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Company Accounts
Issue of Shares and Debentures

Learning objectives :

The study of this chapter would enable you to understand :

- Meaning and characteristics of a company
- Kinds of companies
- Classification of companies
- Share and kinds of shares.
- Difference between equity shares and preference shares
- Kinds of share capital of a company.
- Disclosure of share capital in the Balance Sheet of a company
- Accounting treatment of issue of shares at par and at premium
- Accounting treatment of issue of shares for cash and for consideration other than cash
- Under subscription and over subscription of shares
- Sweat equity shares, Right shares, Employee stock option plan and Escrow Account.
- Meaning, characteristics and types of debentures
- Difference between shares and debentures
- Accounting treatment of issue of debentures
- Disclosure of debentures in Balance Sheet
- Meaning and accounting treatment of issue of debentures for consideration other than cash
- Issue of debentures as collateral security and issue of debentures according to the conditions of redemption
- Meaning of Interest on Debentures and Accounting treatment
- Writing off discount or loss on issue of debentures

Issue of shares

Meaning and Definitions of company

A company or a joint stock company is an organization incorporated by a group of persons through the process of law to undertake a business. A company is an artificial person and is separate from its members. Share capital of a company is divided into units, a part of this is called share. The owners of share/shares of share capital of a company are known as members or shares holders.

''Company means a company incorporated under this Act or under any previous company law''- section 2 (20) of the Companies Act, 2013.

'' A company is an artificial person created by law having a separate entity with perpetual succession and a common seal. ''- Prof. Haney

Thus, we can say that a company is an artificial person, created by law and has a separate entity from its members and perpetual succession, It executed, its work through a common seal.

Characteristics of Company :

Following are the characteristics of a Company :

1. It is an entity incorporated under the Companies Act, 2013 or any previous company law.

2. It is an artificial and intangible person.

3. Entity of a company is separate from its members.

4. A company has perpetual succession.

5. In a company limited by shares, liability of its members is limited.

6. The shares of a company are freely transferable, except in case of private company.

7. The company is managed by a board of directors elected by the shareholders.

8. A company has a common seal.

Kinds of companies :

There are three types of companies, i.e. (1) One person company; (2) Private company, and (3) Public company.

(1) One person company :

''One person company means a company, which has only one person as a member.''- Section 2 (62) of Companies Act, 2013.

This type of company incorporated as private company.

One person company differs from sole proprietary firm because in a one person company, liability of the member is limited and it has separate entity, while in sole proprietary firm, liability of the proprietor is extends to the business assets and private assets.

(2) Private company :

According to section 2 (68) of Companies Act, 2013 private company means a company having a minimum paid up share capital of one lakh rupees or such higher paid up share capital as may be prescribed, and which by its articles-

(a) restricts the right to transfer its shares;

(b) rimits the number of its members to two hundred (except in case of one person company); and

(c) prohibits any invitation to the public to subscribe for any securities of the company.

A private company must have at least 2 members. The name of a private company ends with the words, ''Private Limited.''

(3) Public Company :

According to section 2 (71) of Companies Act, 2013, a public company is a company which:

(a) is not a private company;

(b) has a minimum paid up share capital of 5 lakh rupees or such higher amount as may be prescribed;

(c) seven or more members are required to form the company; and

(d) is a private company, being a subsidiary of a company which is not a private company.

This section provides that a private company, which is subsidiary of a public company shall be deemed to be public company.

There is no restriction on the maximum number of members in a public company. The name of a public company ends with the word 'Limited'.

Classification of Companies

(A) Kinds of companies on the basis of Liability:- Companies may be of two types (1) Company limited by shares (2) Company limited by guarantee.

(1) Company limited by shares- A company having the liability of its members limited by the memorandum to the amount, if any, unpaid on shares respectively held by them is termed as '' a company limited by shares.'' Section 2 (22) of the Companies Act, 2013.

For example, if Ram held 6000 shares of ₹10 each of X Ltd, on which he has paid ₹7 per share already, then his liability will be limited to remaining amount i.e. (₹ 3 x 6000) = ₹18,000.

(2) Company limited by Guarantee "It is a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of it being wound up." as per sect 2 (21) of the Companies Act, 2013. In a company limited by guarantee, liability of its members is limited to the amount stated in the memorandum. Members can not be called to pay the amount exceeding what is mentioned in memorandum.

(B) Unlimited Company- According to section 2 (92) of the Companies Act, 2013- "A company not having any limit on the liability of its members is unlimited company." In such a company liability of its members is unlimited.

Share capital of a company

Share capital means the amount that a company can raise by issue of shares or has raised by issue of shares. The capital of a company is divided into units of small denominations (like- ₹ 1, ₹ 5, ₹ 10, or ₹ 100) and each such unit is called a share. For example, in a company the total capital of ₹ 100,00,000 is divided into 10,00,000 units of ₹ 10 each, then each unit of ₹ 10 is called a share of ₹ 10 each. In this case, the company is said to have 10,00,000 shares of ₹ 10 each and the nominal value of the share will be ₹ 10.

Kinds of shares

Under the provisions of section 43 of the Companies Act, 2013 the share capital of a company can be of two types- (1) Preference shares capital; and (2) Equity shares capital.

(1) Preference shares :

Preference shares are the shares which carry the following two preferential rights :

(i) Preferential right to receive dividend, which will be paid as a fixed amount or calculated at a fixed rate, it may be free of or subject to income tax, before payment to equity sharesholders; and

(ii) Preferential right to return of capital on winding up of the company before equity sharesholders. Holders of preference shares are called preference shareholders.

Classes of Preference shares :

On the basis of some special rights, preference shares may be the following types :

1. Non cumulative Preference shares:

Non cumulative preference shares are the preference shares, holders of which do not have the privilege to receive arrears of dividends in future. If a company did not pay dividend on its preference shares due to non profit or insufficient profit, then holders of these preference shares do not have the right to receive arrears of dividend.

2. Cumulative Preference shares :

Cumulative preference shares are those share holders who have a right to receive their arrears of dividend before payment of dividend to equity shareholders.

3. Participating Preference shares :

If the Articles of Association of a company provide that after payment of dividend to equity shareholders, the preference shareholders have a right to participate in surplus profits, these shares are called participating preference shares.

4. Non participating Preference shares :

The preference shares, holders of which do not carry the right to share in the surplus left after paying the dividend to equity shareholders are known as Non Participating Preference shares.

5. Convertible Preference shares :

The preference shares, holders of which provide a right that they can convert their shares into equity shares upto a certain date, are called convertible Preference shares.

6. Non Convertible Preference shares:

Non Convertible Preference shares are those preference shares, holders of which do not carry a right to convert their shares.

7. Redeemable Preference shares:

The Preference shares, which can be redeemed by the company on or earlier than a certain date, are called Redeemable Preference Shares.

8. Irredeemable Preference shares:

The Preference shares, which can be redeemed by the company, at the time of winding up are called Irredeemable Preference shares. The Company Act, 2013 does not permit issue of irredeemable preference shares. Redemption means to refund the amount.

(2) Equity shares :

According to Companies Act, 2013, equity/ordinary shares are those shares, which are not preference share. Equity shares are most commonly issued. Holders of these shares are real ownes of the company who have a right to maximum 'risks and rewards' of the company. In case of winding up of the company, the share capital is refunded after redemption of preference share capital.

Difference between Equity share and Preference share

S.No.	Basis	Equity Share	Preference Share
1.	Rate of dividend	Rate of dividend is decided by the board of directors and approved by shareholders.	Rate of dividend is pre decided and fixed.
2.	Right of dividend	Dividend is paid after payment of dividend to preference shares.	Dividend is paid before it is paid on equity shares.
3.	Arrear of dividend	If dividend is not declared during the year, it is not accumulated to be paid in the coming years.	Arrear of dividend is paid only on 'cumulative preference share'.
4.	Convertibility	Equity shares are non convertible.	If the terms of issue provide, preference shares may be converted into equity shares.
5.	Redemption	These are irredeemable during the life of a company. A company may buy back its equity shares.	Preference shares are redeemable after a specified period, during the life of a company.
6.	Voting Right	Equity shareholders have voting rights in all circumstances.	Generally preference shares have no voting rights.
7.	Refund of capital	Equity share capital is repaid after refund of preference share capital on winding up.	On winding up, preference share capital is repaid before refund of equity share capital.

Kinds of share capital of a company :

According to part-I of schedule III of the Companies Act, 2013, a company has to show, each class of share capital as (i) Authorised capital; (ii) Issued capital; and (iii) subscribed capital.

(i) Authorised capital : According to section 2(8) of the Companies Act 2013 "Authorised capital or nominal capital means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company".

The maximum amount of capital stated in the memorandum of association of the company is known as Authorised Capital. Under this each class of shares i.e. Preference shares and Equity shares are stated separately.

(ii) Issued Capital : According to section 2 (50) of the Companies Act, 2013, "Issued capital means such capital as the company issues from time to time for subscription".

Thus, Issued capital is a part of authorised capital which the company has issued for subscription. The nominal value of shares issued by the company to the public for cash or for consideration other than cash are included in Issued capital.

(iii) Subscribed capital : According to section 2 (86) of the **C**ompanies Act, 2013, "Subscribed capital means such part of the capital which is for the time being subscribed by the members of the company."

Thus, subscribed capital is a part of issued capital, which is subscribed.

(iv) Called up capital : According to section 2 (15) of the Companies Act, 2013. "Called up capital means such part of the capital, which has been called for payment".

Thus, the part of subscribed capital which has been called from shareholders by the Company.

(v) Paid up capital : According to section 2 (64) of the Companies Act, 2013, "Paid up share capital means such aggregate amount of mony credited as paid up as is equivalent to the amount received as paid up in respect of shares issued and also includes any amount credited as paid up in respect of shares of the company, but does not include any other amount received in respect of such shares, by whatever name called".

Example:

X Ltd. has authorised capital of ₹ 10,00,000 divided into 50,000 equity shares of ₹ 10 each and 50,000 9% preference shares of ₹ 10 each. The company invited applications for all these shares. Applications were received for all the preference shares and for 45000 equity shares by the company. All the amount regarding shares has been called and received by the company. Ram holds 5000 equity shares, has not paid final call at₹ 2 per share. Explain, how share capital will be shown in the Balance Sheet. Give notes to accounts also.

Solution :

Extract of Balance sheet of X Ltd. as at..........

Particulars	Notes No.	Amount of Current Year ₹	Amount of Previous Year ₹
EQUITY AND LIABILITIES :			
1. Shareholder's Fund :			
(a) Share Capital	1.	9,40,000	

Notes to Accounts :

	Particulars		Amount ₹
1.	Share Capital : Authorised capital: 50,000 Equity shares of ₹10 each		5,00,000
	50,000 9% Preference shares of ₹10 each		5,00,000
			10,00,000
Issued Capital :			**Amount ₹**
	50,000 Equity shares of ₹10 each		5,00,000
	50,000 9% Preference shares of ₹10 each		5,00,000
			10,00,000
Subscribed and paid up capital :			
	45000 Equity shares of ₹ 10 each		
	Fully called up	4,50,000	
	Less : Calls in arrear (5000 x ₹ 2) =	10,000	4,40,000
	50,000 9% Preference shares of ₹ 10 each		
	fully called and paid up		5,00,000
			9,40,000

Calls in Arrears : The amount called by the company in respect of share capital**,** which is not paid by the shareholders is called calls in arrears. This amount is **s**nown in Notes to Accounts as deduction from called up capital under the head share capital. As per Table-F, a company can charge interest on calls in arrear @ 10% per annum.

Calls in Advance : A company, if its articles so provide, may accept the amount in respect of uncalled call money. This is called Calls in Advance. This amount is shown in the Balance Sheet under the sub head 'other current liabilities' of the head 'current liabilities'. As per table-F a company may allowe interest on Calls in Advance @ 12% per annum.

(vi) Reserve capital : Reserve capital means the portion of the uncalled capital to be reserved. This is decided by passing a special resolution. It can be called up in future in case of winding up.

Format of company's Balance sheet

As per part I of schedule III of the Companies Act, 2013 the prescribed format of Balance Sheet is given below :

Name of the company : ....

Balance sheet as at....................

Particulars	Notes No.	Amount of Current Year ₹	Amount of Previous Year ₹
I EQUITY AND LIABILITIES			
1. Shareholder's Funds			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
2 Share application money pending allotment			
3 Non current Liabilities			
(a) Long term borrowings			
(b) Differed Tax Liabilities (Net)			
(c) Other long term liabilities			
(d) Long term Provisions			
4. Current Liabilities			
(a) Short term borrowings			
(b) Trade payables			
(c) Other current Liabilities			
(d) Short term Provisions			
TOTAL			
II ASSETS			
1. Non current Assets			
(a) Fixed Assets			
(i) Tangible Assets			
(ii) Intangible Assets			
(iii) Capital work-in-Progress			
(iv) Intangible Assets under Development			
(b) Non current Investments			
(c) Deffered Tax Assets (Net)			

(d) Long- term Loans and Advances			
(e) Other Non current Assets			
2. Current Assets			
(a) Current Investments			
(b) Inventories			
(c) Trade Receivables			
(d) Cash and cash Equivalents			
(e) Short term Loans and Advances			
(f) Other current Assets			
TOTAL			

Issue of share :

A company can issue its shares (1) for consideration other than cash; or (2) for cash.

1. **Issue of shares for consideration other than cash :** When a company issues its shares as consideration for purchase of business, assets or services, it is called issue of shares for consideration other than cash.
2. **Issue of shares for cash :** When a company receives amount in cheque, demand draft or in other form, against issue of shares then it is called issue of shares for cash.

   On issue of shares amount may be payable in two ways :

   (i) In one lump sum on application : When shares are issued and payable fully in a single instalment on application.

