 1,00,000; 8% Debentures at a premium of 10% by draw of lots.

Solution:

Case(a)

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	8% Debenture A/c To Debenture holders A/c (Being 100, 8% debenture of ₹100 each due for redemption)	Dr.	10,000	10,000
	Debenture holders A/c To 10% Preference Share Capital A/c To Securities Premium A/c (Being 80, 10% Preference share of ₹100 each issued at 25% premium to debenture holders)	Dr.	10,000	8,000 2,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{10,000}{(100 + 25)} = \frac{10,000}{125} = 80 \text{ Shares}$$

Case (b)

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	8% Debenture A/c Premium on Redemption A/c To Debenture holders A/c (Being debenture due for redemption at 10% premium)	Dr. Dr.	1,00,000 10,000	1,10,000
	Debenture holders A/c To Bank A/c (Being amount paid to debenture holders)	Dr.	1,10,000	1,10,000

Question 40.

Pass necessary Journal entries in the books of XYZ Ltd. for the following transactions:

- Converted 100; 8% Debentures of Rs.100 each into 9% preference shares of Rs.100 each issued at a premium of 25%.
- Converted 100; 8% Debentures of Rs.100 each issued at par into equity shares of Rs.10 each.

Solution:

**Books of XYZ Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	8% Debenture A/c To Debenture holders A/c (Being 100 8% debenture of ₹100 each due for redemption)	Dr.	10,000	10,000
	Debenture holders A/c To 9% Preference Share Capital A/c To Securities Premium A/c (Being 80, 9% Preference share of ₹100 each issued at 25% premium to debenture holders)	Dr.	10,000	8,000 2,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{10,000}{(100 + 25)} = \frac{10,000}{125} = 80 \text{ Shares}$$

Case (b)

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	8% Debenture A/c To Debenture holders A/c (Being 100 8% debenture of ₹100 each due for redemption)	Dr.	10,000	10,000
	Debenture holders A/c To Equity Share Capital A/c (Being 1,000 Equity Share of ₹10 each issued to debenture holders)	Dr.	10,000	10,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{10,000}{10} = 1,000 \text{ Shares}$$

Question 41.

Pass necessary Journal entries in the books of the company in the following cases for redemption of 2,000; 12% Debentures of Rs.10 each issued at par:

- Debentures redeemed at par by conversion into 10% preference shares of Rs.50 each.
- Debentures redeemed at a premium of 5% by conversion into equity shares issued at par.
- Debentures redeemed at a premium of 5% by conversion into equity shares issued at a premium of 20%.

Solution:

Case(a)

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	12% Debenture A/c To Debenture holders A/c (Being 2,000 12% debenture of ₹10 each due for redemption)	Dr.	20,000	20,000
	Debenture holders A/c To 10% Preference Share Capital A/c (Being 400 10% Preference share of ₹50 each issued to debenture holders)	Dr.	20,000	20,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{20,000}{50} = 400 \text{ Shares}$$

Case (b)

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	12% Debenture A/c Premium on Redemption A/c To Debenture holders A/c (Being 2,000 debenture of ₹10 each due for redemption at 5% premium)	Dr. Dr.	20,000 1,000	21,000
	Debenture holders A/c To Equity Share Capital A/c (Being 2,100 equity share issued to debenture holders)	Dr.	21,000	21,000

Working Notes :

Let Face value of Equity share to be issued is ₹10

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{21,000}{10} = 2,100 \text{ Shares}$$

Case(c)

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	12% Debenture A/c Premium on Redemption A/c To Debenture holders A/c (Being 2,000 debenture of ₹10 each due for redemption at 5% premium)	Dr. Dr.	20,000 1,000	21,000
	Debenture holders A/c To Equity Share Capital A/c To Securities Premium A/c (Being 1,750 equity share issued at a premium of 25% to debenture holders)	Dr.	21,000	17,500 3,500

Working Notes :

Let Face value of Equity share to be issued is ₹10

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{21,000}{10 + 2} = \frac{21,000}{12} = 1,750 \text{ Shares}$$

Question 42.

