



3.1 INTRODUCTION

In addition to the funds raised by issue of shares, companies have to borrow large amounts of money. It may not be possible for a few lenders to meet such loan requirements. Hence, a corporate loan may be divided into many units called “debentures”. The debentures can be issued to a large number of persons. A person who purchases a debenture is called a debentureholder. The company issues to each debentureholder a debenture certificate under its seal as an acknowledgement of loan.

3.2 ISSUE OF DEBENTURES

There are no legal restrictions on the terms of issue of debentures. Hence, debentures may be issued: (a) at par or (b) at a premium or (c) at a discount.

(a) At Par: If debentures are issued at an amount equal to their face value, they are said to be issued at par (e.g., debentures of the face value of ₹ 10 issued for ₹ 10 only)

(b) At Premium: If debentures are issued at an amount higher than their face value, they are said to be issued at a premium (e.g., debentures of the face value of ₹ 10 issued for ₹ 12, i.e., at a premium of ₹ 2). Such premium on issue of debentures is a capital profit (like share premium) and hence cannot be used for paying dividends. It can be used for writing off preliminary expenses, discount and commission on issue of shares and debentures, or providing for premium payable on redemption of debentures or redeemable preference shares. The balance of the premium is shown under “Reserves and Surplus” on the liabilities side of the balance sheet.

(c) At Discount: If debentures are issued at an amount lower than their face value, they are said to be issued at a discount (e.g., debentures of, the face value of ₹ 10 issued for ₹ 9, i.e., at a discount of ₹ 1). Such discount on issue of debentures is a capital loss (like discount on issue of shares) to be written off over the period of debentures. The balance is to be shown under “Miscellaneous Expenditure (to be written off)” on the assets side of the balance sheet.

3.3 ACCOUNTING ENTRIES ON ISSUE

The following accounting entries are passed in different cases:

1. Debentures Issued for Cash at Par:

Bank A/c	Dr.
To --% Debentures A/c	

2. Debentures Issued for Cash at Premium:

Bank A/c	Dr.
To --% Debentures A/c	
To Premium on Issue of Debentures A/c	

3. Debentures Issued for Cash at Discount:

Bank A/c	Dr.
Discount on Issue of Debentures A/c	Dr.
To --% Debentures A/c	

4. Issue of Debentures Repayable at Premium:

Bank A/c	Dr.
Loss on Issue of Debentures A/c	Dr.
To --% Debentures A/c	
To Premium Due on Redemption of Debentures A/c	

Notes:

- (a) In (4) above, the amount of premium is debited to the Loss on Issue of Debentures A/c, which is a capital loss. Since the premium is payable on redemption in future, it is credited to the Premium Due on Redemption of Debentures A/c, which is in the nature of a provision for a future liability.
- (b) In (4) above, the debentures are issued at par. However if the debentures are issued at premium, the amount of premium is credited to the Premium on Issue of Debentures A/c. If the debentures are issued at discount, the amount of discount will be debited to the Discount on Issue on Debentures A/c.

Illustration 1: What Journal entries would be made if a company issued 1,000 6% Debentures of ₹ 100 each: (a) at par, (b) at a premium of 10% and (c) at a discount of 10%?

Solution: **Journal of Limited**

No.	Particulars	Debit (₹)	Credit (₹)
(a)	Bank A/c To 6% Debentures A/c [Being issue of 1,000 6% Debentures of ₹ 100 each at Par]	Dr. 1,00,000	1,00,000
(b)	Bank A/c To 6% Debentures A/c To Premium on Issue of Debentures A/c [Being issue of 1,000 6% Debentures of ₹ 100 each at a premium of ₹ 10 per Debentures] Note: Premium on Issue of Debentures is capital profit to be shown under the heading Reserves & Surplus in the Balance Sheet.	Dr. 1,10,000	1,00,000 10,000
(c)	Bank A/c Discount on Issue of Debentures A/c To 6% Debentures A/c [Being issue of 1,000 6% Debentures of ₹ 100 each at a discount of ₹ 10 per Debenture] Note: Discount on Issue of Debentures is a capital loss, to be shown under the heading Miscellaneous Expenditure [Not Written om in the Balance Sheet]	Dr. Dr. 90,000 10,000	1,00,000

3.4 REDEMPTION

The redemption (repayment) of debentures depends upon the type of debenture (irredeemable or redeemable) and terms of redemption (at par/premium/discount).

