

CHAPTER-2
ISSUE AND REDEMPTION OF DEBENTURES
(TOTAL MARKS ALLOTTED=1+6+12=19)

Section-A

One Mark Questions

I: Fill in the blanks:-

1. Debentureholders are _____ of the company.
2. Debenture issued at collateral security will be debited to _____.
3. Discount of issue of debenture is a _____ asset.
4. Coupon rate is _____ at which the amount is paid by the company on its debentures.
5. Premium on issue of debentures is a _____.
6. When all the debentures are redeemed, debenture redemption reserve A/c is credited to _____.
7. NBFC registered with the RBI create redemption reserve equal to at least _____ of the value of outstanding debentures issued through public issue.
8. Withdrawal from debenture redemption reserve is permissible only after _____ of debentures have been redeemed.
9. In case of converting the debentures into shares, Debentureholders' A/c is debited and credited to _____.
10. If own debentures are purchased by the company for the _____ purpose, own debentures will be shown as an asset in the balance sheet.
11. Debentures which are transferable by mere delivery are _____.
12. In the balance sheet debentures A/c shown under the head of _____.
13. 1,000 10% debentures issued at par, 10% meant for _____.
14. The balance of sinking fund investment A/c realisation of investments is transferred to _____.
15. When the debentures are redeemed out of profits, an equal amount transferred to _____.

Answers:

Fill in the Blanks:

- 1) Creditors 2) Debenture suspense A/c 3) Fictitious
- 4) Rate of interest 5) Capital profit 6) General reserve
- 7) 25% 8) 10% 9) Share capital 10) Investment
- 11) Bearer Debenture 12) Long term borrowings 13) Interest
- 14) Sinking fund A/c 15) DRR A/c

II: Multiple Choice Questions:-

1. Premium on redemption of debentures A/c is _____.
 - a) A Real A/c
 - b) A Nominal A/c- Income
 - c) A Personal A/c
 - d) A Nominal A/c- Expenses
2. Debentures premium cannot be used to _____.
 - a) To write off the discount on issue of debentures or shares.
 - b) To write off the premium on redemption of shares or debentures.
 - c) To pay dividends
 - d) To write off the capital loss.
3. Loss on issue of debentures is treated as:
 - a) Intangible asset
 - b) Current asset
 - c) Current liability
 - d) Miscellaneous expenditure.
4. In the event of liquidation of the company the debentureholders have prior right for:
 - a) Interest b) Principal amount c) None d) Both a & b.

5. Debentures cannot be redeemed out of:

a) Premium b) Discount c) Par d) More than 10% Premium.

6. Debentures cannot be redeemed at:

a) Profits b) Provisions c) Capital d) All the above

7. A Company issued 2,000 8% debentures of ₹100 at par value redeemable at 10% premium. 8% stands for:

- a) Rate of dividend
- b) Rate of tax
- c) Rate of interest
- d) Rate of TDS

8. Debentureholders are:

- a) Owners of the company
- b) Lenders of the company
- c) Debtors of the company
- d) Trustees of the company.

9. X Company limited purchased machinery for ₹20,000, payable ₹6,500 in cash and the balance issued of 12% debentures of ₹100 each at a discount of 10%. How many debentures would be required to issue to vendor:

- a) 155 debentures of ₹100 each
- b) 150 debentures of ₹100 each
- c) 135 debentures of ₹100 each
- d) 145 debentures of ₹100 each

10. XYZ Company limited issued 5,000 6% debentures of ₹100 each at par and are redeemable at 10% premium. Premium on redemption will be debited at the time of issue of debentures:

- a) Loss on issue of debentures A/c
- b) Share discount A/c
- c) Security premium A/c
- d) General Reserve A/c

11. Methods of redemption of debentures are:

- a) By annual drawings
- b) By conversion of shares or debentures
- c) By purchasing own debentures in open market
- d) All of the above

12. A Company cannot redeem its debentures fully:

- a) Out of capital
- b) Out of profits
- c) Both a & b
- d) None of the above

13. If the market price of the debentures more than face value at the time of redemption this will be capital loss and transferred to:

- a) Capital reserve
- b) General reserve
- c) Profit on redemption of debentures
- d) Loss on redemption of debentures