Pass necessary Journal entries in the books of the company in the following cases for redemption of 500; 12% Debentures of Rs.50 each issued at par:

- Debentures redeemed at par by conversion into 10% preference shares of Rs.100 each.
- Debentures redeemed at a premium of 12% by conversion into equity shares issued at par.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	12% Debenture A/c To Debenture holders A/c (Being 500, 12% debenture of ₹50 each due for redemption)	Dr.	25,000	25,000
	Debenture holders A/c To 10% Preference Share Capital A/c (Being 250, 10% Preference share of ₹100 each issued to debenture holders)	Dr.	25,000	25,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{25,000}{100} = 250 \text{ Shares}$$

Case (b)

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	12% Debenture A/c Premium on Redemption A/c To Debenture holders A/c (Being 500, 12% debenture of ₹50 each due for redemption at 12%)	Dr. Dr.	25,000 3,000	28,000
	Debenture holders A/c To Equity Share Capital A/c (Being 2,800, equity share issued to debenture holders)	Dr.	28,000	28,000

Working Notes :

Let Face value of Equity share to be issued is ₹10

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{28,000}{10} = 2,800 \text{ Shares}$$

Question 43.

Exe Ltd. issued 20,000; 9% Debentures of Rs.10 each at par redeemable at a premium of 5%. According to the terms of issue, debenture holders were given an option to convert their holdings into 9% Preference Shares of Rs.10 each at a premium of 20% at any time after two year. On 31st March, 2015, (the third year of issue) a holder of 400 debentures exercised this option.

Interest on debentures for the full one year had accrued and remained unpaid until 31st March, 2015.

Give necessary Journal entries for the year ended 31st March, 2015.

Solution:**Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2015 Mar.31	Interest on Debenture A/c To Interest on Debenture Outstanding A/c (Being debenture interest due on 20,000 9% debenture of ₹10 each)	Dr.	18,000	18,000
Mar.31	9% Debenture A/c Premium on Redemption A/c To Debenture holders A/c (Being 400, 9% debenture of ₹10 each due for redemption)	Dr. Dr.	4,000 200	4,200
	Debenture holders A/c To 9% Preference Share Capital A/c To Securities Premium A/c (Being 350, 9% Preference share issued at 20% premium to debenture holders)	Dr.	4,200	3,500 700

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{4,200}{10 + 2} = \frac{4,200}{12} = 350 \text{ Shares}$$

Question 44.

On 1st April, 2013, Kalpana Garments Ltd. issued 1,000; 8% Debentures of Rs.100 each at par and redeemable at par after 4 year and offered the holders an option to convert their holdings into equity shares of Rs.10 each at par after 31st March, 2015. On 1st April, 2015, 40% holders exercised their option. Give Journal entries on 1st April, 2015.

Solution:

Books of Kalpana Garments Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2015 Apr.01	8% Debenture A/c To Debenture holders A/c (Being 400, 8% debenture due for redemption)	Dr.	40,000	40,000
Apr.01	Debenture holders A/c To Equity Share Capital A/c (Being 4,000 equity share of ₹10 each issued to debenture holders)	Dr.	40,000	40,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{40,000}{10} = 4,000 \text{ Shares}$$

Question 45.

On 1st April, 2013, Nath Ltd. issued 2,000; 8% Debentures of Rs.100 each at par and redeemable at par after 4 year and offered the holders an option to convert their holdings into equity shares of Rs.10 each at 25% premium after 31st March, 2015. On 1st April, 2015, 60% holders exercised their option. Give Journal entries on 1st April, 2015.

Solution:

**Books of Nath Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2015 Apr.01	8% Debenture A/c To Debenture holders A/c (Being 1,200 8% debenture of ₹100 each due for redemption)	Dr.	1,20,000	1,20,000
Apr.01	Debenture holders A/c To Equity Share Capital A/c To Securities Premium A/c (Being 9,600 equity shares of ₹10 issued to debenture holders at a premium of 25%)	Dr.	1,20,000	96,000 24,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{1,20,000}{10 + 2.5} = \frac{1,20,000}{12.5} = 9,600 \text{ Shares}$$

Question 46.

On 1st April, 2004, Ashoka Ltd. issued 8,800; 8% Debentures of Rs.50 each at a premium of 5%, redeemable at par after 3 year by conversion into Equity Shares of Rs.20 each to be issued at a premium of Rs.2 per share.

Record necessary Journal entries in the books of the company for the Issue and Redemption of Debentures.