Redeemable debentures are to be redeemed (repaid) at a specified future date. The date of redemption is mentioned on the debenture certificate. Irredeemable Debentures are not to be redeemed at all as long as the company exists. These are repaid only when the company is wound up or liquidated.

If debentures are to be redeemed at their face value, they are said to be redeemable at par.

If debentures are to be redeemed at an amount higher than their face value, they are said to be redeemable at a premium. Such premium payable on redemption is a capital loss for the company. Such premium though payable on redemption must be provided as a liability at the time of issue itself.

If debentures are to be redeemed at an amount lower than their face value, they are said to be redeemable at a discount. Such discount is a capital profit for the company. However, such debentures are rarely issued in practice.

3.5 REDEMPTION OUT OF CAPITAL

Debentures may be redeemed out of capital or out of profits. On redemption, the debentureholders are paid out of the cash or bank account. This reduces the working capital available with the company. If no amount is set aside out of profits for such redemption, such redemption is said to be out of the capital of the company. The entries are as follows:

1. Amount Payable on Redemption:

(i) Redemption at Par:

Debentures A/c	Dr.	Face value of debenture redeemed
To Debentureholders A/c		

(ii) Redemption at a premium:

Debentures A/c	Dr.	Face value of debenture redeemed
Premium on Redemption of Debentures A/c	Dr.	Amount of premium
To Debentureholders A/c		Total

(iii) Redemption at a discount:

Debentures A/c	Dr.	Face value of debenture redeemed
To Debentureholders A/c		
To Profit on Redemption of Debentures A/c		Amount of discount

2. Payment:

Debentureholders A/c	Dr.
To Bank A/c	

Illustration 2 (Redemption out of capital): On 1.1.2015, ABC Ltd. issued 400 8% Debentures of ₹ 1,000 each at a discount of 5%. These debentures were redeemed at a premium of 10% at the end of three years. Show the entries.

Solution:

Journal of ABC Limited

Date	Particulars	Debit (₹)	Credit (₹)
2015 Jan. 1	Bank A/c	Dr. 3,80,000	
	Loss on Issue of Debentures A/c	Dr. 60,000	
	To Debentures A/c		4,00,000
	To Premium on Redemption of Debentures A/c		40,000

	[Being 400 Debentures of ₹ 1,000 each issued at discount of 5% repayable at a premium of 10%]			
2015 Dec. 31	Profit and Loss A/c To Loss on Issue of Debentures A/c [Being 1/3rd loss on issue of debentures written off]	Dr.	20,000	20,000
2015 Dec. 31	Profit and Loss A/c To Loss on Issue of Debentures. A/c [Being 1/3rd loss on issue of debentures written off]	Dr.	20,000	20,000
2015 Dec. 31	Profit and Loss A/c To Loss on Issue of Debentures A/c [Being 1/3rd loss on issue of debentures written off]	Dr.	20,000	20,000
	Debentures A/c	Dr.	4,00,000	
	Premium on Redemption of Debentures To Debentureholders A/c [Being amount payable on redemption of debentures at premium of 10%]	Dr.	40,000	4,40,000
	Debentureholders A/c To Bank A/c [Being amount paid on redemption]	Dr.	4,40,000	4,40,000

Note: Loss on issue of debentures is equal to Discount on issue (10% of ₹ 4,00,000, ₹ 40,000 + Premium payable on redemption (5% of ₹ 4,00,000) ₹ 20,000 = Total loss of ₹ 60,000. This is written off equally (1/3) during the period of debentures, i.e., 3 years.

3.6 REDEMPTION OUT OF PROFITS

In this case, the debentureholders are paid out of the profits of the company. This may be done in following different ways: (a) create reserve out of the profits in the year of redemption. (b) create debenture redemption reserve out of profits of every year. (c) create sinking fund out of profits of every year.