   (ii) Shares payable in instatements : When amount on issue of shares is payable at different stages such as on application, on allotment and on one or more calls.

   A public company may issue shares on either of the following terms:-

   (A) Issue of shares of par : When share are issued at a price equal to face or nominal value, it is called issue of shares at par. For example, if a shares of ₹10 is issued at ₹10 by a company.

   (B) Issue of shares at Premium : When shares are issued at a higher price than the face value, it is called issue of shares at Premium. For example, if a share of ₹ 10 is issued at ₹ 15 each.

In past companies could issue shares at discount but now as per section-53 of the Companies Act, 2013 a company shall not issue shares at discount, except as provided in section 54 sweat equity shares may be issued at discount.

Procedure for issue of shares

A company has to follow the guidelines issued by Securities and Exchange Board of Indian (SEBI) and Companies Act, 2013 in respect of issue of shares. For the issue of shares the following procedure is being followed :

(1) Issue of Prospectus : For issue of shares a public company issues Prospectus. According to section 2 (70) of the Companies Act, 2013 'Prospectus' means, any notice, circular, advertisement or other document inviting offers from the public for the subscription, or purchase of any securities of a body corporate or say Prospectus is an invitation to the public for purchase of securities of the company. Generally, Prospectus contains history of the company, main objects, present business, knowledge about the project and management of the company etc.

(2) Application of shares : In response to the invitation given through the prospectus, the persons intending to subscribe to the shares of company, deposit their applications. On prescribed form along with the application money to the banker of the company. The amount deposited along with the application form is called 'Application money. As per section 39 (2) of the Companies Act the amount payable on application on every security shall not be less than 5% of the nominal amount of security or such other percentage or amount as may be specified by SEBI by making regulation on this behalf. As per this, amount payable on application on every security shall not be less than 25% of the issue price of the security.

(3) Allotment of shares : Allotment of shares means distribution of shares among the applicants. The Board of Directors makes the allotment of shares according to various provisions of the Act. An applicant becomes a shareholder after allotment of share(s) to him.

A public company can allot the shares after following the following provisions:

(i) Minimum subscription : As per section 39(1), no allotment of any securities of a company offered to the public for subscription shall be made, unless the amount stated in the prospectus as the minimum amount has been subscribed and the sum payable on application for the amount so stated has been paid to and received by the company by cheque or other instrument. As per SEBI Guidelines a company cannot allot the shares until it receives at least 90% subscription of the whole of the issue.

(ii) As per section 40(3), all monies received on application from the public for subscription to the securities shall be kept in a separate bank account in a scheduled bank.

(iii) Period to receive minimum subscription : According to section 39(3), if the stated minimum amount has not been subscribed and the sum payable on application is not received within a period of 30 days from the date of issue of the prospectus or such other period as may be specified by the Securities and Exchange Board of issue the amount received shall be returned within such time and manner as may be prescribed. The amount of shares issued for consideration other than cash will not be included for calculating minimum subscription.

(iv) Before issue of shares to the public, a company has to apply to one or more stock exchange to get permission to trade its shares**.** Name of such stock exchange(s) will be stated in the prospectus, where such application is filed.

(4) Dispatch of allotment letters : Letters of allotment are sent by the company secretary to those applicants to whom shares are allotted. The number of shares allotted are mentioned in the allotment letter and it is demanded to be paid a certain allotment amount on each share (If whole amount is not demanded with application) upto a specific date.

The applicants to whom no shares are allotted are issued letter of regret together with the refund of application money.

(5) Filing Allotment Return to Registrar : When the allotment of shares is over the company is required to submit a return of allotment to the Registrar of the Companies within 30 days from the date of allotment or extended date by the Registrar. A declaration is given along with allotment return by company secretary or a director that all legal formalities were followed by the company in this connection.

(6) Share certificate : Share certificate is a basic evidence of title of a member on shares specified in it. According to section 46(1) of the Companies Act, 2013, "A certificate, issued under the common seal of the company, specifying the shares held by any person, shall be prima facie evidence of the title of the person to such shares". In case of joint owners, delievery of share certificate to the owner named first is deemed to deliever to all owners.

Calls on shares : After the amount called with application and allotment, the balance of amount payable on shares if any, the company call**s** this amount in instatements. Each of such instatement is called 'call on shares'. Calls on shares are made according to the provisions laid down in the Articles of Association. If a company has not its Articles of Association or rules are not laid down in it, in that case the company adopts Table-F of the Companies Act, 2013, which are as follows :

(i) There shall be a gap of at least one month between two consecutive calls.

(ii) The amount called on a call shall not exceed 25% of the nominal value of shares.

(iii) Shareholders shall be informed at least 14 days before the last day of the call to pay the amount.

(iv) Amount of call on all shares of a category should be equal.

(v) If any shareholder fails to pay the amount of allotment and/or calls up to due dates, then the company may charge interest on arrear amount from due date of payment to the actual date of payment @ 10% per annum as per table-F.

(vi) Sometimes, a few shareholders pay the uncalled amount to the company along with allotment or call money, which is related with future calls. If it is specified in the Articles of Association of the company and the Board of Directors find suitable they can accept the amount of calls in advance. As per Table-F interest @ 12% per annum may be allowed on this amount received in advance for the period of advance.

Journal Entries for Issue of shares

1. In case of issue of shares for consideration other than cash.

The shares may be issued as against purchase of business, assets and services other than cash.

The journal entries to be made are as under:

(i) On purchase of Business or Assets

Individual Assets A/c Dr.

To vendor's A/c

(Sundary assets purchased)

(ii) On issue of shares to vendor as consideration

(a) If shares are issued at per

Vendors A/c Dr.

To Share capital A/c

(b) If shares are issued at premium

Vendor's A/c Dr.

To Share capital A/c

To Securities Premium A/c

Calculation of number of shares to be issued : = $\frac{\text{Purchase Consideration / Amount Payable}}{\text{Issue Price of a Share}}$

(iii) Issue of shares to Promoters as consideration for services rendered by them:

In corporation Expenses/Goodwill A/c Dr.

To Share Capital A/c

2. Issue of shares for cash

(a) If whole amount is payable on application in one lump sum

(i) If shares are issued at par on receipt of application money-

Bank A/c Dr.

To Share Application & Allotment A/c

on allotment of shares :

Share Application & Allotment A/c Dr.

To Share Capital A/c

(ii) If shares are issued at premium on receipt of application money

Bank A/c Dr.

To Share Application & Allotment A/c

on Allotment of shares :

Share Application & Allotment A/c Dr.

To Share Capital A/c

To Securities Premium A/c

(b) If shares payable in instatlments-

(i) On receipt of application money

Bank A/C Dr. (total amount received on application)

To Share Application A/c

(ii) on transfer of application money to share capital A/c

(in case of oversubscription, the entry will be passed with the amount of application money payable on number of shares issued and in other cases it will be passed with the actual application money received.)

Share Application A/c Dr.

To Share Capital A/c

(iii) Amount due on Allotment

1. In case of shares issued at par

Share Allotment A/c Dr.

To Share Capital A/c

2. In case of shares issued at premium

Share Allotment A/c Dr.

To Share Capital A/c

To Securities Premium A/c

(iv) In case of over subscription, on adjustment of excess application money on Allotment.

Share Application A/c Dr.

To Share Allotment A/c

(v) For refund of excess application money (The shareholders to whom refused to allot shares or/and amount received in excess on application)

Share Application A/c Dr.

To Bank A/c

(vi) For receiving of allotment money

Bank A/c Dr.

To Share Allotment A/c

(vii) On amount due on first call

Share First call A/c Dr. (Share allotted X call money per share)

To Share Capital A/c

(viii) For receiving first call money

Bank A/c Dr. (Actual amount received)

To Share First call A/c

(ix) On amount due of second/final call

Second/Final Call A/c Dr. (Amount of call on shares allotted)

To Share Capital A/c

(x) For receiving of second call money

Bank A/c Dr. (Actual amount received)

To Share Second/Final Call A/c

(xi) On receipt of calls-in-advance

Bank A/c Dr. (Amount of Calls-in-advance)

To Calls-in-Advance A/c

Note : General entry for Calls-in-advance can be made along with bank entry at the time of allotment for call money received, as the case made be.

On the adjustment of above calls-in-advance : At the time this call money is due, calls-in-advance is debited along with bank account at the time of amount of this call is paid by other shareholder's. Thus the account is automatically closed.

(xii) Interest on calls-in-advance : Interest on calls-in-advance is payable for the period from the date of receipt of calls-in-advance to the date of calls due at the rate prescribed by Board of Director or at the rate 12% per annum, if the rules of table F apply. If interest is paid in case the entry is -

Interest in Calls-in-advance A/c Dr.

To Bank A/c

At the end of the year this account will be transfered to Statement of Profit and Loss and closed.

(xiii) Calls-in-Arrear : Generally, a seperate entry for calls-in-arrear is not passed. If clearly mantioned in the question, the entry is -

(i) For Calls-in-Arrear

Calls-in-Arrear A/c Dr.

To Share Allotment or Share call A/c

Note : The above entry can be passed jointly with the entry of amount received on allotment or call.

(ii) On the receipt of Calls-in-Arrear

Bank A/c Dr.

To Calls-in-Arrear A/c

(xiv) Interest on Calls-in-Arrear : Interest can be charged on the amount of calls-in-arrear for the period from the date of due of call to the date of receipt of the arrear amount, at the rate of 10% per annum, according to table F or the lesser rate prescribed by Board of Directors. The entry is :

On receipt of Interest on Calls-in-Arrear

Bank A/c Dr.

To Interest on Calls-in-Arrear A/c

Note : At the end of the year interest account will be transferred to statement of Profit and Loss.

Illustration 1 :

XYZ Ltd. purchased a machine worth ₹ 6,00,000 from Bikaner Ltd., and issued equity shares of ₹ 10 each, fully paid in satisfaction of payment. Give the Journal entries in the books of XYZ Ltd., if shares are issued (i) at par, and (ii) at 20% premium.

Solution:

In the books of XYZ Ltd.
Journal Entries

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
Date of Purchase	Machinery A/c Dr.		6,00,000	
	To Bikaner Ltd.			6,00,000
	(Being Machinery Purchased from Bikaner Ltd.)			
	(i) If Shares are issued at par :			
	Bikaner Ltd. Dr.		6,00,000	
	To Equity Share Capital A/c			6,00,000
	(Being 60,000 equity shares of ₹ 10 each fully paid allotted to Bikaner Ltd.)			

	(ii) If shares are issued at 20% premium Bikaner Ltd. Dr. To Equity Share Capital A/c To Securities Premium A/c (Being 50,000 equity shares of ₹ 10 each issued at a premium of 20%)		6,00,000	5,00,000 1,00,000

Working Note : In case of shares issued at 20% premium, number of shares to be issued will be :

$$\frac{\text{Amount Payable}}{\text{Issue Price of Share}} = \frac{6,00,000}{₹\,10 + (20\%\text{ of }₹\,10)} = \frac{6,00,000}{12} = 50,000\text{ Shares}$$

Illustration 2 :

Gama Ltd., issued 2000 equity shares of ₹100 each at par to public on April 01, 2016. Whole amount was payable at the time of application. Applications were received for all the shares. Last date of application was 30 April, 2016. Allotment of the shares was made on 15 may, 2016. Give necessary journal entries in the books of Gama Ltd.

Solution :

In the books of Gama Ltd.
Journal Entries

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
2016 April 30	Bank A/c Dr. To Equity Share Application & Allotment A/c (Being application money received for 2000 equity share @ ₹ 100 each)		2,00,000	2,00,000
May 15	Equity Share Application & Allotment A/c Dr. To Equity Share Capital A/c (Being application money transferred to equity Share Capital Account)		2,00,000	2,00,000

Illustration 3 :

Jaipur Ltd. issued 20,000 equity shares of ₹10 each at par, payable as ₹ 3 on application, ₹ 4 on allotment and the balance on call. All the shares were taken up and all the payments were duly received. Give necessary journal entries.

Solution :

In the books of Jaipur Ltd.
Journal Entries

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr. To Equity Share Application A/c (Being application money received for 20,000 equity share @ ₹ 3 each)		60,000	60,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred to equity Share Capital Account)		60,000	60,000

	Equity Share Allotment A/c Dr.		80,000	
	To Equity Share Capital A/c			80,000
	(Being allotment money due on 20,000 equity shares @ ₹ 4 each)			
	Bank A/c Dr.		80,000	
	To Equity Share Allotment A/c			80,000
	(Being allotment money received)			
	Equity Share First & Final Call A/c Dr.		60,000	
	To Equity Share Capital A/c			60,000
	(Being first & Final call money due on 20,000 equity shares @ ₹ 3 each)			
	Bank A/c Dr.		60,000	
	To Equity Share First & Final Call A/c			60,000
	(Being Equity Share First & Final Call money received)			

Issue of Shares at Premium

When shares are issued at a price higher than the face value, it is said issue of shares at premium. For example, a share with face value of ₹ 10 is issued at ₹ 14. Here it is said (14 - 10) = ₹ 4 per share as premium.

Premium on share may be collected either with application, allotment or call. But in absense of information, it is assumed that premium is collected with the allotment. Securities premium is capital profit to the company. It is shown as 'Securities Premium Reserve' under the head 'Shareholder Funds' and sub-head 'Reserves and Surplus' in the 'Equity and Liabilities' part of the Balance Sheet.

Utilization of Securities Premium :

According to section 52(1) of the Companies Act, 2013, the amount of premium received on issue of securities shall be credited to 'Securities Premium Account'. As per section 52(2) of the Companies Act, 2013, the amount of securities premium may be used for the following purpose :-

(i) To issue fully paid bonus shares to the members of the company;

(ii) To write off preliminary expenses of the company;

(iii) To write of the expenses of, or the commission paid on issue of share or debentures or discount allowed on the issue of debentures of the company.