Solution:

**Books of Ashoka Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2004 Apr.01	Bank A/c To 8% Debenture Application A/c (Being debenture application money received)	Dr.	4,62,000	4,62,000
	8% Debenture Application A/c To 8% Debenture A/c To Securities Premium A/c (Being 8,800 8% debenture of ₹50 each due for redemption)	Dr.	4,62,000	4,40,000 22,000
2007 Mar.31	8% Debenture A/c To Debenture holders A/c (Being 8,800, 8% debenture of ₹50 each due for redemption)	Dr.	4,40,000	4,40,000
Mar.31	Debenture holders A/c To Equity Share Capital A/c To Securities Premium A/c (Being 20,000 equity share of ₹20 issued to debenture holders at a premium of ₹2 each)	Dr.	4,40,000	4,00,000 40,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{4,40,000}{20 + 2} = \frac{4,40,000}{22} = 20,000 \text{ Shares}$$

Question 47.

On 1st April, 2011, Ashis Ltd. issued Rs.4,00,000; 10% Debentures of Rs.100 each redeemable at par after 4 year and offered the holders an option to convert their holdings into equity shares of Rs.10 each after 31st March, 2015. On 1st April,

2015, 25% holders exercised their options. Give the necessary Journal entries both at the time of issue and at the time of conversion under the following alternative cases:

Case 1. If Equity Shares of Rs.10 each are issued at par.

Case 2. If Equity Shares of Rs.10 each are issued at a premium of 25%.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2011 Apr.01	Bank A/c To 10% Debenture Application A/c (Being debenture application money received)	Dr.	4,00,000	4,00,000
	10% Debenture Application A/c To 10% Debenture A/c (Being 4,000 10% debenture of ₹100 each issued at par)	Dr.	4,00,000	4,00,000
2015 Apr.01	10% Debenture A/c To Debenture holders A/c (Being 1,000, 10% debenture of ₹100 each due for redemption)	Dr.	1,00,000	1,00,000
	<u>Case 1</u> Debenture holders A/c To Equity Share Capital A/c (Being 10,000 equity share of ₹10 each issued at par to debenture holders)	Dr.	1,00,000	1,00,000
	<u>Case 2</u> Debenture holders A/c To Equity Share Capital A/c To Securities Premium A/c (Being 8,000 equity share of ₹10 issued to at 25% premium to debenture holders)	Dr.	1,00,000	80,000 20,000

Working Notes :

Amount of Debenture due for Redemption = $4,00,000 \times \frac{25}{100} = ₹1,00,000$

Case 1

Number of Shares to be issued = $\frac{\text{Amount Payable}}{\text{Issue price}} = \frac{1,00,000}{10} = 10,000 \text{ Shares}$

Case 2

Number of Shares to be issued = $\frac{\text{Amount Payable}}{\text{Issue price}} = \frac{1,00,000}{10 + 2.5} = \frac{1,00,000}{12.5} = 8,000 \text{ Shares}$

Question 48.

AH Ltd. issued 20,000; 9% Debentures of Rs.100 each at par redeemable after 5 year by converting them into equity shares of Rs.10 each. Pass necessary Journal entries for the issue and redemption of debentures.

Solution:

Books of AH Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
Year I	Bank A/c To 9% Debenture Application A/c (Being debenture application money received)	Dr.	20,00,000	20,00,000
	9% Debenture Application A/c To 9% Debenture A/c (Being debenture application money transferred to debenture account)	Dr.	20,00,000	20,00,000
Year V	9% Debenture A/c To Debenture holders A/c (Being 20,000 9% debenture of ₹100 each due for redemption)	Dr.	20,00,000	20,00,000
	Debenture holders A/c To Equity Share Capital A/c (Being 2,00,000 equity share of ₹10 each issued at par to debenture holders)	Dr.	20,00,000	20,00,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue price}} = \frac{20,00,000}{10} = 2,00,000 \text{ Shares}$$

Question 49.

On 1st April, 2005, Radha Ltd. issued 2,000; 9% Debentures of Rs.100 each. 30% of these debentures were redeemable at the end of 3rd year by converting them into Equity Shares of Rs.100 each issued at a premium of 50%. The remaining debentures were redeemable at the end of 4th year by converting the same into Equity Shares of Rs.100 each at par. Pass the necessary Journal entries in the books of the company for the Issue and Redemption of Debentures.