3.7 RESERVE CREATED IN YEAR OF REDEMPTION

In this case, the redemption is made out of the profits earned during the year in which the debentures are redeemed. An amount equal to the face value of debentures redeemed is transferred from the profits to the General Reserve in the year of redemption. This ensures that such profits remain in the business and are not used for paying dividends. On the date of redemption of debentures, an amount equal to the face value of debentures redeemed is transferred from the profit and loss appropriation account to general reserve, by passing the following entry:

Profit and Loss (Appropriation) A/c Dr. Face value of debentures redeemed
 To General Reserve A/c

Note: If the debentures are to be redeemed in yearly lots, this entry is passed every year for an amount equal to the face value of debentures redeemed in that year.

Illustration 3 (Redemption out of profit): On 31.12.2014, A Ltd. redeemed debentures of ₹ 1,00,000 issued on 1.1.2015 at a premium of 10% but of profits. Show the entries.

Solution: **Journal of A Ltd.**

Date	Particulars		Debit (₹)	Credit (₹)
2015 Dec. 31	Debentures A/c	Dr.	1,00,000	
	Premium on Redemption of Debentures To Debentureholders A/c	Dr.	10,000	1,10,000

	[Being amount payable on redemption of debentures at premium of 10%]		
	Profit and Loss (Appropriation) A/c To Premium on Redemption of Debentures A/c [Being premium on redemption of debentures written off]	Dr.	10,000 10,000
	Debentureholders A/c To Bank A/c [Being amount paid on redemption]	Dr.	1,10,000 1,10,000
	Profit and Loss (Appropriation) A/c To General Reserve A/c [Being transfer of an amount equal to face value of debentures redeemed]	Dr.	1,00,000 1,00,000

Note: The premium on redemption of debentures is adjusted against the P & L (Appropriation) A/c now, on the presumption that it was not written off in the earlier years.

Illustration 4 (Redemption in annual instalments/lots/drawings): On 1.1.2014, P Ltd. issued 4,000, 6% Debentures of ₹ 100 each at a discount of 10% repayable in 4 years by annual equal instalments. Show the journal entries and ledger accounts. **(CA Modified)**

Solution: **Journal of P Ltd.**

Date	Particulars		Debit (₹)	Credit (₹)
2014 Jan. 1	Bank A/c Discount on Issue of Debentures To 6% Debentures A/c [Being debentures issued]	Dr. Dr.	3,60,000 40,000	4,00,000
Dec. 31	Debenture Interest A/c To Bank A/c [Being interest paid on debentures: ₹ 40000 × 6%]	Dr.	24,000	24,000
	Debenture A/c To Debentureholders A/c [Being amount payable on redemption of 1/4th Debentures at par]	Dr.	1,00,000	1,00,000
	Debentureholders A/c To Bank A/c [Being amount paid on redemption]	Dr.	1,00,000	1,00,000
	Profit and Loss A/c To Debenture Interest A/c To Discount on Issue of Debentures (See Note) [Being annual interest and proportionate discount on debentures adjusted]	Dr.	40,000	24,000 16,000
	Profit and Loss (Appropriation) A/c To General Reserve A/c [Being transfer of an amount equal to face value of debentures redeemed]	Dr.	1,00,000	1,00,000
2015 Dec. 31	Debenture Interest A/c To Bank A/c [Being interest paid on debentures: ₹ 300,000 × 6%]	Dr.	18,000	18,000
	Debentures A/c To Debentureholders A/c [Being amount payable on redemption of 1/4th Debentures at par]	Dr.	1,00,000	1,00,000