(iv) To provide for premium payable on the redemption of any redeemable preference shares or any debentures of the company.

(v) For the purchase of its own shares (buy-back).

Under subscription of shares

When a company receives less applications than the number of shares offered, it is called less or under subscription. In this case, considering the provision of section 39(1) regarding minimum subscription, allotment of shares is made equal to number of shares applied by all the applicants.

Over subscription of shares

Shares are said to be over subscribed when the number of shares applied for is more than the shares offered for the issue. No company can allot more shares than the shares offered for the issue. A company can allott shares by any of the three alternatives, in the case of over subscription:

(i) Some of the applicants may be allotted shares in full and the applicants to whom no shares are allotted, the application money is refunded.

(ii) All applicants are allotted shares on pro rata basis.

(iii) Some applicants are allotted in full, and some applicants are allotted shares on pro rata basis.

Pro rata Allotment

Pro rata allotment means the ratio of total number of shares allotted to a class of applicants to the total number of shares applied for by that class of applicants. For Example, R Ltd., invites applications for 10,000 shares. Total application received were for 15000 shares. It is decided to allot shares on pro rata basis among all applicants. It means 10,000 shares will be allotted to applicants of 15000 shares. Ratio of application and allotment will be 15000 : 10 000 or 3 : 2. Each applicant of 3 shares shall be allotted 2 shares.

Surplus Application Money

In case of pro rata allotment, excess application money received along with application may be utilized by a listed company, after getting permission of recognized stock exchange, for adjustment of allotment and or call money due.

A non listed company may utilize excess application money towards adjustment of allotment or call money. If it is not clear in the question, excess application money be utilized in adjustment of allotment money due and the surplus money should be refunded to the shareholders.

Illustration 4 :

Sarthak Ltd., issued 10,000 equity shares of ₹10 each to the public. Applications were received for 15000 shares. Amount was payable as follows : on Application ₹ 3, on Allotment ₹ 3, on first call ₹ 2 and on second and final call ₹ 2.

Applicants of 14000 shares were made pro rata allotment and amount of remaining applicants was refunded. Excess application money was utilized to adjust towards allotment money. All the amounts were received in time. Give journal entries in the books of the company.

Solution :

In the books of Sarthak Ltd.
Journal Entries

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr.		45,000	
	To Equity Share Application A/c			45,000
	(Being application money received for 15,000 share @ ₹ 3 each)			
	Equity Share Application A/c Dr.		30,000	
	To Equity Share Capital A/c			30,000
	(Being application money for 10,000 shares transferred to equity Share Capital Account)			
	Equity Share Application A/c Dr.		3,000	
	To Bank A/c			3,000
	(Being excess application money on 1000 shares refunded)			
	Equity Share Allotment A/c Dr.		30,000	
	To Equity Share Capital A/c			30,000
	(Being allotment money due on 10,000 shares @ ₹ 3 each)			

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr. Equity Share Application A/c Dr. To Equity Share Allotment A/c (Being excess application money transferred to share allotment and balance of allotment money received)		18,000 12,000	 30,000
	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call money due @ ₹ 2 each)		20,000	 20,000
	Bank A/c Dr. To Equity Share First Call A/c (Being first call money received)		20,000	 20,000
	Equity Share Second & Final Call A/c Dr. To Equity Share Capital A/c (Being second and final call money due @ ₹ 2 each)		20,000	 20,000
	Bank A/c Dr. To Equity Share Second & Final Call A/c (Being second and final call money received)		20,000	 20,000

Analytical Table

Category	Share Applied	Share Allotted	Amount received on Application ₹	Application Money Transferred ₹	Excess Application Money ₹	Allotment Money due @ ₹ 3	Net Amount Received ₹	First Call @ ₹ 2	Second Call @ ₹ 2
Pro-rata	14000	10000	42,000	30,000	12,000	30,000	18,000	20,000	20,000
Refund	1000	--	3000	returned	--	--	--	--	--

Illustration 5 :

The capital of Sunshine Ltd., was divided into 5000 shares of ₹100 each. The Company issued 2000 shares of ₹100 each at a premium of ₹10 per share, payable as follows: on Application ₹30; on Allotment (including premium) ₹40; on first call ₹20 and balance as and when required. Ram was holds 30 shares has paid all the amount along with first call. Rahim was holds 20 shares failed to pay first call. Pass journal entries in the books of the Company and show these items in the Balance sheet. Assumed that all shares were subscribed.

Solution :

In the books of Sunshine Ltd.
Journal Entries

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr. To Share Application A/c (Being application money received on 2000 shares @ ₹ 30 each)		60,000	 60,000

	Share Application A/c Dr.		60,000	
	To Share Capital A/c			60,000
	(Being application money transferred to Share Capital Account)			
	Share Allotment A/c Dr.		80,000	
	To Share Capital A/c			60,000
	To Securities Premium A/c			20,000
	(Being allotment money due @ ₹ 40 each including ₹ 10 as premium)			
	Bank A/c Dr.		80,000	
	To Share Allotment A/c			80,000
	(Being allotment money received)			
	Share First Call A/c Dr.		40,000	
	To Share Capital A/c			40,000
	(Being share first call money due @ ₹ 20 each)			
	Bank A/c Dr.		40,200	
	To Share First Call A/c			39,600
	To Calls in Advance A/c			600
	(Being first call money received on 1980 shares @ ₹ 20 each and ₹ 20 each on 30 shares received in advance)			

First Call Amount received = (2000 - 20) x ₹ 20 = ₹ 39,600

Calls in Advance on 30 shares of Ram @ ₹ 20 each = ₹ 600

Name of the Company : Sunshine Ltd.

Balance Sheet as at ....

Particulars	Notes No.	Amount of Current Year ₹	Amount of Previous Year ₹
I. EQUITY AND LIABILITIES :			
1. Shareholder's Fund :			
(a) Share Capital	1	1,59,600	
(b) Reserves and Surplus	2	20,000	
4. Current Liabilities			
(c) Other Current Liabilities	3	600	
		1,80,200	
II ASSETS			
2. Current Assets			
(d) Cash and Cash Equivalents		1,80,200	
		1,80,200	

Notes to Accounts :

Particulars	Amount ₹
1. Share Capital :	
Authorised Capital :	
5000 Equity Shares of ₹ 100 each	5,00,000

Issued, Subscribed and paid up capital :		
2000 Equity Shares of ₹ 100 each and		
₹ 80 per share called up	1,60,000	
Less : Calls in Arrear	400	1,59,600
2. Reserves and Surplus :		
Securities Premium		20,000
3. Other Current Liabilities :		
Calls-in-Advance		600

Illustration 6 :

K.S. Ltd. issued 150,000 equity shares of ₹ 100 each at a premium of ₹ 25 per shares on 15th April 2016, payable as follows : on Application ₹ 50; on Allotment ₹ 50 (including Premium) and on first and final call ₹ 25. Applications were received for 140,000 shares by the Company. On 01 June, 2016 the directors made full allotment to the applicants. The last date for allotment money was 30th June, 2016. First and Final call was made on 1st October, 2016 and payable upto 20th October 2016. All the amounts were received on due dates except in the following cases :

- Mahesh holds 1000 shares failed to pay allotment money on due dates, but paid this amount with the first and final call.
- Rama holds 800 shares, has paid first and final call money along with allotment money.

Pass necessary Journal entries. Interest was charged and paid according to table F.

Solution :

Journal of K.S. Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
2016 April 15	Bank A/c Dr.		70,00,000	
	To Equity Share Application A/c			70,00,000
	(Being application money received for 1,40,000 shares @ ₹ 50 each)			
June 1	Equity Share Application A/c Dr.		70,00,000	
	To Equity Share Capital A/c			70,00,000
	(Being application money transferred to Equity Share Capital Account)			
June 1	Equity Share Allotment A/c Dr.		70,00,000	
	To Equity Share Capital A/c			35,00,000
	To Securities Premium A/c			35,00,000
	(Being Equity Share allotment money due on 140000 shares @ ₹ 50 each including ₹ 25 premium)			
June 30	Bank A/c Dr.		69,70,000	
	To Euqity Share Allotment A/c			69,50,000
	To Calls in Advance A/c			20,000
	(Being allotment money received on 139000 shares and calls in advance received on 800 shares @ ₹ 25 each)			

Oct. 1	Equity Share First & Final Call A/c Dr. To Equity Share Capital A/c (Being first & final call due on 140000 shares @ ₹ 25 each)		35,00,000	 35,00,000
Oct. 1	Interest on Call in Advance A/c Dr. To Bank A/c (Interest on calls in Advance paid for 3 months)		600	 600
Oct. 20	Bank A/c Dr. Calls in Advance A/c Dr. To Equity Share First & Final Call A/c To Equity Share Allotment A/c (Being first and final call money and arrear of allotment money received and calls in advance adjusted)		35,30,000 20,000	 35,00,000 50,000
Oct. 20	Bank A/c Dr. To Interest on Calls in Arrear A/c (Being interest on calls in arrear received)		1,534	 1,534

Working Notes :

1. Calculation of interest on Calls in Advance (30th June to 01st October)

$$= 20,000 \times \frac{12}{100} \times \frac{3}{12} = ₹\,600$$

2. Calculation of Interest on Calls in Arrear (30th June to 20th October)

$$= 50,000 \times \frac{112}{365} \times \frac{10}{100} = ₹\,1,534$$

Illustration 7 :

Chintu and company Ltd., invited applications to issue 1000 equity shares of 10 each. Amount was payable on application, on allotment, on first call and on second and final call is equal. Applications were received for 2000 shares out of which applications for 200 shares were incomplete and rejected and amount of them was refunded. Mintu, who applied for 300 shares was allotted 100 shares only. He paid application money only. Chintu, who applied for 500 shares was allotted 100 shares. Remaining applicants were allotted shares on pro-rata basis. Application money can be utilized till final call. Give journal entries in journal proper and cash book. (RBSE-2001)

Solution:

Entries are to be given in cash book and journal proper. So all cash transactions will be recorded in cash book and remaining entries will be recorded in journal proper.

Journal of Chintu & Co. Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
Date of Allotment	Euqity Share Application A/c Dr. To Equity Share Capital A/c (Being application money for 1000 shares transferred		2,500	 2,500

Date of Allotment	Euqity Share Allotment A/c Dr.		2,500	
	To Equity Share Capital A/c			2,500
	(Being allotment money due on 1000 shares @ ₹ 2.5)			
Date of Transfer	Euqity Share Application A/c Dr.		1,750	
	To Equity Share Allotment A/c			1000
	To Calls in Advance A/c			750
	(Being application money adjusted and balance transferred to calls in advance)			
Date of Call	Equity Share First Call A/c Dr.		2,500	
	To Equity Share Capital A/c			2,500
	(Being first call money due on 1000 shares @ ₹ 2.5 each)			
Date of Adjustment	Calls in Advance A/c Dr.		500	
	To Equity Share First Call A/c			500
	(Being calls in advance adjusted against first call)			
Date of Call	Equity Share Second & Final Call A/c Dr.		2,500	
	To Equity Share Capital A/c			2,500
	(Being second call money due)			
Date of Adjustment	Calls in Advance A/c Dr.		250	
	To Equity Share Second & Final Call A/c			250
	(Being calls in advance adjusted for 100 shares for second call)			

Dr. **Cash Book** Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
Date of application	To Equity Share Application		5000	Date of refund	By Equity Share Application		750
Date of Receipt	To Equity Share Allotment		1500	Date of Close	By Balance C/d		9750
Date of F.C. Receipt	To Equity Share First Call		2000				
Date of Second call Receipt	To Equity Share Second Call		2000				
			10,500				**10,500**

Working Notes :

(i) Number of applications of pro-rata class = 2000 - 200 (reject) - 500 - 300 = 1000 shares.

(ii) Number of shares allotted to pro-rata class = 1000 - 100 - 100 = 800 shares.

(iii) Amount of application money to be refunded to a shareholder, who has applied for 500 shares but to whom 100 shares were allotted : (500 x 2.5) – (100 x 100) = ₹1025 - ₹1000 = ₹250 Refunded

(iv) Total application money to be refunded = [200 (rejected) x 2.5] + ₹250 = ₹750/-

Illustration 8 :

The following particulars are related to issue of equity shares of RS Ltd. The amount per share was payable as: on application ₹3, on Allotment ₹4, and balance on call. Applications were received for 300,000 equity shares. Category wise allotment was made as follows :

(A) Applicants of 5000 shares were allotted 3000 shares.

(B) Applicants of 107,000 shares were allotted 50,000 shares.

(C) Applicants of 188 000 shares were allotted 47 000 shares.

The excess money received on application was applied towards allotment and call and any balance left was refunded. Give necessary journal entries in the books of RS Ltd. and prepare cash book.