Solution:

**Books of Radha Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
2005 Apr.01	Bank A/c To 9% Debenture Application A/c (Being debenture application money received)	Dr.	2,00,000	2,00,000
	9% Debenture Application A/c To 9% Debenture A/c (Being debenture application money transferred to debenture account)	Dr.	2,00,000	2,00,000
2008 Mar.31	9% Debenture A/c To Debenture holders A/c (Being 600 9% debenture of ₹100 each due for redemption)	Dr.	60,000	60,000
Mar.31	Debenture holders' A/c To Equity Share Capital A/c To Securities Premium A/c (Being 400 equity share of ₹100 each issued at premium of 50% to debenture holders)	Dr.	60,000	40,000 20,000
2009 Mar.31	9% Debenture A/c To Debenture holders A/c (Being 1,400 debenture of ₹100 each due for redemption)	Dr.	1,40,000	1,40,000
Mar.31	Debenture holders A/c To Equity Share Capital A/c (Being 1,400 equity share of ₹100 each issued to debenture holders)	Dr.	1,40,000	1,40,000

Working Notes :

WN 1

Amount of Debenture to be redeemed at the end of third year = $2,00,000 \times \frac{30}{100} = ₹ 60,000$

Number of Shares to be issued the holder of 30% debentures = $\frac{60,000}{100 + 50} = \frac{60,000}{150} = 400 \text{ Shares}$

WN 2

Amount of Debenture to be redeemed at the end of third year = $2,00,000 \times \frac{70}{100} = ₹ 1,40,000$

Number of Shares to be issued the holder of 70% debentures = $\frac{1,40,000}{100} = 1,400 \text{ Shares}$

Question 50.

On 1st April, 2011 Mode Ltd. issued 4,00,000; 8% Debentures of Rs.100 each at a discount of 5% and redeemable at 10% premium after 4 year and offered the holders option to convert their holdings into equity shares of Rs.10 each after 31st March, 2015. On 1st April, 2015, 25% holders exercised their options. Give necessary Journal entries both at the time of issue and at the time of conversion under the following alternative cases:

Case 1: If equity shares of 10 each are issued at par.

Case 2: If equity shares of Rs.10 each are issued at a premium of Rs.10 per share.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
2011 Apr.01	Bank A/c To 8% Debenture Application A/c (Being debenture application money received)	Dr.	3,80,000	3,80,000
	8% Debenture Application A/c Discount on Issue of Debenture A/c Loss on Issue of Debenture A/c To 8% Debenture A/c To Premium on Redemption A/c (Being 4,000 8% debenture of ₹100 each issued at a discount of 5% and repayable at a premium of 10%)	Dr.	3,80,000 20,000 40,000	4,00,000 40,000
2015 Apr.01	8% Debenture A/c Premium on Redemption A/c To Discount on Issue of Debenture A/c To Loss on Issue of Debenture A/c To Debenture holders A/c (Being 1,000 8% debenture of ₹100 each due for redemption before maturity)	Dr. Dr.	1,00,000 10,000	5,000 10,000 95,000
	<u>Case 1</u> Debenture holders A/c To Equity Share Capital A/c (Being 9,500 equity share of ₹10 each issued to debenture holders)	Dr.	95,000	95,000
	<u>Case 2</u> Debenture holders A/c To Equity Share Capital A/c To Securities Premium A/c (Being 4,750 Equity share of ₹10 issued to at premium of ₹ 10 per share to debenture holders)	Dr.	95,000	47,500 47,500

Working Notes :

Amount of debenture to be redeemed = $4,00,000 \times \frac{25}{100} = ₹1,00,000$

Less : Discount on Issue of Shares = $20,000 \times \frac{25}{100} = ₹5,000$

∴ Amount due for Redemption = $(1,00,000 - 5,000) = ₹95,000$

Case 1

Number of Shares to be issued = $\frac{\text{Amount Payable}}{\text{Issue price}} = \frac{95,000}{10} = 9,500 \text{ Shares}$

Case 2

Number of Shares to be issued = $\frac{\text{Amount Payable}}{\text{Issue price}} = \frac{95,000}{10 + 10} = 4,750 \text{ Shares}$

Question 51.

Pass necessary Journal entries for the following transactions in the books of Jay Ltd:

- Issued 8,000; 9% Debentures of Rs.200 each at a premium of Rs.50 per debenture.
- Converted 350; 9% Debentures of Rs.100 each into equity shares of Rs.100 each issued at a premium of 25%.