2016 Dec. 31	Debentureholders A/c To Bank A/c [Being amount paid on redemption]	Dr.	1,00,000	1,00,000	
	Profit and Loss A/c To Debenture Interest A/c To Discount on Issue of Debentures [Being annual interest and proportionate discount on debentures adjusted]	Dr.	30,000	18,000 12,000	
	Profit and Loss (Appropriation) A/c To General Reserve A/c [Being transfer of an amount equal to face value of debentures redeemed]	Dr.	1,00,000	1,00,000	
	Debenture Interest A/c To Bank A/c [Being interest paid on debentures: ₹ 2,00,000 × 6%]	Dr.	12,000	12,000	
	Debenture A/c To Debentureholders A/c [Being amount payable on redemption 1/4th Debentures at par]	Dr.	1,00,000	1,00,000	
	Debentureholders A/c To Bank A/c [Being amount paid on redemption]	Dr.	1,00,000	1,00,000	
	Profit and Loss (Appropriation) A/c To Debenture Interest A/c To Discount on Issue of Debentures [Being annual interest and proportionate discount on debentures adjusted]	Dr.	20,000	12,000 8,000	
	Profit and Loss (Appropriation) A/c To General Reserve A/c [Being transfer of an amount equal to face value of debentures redeemed]	Dr.	1,00,000	1,00,000	
	2017 Dec. 31	Debenture Interest A/c To Bank A/c [Being interest paid on debentures: ₹ 1,00,000 × 6%]	Dr.	6,000	6,000
		Debenture A/c To Debentures A/c [Being amount payable on redemption of 1/4th Debentures at par]	Dr.	1,00,000	1,00,000
Debentureholder A/c To Bank A/c [Being amount paid on redemption]		Dr.	1,00,000	1,00,000	
Profit and Loss A/c To Debenture Interest A/c To Discount on Issue of Debentures [Being annual interest and proportionate discount on debentures adjusted]		Dr.	10,000	6,000 4,000	
Profit and Loss (Appropriation) A/c To General Reserve A/c [Being transfer of an amount equal to face value of debentures redeemed]		Dr.	1,00,000	1,00,000	

Dr.			6% Debentures A/c		Cr.
Date	Particulars	₹	Date	Particulars	₹
2014 Dec. 31	To Bank To Balance c/d	1,00,000 3,00,000	2014 Dec. 31 Jan. 1	By Bank By Discount on Issue of Debentures	3,60,000 40,000
		4,00,000			4,00,000
2015 Dec. 31	To Bank To Balance c/d	1,00,000 2,00,000	2015 Jan. 1	By Balance b/d	3,00,000
		3,00,000			3,00,000
2016 Dec. 31	To Bank To Balance c/d	1,00,000 1,00,000	2016 Jan. 1	By Balance b/d	2,00,000
		2,00,000			2,00,000
2017 Dec. 31	To Bank	1,00,000	2017 Jan. 1	By Balance b/d	1,00,000
		1,00,000			1,00,000

Dr.			Discount on Debentures A/c		Cr.
Date	Particulars	₹	Date	Particulars	₹
2014 Jan. 1	To 6% Debentures	40,000	2014 Dec. 31	By P & L A/c By Balance c/d	16,000 24,000
		40,000			40,000
2015 Jan. 1	To Balance b/d	24,000	2015 Dec. 31	By P & L A/c By Balance c/d	12,000 12,000
		24,000			24,000
2016 Jan. 1	To Balance b/d	12,000	2016 Dec. 31	By P & L A/c By Balance c/d	8,000 4,000
		12,000			12,000
2017 Jan. 1	To Balance b/d	4,000	2017 Dec. 31	By P & L A/c	4,000
		4,000			4,000

Dr.			Debenture Interest A/c		Cr.
Date	Particulars	₹	Date	Particulars	₹
2014 Dec. 31	To Bank	24,000	2014 Dec. 31	By & L A/c	24,000
		24,000			24,000
2015 Dec. 31	To Bank	18,000	2015 Dec. 31	By P & L A/c	18,000
		18,000			18,000
2016 Dec. 31	To Bank	12,000	2016 Dec. 31	By P & L A/c	12,000
		12,000			12,000

3. Investments Made:

Sinking Fund Investments A/c	Dr.	Annual instalment + Interest
To Bank A/c		

Year of Redemption**1. Interest Received on Investments:**

Bank A/c	Dr.	Amount of interest
To Sinking Fund A/c		

2. Annual Instalment:

Profit and Loss Appropriation A/c	Dr.	Annual instalment
To Sinking Fund A/c		

3. Investment Sold:

Bank A/c	Dr.	Sale Price Received
To Sinking Fund Investments A/c		Cost
To Sinking Fund A/c		Profit

Note: In case of loss, the loss is debited to the Sinking Fund A/c.