Solution:

Table showing adjustment of application money

Category	Shares Applied	Shares Allotted	Application Money Received @ ₹3 per Share	Adjusted towards			Refund
				Shares Capital @ ₹ 3 per Share	Shares Allotment @ ₹ 4 per Share	Share Call @ ₹ 3 per Share (calls in Advance)	
A	5000	3000	15000	9000	6000	--	--
B	107000	50000	321000	150000	171000	--	--
C	188000	47000	564000	141000	188000	141000	94000
TOTAL	**300000**	**100000**	**900000**	**300000**	**365000**	**141000**	**94000**

Amount received on allotment = (100000 x ₹ 4) - ₹ 365000 = ₹ 35000

Amount received on Call = (100000 x ₹ 3) - 141000 = ₹ 159000

Journal of RS Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
Date of Allotment	Equity Share Application A/c Dr.		3,00,000	
	To Equity Share Capital A/c			3,00,000
	(Being application money on 100000 shares @ ₹ 3 each transferred to equity share capital A/c)			
Date of Allotment	Equity Share Allotment A/c Dr.		4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being allotment money due @ ₹ 4 per share)			
Date of Allotment	Equity Share Application A/c Dr.		5,06,000	
	To Equity Share Allotment A/c			3,65,000
	To Calls in Advance A/c			1,41,000
	(Being application money transferred to allotment A/c and to calls in advance A/c)			
Date of First & Final Call	Equity Share First & Final Call A/c Dr.		3,00,000	
	To Equity Share Capital A/c			3,00,000
	(Being Equity Share first & final call due @ ₹ 3 per share)			

Date of First & Final Call	Call in Advance A/c Dr. To Equity Share First & Final Call A/c (Being calls in advance adjusted on equity share first & final call)		1,41,000	1,41000

Dr. **Cash Book (Bank Column)** Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
Date of Receipt	To Equity Share Application A/c		9,00,000	Date of refund	By Equity Share Application A/c		94,000
Date of Allotment Receipt	To Equity Share Allotment A/c		35,000	Date of end	By Balance c/d		10,00,000
Date of Call Receipt	To Equity Share First & Final Call A/c		1,59,000				
			10,94,000				**10,94,000**

Issue of Sweat Equity

Section 2(88) of the Companies Act, 2013 defines the term 'Sweat equity shares' which means such equity shares as are issued by a company to its directors or employees at discount or for consideration other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

Section 54 of the Companies Act, 2013 provides the conditions where a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled:-

(a) The issue is authorized by a special resolution passed by the company;

(b) The resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(c) Not less than one year has, at the date of such issue, elapsed since the date on which the company had commenced business; and

(d) Where the equity share of the company are listed on a recognized stock exchange, the sweat equity shares are issued in accordance with the regulations made by the SEBI in this behalf.

Right shares

Sometimes, a company may desire to expand its activities or it may stand in need for more financial resources. In such a situation, the company may issue a part or the whole of its unissued share capital and can arrange financial resources required.

According to section 62 of the Companies Act, 2013 where at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares shall be offered:

To persons who, at the date of the offer, are holders of equity shares of the company in proportion to the paid up share capital on those shares by sending a letter of offer subject to the following conditions, namely-

(i) The offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;

(ii) Unless the Articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice referred to in clause (i) shall contain a statement of this right;

(iii) After the expiry of this time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose off them in such manner, which is not dis-advantageous to the shareholders and the company.

Journal entries for the issue of right shares are passed in the same way as in the case of initial issue of shares.

Employee Stock Option Plan-ESOP

Employee Stock Option Plan (ESOP) means a scheme under which the company grants option to its directors officers and employee directors to apply for shares of the company, at a price lower than the market price. The employees may or may not exercise the option to subscribe it on their choice. The purpose of offering the shares to employees, directors and officers of the company is to inspire their potential and sense of belongingness. Shares issued under this plan can't be sold by the concerning person in open market within a period of one year from the date of allotment.

As per section 2(37) of the Companies Act, 2013 "employee stock option" means the option given to the directors, officers or employees of a company or of its holding company or subsidiary company or companies, if any, which gives such directors, officers, or employees, the benefit or right to purchase, or to subscribe for, the shares of the company, at a future date, at a pre-determined price.

Escrow Account

Escrow means money and securities deposited to a third party as guarantee under a contract until pre-determined conditions have been fulfilled. As per SEBI guidelines, the company, who is acquirer of its shares under the scheme of buy back is required to open a bank account named Escrow Account. Following deposits are included in it:

(i) Cash deposited with any scheduled commercial bank.

(ii) Bank guarantee issued in favour of any scheduled commercial bank.

(iii) Deposit of frequently traded and freely transferable equity shares and securities with appropriate margin, or

(iv) Combination of above items (i) to (iii).

If the consideration payable under the open offer of buy back is not exceeding ₹100 crores, then the amount to be deposited in Escrow Account will be 25% of the consideration and if the consideration payable is exceeding ₹100 crores then 10% of the balance consideration to be deposited in this account.

The money or securities deposited in Escrow Account can be released with prior permission of SEBI after completion of buy back. In case of non-compliance this can be forfeited.

Issue of Debentures

Debenture is a written acknowledgement of debt issued by a company. Debenture is a document issued under the common seal of a company having terms of repayment of principal and payment of interest at a fixed rate on a fixed date (generally half yearly).

"A debenture is a document given by a company as evidence of a debt to the holder usually arising out of a loan and most commonly secured by a charge"- Top ham

According to section 2(30) of the Companies Act, 2013, "Debenture includes debenture stock, bonds and any other instrument of the company evidencing a debt, whether constituting a charge on the assets of the company or not."

Features of Debentures

1. Debenture is a document or certificate, which acknowledges the debt of a company.
2. Debenture has mode and period of repayment of principal.
3. Rate of interest on the debenture is fixed and interest is paid at regular interval.
4. Debenture holders do not have voting right.
5. It is considered long term borrowings of the company.
6. Debenture may be secured by charge on the assets of the company.

Kinds of Debentures

A company may issue different kinds of debentures. On the basis of the characteristics, these can be classified as under:-

1. On the basis of security

(a) Secured Debentures : The Debentures which are secured by fixed or floating charge on the assets of the company, are called secured debentures. If the company fails to repay these debentures, the lender can recover his amount by sale of these assets.

(b) Unsecured Debentures : The debentures which are not secured by any charge on the assets of the company, are called unsecured or naked debentures.

2. On the basis of Redemption

(a) Redeemable Debentures : The debentures which are repayable by the company after a specified period of time are called redeemable debentures.

(b) Irredeemable Debentures : The debentures which are nor repayable during the lifetime of the company hence repaid only on the winding up of the company, are called irredeemable debentures.

3. On the basis of Registration

(a) Registered Debentures: The debentures which are registered in the records of the company in the name of its holder. Principal and interest is paid to the registered debenture holders by the company. The transfer of these debentures can be made transfer deed.

(b) Bearer Debentures: The debentures which are not registered in the record of the company in the name of its holder. The transfer of these debentures can be made by mere delivery. On the date of interest, payment is made to the holder who produces coupons attached to the debentures.

4. On the basis of Repayment Priority

(a) First Debentures: The debentures which are repaid first before other debentures, are called first debentures.

(b) Second Debentures: The debentures which are repaid or redeemed after the redemption of first debentures are called second debentures.

5. On the basis of Interest Rate

(a) Specific coupon rate Debentures : The debentures, on which rate of interest is fixed and specified at the time of issue. This interest rate is also called coupon rate. For example, 14% Debentures or 12% Debentures, here 14% or 12% is rate of interest.

(b) Zero coupon rate Debentures : These debentures are issued without any rate of interest. To compensate the investors these debentures are issued at heavy discount. The difference between nominal value and issue price of debenture is called total interest for the period of debenture.

6. On the basis of Conversion

(a) Convertible Debentures : The debentures which can be converted either in shares or in other securities after a specific period are called convertible debentures. If a part of debenture amount is convertible into equity shares, it is known as partly convertible Debentures-(PCD) and if the whole amount of debenture is convertible into equity shares, it is known as Fully Convertible Debenture-(FCD).

(b) Non Convertible Debentures: The debentures which are not be convertible into equity shares or other securities are called non convertible debentures.

Following are the differences between shares and debentures :

Difference between Shares and Debentures

S. No.	Basis of Distinction	Share	Debenture
1.	Ownership	Share holders are owners of the Company	Debenture holders are lenders of the Company

2.	Part or Acknowledgement	Share is a part of Capital	Debenture is an acknowledgement of debt
3.	Period	Long term fixed capital is acquired by the issue of shares	Medium and long term funds are acquired by the issue of debentures
4.	Dividend and Interest	Dividend is paid on shares if company earns profit.	Interest is always paid whether company earns profit or not
5.	Repayment	Normally, the amount of shares is not repaid during the life time of the company	The debenture is paid or redeemed after a specific period
6.	Issue at discount	Shares can not be issued at discount	There is no restrictions on the issue of debentures at discount
7.	Security	Shares are not secured	Debentures may or may not be secured by the charge on the assets of the company.
8.	Conversion	Shares can not be converted into any other security	Debentures can be converted into shares
9.	Voting Right	Shareholders have right to attend the annual general meeting and to vote in it.	Debenture holders do not have any voting right.
10.	Risk	There is greater risk on the investment in shares.	In debentures the risk is lesser than shares.

Issue of Debentures

A company can raise its long term loan capital by the issue of debentures. Debentures are normally issued in the same way as shares are issued. The company gives invitation to the public to subscribe to debentures of the company by the issue of prospectus. The intending lender applies in prescribed form along with application money. The company may call for amount of debentures either in lump sum or in instalements like : application, allotment, first call and second call.

Debentures can be issued at par, at premium or at discount. Provision of section 52 and 53 of the Companies Act, 2013 will not be applicable on issue of debentures, or say there is no restriction on issue of debentures at discount. The Companies Act, 2013 has not specified the maximum rate of discount that can be allowed on issue of debentures. So, a company can issue debentures at a price decide by it. Discount on issue of debentures is debited to an account named 'Discount on issue of debentures'. The discount on issue of debenture should be written off from any capital profits or statement of profit and loss during the life time of debentures.

Accounting Entries on the Issue of Debentures

(A) When the amount of Debentures is received in Lump Sum

(i) Debentures are issued at par

* On receipt of Application money

Bank A/c Dr. (Nominal value of Debentures)

To Debenture Application and Allotment A/c

<u>(Being application money received for debentures)</u>

* On transfer of Application money

Debenture Application and Allotment A/c Dr.

To .... % Debenture A/c

<u>(Being transfer of application money to debentures A/c)</u>

(ii) Debentures are issued at premium

Bank A/c Dr. (Amount received)

To Debenture Application and Allotment A/c

(Being application money received for debentures)

Debenture Application and Allotment A/c Dr. (Amount received)

To .... % Debenture A/c (Nominal value)

To securities Premium A/c (Amount of premium)

(Being application money transferred to debenture A/c and securities premium A/c)

(iii) Debentures are issued at discount

(When debentures are issued at a price less than the nominal value)

Bank A/c Dr. (Amount Received)

To Debenture Application and Allotment A/c

(Being application money received)

Debenture Application and Allotment A/c Dr. (Amount received)

Discount on issue of debentures A/c Dr. (Amount of discount)

To .... % Debenture A/c (Nominal Value)

(Being application money transferred to Debenture A/c)

(B) When the amount of Debentures **is** received in Instalments

(in this case accounting for issue of debentures is the same as the accounting for issue of shares)

(i) On receipt of Application money

Bank A/c Dr . (Amount received)

To Debenture Application A/c

(Being Debentures application money received)

(ii) On transfer of Application money to Debenture A/c

Debenture Application A/c Dr.

To .... % Debentures A/c

(Being Debentures application money transferred)

(iii) On making allotment money due

(a) In case of issue of debenture at par

Debenture Allotment A/c Dr. (Amount of call)

To .... % Debenture A/c

(b) In case of issue of debenture at premium

Debenture Allotment A/c Dr. (Amount of call)

To .... % Debenture A/c

To securities Premium A/c (Amount of Premium)

(c) In case of issue of debenture at discount

Debenture Allotment A/c Dr. (Net Amount of call)

Discount on issue of debenture A/c Dr. (Amount of Discount)

To .... % Debenture A/c

(iv) On received of allotment money

Bank A/c   Dr.

To Debenture Allotment A/c

(Being Debenture allotment money received)

(v) On making call money due

Debenture call A/c   Dr.   (Amount of call)

To ....% Debenture A/c

(Being debenture call money due on... debentures @ ₹.......... each)

(vi) On receipt of call money

Bank A/c   Dr.

To debenture Call A/c

(Being debenture call money received)

Illustration 9 :

Arvind Ltd. issued 5000 8% Debenture of ₹100 each to public. Applications were received for all these debentures. All the amount of debentures was payable on application. Give journal entries in the books of company, if debentures are issued: (i) At par (ii) At 10% Premium (iii) At 5% Discount.

Solution :

Journal of Arvind Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
(i)	If Debentures are issued at par :			
	Bank A/c Dr.		5,00,000	
	To Debentures Application A/c			5,00,000
	(Being application money received for 5000 debentures @ ₹ 100 each)			
	Debentures Application A/c Dr.		5,00,000	
	To 8% Debenture A/c			5,00,000
	(Being debenture application money transferred to debentures A/c)			
(ii)	If Debentures are issued at 10% premium :			
	Bank A/c Dr.		5,50,000	
	To Debentures Application A/c			5,50,000
	(Being application money received for 5000 debentures @ ₹ 110 each including premium)			
	Debentures Application A/c Dr.		5,50,000	
	To 8% Debenture A/c			5,00,000
	To Securities Premium A/c			50,000
	(Being application money transferred)			
(iii)	If Debentures are issued it 5% discount :			
	Bank A/c Dr.		4,75,000	
	To Debentures Application A/c			4,75,000
	(Being application money received for 5000 debentures @ ₹ 95 each net of discount)			

	Debentures Application A/c Dr. Discount on issue of Debentures A/c Dr. To 8% Debenture A/c (Being debentures application money transferred)		4,75,000 25,000	 5,00,000

In case of over subscription of Debentures :

If number of applications received towards subscription of debentures are more than debentures to be issued, it is called oversubscription. A company cannot allot more debenture than what is at issue. In such a situation, disposal of excess amount received on oversubscription may be made in any of the following ways:

1. By rejecting excess applications, and refund its amount.
2. Total number of debentures to be issued, allotted on Pro-rata basis among the total applicants and adjust the excess amount of application money towards allotment.
3. A combination of the above two alternatives (1) and (2).