Solution:

Books of Jay Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c To 9% Debenture Application A/c (Being debenture application money received)	Dr.	20,00,000	20,00,000
	9% Debenture Application A/c To 9% Debenture A/c To Securities Premium A/c (Being debenture application money transferred to debenture account)	Dr.	20,00,000	16,00,000 4,00,000
	9% Debenture A/c To Debenture holders A/c (Being 350, 9% debenture of ₹100 each due for redemption)	Dr.	35,000	35,000
	Debenture holders A/c To Equity Share Capital A/c To Securities Premium A/c (Being 280 equity share of ₹100 each issued at premium of ₹25 to debenture holders)	Dr.	35,000	28,000 7,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount payable}}{\text{Issue Price}} = \frac{35,000}{100 + 25} = \frac{35,000}{125} = 280 \text{ Shares}$$

Question 52.

Pass necessary Journal entries in the following cases:

- Sunrise Ltd. converted 500; 9% Debentures of Rs.100 each issued at a discount of 10% into equity shares of Rs.100 each issued at a premium of 25%.
- Britannia Ltd. redeemed 3,000; 12% Debentures of Rs.100 each which were issued at a discount of 10 per debenture by converting them into equity shares of Rs.100 each, Rs.90 paid up.

Solution:

Books of Sunrise Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	9% Debenture A/c To Debenture holders A/c To Discount on issue of Debenture A/c (Being 500, 12% debenture of ₹100 each (issue at discount of 10%) due for redemption)	Dr.	50,000	45,000 5,000
	Debenture holders A/c To Equity Share Capital A/c To Securities Premium A/c (Being payment made to debenture holder by issuing 360 Equity share of ₹100 each at premium of ₹25%)	Dr.	45,000	36,000 9,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount Payable to Debentureholder}}{\text{price of a Share}}$$

$$\text{Number of Shares to be issued} = \frac{45,000}{125(100+25)} = 360 \text{ Equity Share}$$

**Books of Britannia Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	12% Debenture A/c Dr. To Debenture holders A/c To Discount on issue of Debenture A/c (Being 3,000 12% debenture of ₹100 each (issue at discount of 10%) due for redemption)		3,00,000	2,70,000 30,000
	Debenture holders A/c Dr. Discount A/c Dr. To Equity Share Capital A/c (Being payment made to debenture holder by issuing 3,000 equity share of ₹100 each at discount of ₹10)		2,70,000 30,000	3,00,000

Working Notes :

Number of Shares to be issued = $\frac{\text{Amount Payable to Debentureholder}}{\text{price of a Share}}$

Number of Shares to be issued = $\frac{2,70,000}{90} = 3,000$ Equity Share

Question 53.

Pass necessary Journal entries in the following cases:

i. Z Ltd. redeemed 1,500; 12% Debentures of Rs.100 each issued at a discount of 6% by converting them into equity shares of Rs.100 each issued at a premium of Rs.25 per share.

ii. X Ltd. converted 1,000; 12% Debentures of Rs. 100 each issued at a discount of Rs.10 per debenture into equity shares of Rs.100 each, Rs.90 paid up.

Solution:

**Books of Z Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	12% Debenture A/c Dr. To Debenture holders A/c To Discount on issue of Debenture A/c (Being 1,500, 12% debenture of ₹100 each issue at discount of 6% due for redemption)		1,50,000	1,41,000 9,000
	Debenture holders A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being 1,128 equity share of ₹100 each issued at premium of 25% to debenture holders)		1,41,000	1,12,800 28,200

Working Notes :

Number of Shares to be issued = $\frac{\text{Amount Payable}}{\text{Issue price}} = \frac{1,41,000}{125} = 1,128$ shares

**Books of X Ltd.
Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	12% Debenture A/c Dr. To Debenture holders A/c To Discount on issue of Debenture A/c (Being 1,000 12% debenture of ₹100 each due for redemption)		1,00,000	90,000 10,000
	Debenture holders A/c Dr. Discount A/c Dr. To Equity Share Capital A/c (Being 1,000 equity share of ₹100 each issued at a discount of ₹10 to debenture holders)		90,000 10,000	1,00,000

Working Notes :

Number of Shares to be issued = $\frac{\text{Amount Payable}}{\text{Issue price}} = \frac{90,000}{(100 - 10)} = \frac{90,000}{90} = 1,000$ shares

Question 54.