4. Sinking Fund transferred to General Reserve:

Sinking Fund A/c	Dr.	Balance
To General Reserve A/c		Profit

Notes:

- In case an insurance policy is purchased, a Sinking Fund Insurance Policy A/c is opened instead of Sinking Fund Investment A/c.
- The Annual Instalment can be determined with reference to the factor in Sinking Fund Tables, by the formula:

$$\text{Annual Instalment} = \text{Amount of Redemption} \times \text{Factor in S.F. Table}$$

For example, the S.F. Table shows that 0.31720856 at 5% compound interest in 3 years will become ₹ 1. If amount of redemption is ₹ 6,60,000, annual instalment to be made towards sinking fund is $6,60,000 \times 0.31720856 = ₹ 2,09,357.65$.

Illustration 5 (Sinking Fund): ITC Ltd. issued 1,100 5% debentures of ₹ 100 each on 1st January, 2012 redeemable at par. The company decided to set aside every year a sum of ₹ 34,893 to be invested @ 5% outside the business. The investments were sold at ₹ 71,580 at the end of the third year and the debentures were redeemed. Give journal entries. Also prepare Sinking Fund Account and Sinking Fund Investments Account. **(CMA Modified)**

Solution: Journal of ITC Ltd.

Date	Particulars	Debit (₹)	Credit (₹)
2012 Jan. 1	Bank A/c To 5% Debentures A/c [Being 1,100 debentures of ₹ 100 each issued at par repayable at par]	Dr. 1,10,000	1,10,000
Dec. 31	Profit and Loss Appropriation A/c To Sinking Fund A/c [Being amount set aside from profits for redemption of debentures]	Dr. 34,893	34,893
	Sinking Fund Investments A/c To Bank A/c [Being amount invested out of sinking fund]	Dr. 34,893	34,893
2013 Dec. 31	Bank A/c To Sinking Fund A/c [Being interest received on Sinking Fund Investments: $5\% \times 34,893$]	Dr. 1,745	1,745

2014 Dec. 31	Profit and Loss Appropriation A/c To Sinking Fund A/c [Being amount set aside from profits for redemption of debentures]	Dr.	34,893	34,893
	Sinking Fund Investments A/c To Bank A/c [Being amount invested out of sinking fund: 34,893 + 1,745]	Dr.	36,638	36,638
	Bank A/c To Sinking Fund A/c [Being interest received on Sinking Fund Investments: 5% × 71,531]	Dr.	3,577	3,577
	Profit and Loss A/c To Sinking Fund A/c [Being amount set aside from profits for redemption of debentures]	Dr.	34,893	34,893
	Bank A/c (sale price) To Sinking Fund Investments A/c (cost) To Sinking Fund A/c (profit) [Being amount received on sale of sinking fund investments]	Dr.	71,58	71,531 49
	5% Debentures A/c To Debentureholders A/c [Being amount payable on redemption of debentures]	Dr.	1,10,000	1,10,000
	Debentureholders A/c To Bank A/c [Being amount paid on redemption of Sinking Fund A/c on redemption of debentures]	Dr.	1,10,000	1,10,000
	Sinking Fund A/c To General Reserve A/c [Being transfer of Sinking Fund A/c on redemption of debentures]	Dr.	1,10,050	1,10,050

Dr. Sinking Fund Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2012 Dec. 31	To Balance c/d	34,893	2012 Dec. 31	By P & L Appropriation A/c	34,893
		34,893			34,893
2013 Dec. 31	To Balance c/d	71,531	2013 Jan. 1	By Balance b/d	34,893
			Dec. 31	By Bank (interest)	1,745
				By P & L Appropriation A/c	34,893
		71,531			71,531
2014 Dec. 31	To General Reserve	1,10,050	2014 Jan. 1	By Balance b/d	71,531
			Dec. 31	By Bank (interest)	3,531
				By P & L Appropriation A/c	34,893
				By SF Investment (profit)	49
		1,10,050			1,10,050

Dr. Sinking Fund Investment Account Cr.