14. The following journal entry appears in books of A Company limited, if debentures have been issued at a discount of:

Bank A/c	Dr.	9,50,000	
Loss on issue of debentures A/c	Dr.	1,50,000	
			10,00,000
			To 8% Debentures A/c
			To Premium on redemption of debentures A/c
			1,00,000

- a) 15%
- b) 5%
- c) 10%
- d) 8%

15. Raj Company limited purchased assets worth ₹14,40,000. It issued debentures of ₹100 each at a discount of 4% in full settlement of the purchase consideration. The numbers of debentures issued to vendors is:

- a) 15,000
- b) 14,400
- c) 16,000
- d) 15,600

Answers:

Multiple Choice Questions:

- 1) a 2) c 3) d 4) d 5) b 6) d 7) c 8) b 9) b 10) a
11) d 12) a 13) d 14) a 15) a

III: True or False:-

1. Debentures are not a part of owned capital.
2. Debentureholders have voting rights.
3. Debentures bear fixed interest.
4. Debentures cannot be issued for consideration other than cash.
5. Company can buy back its debentures.
6. Interest on debentures is not shown in P&L A/c.
7. Debentureholders are not the members of the company.
8. Premium on redemption of debenture is a personal A/c.
9. Debentures cannot be issued as collateral security.
10. A Company can issue irredeemable debentures.
11. Redemption of debentures is made by the company in accordance with the terms of issue.
12. A Company cannot purchase its own debentures in the open market.
13. Profit on redemption of debentures is the nature of capital profit.
14. Debentures cannot be issued at a discount more than 10% of the face value.
15. Loss on issue of debentures A/c is a revenue loss.

Answers:

True/ False:

- True: 1,3,5,7,8,10,11,13.
False: 2,4,6,9,12,14,15.

IV: Very Short Answer Questions:-

1. What is meant by debentures?
2. What securities are included in debentures?
3. What is Bond?
4. State any one difference between shares and debentures.
5. Classify the debentures from the point of view of Tenure.
6. What is coupon rate?
7. What do you mean by zero coupon rate debentures?
8. What (expenditure) is the nature of interest on debentures?
9. What is meant by issue of debentures for consideration other than cash?
10. Define the issue of debentures as a collateral security.
11. Name any one method of redemption of debentures.
12. What do you mean by redemption of debentures?
13. Expand D R R.
14. Expand D R F I.
15. Expand A I F Is.

Section-C

Six marks questions:

1. The Vijaya Company Ltd., issued 10,000 12% debentures of ₹100 each, payable : ₹10 per debenture on application.

₹50 per debenture on allotment.

₹40 per debenture on first and final call.

All the debentures were subscribed and the money duly received. Pass the journal entries in the books of the company.

2. Prabhakar Ltd., issued 5,000 10% debentures of ₹100 each, payable

₹10 per debenture on application.

₹40 per debenture on allotment.

₹50 per debenture on first and final call.

All the debentures were subscribed and the money duly received. Pass the journal entries in the books of the company.

3. Gopal limited company issued 3,000 6% debentures of ₹100 each, payable ₹20 per debenture on application, ₹30 per debenture on allotment and balance on first and final call. All the debentures were duly taken up and the money was received by the company. Pass the journal entries in the books of the company.

4. Chandra limited company issued 15,000 12% debentures of ₹100 each, payable ₹10 per debenture on application, ₹40 per debenture on allotment and balance on first and final call. All the debentures were duly taken up and the money was received by the company. Pass the journal entries in the books of the company.

5. Tunga Co. Ltd., Issued 12,000 12% debentures of ₹100 each, payable

₹20 on application.

₹40 on allotment including ₹10 premium.

₹40 per debenture on first and final call.

All the debentures were subscribed and the money duly received. Pass the journal entries up to the stage of first and final call money due.

6. The Ganesh Co. Ltd., issued 10,000 6% debentures of ₹100 each at a premium of 10% payable ₹20 On application, ₹40 on allotment (including premium), ₹50 on first and final call. All the debentures were subscribed and the money duly received. Pass the journal entries up to the stage of first and final call money due.

7. The Hema Co. Ltd., issued 20,000 8% debentures of ₹100 each at a premium of ₹10 per debenture. The amount was payable as ₹20 on application ₹50 on allotment (including premium), ₹40 on first and final call. All the debentures were subscribed and the money duly received. Pass the journal entries up to the stage of first and final call money due.

