

BOOK-2

CHAPTER-2

ISSUE AND REDEMPTION OF DEBENTURES

Section A: One Mark Questions

I. Fill in the blanks:-

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

II. Multiple Choice Questions:-

1. Premium on Redemption of Debentures A/c is _____ A/c.
(a) Asset (b) Income
(c) Liability (d) Expense
2. Debentures premium cannot be used to _____.
(a) write off the discount on issue of debentures or shares.
(b) write off the premium on redemption of shares or debentures.
(c) pay dividends (d) write off the capital loss.

3. Loss on issue of debentures is treated as:

(a) Intangible asset	(b) Current asset
(c) Current liability	(d) Miscellaneous expenses.
4. In the event of liquidation of the company, the debentureholders have priority for:

(a) Interest	(b) Principal amount
(c) Both (a)&(b) above	(d) None of the above
5. Debentures cannot be redeemed at:

(a) Premium	(b) Discount
(c) Par	(d) More than 10% Premium.
6. Debentures cannot be redeemed out of:

(a) Profits	(b) Provisions
(c) Capital	(d) All the above
7. A Company issued 2,000, 8% debentures of ₹100 each at par value redeemable at 10% premium. 8% stands for:

(a) Rate of dividend	(b) Rate of tax
(c) Rate of interest	(d) Rate of TDS
8. Debenture holders are:

(a) Owners of the company	(b) Lenders of the company
(c) Debtors of the company	(d) Trustees of the company.
9. X Company Ltd, purchased machinery for ₹20,000, payable ₹6,500 in cash and the balance by issue of 12% debentures of ₹100 each at a discount of 10%. How many debentures would be required to issue to the vendor?

(a) 155 debentures of ₹100 each	(b) 150 debentures of ₹100 each
(c) 135 debentures of ₹100 each	(d) 145 debentures of ₹100 each
10. XYZ Company Ltd issued 5,000 6% debentures of ₹100 each at par and are redeemable at 10% premium. Premium on redemption will be debited at the time of issue of debentures to:

(a) Loss on Issue of Debentures A/c	(b) Share Discount A/c
(c) Security Premium A/c	(d) General Reserve A/c
11. Methods of Redemption of Debentures are:

(a) By annual drawings	(b) By conversion of shares or debentures
(c) By purchasing own debentures in open market	(d) All of the above
12. A Company cannot redeem its debentures fully:

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

13. If the market price of the Debentures is more than the face value, at the time of redemption this will be a capital loss and is transferred to:
- Capital Reserve
 - General Reserve
 - Profit on Redemption of Debentures
 - Loss on Redemption of Debentures
14. The following journal entry appears in the books of a Company.
- | | | |
|--|----------|-----------|
| Bank A/c Dr. | 9,50,000 | |
| Loss on Issue of Debentures A/c Dr. | 1,50,000 | |
| To 8% Debentures A/c | | 10,00,000 |
| To Premium on Redemption of Debentures A/c | | 1,00,000 |
- In this case, Debentures are issued at a discount of ____ %.
- 15%
 - 10%
 - 5%
 - 8%
15. Raj Company Ltd, purchased assets worth ₹14,40,000. It issued debentures of ₹100 each at a discount of 4% in full settlement of the purchase consideration. The number of debentures issued to vendors is:
- 15,000
 - 14,400
 - 16,000
 - 15,600

III. True or False Type of Questions

- Debenture is a part of loaned capital.
- Debenture holders have voting rights.
- Debentures bear fixed interest.
- Debentures cannot be issued for consideration other than cash.
- Company can buy-back its debentures.
- Interest on debentures is not shown in P&L Statement.
- Debenture holders are not the members of the company.
- Premium on redemption of debentures is a personal A/c.
- Debentures cannot be issued as a collateral security.
- A Company can issue irredeemable debentures.
- Redemption of debentures is made by the company in accordance with the terms of issue.
- A Company cannot purchase its own debentures in the open market.
- Profit on redemption of debentures is in the nature of a capital profit.
- Debentures cannot be issued at a discount for more than 10% of the face value.
- Loss on issue of debentures is a revenue loss.