Date	Particulars	₹	Date	Particulars	₹
2012 Dec. 31	To Bank A/c	34,893	2012 Dec. 31	By Balance c/d	34,893
		34,893			34,893

2013			2013		
Jan. 1	To Balance b/d	34,893	Dec. 31	By Balance c/d	71,531
Dec. 31	To Bank A/c	36,638			
		71,531			71,531
2014			2014		
Jan. 1	To Balance b/d	71,531	Dec. 31	By Bank A/c (sale)	71,580
Dec. 31	To Sinking Fund (profit on sale)	49			
		71,580			71,580

Notes:

- Interest on Sinking Fund Investments is credited to Sinking Fund A/c, and not to Interest Received A/c or Profit and Loss A/c.
- Profit on sale of Sinking Fund Investment is credited to Sinking Fund A/c and not to Profit and Loss A/c.
- In the second year, Investment is equal to yearly instalment (₹ 34,893) plus interest (₹ 1,745).
- In the year of redemption, no investments are made.

Illustration 6: On 30th September, 2013, the following balance stood in the books of S.P. Ltd.

Particulars	₹	Particulars	₹
7% Second Mortgage Debenture Stock	4,00,000	Sinking Fund Investments:	
Income Received on Sinking Fund Investments	14,500	(a) ₹ 80,000, 5% State Development Loans	76,000
Discount of Issue of Debentures	25,000	(b) ₹ 90,000, 6% National Defence Bonds	1,00,000
Sinking Fund	3,65,500	(c) ₹ 70,000, 7% Plan Progress Loans	70,000
		(d) ₹ 1,80,000, 7½% Central Securities	1,85,000

On the same day, the investments were sold: the 5% State Development loans at 90, the 6% National Defence Bonds at par, the 7% Plan Progress Loans at 115 and the 7½% Central Securities at 120. On 1st Oct., 2013, the debentures of ₹ 3,00,000 were redeemed at a premium of 2½%. On the very same day, 8% Moon Landing Investments of ₹ 1,00,000 were purchased at a premium of 3%.

Annual contribution for redemption was ₹ 50,000. Ignore interest.

Prepare the following accounts: (i) Debenture stock; (ii) Sinking Fund; (iii) Sinking Fund Investment and (iv) General Reserve. **(CA Modified)**

Solution:

Dr. **7% Debentures Stock Account** **Cr.**

Particulars	₹	Particulars	₹
To Bank A/c	3,00,000	By Balance b/d	4,00,000
To Balance c/d	1,00,000		
	4,00,000		4,00,000

Dr. **Sinking Fund Account** **Cr.**

Particulars	₹	Particulars	₹
To General Reserve (on debenture redemption)	3,00,000	By Balance b/d	3,65,500
To Premium on redemption of debentures	7,500	By SF Investment (profit on sale)	27,500
To Discount on issue of debentures	18,750	By Interest of SF Investments	14,500
To Balance c/d	1,31,250	By P & L Appropriation A/c (yearly instalment)	50,000
	4,57,500		4,57,500

Dr. Sinking Fund Investment Account Cr.

Particulars	₹	Particulars	₹
To Balance b/d	4,31,000	By Bank A/c (investments sold)	4,58,500
To Sinking Fund (profit on sale)	27,500	By Balance c/d	1,03,000
To Bank A/c (purchase)	1,03,000		
	5,61,500		5,61,500

Notes:

1. Investments Sold:

5% State Development Loans:	₹ 80,000 × 90/100	=	72,000
6% National Defence Bonds:	₹ 90,000 at par	=	90,000
7% Plan Progress Loans:	₹ 70,000 × 115/100	=	80,500
7.5% Central Securities:	₹ 1,80,000 × 120/100	=	2,16,000
			<u>4,58,500</u>

Profit = ₹ 4,58,500 – ₹ 4,31,000 (Cost) = ₹ 27,500

- Premium on redemption of 3,000 debentures (₹ 7,500) and proportionate discount on issue of these 3,000 debentures ($25,000 \times 3/4 = ₹ 18,750$) are adjusted against the Sinking Fund.
- Amount equal to face value of debentures redeemed (₹ 3,00,000) is transferred from the Sinking Fund to the General Reserve on redemption.