Disclosure of Debentures in Balance sheet :

Debentures and discount on issue of Debentures will be shown in the Balance Sheet as follows :

Debentures: Debentures are shown in the Equity and Liabilities part of the Balance Sheet under the head 'Long Term Liabilities' and sub head 'Long Term Borrowings'. If Debentures are due for redemption within 12 months from date of Balance Sheet then these debentures are shown in the Balance Sheet under the head 'Current Liabilities' and Sub head 'Other current liabilities'.

Discount on issue of Debentures : The amount of Discount on issue of Debentures, which is unamortized on the date of Balance Sheet, is shown in the Assets part of the Balance Sheet under the head 'Non Current Assets' and Sub-head 'Other Non Current Assets'. If a part of unamortized Discount on issue of Debentures is to be written off within 12 months from the date of Balance Sheet, it is shown under the head 'Current Assets' and sub-head 'Other Current Assets'.

Illustration 10 :

Gagan Ltd. issued 5000 8% Debentures of ₹ 100 each at 20% Premium. Amount was payable as follows: 25% on Application, 50% (including Premium) on Allotment, and balance on first and final call. Applications were received for 6500 debentures, out to which 500 applications have been cancelled and remaining applicants were allotted on Pro-rata basis. Give Journal entries in the books of the company and show the items in the Balance Sheet.

Solution :

Journal of Gagan Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr. To Debentures Application A/c (Being application money received for 6500 debenture @ ₹ 30 each)		1,95,000	 1,95,000
	Debentures Application A/c Dr. To 8% Debenture A/c To Bank A/c (Being debenture application money transferred and application money for 500 debentures refunded)		1,65,000	 1,50,000 15,000

	Debentures Allotment A/c Dr. To 8% Debenture A/c To Securities Premium A/c (Being allotment money due @ ₹ 60 each out of which ₹ 20 for premium)		3,00,000	 2,00,000 1,00,000
	Debentures Application A/c Dr. Bank A/c Dr. To Debentures Allotment A/c (Being excess application money adjusted and balance of allotment money received in cash)		30,000 2,70,000	 3,00,000
	Debentures first and final call A/c Dr. To 8% Debentures A/c (Being first and final call money due)		1,50,000	 1,50,000
	Bank A/c Dr. To Debenture first and final call A/c (Being debentures first and final call money received)		1,50,000	 1,50,000

Name of the Company : Gagan Ltd.
Balance Sheet as at ....

Particulars	Notes No.	Amount of Current Year ₹	Amount of Previous Year ₹
I. EQUITY AND LIABILITIES :			
1. Shareholder's Fund :			
(b) Reserves and Surplus	1	1,00,000	
3. Non Current Liabilities			
(a) Long Term borrowings	2	5,00,000	
		6,00,000	
II ASSETS			
2. Current Assets			
(d) Cash and Cash Equivalents		6,00,000	
		6,00,000	

Notes to Accounts :

1. Reserves and Surplus		
Securities Premium	1,00,000	
2. Long Term Borrowings		
8% Debentures	5,00,000	

Working Notes :

1. Issue Price = 100 + 20% of 100 = ₹ 120/-
2. Amount due on Application 25% of ₹120 = ₹30/-
3. Amount due on Allotment 50% of 120 = ₹60, out of which ₹20 is for premium and balance (60-20) = ₹40 for Debentures.

4. Amount of Application money adjusted on allotment.

Amount Received 6500 x ₹30	=	₹ 1,95,000
Less : Transferred to Debenture a/c (5000 x 30)	=	₹ 1,50,000
		₹ 45,000
Less: Refund (500 x ₹ 30/-)		₹ 15,000
Excess Application money to be adjusted on allotment		₹ 30,000

Illustration 11 :

Shakti Ltd. issued 10,000 7% Debentures of 100 each at 5% discount, on which ₹ 30 on Application, ₹ 45 on Allotment and balance amount on first and final call, was payable. Give necessary journal entries for the issue of debentures and show the relevant items in the Balance Sheet. Assuming applications were received for all the debentures.

Solution:

Journal of Shakti Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr.		3,00,000	
	To Debentures Application A/c			3,00,000
	(Being application money received for 10,000 debenture @ ₹ 30 each)			
	Debentures Application A/c Dr.		3,00,000	
	To 7% Debentures A/c			3,00,000
	(Being debenture application money transferred)			
	Debenture Allotment A/c Dr.		4,50,000	
	Discount on issue of Debenture A/c Dr.		50,000	
	To 7% Debentures A/c			5,00,000
	(Being debenture allotment money due @ ₹ 45 each and discount @ ₹ 5 each debited to discount on issue of debenture A/c)			
	Bank A/c Dr.		4,50,000	
	To Debenture Allotment A/c			4,50,000
	(Being debenture allotment money received)			
	Debentures first and final call A/c Dr.		2,00,000	
	To 7% Debentures A/c			2,00,000
	(Being the first and final call money due on 10,000 debentures)			
	Bank A/c Dr.		2,00,000	
	To Debentures first and final call A/c			2,00,000
	(Being the amount received on first and final call)			

Balance Sheet of Shakti Ltd. As at ....

Particulars	Notes No.	Amount of Current Year ₹	Amount of Previous Year ₹
I. EQUITY AND LIABILITIES :			
3. Non Current Liabilities			

(a) Long Term borrowings (7% Debentures)			10,00,000
			10,00,000
II ASSETS :			
1. Non Current Assets			
(e) Other Non Current Assets (Discount on issue of Debentures)			50,000
2. Current Assets			
(d) Cash and Cash Equivalents			9,50,000
			10,00,000

Working Notes :

Amount of first call = 100 – [30 + 45 + 5 (Discount)] = ₹ 20 per debenture

Issue of Debentures for consideration other than cash

When debentures are allotted by a company, to the vendor of assets or vendor of business, to discharge the purchase consideration, this is called issue of debentures for consideration other than cash. Sometimes the consideration can be discharged partly in cash and partly in shares or debentures. If payment is made by the issue of debentures, the accounting entries will be as follows :

(i) On Purchase of Assets :

Assets A/c Dr. (Value of Assets)
 To Vendors A/c
(Being purchase of assets)

(ii) On purchase on business

Assets A/c Dr. (Value of Assets individually)
 To Liabilities A/c (Value of liabilities individually)
 To Vendors A/c (Purchase Consideration)
(Being assets and liabilities purchased)

(iii) On payment made to vendor by issue of Debentures

Vendors A/c Dr.
To Debentures A/C
(Being debentures issued to vendor at par)

Note:

1. If debentures are issued to vendors at premium, the amount of premium will be credited to 'Securities Premium A/c' and the amount of discount will be debited to 'Discount on Issue of Debentures A/c'. If debentures are issued at discount.
2. Calculation of the nominal value of debentures to be issued as purchase consideration:

$$\text{Nominal value of Debentures} = \frac{\text{Amount Payable to vendor Purchase Consideration}}{\text{Issue Price of a debenture}} \text{ X Number of Debenture}$$

Illustration 12 :

Ashoka Ltd. bought a running business from Anuj on 01st April, 2016 with the assets of ₹10, 00,000 and liabilities of ₹120,000. The purchase consideration was paid to Anuj on 01st May, 2016 by the issue of 6% Debentures of ₹100 each. Give necessary journal entries in the books of Ashoka Ltd. If debentures are issued: (A) At par (B) At 10% Premium: (C) At 12% Discount.

Solution :

Journal of Ashoka Ltd.

Date	Particulars		L.F.	Amount ₹ Dr.	Amount ₹ Cr.
2016 April, 1	Assets A/c	Dr.		10,00,000	
	To Liabilities A/c				1,20,000
	To Anuj's A/c				8,80,000
	(Being assets and liabilities of Anuj purchased for ₹ 8,80,000)				
(A)	If Debentures are issued at par				
May, 1	Anuj's A/c	Dr.		8,80,000	
	To 6% Debentures A/c				8,80,000
	(Being 8800 6% debentures of @ ₹ 100 each issued at par to Anuj)				
(B)	If Debentures are issued 10% Premium				
May, 1	Anuj's A/c	Dr.		8,80,000	
	To 6% Debentures A/c				8,00,000
	To Securities Premium A/c				80,000
	(Being 8000 6% debentures of @ ₹ 100 each issued to Anuj at a premium of 10%)				
(C)	If Debentures are issued at 12% discount				
May, 1	Anuj's A/c	Dr.		8,80,000	
	Discount on issue of Debentures A/c	Dr.		1,20,000	
	To 6% Debentures A/c				10,00,000
	(Being 10,000 6% debentures of @ ₹ 100 each issued to Anuj at 12% discount)				

Working Notes :

1. Payment to vendor/Anju to be made equal to net assets i.e., Purchase consideration = Assets Taken over – Liabilities taken over ₹ 10, 00,000 – ₹ 120, 000 = ₹ 8, 80, 000.
2. Nominal value of debentures to be issued :

   (a) At par = $8,80,000 \times \frac{100}{100}$ = ₹ 8, 80, 000

   (b) At 10% premium = $8,80,000 \times \frac{100}{110}$ = ₹ 8, 00, 000

   (c) At 12% Discount = $8,80,000 \times \frac{100}{100 - (12\% \text{ of } 100)}$ = ₹ 10, 00, 000

Issue of Debentures as collateral security

Collateral or additional security means the security given to lender in addition to the prime security. When a company deposits its debentures, as additional security to secure loan taken from the bank in addition to the principal security, are called debentures as collateral security.

If the bank fails to recover its loan from the principal security, in such a case the bank can sale the debentures holds as collateral security and recover its loan. If the company repays its loan to the bank on due time, the bank has to return these debentures to the company.

Interest is paid by the company only on loan taken from bank. Interest is not paid on debentures issued as collateral security by the company.

Accounting treatment of issue of debentures as collateral security: Debentures issued as collateral security can be treated in accounts in any of the following two ways:

(1) **First Method :** In this method, no journal entry is passed in the books of accounts at the time of issue of debentures as collateral security. Journal entry is passed only for the loan taken from bank or financial institution. The loan would be shown in the 'Equity and Liabilities' part of the Balance Sheet under the head 'Non Current Liabilities' and sub-head 'Long Term Borrowings'. At the same place debentures issued as collateral security will be shown in brackets below the bank loan.

(2) **Second Method :** In this method, accounting entry is passed in the books for issue of debentures as collateral security.

(i) For issue of Debentures as collateral security :

Debentures suspense A/c Dr. (Nominal value of Debentures)

To ....% Debentures A/c

(Being issue of debentures as collateral security)

(ii) On Repayment of Loan :

........% Debentures A/c Dr.

To Debentures suspense A/c

(Being debentures issued as collateral security withdrawn)

Debentures A/c will be shown in the 'Equity and Liabilities' part of the Balance Sheet under the head 'Non Current Liabilities' and sub-head 'Long Term Borrowings' and 'Debenture suspense A/C' is shown as a deduction from the debentures until the loan repaid.

Illustration 13:

SP Ltd. has taken a loan of ₹ 400, 000 from bank of Baroda and put 6% debentures of ₹ 500, 000 to the bank as collateral security. Give journal entries in the books of SP Ltd. and prepare Balance Sheet, If :

(i) Entry has not been passed for issue of debentures as collateral as security.

(ii) Entry has been passed for the issue.

Solution :

(i) If entry has not been passed for the issue of debentures as callateral security :

Journal Entries

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr. To Bank Loan A/c (Being loan taken from Bank of Baroda on the collateral security of 6% debentures of ₹ 5,00,000)		4,00,000	 4,00,000

Balance Sheet of S. P. Ltd.
As at ....

Particulars	Notes No.	Amount of Current Year ₹	Amount of Previous Year ₹
I. EQUITY AND LIABILITIES :			
3. Non Current Liabilities			
(a) Long Term borrowings			

Bank Loan (6% Debentures of ₹ 5,00,000 deposited as collateral Security)		4,00,000	
		4,00,000	
II ASSETS			
2. Current Assets			
(d) Cash and Cash Equivalents		4,00,000	
		4,00,000	

(ii) If the entry has been passed for the issue of debentures

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr.		4,00,000	
	To Bank Loan A/c			4,00,000
	(Being loan taken from Bank of Baroda)			
	Debenture Suspense A/c Dr.		5,00,000	
	To 6% Debentures A/c			5,00,000
	(Being 6% Debentures of ₹ 5,00,000 issued as collateral security)			

Balance Sheet of S. P. Ltd.
As at ....

Particulars	Notes No.	Amount of Current Year ₹	Amount of Previous Year ₹
I. EQUITY AND LIABILITIES :			
3. Non Current Liabilities			
(a) Long Term borrowings	1	4,00,000	
		4,00,000	
II ASSETS			
2. Current Assets			
(d) Cash and Cash Equivalents		4,00,000	
		4,00,000	

Notes to Accounts

1. Long Term Borrowings			
6% Debentures	5,00,000	Nil	
Less : Debenture Suspense A/c	5,00,000		
Bank Loan (Secured by 6% Debentures)		4,00,000	
		4,00,000	

Illustration 14 :

Adarsh Ltd. issued 7% Debentures of ₹ 400, 000 as follows:

(i) 7% Debentures of ₹ 200, 000 at 10% discount for cash.

(ii) A fixed assets worth ₹ 90, 000 purchased from Ramesh. For its consideration 7% Debentures with a nominal value of ₹100, 000 issued.

(iii) A loan of ₹ 50,000 taken from bank and 7% Debentures of ₹ 100,000 deposited with the bank as collateral security. Give journal entries in the books of Adarsh Ltd. and draw the Balance Sheet.

Solution :

Journal of Adarsh Ltd.