IV. Very Short Answer Questions:-

- What is meant by debentures?
- What is Bond?
- What is coupon rate?

4. What do you mean by zero coupon rate debentures?
5. What is meant by issue of debentures for consideration other than cash?
6. What do you mean by the issue of debentures as a collateral security?
7. Name any one method of redemption of debentures.
8. What do you mean by redemption of debentures?
9. Expand D R R.
10. Expand D R F I.
11. Expand A I F Is.
12. State any one type/kind of debentures.
13. Can the company purchase its own debentures?
14. Debenture Redemption Reserve is shown under which head in the Balance Sheet?
15. Name the head under which discount on issue of debentures appears in the Balance Sheet of a Company.

**Section-C: 6 Marks Problems:
Problems on Issue of Debentures at par:**

1. The Vijaya Company Ltd., issued 10,000 12% debentures of ₹100 each payable :
 ₹10 per debenture on application.
 ₹50 per debenture on allotment.
 ₹40 per debenture on first and final call.
 All the debentures were subscribed and the money duly received.
Pass the journal entries in the books of the company.
2. Prabhakar Ltd. issued 5,000 10% debentures of ₹100 each payable:
 ₹10 per debenture on application.
 ₹40 per debenture on allotment.
 ₹50 per debenture on first and final call.
 All the debentures were subscribed and the money duly received.
Pass the journal entries in the books of the company.
3. Gopal Ltd issued 3,000 6% debentures of ₹100 each payable ₹20 on application, ₹30 on allotment and the balance on first and final call. All the debentures were duly taken up and the money was duly received by the company.
Pass the journal entries in the books of the company.
4. Chandra Ltd issued 15,000 12% debentures of ₹100 Each payable ₹10 per debenture on application, ₹40 on allotment and balance on first and final call. All the debentures were duly taken up and the money was duly received by the company.
Pass the journal entries in the books of the company.

Problems on Issue of Debentures at a premium

5. Tunga Co. Ltd., issued 12,000 12% debentures of ₹100 each at a premium of ₹10 each payable:

₹20 on application.

₹50 on allotment including ₹10 premium.

₹40 on first and final call.

All the debentures were subscribed and the money duly received.

Pass the journal entries up to the stage of first and final call money due.

6. Ganesh Co. Ltd., issued 10,000 6% debentures of ₹100 each at a premium of 10% payable: ₹20 on application, ₹40 on allotment (including premium), ₹50 on first and final call. All the debentures were subscribed and the money duly received.

Pass the journal entries up to the stage of first and final call money due.

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

Pass the journal entries up to the stage of first and final call money due.

Problems on Issue of Debentures @ Discount

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

Pass the journal entries up to the stage of first and final call money due.

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

Pass the journal entries up to the stage of first and final call money due.

10. Prakash Co. Ltd., issued 10,000 9% debentures of ₹100 each at a discount of ₹10 per debenture payable as to: ₹10 on application, ₹50 on allotment and the balance on first and final call. All the debentures were subscribed and the money duly received.

Pass the journal entries up to the stage of first and final call money due.

Problems on issue of debentures for consideration other than cash

11. Vageesh Ltd. purchased a building worth ₹99,00,000 and issued debentures to the vendors as purchase consideration:

Pass the journal entries in the following cases:

(a) If 12% debentures of ₹100 each are issued to vendor at par.

(b) If 12% debentures of ₹100 each are issued to vendor at a premium of 10% and

(c) If 12% debentures of ₹100 each are issued to vendor at a discount of 10%.

Ans. Number of debentures to be issued 99,000, 90,000, 1,10,000

12. Yajna Ltd., purchased building worth ₹49,50,000 and issued debentures to the vendors as purchase consideration.

Pass the journal entries in the following cases:

(a) If 10% debentures of ₹100 are issued to vendor at par.