Illustration 7 (Reserve Fund): The summarised Balance Sheet of Successful Ltd. on 31st December, 2014 was:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets	2,10,000
Ordinary Shares of ₹ 1 each fully paid	2,00,000	Debentures Redemption	
General Reserve	80,000	Reserve Fund Investments	50,000
Debenture Redemption Reserve Fund	50,000	Current Assets Including Balance at Bank	2,40,000
Premium on Redemption of Debentures A/c	1,000		
5% Debentures	50,000		
Current Liabilities	1,19,000		
	5,00,000		5,00,000

The directors decided to – (a) repay the debentures including premium of 2 per cent. (b) Make a bonus issue to the ordinary shareholders of one share for every two shares held in order to capitalise part of the undistributed profits. The appropriate resolution were passed, the above transactions were duly completed. Deb. Redemption Reserve Fund Investments were sold for ₹ 50,000.

You are required to show: (a) The appropriate journal entries to record the transactions in the books of the company and (b) The Balance Sheet as it would appear after the completion of the transactions.

(T.Y.B.Com./BAF, Modified, M.U.)

Solution:**Journal of Successful Ltd.**

Date	Particulars	Debits (₹)	Credit (₹)
2014			
Dec. 31	Bank A/c Dr. To Debenture Redemption Reserve Fund Investments A/c [Being sale of Debenture Redemption Reserve Fund Investments for redemption of debentures]	50,000	50,000

Debtentures A/c	Dr.	50,000	
Premium on Redemption of Debentures To Debentureholders A/c [Being amount payable on redemption of debentures at a premium of 2%]	Dr.	1,000	51,000
Debtentureholders A/c To Bank A/c [Being amount paid on redemption]	Dr.	51,000	51,000
Debtenture Redemption Reserve Fund A/c To General Reserve A/c [Being transfer of Debtenture Redemption Reserve Fund A/c on redemption of debentures]	Dr.	50,000	50,000
General Reserve A/c To Bonus to Shareholders A/c [Being capitalisation of reserves for issue of bonus shares]	Dr.	1,00,000	1,00,000
Bonus to Shareholders A/c To Equity Share Capital A/c [Being issue of 1,00,000 fully paid shares as bonus shares]	Dr.	1,00,000	1,00,000

Balance Sheet as on 31st March, 2014

Liabilities	₹	₹	Assets	₹	₹
Share Capital		-----?	Fixed Assets		2,10,000
Authorised:			(Sundry)		Nil
Issue, Subscribed and Paid up:		3,00,000	Investments		Nil
3,00,000 Equity Shares of ₹ 1 each (Out of the above, 1,00,000 shares are allotted as Bonus Shares)			Current Assets		2,39,000
Reserves and Surplus:			Cash and Bank (see note)		
General Reserve: b/d	80,000		Loans and Advances		Nil
<i>Add:</i> Tfd. from Debtenture Redemption Reserve Fund	50,000		Misc. Expenditure (not w/o)		Nil
	1,30,000				
<i>Less:</i> Utilised for issue of Bonus Shares	1,00,000	30,000			
Secured Loan		Nil			
Unsecured Loans		Nil			
Current Liabilities and Provisions:					
A. Current Liabilities		1,19,000			
B. Provisions		Nil			
		4,49,000			4,49,000

Notes:**1. Cash Balance:**

Cash and Bank b/d	2,40,000
<i>Add:</i> Sale of Investments	50,000
	<u>2,90,000</u>