Pass necessary Journal entries in the books of Varun Ltd. for the following transactions:

- Issued 58,000; 9% Debentures of ₹1,000 each at a premium of 10%.
- Converted 350; 9% Debentures of Rs.100 each into equity shares of Rs.10 each issued at a premium of 25%.
- Redeemed 450; 9% Debentures of Rs.100 each by draw of lots

Solution:**Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c To Debenture Application A/c (Being debenture application money received)	Dr.	63,80,00,000	63,80,00,000
	Debenture Application A/c To 9% Debenture A/c To Securities Premium A/c (Being debenture application money transferred to 9%debenture account)	Dr.	63,80,00,000	58,00,00,000 5,80,00,000
	9% Debenture A/c To Debenture holders A/c (Being amount due to the debenture holders on conversion)	Dr.	35,000	35,000
	Debenture holders' A/c To Equity Share Capital A/c To Securities Premium A/c (Being 2,800 equity shares of ₹10 each issued at premium of 25%)	Dr.	35,000	28,000 7,000
	9% Debenture A/c To Debenture holders A/c (Being amount due to debenture holders on redemption)	Dr.	45,000	45,000
	Debenture holders A/c To Bank A/c (Being payment made to debenture holders on redemption)	Dr.	45,000	45,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount payable}}{\text{Issue Price}} = \frac{35,000}{(10 + 2.5)} = \frac{35,000}{12.5} = 2,800 \text{ Shares}$$

Question 55.

Pass necessary Journal entries for the following transactions in the books of Gopai Ltd.:

- The company had a balance of Rs.15,00,000; 12% Debentures of 100 each. Out of these 2,000 debentures were redeemed by draw of lots.
- The company converted its 200; 9% Debentures of Rs.100 each into equity shares of Rs.10 each at 25% premium.

Solution:

Books of Gopal Ltd.
Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	12% Debenture A/c Dr. To Debenture holders A/c (Being 20,000, 12 % debenture of ₹100 each due for redemption)		2,00,000	2,00,000
	Debenture A/c Dr. To Bank A/c (Being amount due to the debenture holders paid)		2,00,000	2,00,000
	9% Debenture A/c Dr. To Debenture holders A/c (Being 200, 9% debenture of ₹100 each for redemption)		20,000	20,000
	Debenture holders A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being 1,600 equity share of ₹10 each issued at premium of 25% Debenture holders)		20,000	16,000 4,000

Working Notes :

Case (ii)

$$\text{Number of Shares to be issued} = \frac{\text{Amount payable}}{\text{Issue Price}} = \frac{20,000}{(10 + 2.5)} = \frac{20,000}{12.5} = 1,600 \text{ Shares}$$

Question 56.

Pass necessary Journal entries for issue and redemption of Debentures in the following cases:

20,000; 12% Debentures of Rs.50 each were issued and to be redeemed as follows:

- Issued at par and redeemed at a premium of 10%.
- Issued at a premium of 10% and redeemable at a premium of 20%.
- Issued at par and as per terms of issue 50% of face value of debenture is to be redeemed at par in cash, and the balance to be redeemed at a premium of 20% through the issue of fresh debentures.

Solution:

Case (i)

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	<u>At the time of Issue</u> Bank A/c Dr. To 12% Debenture Application A/c (Being debenture application money received)		10,00,000	10,00,000
	12% Debenture Application A/c Dr. Loss on Issue of Debenture A/c To 12% Debenture A/c To Premium on Redemption of Debenture A/c (Being 20,000 12% debenture of ₹50 each issued at a repayable at a premium of 10%)		10,00,000 1,00,000	10,00,000 1,00,000
	<u>At the time of Redemption</u> 12% Debenture A/c Dr. Premium on Redemption A/c Dr. To Debenture holders A/c (Being 2,000 12% debenture of ₹50 each repayable at 10% premium due for redemption)		10,00,000 1,00,000	11,00,000
	Debenture holders' A/c Dr. To Bank A/c (Being payment made to debenture holders)		11,00,000	11,00,000

Date	Particulars	L.F.	Debit ₹	Credit ₹
	<u>At the time of Issue</u> Bank A/c Dr. To 12% Debenture Application A/c (Being debenture application money received)		11,00,000	11,00,000
	12% Debenture Application A/c Dr. Loss on Issue of Debenture A/c Dr. To 12% Debenture A/c To Securities Premium A/c To Premium on Redemption A/c (Being 20,000, 12% debenture of ₹50 each issued at 10% premium, repayable at a premium of 20%)		11,00,000 2,00,000	10,00,000 1,00,000 2,00,000
	<u>At the time of Redemption</u> 12% Debenture A/c Dr. Premium on Redemption A/c Dr. To Debenture holders A/c (Being 2,000, 12% debenture of ₹50 each due for redemption at a premium of 20%)		10,00,000 2,00,000	12,00,000
	Debenture holders' A/c Dr. To Bank A/c (Being amount paid made to debenture holders)		12,00,000	12,00,000