Date	Particulars		L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c	Dr.		1,80,000	
	Discount on Issue of Debentures A/c	Dr.		20,000	
	To 7% Debentures A/c				2,00,000
	(Being 7% debentures issued for cash at 10% discount)				
	Fixed Assets A/c	Dr.		90,000	
	To Ramesh's A/c				90,000
	(Being fixed assets purchased from Ramesh)				
	Ramesh's A/c	Dr.		90,000	
	Discount on Issue of Debentures A/c	Dr.		10,000	
	To 7% Debentures A/c				1,00,000
	(Being 7% debentures of ₹ 1,00,000 issued to Ramesh at 10% discount)				
	Bank A/c	Dr.		50,000	
	To Bank Loan A/c				50,000
	(Being loan taken from bank)				
	Debenture Suspense A/c	Dr.		1,00,000	
	To 7% Debentures A/c				1,00,000
	(Being 7% Debentures issued as collateral security)				

Balance Sheet of Adarsh Ltd.
As at ....

Particulars	Notes No.	Amount of Current Year ₹	Amount of Previous Year ₹
I. EQUITY AND LIABILITIES :			
Non Current Liabilities			
Long Term borrowings	1	3,50,000	
		3,50,000	
II ASSETS			
. Non Current Assets			
Fixed Assets		90,000	
Other Non Current Assets	2	30,000	
Current Assets			
Cash and Cash Equivalents		2,30,000	
		3,50,000	

Notes to Accounts :

1. Long Term Borrowings

On % Debentures 4,00,000

Less : Debenture suspense	1,00,000	3,00,000
Bank Loan		50,000
		3,50,000

2. Other Non Current Assets

Discount on issue of Debentres	30,000
(20,000 + 10,000)	30,000

Issue of Debentures According to the conditions of Redemption

A company can issue its debentures at par, at premium or at discount and these debentures may be redeemed either at par or at premium. If the debentures are redeemed at premium, it means the company will pay to debenture holders excess amount than nominal value. This excess amount or premium on redemption of debentures is capital loss to the company. So this amount should be provided for in the books. For this purpose 'Loss on Issue of Debentures A/c' will be debited and 'Premium on Redemption of Debentures A/c' will be credited at the time of issue of such debentures.

The accounting entries for issue of such debentures in different circumstances will be as follows:

(1) When debentures are issued at par and redeemable at par

Illustration 15 :

Radhey Ltd. issued 5000 6% Debentures of ₹100 each at par, which are repayable at par after 5 years. Give journal entries for the issue of debentures in the books of Radhey Ltd.

Solution:

Journal of Radhey Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr.		5,00,000	
	To Debentures Application A/c			5,00,000
	(Being application money received fo 5000 debentures @ ₹ 100 each)			
	Debentures Application A/c Dr.		5,00,000	
	To 6% Debentures A/c			6,00,000
	(Being application money transferred to 6% debentures A/c)			

(2) When Debentures are issued at discount and repayable at par.

Illustration 16 :

Shyam Ltd. issued 5000 7% Debentures of ₹100 each at a discount of 2%, which are repayable at par. Give journal entries for the issue of debentures in the books of Shyam Ltd.

Solution:

Journal of Shyam Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr.		4,90,000	
	To Debentures Application A/c			4,90,000
	(Being application money received fo 5000 debentures @ ₹ 98 each)			

	Debentures Application A/c Dr. Discount on Issue of Debentures A/c Dr. To 7% Debentures A/c (Being application money transferred to 7% debentures A/c)		4,90,000 10,000	 5,00,000

(3) When Debentures are issued at premium and repayable at par.

Illustration 17:

Green Ltd. issued 2000 10% Debentures of ₹100 each at ₹105 per debenture, which are repayable at par. Give journal entries for the issue in the books of Green Ltd.

Solution :

Journal of Green Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr. To Debentures Application A/c (Being application money received for 2000 debentures @ ₹ 105 each)		2,10,000	 2,10,000
	Debentures Application A/c Dr. To 10% Debentures A/c To Securities Premium A/c (Being application money transferred to 10% debentures A/c and securities premium A/c)		2,10,000	 2,00,000 10,000

(4) When Debentures are issued at par and repayable at premium.

Illustration 18 :

Sita Ltd. issued 5000 6% Debentures of ₹100 each at par, which are repayable at 5% premium. Give journal entries for the issue in the books of Sita Ltd.

Solution :

Journal of Sita Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr. To Debentures Application A/c (Being application money received fo 5000 debentures @ ₹ 100 each)		5,00,000	 5,00,000
	Debentures Application A/c Dr. Loss on issue of Debentures A/c Dr. To 6% Debentures A/c To Premium on Redimption of Debentures A/c (Being application money transferred to and provided for premium on redemption of debentures)		5,00,000 25,000	 5,00,000 25,000

(5) When Debentures are issued at discount and repayable at Premium.

Illustration 19 :

Ram Ltd. issued 4000 7% Debentures of ₹100 each at a discount of 2%, which are repayable at 4% Premium. Give journal entries for the issue in the books of Ram Ltd.

Solution :

Journal of Ram Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr.		3,92,000	
	To Debentures Application A/c			3,92,000
	(Being application money received fo 4000 debentures @ ₹ 98 each)			
	Debentures Application A/c Dr.		3,92,000	
	Discount on Issue of Debentures A/c Dr.		8,000	
	Loss on issue of Debentures A/c Dr.		16,000	
	To 7% Debentures A/c			4,00,000
	To Premium on Redimption of Debentures A/c			16,000
	(Being debentures application money transferred and provided for premium payable on redemption of debentures)			

(6) When Debentures are issued at premium and repayable at premium.

Illustration 20 :

White Ltd. issued 10,000 8% Debentures of ₹100 each at ₹104 per debenture, which are repayable at 5% premium. Give journal entries for the issue of debentures in the books of White Ltd.

Solution :

Journal of White Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
	Bank A/c Dr.		10,40,000	
	To Debentures Application A/c			10,40,000
	(Being application money received for 10,000 debentures @ ₹ 104 each)			
	Debentures Application A/c Dr.		10,40,000	
	Loss on issue of Debentures A/c Dr.		50,000	
	To 8% Debentures A/c			10,00,000
	To Securities Premium A/c			40,000
	To Premium on Redimption of Debentures A/c			50,000
	(Being debentures application money transferred to 8% debentures A/c and securities premium A/c and provided for premium payable on redemption)			

Disclosure in the Balance Sheet

If the debentures are repayable after 12 months from the date of Balance Sheet then 'Premium on Redemption of Debenture Account' (Personal account) is shown in the 'Equity and Liabilities' part of the Balance Sheet under the head 'Non Current Liabilities' and sub-head 'Other Long Term Liabilities'. If the debentures are repayable within 12 months from the date of Balance Sheet then debentures are shown under the head 'Current Liabilities' and sub-head 'Other Current Liabilities' as 'Current maturities of long term debt'.

In such a case, 'Premium on Redemption of Debentures' is shown in the 'Equity and Liabilities' part of the Balance Sheet under the head 'Current Liabilities' and sub head 'Other Current Liabilities'.

The part of 'Loss on Issue of Debentures', which is to be amortised after 12 months from the date of Balance Sheet is shown in the 'Assets' part of the Balance Sheet under the head 'Non Current Assets' and sub-head 'Other Non Current Assets' and the part of 'Loss on Issue of Debentures', which is to be amortised within 12 months from the date of Balance Sheet is shown under the head 'Current Assets' and sub head 'other current assets'.

Interest of Debentures

Interest on Debentures is paid on quarterly, half yearly or annual basis, as per terms of the issue, at pre decided rate to registered owner of the debentures, by the company. Following are important points to be noted regarding payment of debenture interest :-

1. Interest on Debentures is a charge against the profits of a company and interest is payable whether the company has earned profits or not.
2. Interest is calculated on the face value of debentures at a fixed rate.
3. Interest is not payable on the debentures deposited as collateral security.
4. At the end of the year, balance of 'debentures interest A/c' is transferred to statement of Profit & Loss and will be shown under the head 'finance cost'.
5. At the end of the year outstanding debenture interest whether it is 'Interest Accrued and Due' and 'Interest Accrued but not due' is shown in 'Equity and Liabilities' part of the Balance sheet under the head 'Current Liabilities' and sub-head 'Other current Liabilities'.

Entries for Interest on Debentures and Deduction of tax at source

As per Income Tax Act, if interest payable to a debenture holder exceeds a certain limit, the payment of interest is to be made after deducting tax at source at the rate prescribed (At present it is 10%). It is compulsory to deposit the amount of tax deducted by the company to Central Government by the 7th of next month. This will be deposited in the name of the recipient of interest, for which the company issues TDS Certificate.

Entries for payment of interest will be as follows :

1. When interest is due

Debenture Interest A/c	Dr.	(Gross Amount of Interest)
To Debenture holders A/c		(Net Amount of Interest)
To Tax Deducted at source A/c		(Amount of Tax Deducted)
(Being debenture interest due and income tax deducted)		

Note : If the information regarding TDS is not available, in that case the whole amount of interest is to be credited to debenture holders account and paid.

2. When interest is paid

Debenture holders A/c	Dr.	(Amount paid)
To Bank A/c		
(Being amount of debenture interest paid)		

3. When tax deposited with Government

Tax deducted at source A/c	Dr.	(Amount of Tax)
To Bank A/c		
(Being payment of Income tax made)		

4. At the end, transfer of debenture Interest

Statement of Profit & Loss A/c Dr. (Total Amount of debenture Interest)

To Debenture Interest A/c

(Being debenture interest account is transferred)

Illustration 21 :

Chandani Ltd. issued 5000 14% Debentures of ₹100 each on 01st April, 2016. The issue was fully subscribed. As per terms of the issue, debenture interest is payable on half yearly basis on 30th September and on 31st March each year, after deducting income tax at the rate 10%. Give journal entries for the payment of interest and transfer to statement of Profit & Loss.

Solution:

Journal of Chandani Ltd.

Date	Particulars	L.F.	Amount ₹ Dr.	Amount ₹ Cr.
2016 Sept. 30	Debenture Interest A/c Dr.		35,000	
	To Debenture holders A/c			31,500
	To Tax Deducted at Source A/c			3,500
	(Being debenture interest due and income tax deducted at source)			
Sept. 30	Debentures holders A/c Dr.		31,500	
	Tax Deducted at Source A/c Dr.		3,500	
	To Bank A/c			35,000
	(Being debenture interest and income tax paid)			
2017 Mar. 31	Debenture Interest A/c Dr.		35,000	
	To Debenture holders A/c			31,500
	To Tax Deducted at Source A/c			3,500
	(Being debenture interest due and income tax deducted at source)			
Mar. 31	Debenture holders A/c Dr.		31,500	
	Tax Deducted at Source A/c		3,500	
	To Bank A/c			35,000
	(Being debenture interest and income tax paid)			
Mar. 31	Statement of Profit & Loss A/c Dr.		70,000	
	To Debenture Interest A/c			70,000
	(Being amount of debenture interest transferred to P & L)			

Writing off Discount/Loss on Issue of Debentures

'Discount on issue debentures' and 'Loss on issue of debentures' are capital losses. These can be written off from securities premium, capital Profits or Capital reserves or Statement of Profit and Loss. The time period to write off these losses is not prescribed in Companies Act, but it is prudent to write off these losses during the life of debentures. Entries for writing off these losses will be as follows:

1. On writing off loss from capital Profits

Securities Premium A/c Dr.

Capital Reserves A/c Dr.

Capital Profits A/c Dr.

To Discount on issue of Debentures A/c

To Loss on Issue of Debentures A/c

(Being loss/discount on issue of debentures written off)

2. On writing off loss from statement of Profit & Loss

Statement of Profit & Loss A/c Dr.

To Discount on issue of Debentures A/c

To Loss on issue of Debentures A/c

(Being discount/loss on issue of debentures written off)

There are two methods of writing off the losses from statement of Profit and Loss.

(1) **Equal Installment Method :** When debentures are redeemed at the expiry of a period, in that case, total loss is spread over the life of debentures equally and written off.

$$\text{Yearly amount to be written off} = \frac{\text{Total Loss}}{\text{Period of Debentures}}$$

For example : Ramesh Ltd. issued Debentures of ₹1, 00, 000 at a discount of 10% which are repayable at the end of 5th year. In this case (10% of 1, 00, 000) ÷ 5 = ₹ 2000 will be written off in each year from the statement of Profit & Loss.

2. **Ratio of outstanding Debentures Method :** When debentures are redeemed in installments, the loss is written off in the proportion of debentures outstanding (used) during the year.

Illustration 22 :

Sachin Ltd. issued 1000 6% Debentures of ₹ 100 each at 5% discount on 01st April, 2013, which are repayable at 5% premium. Prepare 'Loss on Issue of Debentures A/c' in the books of the company. If:

(a) debentures are repayable at the end of 5th year; or

(b) debentures are repayable in each year with equal amounts during five years.

Solution:

Total loss on issue of debentures is ₹ 5, 000 (Discount) + ₹ 5000 (Premium on Redemption) = ₹ 10, 000. It is to be written off.

(a) When debentures are repayable at the end of 5th year, during these five years amount of debentures is used equally. So total loss will be distributed equally in 5 years. Loss of (10,000 ÷ 5) = ₹ 2000 will be written off in each year.