(b) If 10% debentures of ₹100 are issued to vendor at a premium of 10% and

(c) If 10% debentures of ₹100 are issued to vendor at a discount of 10%.

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

a) Debentures are issued at par.

b) Debentures are issued at 10% discount and

c) Debentures are issued at 10% premium.

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

a) Debentures are issued at par.

b) Debentures are issued at 10% discount and

c) Debentures are issued at 10% premium.

Section-D: 12 Marks Problems

Problems on Issue of Debentures:-

1. Give the journal entries for the following:

(a) Issue of ₹2,00,000, 10% debentures of ₹100 each at par and redeemable at a premium of 5%.

(b) Issue of ₹2,00,000, 10% debentures of ₹100 each at a discount of 5% but redeemable at a par.

(c) Issue of ₹2,00,000, 10% debentures of ₹100 each at a premium of 5% and redeemable at a par.

(d) Issue of ₹2,00,000, 10% debentures of ₹100 each at a premium of 5% and redeemable at a premium of 5%.

2. Pass the journal entries for the followings:

(a) Issue of ₹50,000, 8% debentures of ₹100 each at a discount of 10% and redeemable at a par.

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

(c) Issue of ₹50,000, 8% debentures of ₹100 each at a premium of 10% and redeemable at a premium of 10%.

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

3. Give the necessary journal entries for the following:
 - (a) Issue of ₹1,00,000, 10% debentures of ₹100 each at a discount of 10% and redeemable at par.
 - (b) Issue of ₹2,00,000, 10% debentures of ₹100 each at a premium of 10% and redeemable at a premium of 10%.
 - (c) Issue of ₹3,00,000, 10% debentures of ₹100 each at a premium of 10% but redeemable at par.
 - (d) Issue of ₹4,00,000, 10% debentures of ₹100 each at a par and redeemable at a premium of 10%.
4. Pass the necessary journal entries for the followings:
 - (a) Issue of 300, 8% debentures of ₹100 each at a premium of 10% and redeemable at a par.
 - (b) Issue of 300, 8% debentures of ₹100 each at a par but redeemable at a premium of 10%.
 - (c) Issue of 300, 8% debentures of ₹100 each at a discount of 10% and redeemable at a premium of 10%.
 - (d) Issue of 300, 8% debentures of ₹100 each at a premium of 5% and redeemable at a premium of 5%.
5. Give the journal entries for the followings:
 - (a) Issue of 1000, 12% debentures of ₹100 each at par but redeemable at a premium of 8%.
 - (b) Issue of 1000, 12% debentures of ₹100 each at par and redeemable at par.
 - (c) Issue of 1000, 12% debentures of ₹100 each at a discount of 10% but redeemable at par.
 - (d) Issue of 1000, 12% debentures of ₹100 each at a discount of 5% but redeemable at a premium of 5%.
6. You are required to pass the journal entries relating to the issue of debentures in the books of 'Y' Ltd.,
 - (a) 100, 8% debentures of ₹1,000 each are issued at par and repayable at par.
 - (b) 120, 10% debentures of ₹1,000 each issued at a premium of 5% and redeemable at par.
 - (c) 150, 9% debentures of ₹1,000 each are issued at 5% discount and repayable at a premium of 10%.
 - (d) Another 200, 8% debentures of ₹100 each are issued as collateral securities against a loan of ₹20,000.
 - (e) 200, 12% debentures of ₹1,000 each are issued at 10% premium.

Problems on Issue of Debentures and Debentures interest

7. Alpha Company Ltd issued 1,000, 10% debentures of ₹100 each on April 01, 2016 at a discount of 10% redeemable at a premium of 10%.
Pass journal entries relating to the issue of debentures and debentures interest

for the period ending March 31, 2017 assuming that interest was paid half yearly on September 30 and March 31 and tax deducted at source is 10%.