8. The Reddy Co. Ltd., issued 2,000 10% debentures of ₹100 each at a discount of 10% payable, ₹20 on application, ₹20 on allotment, and the balance on first and final call. All the debentures were subscribed and the money duly received. Pass the journal entries up to the stage of first and final call money due.

9. Rajashekar Co. Ltd., issued 5,000 12% debentures of ₹100 each at a discount of ₹10 per debenture. The amount was payable as ₹20 on application, ₹40 on allotment and ₹30 on first and final call. All the debentures were subscribed and the money duly received. Pass the journal entries up to the stage of first and final call money due.

10. Prakash Co. Ltd., issued 10,000 9% debentures of ₹100 each at a discount of ₹10 per debenture, payable ₹10 on application, ₹50 on allotment and the balance on first and final call.

All the debentures were subscribed and the money duly received. Pass the journal entries up to the stage of first and final call money due.

ISSUE OF DEBENTURES FOR CONSIDERATION OTHER THAN CASH: PROBLEMS

1. Vageesh Ltd. ₹, purchased building worth ₹99,00,000 and issued debentures to the vendors as purchase consideration. Pass the journal entries in the following cases:

- If 12% debentures of ₹100 are issued to vendor at par.
- If 12% debentures of ₹100 are issued to vendor at a premium of 10%.
- If 12% debentures of ₹100 are issued to vendor at a discount of 10%.

Ans: Number of debentures to be issued

a) 99,000

b) 90,000 (90,00,000+9,00,000)

c) 1,10,000 (99,00,000+11,00,000=1,10,00,000)

Hint: Calculation of number of debentures to be issue:

Number of debentures to be issued = $\frac{\text{Purchase Price}}{\text{Issue Price}}$

$$= \frac{99,00,000}{100} = 99,000, \quad \frac{99,00,000}{110} = 90,000, \quad \frac{99,00,000}{90} = 1,10,000$$

2. Yajna Ltd., purchased building worth ₹49,50,000 and issued debentures to the vendors as purchase consideration. Pass the journal entries in the following cases:

- If 10% debentures of ₹100 are issued to vendor at par.
- If 10% debentures of ₹100 are issued to vendor at a premium of 10%.
- If 10% debentures of ₹100 are issued to vendor at a discount of 10%.

3. A Ltd., purchased machinery worth ₹1,98,000 from B Ltd. The payment was made by issued of 8% debentures of ₹100 each. Pass necessary journal entries for purchase of machinery and issue of debentures when:

- Debentures are issued at par.
- Debentures are issued at 10% discount.
- Debentures are issued at 10% premium.

4. K Ltd., purchased furniture for ₹99,000 from M Ltd. The payment was made by issued of 6% debentures of ₹100 each. Pass necessary journal entries for purchase of furniture and issue of debentures when:

- Debentures are issued at par.
- Debentures are issued at 10% discount.
- Debentures are issued at 10% premium.

Section-D

Twelve Marks Questions:-

1. Give the journal entries for the following:

- Issue of ₹2,00,000, 10% debentures of ₹100 at par and redeemable at premium of 5%.
- Issue of ₹2,00,000, 10% debentures of ₹100 at discount of 5% but redeemable at par.
- Issue of ₹2,00,000, 10% debentures of ₹100 at a premium of 5% and redeemable at par.
- Issue of ₹2,00,000, 10% debentures of ₹100 at a premium of 5% and redeemable at premium of 5%.

2. Pass the journal entries for the following:

- a) Issue of ₹50,000, 8% debentures of ₹100 each at a discount of 10% and redeemable at par.
- b) Issue of ₹50,000, 8% debentures of ₹100 each at a premium of 10% and redeemable at par.
- c) Issue of ₹50,000, 8% debentures of ₹100 each at a premium of 10% and redeemable at premium of 10%.
- d) Issue of ₹50,000, 8% debentures of ₹100 each at a discount of 10% and redeemable at premium of 10%.