Journal				
Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	<u>At the time of Issue</u> Bank A/c Dr. To 12% Debenture Application A/c (Being debenture application money received for 20,000 debenture Rs. 50 each)		10,00,000	10,00,000
	12% Debenture Application A/c Dr. Loss on Issue of Debenture A/c Dr. To 12% Debenture A/c To Premium on Redemption A/c (Being 10,000 12% debenture of Rs. 50 each issued at per with term redeemable at premium)		5,00,000 1,00,000	5,00,000 1,00,000
	12% Debenture Application A/c Dr. To 12% Debenture A/c (Being 10,000 12% debenture of Rs. 50 each issued at par)		5,00,000	5,00,000
	<u>At the time of Redemption</u> 12% Debenture A/c Dr. To Debenture holders A/c (Being 10,000 debenture of Rs. 50 each due for redemption)		5,00,000	5,00,000
	12% Debenture holders A/c Dr. To Bank A/c (Being payment made in cash to 50% debenture holders)		5,00,000	5,00,000
	12% Debenture A/c Dr. Premium on Redemption A/c Dr. To Debenture holders A/c (Being 10,000 12% debenture of Rs.100 each due for redemption)		5,00,000 1,00,000	6,00,000
	To Debenture holders A/c Dr. To Debenture A/c (Being new debenture issued to the holders of 10,000 12% debenture)		6,00,000	6,00,000

Question 57.

Journalise the redemption of debentures in the following cases:

- 10,000; 10% Debentures of Rs.100 each issued at a discount of 5% and redeemable at par after 5 year were converted into 12% Debentures of Rs.100 each issued at par before maturity.
- 10,000; 10% Debentures of Rs.100 each issued at a discount of 5% and redeemable at par after 5 year were converted into 12% Debentures of Rs.100 each issued at a premium of 25% before maturity.
- 10,000; 10% Debentures of Rs.100 each issued at a discount of 5% and redeemable at par after 5 year were converted into 12% Debentures of Rs.100 each issued as a discount of 20% before maturity.
- 10,000; 10% Debentures of Rs.100 each issued at a discount of 5% and redeemable at par after 5 year were converted into 12% Debentures of Rs.100 each issued as Rs.90 paid-up before maturity.

Solution:

Journal

Date	Particulars	L.F.	Debit ₹	Credit ₹
	<u>Entry in all cases</u> 10% Debenture A/c Dr. To Debenture holders A/c (Being amount due to debenture holders on conversion)		10,00,000	10,00,000
i	Debenture holders A/c Dr. To 12% Debenture A/c (Being issue of 10,000, 12% debenture of ₹100 each at par)		10,00,000	10,00,000
ii	Debenture holders A/c Dr. To 12% Debenture A/c (8,000×100) To Securities Premium Reserve A/c (8,000×25) (Being issue of 10,000, 12% debenture of ₹100 each at a premium of 25%)		10,00,000	8,00,000 2,00,000
iii	Debenture holders A/c Dr. Discount on Issue of Debenture A/c To 12% Debenture A/c (12,500× 100) (Being issue of 12,500 12% debenture of ₹100 each at a discount of 20%)		10,00,000 2,50,000	12,50,000
iv	Debenture holders A/c Dr. To Debenture A/c (Being issue of 11,111, 12% debenture of ₹100 each as ₹ 90 paid up)		10,00,000	10,00,000

Working Notes :

$$\text{Number of Shares to be issued} = \frac{\text{Amount payable to Debentureholders}}{\text{Issue Price of Debentures}} = \frac{10,00,000}{125} = 8,000 \text{ Shares}$$

$$\text{Number of Shares to be issued} = \frac{\text{Amount payable to Debentureholders}}{\text{Issue Price of Debentures}} = \frac{10,00,000}{80} = 12,500 \text{ Shares}$$

$$\text{Number of Shares to be issued} = \frac{\text{Amount payable to Debentureholders}}{\text{Issue Price of Debentures}} = \frac{10,00,000}{90} = 11,111 \text{ Shares}$$