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

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

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

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

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

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

Problems on Redemption of Debentures

11. Pass necessary journal entries at the time of Redemption of Debentures in each of the following cases.

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

12. Give the necessary journal entries at the time of Redemption of Debentures for the following transactions.

- (a) P Company Ltd., issued 10% debentures of the total value of ₹2,00,000 at a premium of 5% to be redeemed at par at the end of four years.
- (b) Q Company Ltd., issued 15,000, 9% debentures of ₹100 each at par and redeemable at par at the end of five years.
- (c) R Company Ltd., issued 5,000, 12% debentures of ₹100 each at par. These debentures are redeemable at 10% premium at the end of four years.
- (d) S Company Ltd., issued 8% debentures of ₹4,00,000 at a premium of 10% to be redeemed at par at the end of four years.
- (e) T Company Ltd issued ₹2,00,000, 12% debentures at a discount of 5% but redeemable at a premium of 5% at the end of 5 years.

Problem on Issue and Redemption of Debentures

- 13.** Sunlux Company Ltd., issued 400,12% debentures of ₹100 each on April 01st, 2014 at a discount of 10%, redeemable at a premium of 5% out of profits.

Pass the journal entries at the time of issue and redemption of debentures, if debentures are to be redeemed in lump sum at the end of 4th year. The directors decided to transfer the minimum amount to Debenture Redemption Reserve on March 31st 2017 and also give a note to DRF and DRFI

Problems on Preparation of Debenture A/c, Discount on Issue Of Debentures A/c

- 14.** Prakash Company Ltd issued 6,000, 12% debentures of ₹100 each at a discount of 5% on 1st April 2012. Interest on the debenture payable annually on March 31st each year. The debenture are redeemable at par in three equal instalments at the end of third, fourth and fifth year.

Prepare 12% Debentures A/c and Discount on Issue of Debentures A/c in the books of the company.

Answer: Discount on issue of Debenture written-off at the end of fifth year(31/03/2017) ₹2,500(ratio-6:6:6:4:2)

Problem on Preparation of Debenture A/c & Debentures Interest A/c.

- 15.** Raj Company Ltd., issued 9,000, 10% debentures of ₹100 each at a discount of 5% on 1st April 2013. Interest on the debenture is payable annually on March 31st each year. The debentures are redeemable at par in three equal instalments at the end of third, fourth and fifth year.

Prepare 12% Debentures A/c and Discount on Issue of Debentures A/c in the books of the company

Answer: Discount on issue of Debenture written-off at the End of fifth year(31/03/2018) ₹30,000

Problems on preparation of Debentures A/c, DRF A/c, DRFI A/c

- 16.** The Balance Sheet of Reddy & Bros. Company Ltd disclosed the following information as on March 31st 2016

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

The contribution to Debenture Redemption Fund was ₹65,400 p.a. for the year 2016-17 and 2017-18. Debentures are due for payment on 31st March 2018.

Prepare the Debenture A/c, Debenture Redemption Fund A/c and Debenture Redemption Fund Investment A/c in the books of the company assuming that the securities were realised on 31st March 2018 for a sum of ₹6,76,000 and interest on securities on March 31st, was immediately invested.

Answer:

1) Loss transferred from DRFI A/c to DRF A/c ₹1,67,300

2) Balance transferred from DRF A/c to General Reserve A/c ₹6,74,018

17. The Balance Sheet of GP & PR. Company Ltd., disclosed the following information as on March 31st, 2016.

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

The contribution to Debenture Redemption Fund was ₹2,61,600 p.a. for the year 2016-17 and 2017-18. Debentures are due for payment on 31st March, 2018.

Prepare the Debenture A/c, Debenture Redemption Fund A/c and Debenture Redemption Fund Investment A/c in the books of the company assuming that securities were realised on 31st March 2018 for a sum of ₹27,25,000 and interest on securities on March 31st was immediately invested.

Answer:

1) Loss transferred from DRFI A/c to DRF A/c ₹96,500

2) Balance transferred from DRF A/c to General reserve A/c ₹32,38,750

Key Answers:

I. Fill in the Blanks:

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

II. Multiple Choice Questions:

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

III. True/ False:

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