3. Give the necessary journal entries for the following:

- a) Issue of ₹1,00,000, 10% debentures of ₹100 each at a discount of 10% and redeemable at par.
- b) Issue of ₹2,00,000, 10% debentures of ₹100 each at a premium of 10% and redeemable at premium of 10%.
- c) Issue of ₹3,00,000, 10% debentures of ₹100 each at a premium of 10% but redeemable at par.
- d) Issue of ₹4,00,000, 10% debentures of ₹100 each at a par and redeemable at premium of 10%.

4. Pass the necessary journal entries for the following:

- a) Issue of 300, 8% debentures of ₹100 each at premium of 10% and redeemable at par.
- b) Issue of 300, 8% debentures of ₹100 each at par but redeemable at a premium of 10%.
- c) Issue of 300, 8% debentures of ₹100 each at a discount of 10% and redeemable at a premium of 10%.
- d) Issue of 300, 8% debentures of ₹100 each at premium of 5% and redeemable at premium of 5%.

5. Give the journal entries for the following:

- a) Issue of 1000, 12% debentures of ₹100 each at par but redeemable at premium of 8%.
- b) Issue of 1000, 12% debentures of ₹100 each at par and redeemable at par.
- c) Issue of 1000, 12% debentures of ₹100 each at a discount of 10% but redeemable at par.
- d) Issue of 1000, 12% debentures of ₹100 each at a discount of 5% but redeemable at premium of 5%.

6. You are required to pass the journal entries relating to the issue of debentures in the books of 'Y' Ltd.,

- a) 100, 8% debentures of ₹1,000 each are issued at par and repayable at par.
- b) 120, 10% debentures of ₹1,000 each issued at a premium of 5% and redeemable at par.
- c) 150, 9% debentures of ₹1,000 each are issued at 5% discount and repayable at premium of 10%.
- d) Another 200, 8% debentures of ₹100 each are issued as collateral securities against a loan of ₹20,000.

e) 200, 12% debentures of ₹1,000 each are issued at 10% premium.

7. Alpha Company limited issued 1,000, 10% debentures of ₹100 each on April 01, 2016 at a discount of 10% redeemable at a premium of 10%.

Give journal entries relating to the issue of debentures and debenture interest for the period ending March 31, 2017 assuming that interest was paid half yearly on September 30 and March 31 and tax deducted at source is 10%.

8. Suvidha Company limited issued 3,000, 8% debentures of ₹100 each on April 01, 2016 at par and redeemable at a premium of 5%.

Give journal entries relating to the issue of debentures and debenture interest assuming that interest was paid annually on 31st March 2017 and 31st March 2018 for two years and tax deducted at source is 20%.

9. XYZ Company limited issued 2,000, 12% debentures of ₹100 each on April 01, 2016 at premium of 10% and redeemable at par.

Give journal entries relating to the issue of debentures and debenture interest assuming that interest was paid annually on 31st March 2017 and 31st March 2018 for two years and tax deducted at source is 20%.

10. ABC Company limited issued 1,000, 9% debentures of ₹100 each on April 01, 2016 at discount of 10% and redeemable at par.

Give journal entries relating to the issue of debentures and debenture interest assuming that interest was paid half yearly on September 30 and March 31 and tax deducted at source is 30%.

11. Pass necessary journal entries at the time of redemption of debentures in each of the following cases.

- a) **A** Company limited issued 10,000, 8% debentures of ₹100 each at par and redeemable at par at the end of five years out of capital.
- b) **B** Company limited issued 4,000, 12% debentures of ₹100 each at par. These debentures are redeemable at 10% premium at the end of four years.
- c) **C** Company limited issued 10% debentures of the total face value of ₹3,00,000 at a premium of 5% to be redeemed at par at the end of four years.
- d) **D** Company limited issued ₹2,00,000, 10% debentures at a discount of 5% but redeemable at a premium of 5% at the end of 5 years.
- e) **E** Company limited issued 1,000, 8% debentures of ₹100 each at a premium of 5% to be redeemed at par at the end of 4 years.

12. Give the necessary journal entries at the time of redemption of debentures for the following transactions.

- a) **P** Company limited issued 10% debentures of the total value of ₹2,00,000 at premium of 5% to be redeemed at par at the end of four years.
- b) **Q** Company limited issued 15,000, 9% debentures of ₹100 each at par and redeemable at par at the end of five years.