Dr. **Loss on Issue of Debentures A/c** Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2013 April, 01	To 6% Debentures A/c	5,000	2014 Mar. 31	By Statement of Profit & Loss	2,000
	To Premium on Redemption of Debentures A/c	5,000		By Balance c/d	8,000
		10,000			**10,000**
2014 April, 01	To Balance b/d	8,000	2015 Mar. 31	By Statement of Profit & Loss	2,000
				By Balance c/d	6,000
		8,000			**8,000**
2015 April, 01	To Balance b/d	6,000	2016 Mar. 31	By Statement of Profit & Loss	2,000
				By Balance c/d	4,000
		6,000			**6,000**
2016	To Balance b/d	4,000	2017	By Statement of Profit & Loss	2,000

April, 01			Mar. 31	By Balance c/d	2,000
		4,000			**4,000**
2017 April, 01	To Balance b/d	2,000	2018 Mar. 31	By Statement of Profit & Loss	2,000
		2,000			**2,000**

(b) When debentures are repayable in equal installments in each year, during five years :

Amount to be redeemed in each year ₹1,00,000 ÷ 5 = ₹ 20, 000. The ratio of benefit received from debentures or say outstanding amount of debentures at the end of each year before redemption will be ₹ 1,00,000, ₹80,000, ₹ 60,000, ₹40,000 and ₹20,000 respectively. Total loss on issue of debentures will be divided in the ratio 5 : 4 : 3 : 2 : 1 and written off from statement of Profit & Loss accordingly.

2013-14 = $\frac{5}{15}$ x 10,000 = ₹ 3,333; 2014-15 = $\frac{4}{15}$ x 10,000 = ₹ 2,667;

2015-16 = $\frac{3}{15}$ x 10,000 = ₹ 2,000; 2016-17 = $\frac{2}{15}$ x 10,000 = ₹ 1,333;

2017-18 = $\frac{1}{15}$ x 10,000 = ₹ 667;

Dr. **Loss on Issue of Debentures A/c** Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2013 April, 01	To 6% Debentures A/c	5,000	2014 Mar. 31	By Statement of Profit & Loss	3,333
	To Premium on Redemption of Debentures A/c	5,000		By Balance c/d	6,667
		10,000			**10,000**
2014 April, 01	To Balance b/d	6,667	2015 Mar. 31	By Statement of Profit & Loss	2,667
				By Balance c/d	4,000
		6,667			**6,667**
2015 April, 01	To Balance b/d	4,000	2016 Mar. 31	By Statement of Profit & Loss	2,000
				By Balance c/d	2,000
		4,000			**4,000**
2016 April, 01	To Balance b/d	2,000	2017 Mar. 31	By Statement of Profit & Loss	1,333
				By Balance c/d	667
		2,000			**2,000**
2017 April, 01	To Balance b/d	667	2018 Mar. 31	By Statement of Profit & Loss	667
		667			**667**

Illustration 23 :

Saurabh Ltd. issued 3000 7% Debentures of ₹ 100 each at 12% discount on 01st April, 2013, which are repayable ₹ 1, 00, 000 per year from 31st March 2016. Prepare 'Discount on issue of Debentures A/c' for first five years.

Solution :

Total discount is = 12% of ₹ 3 00 000 = ₹ 36, 000/-. Since, debentures are repayable ₹ 100, 000 per year from 31st March, 2016, amount of discount to be written off in the proportion of benefit received out of the amount of debentures.

Statement Showing Amount of Discount to be Written off

Year ended on	Nominal value of Debenture Outstanding before redemption	Ratio	Amount of Discount to be written off = 36,000 x column (3) / 12	
(1)	(2)	(3)	(4)	
31.03.2014	₹ 3,00,000	3	36,000 x 3/12 =	₹ 9,000
31.03.2015	₹ 3,00,000	3	36,000 x 3/12 =	₹ 9,000
31.03.2016	₹ 3,00,000	3	36,000 x 3/12 =	₹ 9,000
31.03.2017	₹ 2,00,000	2	36,000 x 2/12 =	₹ 6,000
31.03.2018	₹ 1,00,000	1	36,000 x 1/12 =	₹ 3,000
		12		**₹ 36,000**

Dr. **Discount on Issue of Debentres A/c** Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2013 April, 01	To 7% Debentures A/c	36,000	2014 Mar. 31	By Statement of Profit & Loss By Balance c/d	9,000 27,000
		36,000			**36,000**
2014 April, 01	To Balance b/d	27,000	2015 Mar. 31	By Statement of Profit & Loss By Balance c/d	9,000 18,000
		27,000			**27,000**
2015 April, 01	To Balance b/d	18,000	2016 Mar. 31	By Statement of Profit & Loss By Balance c/d	9,000 9,000
		18,000			**18,000**
2016 April, 01	To Balance b/d	9,000	2017 Mar. 31	By Statement of Profit & Loss By Balance c/d	6,000 3,000
		9,000			**9,000**
2017 April, 01	To Balance b/d	3,000	2018 Mar. 31	By Statement of Profit & Loss	3,000
		3,000			**3,000**

Summary

Company : A company is an organisation incorporated by a group of persons through the process of law to undertake a business. Its members are called shareholders.

Types of companies : There are three types of companies: (1) One person company; (2) Private Company; and (3) Public Company.

Types of Companies on the basis of liability : (1) Company limited by shares; (2) Company limited by guarantee; and (3) Unlimited Company.

Kinds of shares : Shares of a company can be two types- (1) Preference shares, and (2) Equity shares

Classes of Preference Shares : Preference shares may be of many types, such as :

(1) Non cumulative Preference Shares (2) Cumulative Preference Shares

(3) Participating Preference Shares (4) Non Participating Preference Shares

(5) Convertible Preference Shares (6) Non Convertible Preference Shares

(7) Redeemable Preference Shares (8) Irredeemable Preference Shares

Class of share Capital : To present in Balance Sheet, share Capital is-

(1) Authorised Capital (2) Issued Capital

(3) Subscribed Capital (4) Paid up Capital

Reserve Capital : Reserve Capital means the portion of the uncalled Capital to be reserved. It is decide by passing a special resolution. It can be called up in future and in case of winding up.

Issue of Shares : A Company may issue shares in following ways- (1) For consideration other than cash (2) For cash

Issue price of shares : (1) Issue at par (2) Issue at Premium.

Payment on Shares : On issue of shares for cash a company can call the amount on shares as follows:

(1) In one lump sum on application (2) In installments (Like Application, Allotment and on Calls)

Procedure for issue of shares :

(1) Issue of Prospectus (2) Application for Shares

(3) Allotment of Shares (4) Dispatch of Allotment letters

(5) Filing allotment return to registrar.

Utilization of Securities Premium: A Company may use securities Premium for the following purposes **:** (1) To issue fully paid bonus shares to the members; (2) To write off Preliminary expenses, commission paid on issue of shares and debentures and discount on issue of debentures**;** (3) To provide premium payable on redemption of Preference shares and debentures; and (4) For purchasing of own shares.

Types of Debentures : Debentures are of following different kinds-

(1) Secured Debentures (2) Unsecured Debentures

(3) Redeemable Debentures (4) Irredeemable Debentures

(5) Registered Debentures (6) Bearer Debentures

(7) First Debentures (8) Second Debentures

(9) Fixed Interest Rate Debentures (10) Zero coupon rate Debentures

(11) Convertible Debentures (12) Non convertible Debentures

Issue of Debentures : Debentures may be issued either at per, at premium or at discount. When debentures are issued at a price below the nominal value, it is called issue of debentures at discount.

Issue of debentures for consideration other than cash : When debentures are allotted by a company to the vendor, supplier or for consideration of assets, it is called issue of debentures for consideration other than cash.

Issue of debentures as Collateral Security : When a company deposits its debentures, as additional security to secure loan taken from a bank, in addition to principal security, these are called debentures as Collateral security.

Bond : Bond is an acknowledgement of debt issued by Government, Semi government institutions, or Non Government institutions. Basic difference between Bonds and debentures is **that** bonds are issued without a pre-determined rate of interest while debentures are issued with pre determined rate of interest.

Bonds are some Deep discount bonds and zero coupon bonds.

Glossary

Share : The Capital of a company is divided into units of small denominations (like -₹ 1, ₹ 5, ₹ 10, or ₹ 100 etc.) and each such unit is called Share.

Shares Capital : Shares Capital means the amount that a company can raise or has raised by the issue of shares.

Preference Shares : The share, holders of which carry preferential right to get dividend before equity shareholders and carry preferential right to get return of capital before equity shareholders on winding up of the company is called preference share.

Equity Shares : The share which is not Preference share. Generally, equity shareholders are real owners of the company.

Authorised Capital : The Maximum amount of capital stated in the Memorandum of Association of the company. A Company cannot issue shares above this amount is known as Authorised Capital.

Issued Capital : Issued Capital is a part of Authorised Capital, which the company has issued to public for subscription.

Subscribed Capital : Subscribed Capital is a part of issued capital, which is subscribed.

Called up Capital : The part of subscribed Capital which has been called from shareholders by the company.

Paid up Capital : The part of called up capital which is paid by the shareholders or say, the remaining amount after subtracting calls in arrear from called up capital is paid up Capital.

Minimum Subscription : The minimum amount stated in the prospectus of the Company, for which subscription needs to get from the public. Allotment of shares can be made after receiving the application money on this subscription. Generally minimum subscription is equal to 90% of the total issue.

Share Certificate: A Certificate, issued under the common seal of the company, specifying the shares held by any person, shall be prima facie basic evidence of title of the person to such shares.

Initial Public Offer-(IPO) : Initial public offer means the first time offer to public to subscribe to shares.

Calls in Arrear: The amount called by the company in respect of shares, which is not paid by the shareholders, is called calls in arrears.

Calls in Advance: The amount which has not been called up by the company but has been paid by the shareholders and as per provision in the Articles, accepted by the company, is called calls in Advance.

Under subscription: When a company receives less applications for shares than the number of shares offered, it is called under subscription.

Oversubscription: When the number of shares applied for is more than the shares offered for issue, it is called oversubscription.

Pro-rata Allotment: Pro-rata allotment means the ratio of total number of shares allotted to a class of applicants to the total number of shares applied for, by the applicants of that class.

Allotment of Shares: Allotment of Shares means distribution of shares among the applicants by the Board of Directors of the Company according to various provisions of the Act.

Private Placement of Shares: Any offer of securities or invitation which is not a public issue, to a selected group of persons is called Private Placement of shares.

Sweat Equity Shares: Sweat equity shares mean the equity shares that are issued by a company to its directors or employees at a discount or for consideration other than cash, for providing the know-how or making available intellectual property rights.

Right Shares: A company having share capital where at any time proposes to increase its subscribed capital by the issue of further shares; such shares shall be offered to the equity shareholders on the date of offer. Existing equity shareholders receives these shares according to rights provided in Companies Act. So these shares are called Right Shares.

Employee Stock Option Plan-ESOP: Employee Stock option Plan means an offer granted by the company to its directors, officers and employee to subscribe to its shares at a pre-determined price on a future date.

Escrow Account : Escrow account means the account in which money or securities deposited as a guarantee until pre-determined conditions or work has been fulfilled. A company has to deposit the amount in Escrow Account opened in a bank, for buy back of its shares until the liability meets out.

Debentures: Debentures is a document issued under the common seal of the company as evidence of a debt to the holder.

Questions for the Excersice

Multiple Choice Questions :

1. Total amount of Equity and Liabilities part includes the followings :

(a) Authorised Capital (b) Issued Capital

(c) Subscribed Capital (d) Paid up Capital

2. Premium received on issue of shares is shown on :

(a) Equity and Liabilities part of the Balance Sheet (b) Assets part of the Balance Sheet

(c) Income part of the Statement of profit and Loss (d) Expenses part of the statement of profit and Loss

3. Equity shareholders are:

(a) Customers of the Company (b) Officers of the Company

(c) Creditors of the Company (d) Owners of the company

4. Premium on issue of shares cannot be used :

(a) For issuing bonus shares to members (b) For paying dividend to members

(c) For writing off Preliminary expenses (d) For writing off discount on issue of debentures

5. As per table-F, a company can pay interest on calls in Advance at:

(a) 8% (b) 10% (c) 12% (d) 14%

6. The part of uncalled capital which can be called up only on the company being wound up is called:

(a) Issued Capital (b) Reserve Capital

(c) Capital Reserve (d) Unissued Capital

7. Debentures holders are:

(a) Owners of the Company (b) Customers of the Company

(c) Loan Providers of the Company (d) None of these

8. Debenture holders received:

(a) Profit (b) Dividend (c) Rent (d) Interest

9. Discount on issue of debentures to be written off after 12 months from the date of Balance Sheet or after the period of operating cycle is shown as:

(a) Other noncurrent Assets (b) Other Non current Liabilities

(c) Other current Assets (d) Other Current Liabilities

10. The debentures which can be converted into equity shares are called:

(a) Redeemable Debentures (b) Registered Debentures

(c) Bearer Debentures (d) Convertible Debentures

11. In case of issue of debentures given as collateral security, if on entry is passed, which account will be debited :

(a) Loan Account (b) Debentures Account

(c) Debenture Suspense Account (d) Bank Account

Very Short Answer Type Questions :

1. Define a company.
2. What is one person company?
3. What is meant by share?
4. Name the two types of shares.
5. Give the meaning of Registered Capital.
6. What is meant by issued Capital?
7. What is meant by subscribed Capital?

8. What do you mean by over subscription?
9. What is meant by convertible Preference Shares?
10. What is meant by allotment of shares?
11. What is meant by Pro-rata allotment of shares?
12. What is meant by issue of shares at premium?
13. Under the Companies Act, 2013, can a company issue its shares at discount?
14. Give the meaning of calls in arrears.
15. Give the meaning of Debentures.
16. What is Bond?
17. What is meant by secured Debentures?
18. What is meant by Non Convertible Debentures?
19. What is the difference between shares and Debentures?
20. What is meant by issue of debentures as collateral security?
21. What is the nature of Interest on Debentures?
22. What is meant by Loss on Issue of Debentures?