- c) **R** Company limited issued 5,000, 12% debentures of ₹100 each at par. These debentures are redeemable at 10% premium at the end of four years.
- d) **S** Company limited issued 8% debentures of ₹4,00,000, at a premium of 10% to be redeemed at a par at the end of four years.
- e) **T** Company limited issued ₹2,00,000, 12% debentures at a discount of 5% but redeemable at a premium of 5% at the end of 5 years.

13. Sunlux Company limited issued 400, 12% debentures of ₹100 each on April 01st, 2014 at a discount of 10% redeemable at premium of 5% out of profits. Give the journal entries at the time of issue and redemption of debentures if debentures are to be redeemed in lump sum at the end of 4th year. The directors decided to transfer for the minimum amount to Debenture Redemption Reserve on March 31st 2017 and also give note to DRF and DRFI.

(DRF- Debenture Redemption Fund)

(DRFI- Debenture Redemption Fund Investment)

14. Prakash Company limited issued 6,000, 12% debentures of ₹100 each at a discount of 5% on 1st April 2012. Interest on the debentures is payable annually on March 31st each year. The debentures are redeemable at par in three equal instalments at the end of third, fourth and fifth year. Prepare 12% Debentures A/c and Discount on issue of debentures A/c in the books of the company.

15. Raj Company limited issued 9,000, 10% debentures of ₹100 each at a premium of 5% on April 1st 2013. Interest on the debenture is payable annually on 31st March each year. The debentures are redeemable at 10% premium in three equal instalments at the end of third, fourth and fifth year. Prepare 10% debentures A/c and Debenture interest A/c for five years.

16. The balance sheet of Reddy & Bros. Company limited disclosed the following information as on March 31st 2016.

Particulars	₹
15% Debentures	7,50,000
Debenture Redemption Fund	5,81,800
Debenture Redemption Fund Investment (10% Govt. Securities)	5,81,800

The contribution to Debenture Redemption Fund was ₹65,400 p.a. for the year 2016-17 and 2017-18. Debentures are due for payment on 31st March 2018. Prepare the Debenture A/c, Debenture Redemption fund A/c and Debenture redemption fund Investment A/c in the books of the company assuming that securities were realised on 31st March 2018 for a sum of ₹6,76,000 and Interest on securities on March 31st, was immediately invested.

17. The balance sheet of GP & PR. Company limited disclosed the following information as on March 31st 2016.

Particulars	₹
15% Debentures	30,00,000
Debenture Redemption Fund	23,27,200
Debenture Redemption Fund Investment (10% Govt. Securities)	23,27,200

The contribution to Debenture Redemption Fund was ₹2,61,600 p.a. for the year 2016-17 and 2017-18. Debentures are due for payment on 31st March 2018. Prepare the Debenture A/c, Debenture Redemption fund A/c and Debenture redemption fund Investment A/c in the books of the company assuming that securities were realised on 31st March 2018 for a sum of ₹27,25,000 and Interest on securities on March 31st, was immediately invested.

18. Y Company limited issued ₹5,00,000 debentures on April 01st 2015. These were to be redeemed on March 31st 2018. For this purpose, the company established a sinking fund. The investments were expected to earn interest @ 10% p.a. Sinking fund table shows that Rs.0.317208 invested annually at 5% amount to Re.1 in 3 years on March 31st 2018, the bank balance was ₹8,40,000 before receipt of interest on sinking fund investments on that date the investments were sold for ₹3,28,000.

Calculate the interest to nearest rupee and investments are made to the nearest of ₹100. Show the Debentures A/c, Debenture Redemption Fund A/c and Debenture Redemption Fund Investment A/c in the books of the company. Ignore entries for interest on debentures.

19. XYZ Company limited issued ₹15,00,000 debentures on April 01st 2015. These were to be redeemed on March 31st 2018. For this purpose, the company established a sinking fund. The investments were expected to earn interest @ 5% p.a. Sinking fund table shows that Rs.0.317208 invested annually at 5% amount to Re.1 in 3 years on March 31st 2018, the bank balance was ₹6,30,000 before receipt of interest on sinking fund investments. On that date, the investments were sold for ₹9,84,000.

Calculate the interest to nearest rupee and investments are made to the nearest of ₹100. Prepare the Debentures A/c, Debenture Redemption Fund A/c and Debenture Redemption Fund Investment A/c in the books of the company. Ignore entries for interest on debentures.