Short Answer Type Questions :

1. What are the main characteristics of a company?
2. What is a Private Company?
3. What do you mean by company limited by shares?
4. Give four differences between Equity Share and Preference Share.
5. Explain three types of Preference Shares.
6. What is meant by Reserve Capital?
7. State the provisions of section 52 of Companies Act for the utilisation of securities premium Account.
8. What do you mean by minimum subscription?
9. What is meant by Sweat Equity Shares?
10. Write the meaning of the Employee Stock Option Plan.
11. Explain the Escrow Account.
12. What are the kinds of Debentures?
13. Give any four points of difference between shares and Debentures.
14. Explain the meaning and accounting treatment of Issue of Debentures as collateral Security.
15. Taruna Ltd. purchased a building for ₹ 4, 00, 000 and Plant & Machinery for ₹ 2, 60 000 from Hari. The purchase price was paid by issuing 8% Debentures of ₹ 100 each at a premium of 10%. Give necessary journal entries.
16. Abhinav Ltd. issued 2000 9% Debentures of ₹ 100 each at 4% discount, which will be redeemed at 5% Premium. Pass journal entries in the books of Ahbinav Ltd. at the time of issue of Debentures.
17. 'Debentures' outstanding and 'Loss on issue of Debentures' will be shown under which heads of the Balance Sheet.

Essay Type Questions :

1. What do you mean by Company? State its essential features and different types of companies.
2. What is the difference between Equity Share and Preference Share? Explain.
3. Describe different kinds of Share Capital.
4. What is meant by Preference Share? Describe the different kinds of Preference Shares.
5. What is meant by Debenture? Describe the different kinds of Debentures.
6. Write the differences between Shares and Debentures.

Answer of Multiple Choice Questions

Question No.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Answer	d	a	d	b	c	b	c	d	a	d	c

Numerical Questions :

1. Sona Ltd. purchased a machinery of ₹ 10, 00,000 and furniture of ₹ 5, 00, 000 from Mona Ltd. Sona Ltd. paid 40% of the amount by cheque and for the balance amount issued equity shares of ₹ 10 each at a premium of 20%. Pass necessary journal entries to record the above transactions in the books of Sona Ltd.

   Answer: [75, 000 Equity Shares to be issued]

2. Jain Ltd. Purchased a machine of ₹ 6,00,000 from Kamal. 50% of the payment was made by cheque and for the remaining the company issued equity shares of ₹ 10 each at a premium of 20%. Give necessary journal entries in the books of Jain Ltd. for the above transactions.

   Answer: [25000 Equity Shares to be issued]

3. Authorised Capital of Kohinoor Ltd. is ₹ 10,00,000, which is divided into 10,000 Equtiy Shares of ₹ 100 each. Out of these shares 8000 equity shares were issued to the public. The whole nominal value is payable on application. All the shares were subscribed by the public and full amount was paid for. Give necessary journal entries in the books of Kohinoor Ltd.

4. Rakhi Ltd. was registered with an authorized Capital of ₹ 20,00,000 divided into 12,000 equity shares of ₹ 100 each and 8,000 8% Preference shares of ₹ 100 each. 5000 Equity Shares and 2000 8% Preference shares were offered to public on the following terms:

Per Share	**Equity Share**	**Preference Share**
Payable on Application	25	25
Payable on Allotment	25	45
Payable on First Call	25	30
Payable on Second & Final Call	25	-

   All the shares were applied for and allotted. All money due was duly received. Give necessary journal entries to record the above transactions in the books of Rakhi Ltd., and show the share capital in the Balance Sheet.

   Answer: [Paid up share Capital ₹ 7,00,000]

5. Gajendra Ltd. offered for subscription 30,000 equity shares of ₹ 10 each to public. Per share amount was payable as follows : On Application ₹ 3, on Allotment ₹ 4, and balance as and when required. Applications were received for 50,000 shares. No share was allotted to the applicants of 10,000 shares, their application money was refunded. Shares were allotted to remaining applicants on pro-rata basis. Allotment money was received in due time. Give journal entries for the above transactions and prepare the Balance Sheet.

   Answer: [Total of Balance Sheet ₹ 2,10,000]

6. Lalita Ltd. was established with an authorized Capital of ₹ 10,00,000 divided into 100,000 equity shares of ₹ 10 each. Company issued 75000 equity shares to the public at ₹ 11 per share, which was payable as follows: ₹ 3 on Application, ₹ 4 (including Premium) on Allotment and balance on first and Final call. Applications were received for 70,000 shares from public. All the amount were received in time expect the following : Ramesh held 1000 shares, failed to pay allotment and first and Final call money. Suresh held 2000 shares, failed to pay first and final call money. Record the above transactions in the cash book and journal of the Company and prepare Balance Sheet.

   Answer: [Paid up Capital ₹ 85,000 and Securities Premium ₹ 69,000]

7. Madhav Ltd. issued 60,000 shares of ₹ 10 each to the public, which were payable as follows: on Application ₹ 2 (Payable on 1st April, 2016); on Allotment ₹ 3 (Payable on 1st June, 2016), on first call ₹ 2.5 (Payable on 1st September, 2016) and on second and final call ₹ 2.5 (Payable on 1st February, 2017). Applications were received for 1,00,000 shares and allotment was made as under:

To Applicants for 50, 000 shares - Fully;

To Applicants for 45, 000 shares - 10, 000 shares; and

To Applicants for 5, 000 shares - nil

Excess money received on application was utilized towards allotment and subsequent calls. Interest on calls in advance was paid as per table-F. Give journal entries to record the above transactions, assuming all amounts were due and received in time.

Answer: [Interest on calls in Advance ₹ 2,750]

8. Hindustan Ltd. issued 50, 000 equity shares ₹ 10 each at ₹ 2 per share premium, to the public, which were payable as follows:

   On Application and Allotment : ₹ 5 per share (including Premium)

   On First call : ₹ 3.5 Per share

   On Second and Final call : ₹ 3.5 Per share

   Applications were received for 85,000 shares. Applicants of 10 000 shares were refused and application money there on were returned. Pro-rata allotment was made to remaining applicants. Excess application and allotment money was adjusted on the sums due on first call. First call money was not received on 150 shares. Second and final call money was not received on 400 shares.

   Give journal entries in the books of Hindustan Ltd. and show the share capital in the Balance Sheet.

   Answer: [Calls in Arrear ₹ 1, 550/-]

9. Rajesh Ltd. invited applications for issuing 30, 000 equity shares of ₹ 10 each at a premium of ₹ 30 per share. The amount was payable as follows: On Application ₹10 per share (including ₹ 8 Premium); on Allotment ₹ 12 per shares (including ₹ 9 Premium); on first and final call – Balance

   Applications for 28 000 shares were received. All the calls were made and duly received, except on 3000 shares held by Hari who failed to pay allotment and first and final call money and on 2000 shares held by Om who didn't pay the first and final call. Give necessary journal entries in the books of Rajesh Ltd. and show the above items in the Balance Sheet.

   Answer: [Amount received on allotment ₹ 3,00,000 and on call ₹ 4,14,000, total of Balance Sheet ₹ 994000]

10. Modern Ltd. offered to public ₹ 10, 000 equity shares of ₹ 10 each at ₹ 11 per share. Amount was payable as follows : on Application ₹ 3, on Allotment ₹ 4 (including Premium) and on first and final call ₹ 4. Applications were received for 12000 shares and directors made allotment on pro-rata basis. Rakesh, who applied for 240 shares paid call money along with allotment money. Sukesh to whom 100 shares were allotted paid allotment money along with call money. Give necessary journal entries.

    Answer: [Arrear of allotment received with call ₹ 340, calls in Advance ₹ 800]

11. Agrasen Ltd. offered 20,000 equity shares of ₹ 10 each to public for subscription. On these, amount was payable as follows: ₹ 3 on Application, ₹ 4 on Allotment and ₹ 3 on First and Final call. Applications were received for 41, 000 shares and allotment was made as follows:

    Applicants of 3000 shares were allotted No shares; Applicants of 10, 000 shares were allotted 100 percent shares; Applicants of 12, 000 shares were allotted 50 percent shares; and Applicants of 16, 000 shares were allotted 25 percent shares.

    Excess money received on application was adjusted on allotment and call. The applicants to whom No shares were allotted, application money was refunded. All money was received in time. Give journal entries in the books of the company.

    Answer: [Amount Refunded ₹ 17, 000, Adjusted on Allotment ₹ 34 000 and Adjusted on call ₹12, 000]

12. A Company issue ₹ 25 000 equity shares of ₹ 100 each to public. Amount on shares was payable as follows :

    (A) ₹ 30 on Application (B) ₹ 50 (including Premium) on Allotment (C) ₹ 30 on First and Final call

Applications were received for 60, 000 shares. No shares were allotted to the applicants of 10, 000 shares and their application money was refunded. Remaining applicants were made Pro-rata allotment. Ganesh, to whom 250 shares were allotted failed to pay first and Final call money. Other shareholder have paid well in time. Give journal entries for above transactions in the book of the Company. [RBSE – 2004]

Answer: [Amount Refund ₹ 3,00,000 Amount adjusted on Allotment ₹ 7,50,000 and Amount received on call ₹ 7,42,500]

13. Yatendra Ltd. issued 6000 11% Debentures of ₹ 100 each to the public. Whole of the amount was payable on application on 1st July, 2016. The company received applications for 8000 debentures. The directors made Pro-rata allotment on 31st July, 2016 and refunded the excess application money. Give necessary journal entries in the books of the Company, if debentures are issued : (i) at par (ii) at 5% Premium (iii) at 4% discount.

    Answer: Excess application money will be refunded (i) ₹ 2,00,000 (ii) ₹ 2,10,000 (iii) ₹ 1,92,000.

14. Tanmay Ltd. issued 2000 9% Debentures of ₹100 each at 20% premium, payable as follows: ₹ 40 on Application, ₹ 45 (including Premium) on allotments, and balance on first and final call. Applications were received for 4000 Debentures. Applicants for 1000 debentures were refused allotment of debentures and 2000 debentures were allotted among remaining applicants. Excess application money was adjusted on allotment. All the amounts were received in time. Give necessary journal entries.

    Answer: [Amount received on Allotment ₹ 50, 000]

15. Rajendra Ltd. issued 15000 12% Debentures of ₹ 100 each at a discount of 5%, payable as follows: 30% on Application, 35% on Allotment and balance on first and final call. Applications were received for whole of the debentures and debentures were allotted. All the amount was received in time except one debenture holder, who held 500 debentures and did not pay the first and final call. Give journal entries and cash book of the company.

    Answer: [Balance of cash Book ₹ 14,10,000]

16. Vishnu Ltd. purchased the business of Vipin with the assets of ₹ 12,00,000 and liabilities of ₹ 1,92,000. Purchase consideration was paid by issuing 7% Debentures of ₹ 100 each. Give journal entries in the book of Vishnu Ltd. for purchase of business and issue of debentures, if debentures are issued (a) at par, (b) at 5% Premium (c) at 4% discount.

    Answer: [No. of debentures to be issued (a) 10, 080 (b) 9600 (c) 10, 500]

17. Gajendra Ltd. took a loan of ₹ 5, 00,000 from the Bank of India and put 7% debentures of ₹ 6,00,000 to the bank as collateral security. Give journal entries in the books of Gajendra Ltd. and draw Balance Sheet.

    (i) If entries are not passed for the issue of debentures as collateral security.

    (ii) If entries are passed for the issue of debentures.

18. Satish Ltd. issued 8% Debentures of ₹ 6,00,000 as follows:

    (i) 8% Debentures of ₹ 3,00,000 at 20% Premium for cash.

    (ii) A computer of ₹ 1,25,000 purchased from Arnav Ltd. for the consideration of it, issued 8% debentures with a nominal value of ₹ 1,50,000.

    (iii) Taken a loan of ₹ 1,00,000 from bank. Deposited to the bank 8% Debentures of ₹ 1,50,000 as collateral security. Give journal entries in the books of Satish Ltd. and prepare Balance Sheet.

    Answer: [Total of Balance Sheet ₹ 6,10,000]

19. Give necessary journal entries for issue of Debentures in the following cases :

    (i) A company issued 1000 12% Debentures of ₹ 100 each at par, redeemable at par.

    (ii) A company issued 2000 8% Debentures of ₹ 100 each at a discount of 10%, redeemable at par.

    (iii) A company issued 5000 7% Debentures of ₹ 100 each at a premium of 5% redeemable at par.

(iv) A company issued 3000 6% Debentures of ₹ 100 each at par, redeemable at 5% premium.

(v) A company issued 4000 8% Debentures of ₹ 100 each at a discount of 2%, redeemable at 4% premium.

(vi) A company issued 5000 7% Debentures of ₹ 100 each at a premium of 5%, redeemable at 6% Premium.

20. Rakesh Ltd. offered to public 12% Debentures of ₹ 8,00,000 of ₹ 100 each. Whole amount was payable on application on or before 01st May 2016. As per terms of the issue, debenture interest was payable on half yearly basis on 30th September and 31st March each year, after deducting income tax at the rate of 10%. Company made allotment of debentures on 1st June 2016. Give journal entries in the books of the company for payment of debenture interest and transfer to statement of Profit and Loss.

Answer: [Transfer of Debenture Interest to statement of P&L ₹ 80, 000 on 31.03.2017]

21. Z Ltd. issued 5000 12% Debentures of ₹ 100 each at a discount of 4% on 01st April 2015. The debentures were repayable by annual drawing of ₹ 1, 00, 000 starting from 31st March, 2017. Calculate the amount of discount to be written off each year and also prepare 'Discount on issue of Debentures Account' in the books of the company.

Answer: [Discount to be written off in each year starting from 31.03.2016 ₹ 5000, ₹ 5000, ₹ 4000, ₹ 3000, ₹ 2000 and ₹ 1000 respectively]

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