Less: Debentures redeemed	51,000
	<u>2,39,000</u>

2. Premium on redemption of debentures:

Opening balance b/d	1,000
Less: Adjusted during year	<u>1,000</u>
	<u>Nil</u>

Illustration 8 (Sinking Fund Insurance Policy): ABC Ltd. issued 9% debentures of ₹ 2,00,000 on 1st January, 2012 redeemable at par. The company decided to take a 5 years Sinking Fund Insurance Policy for providing for redemption. The annual premium payable of 1st January every year is ₹ 37,000. The value of the policy increases every year by 4%. Prepare the Sinking Fund A/c and Sinking Fund Insurance Policy A/c for 5 years. **(T.Y.B.Com., M.U.)**

Solution:

Dr.			Sinking Fund Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
2012 Dec. 31	To Balance c/d	38,480	2012 Dec. 31	By P & L Appropriation A/c By SF Ins. Policy A/c (see note)	37,000 1,480			
		<u>38,480</u>			<u>38,480</u>			
2013 Dec. 31	To Balance c/d	78,499	2013 Jan. 1	By Balance b/d	38,480			
		<u>78,499</u>	2013 Dec. 31	By P & L Appropriation A/c By SF Ins. Policy A/c	37,000 3,019			
					<u>78,499</u>			
2014 Dec. 31	To Balance c/d	1,20,119	2014 Jan. 1	By Balance b/d	78,499			
		<u>1,20,119</u>	2014 Dec. 31	By P & L Appropriation A/c By SF Ins. Policy A/c	37,000 4,620			
					<u>1,20,119</u>			
2015 Dec. 31	To Balance c/d	1,63,404	2015 Jan. 1	By Balance b/d	1,20,119			
		<u>1,63,404</u>	2015 Dec. 31	By P & L Appropriation A/c By SF Ins. Policy A/c	37,000 6,285			
					<u>1,63,404</u>			
2016 Dec. 31	To General Reserve	2,08,420	2016 Jan. 1	By Balance b/d	1,63,404			
		<u>2,08,420</u>	2016 Dec. 31	By P & L Appropriation A/c By SF Insurance Policy A/c	37,000 8,016			
					<u>2,08,420</u>			

Dr.			Sinking Fund Insurance Policy Account			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
2012 Jan. 1	To Bank A/c	37,000	2012 Dec. 31	By Balance c/d	38,480			
2012 Dec. 31	To Sinking Fund A/c (4% × 37,000)	1,480						
		<u>38,480</u>			<u>38,480</u>			

2013			2013		
Jan. 1	To Balance b/d	38,480	Dec. 31	By Balance c/d	78,499
Dec. 31	To Bank A/c	37,000			
	To Sinking Fund A/c (4% × 75,480)	3,019			
		78,499			78,499
2014			2014		
Jan. 1	To Balance b/d	78,499	Dec. 31	By Balance c/d	1,20,119
Dec. 31	To Bank A/c	37,000		(policy matured)	1,63,404
	To Sinking Fund A/c (4% × 1,15,499)	4,620			
		1,20,119			1,20,119
2015			2015		
Jan. 1	To Balance b/d	1,20,119	Dec. 31	By Bank A/c	1,63,404
Dec. 31	To Bank A/c	37,000			
	To Sinking Fund A/c (4% × 1,57,119)	6,285			
		1,63,404			1,63,404
2016			2016		
Jan. 1	To Balance b/d	1,63,404	Dec. 31	By Bank A/c (policy matured)	2,08,420
Dec. 31	To Bank A/c	37,000			
	To Sinking Fund A/c (4% × 200,404)	8,016			
		2,08,420			2,08,420

Note: The policy is taken out on 1st January, 2012. The increase in first year (4% × 37,000 = 1,480) is credited to the Sinking Fund A/c on 31.12.12. Similarly, the 4% increase in 1991 is of ₹ 75,480 (38,480 + 37,000); in 1992 is on ₹ 1,15,499 (73,499 + 37,000); in 1993 on ₹ 1,57,119 (1,20,119 + 37,000) and in 1994 on ₹ 2,00,404 (1,63,404 + 37,000).

Illustration 9 (Conversion): On 10th January, 2010, X Ltd. issued 10,000 6% Debentures of ₹ 100 each redeemable at par after 15 years. The term of issue, however, provided that the debentures could be redeemed by giving 6 months notice at any time after 5 years at a premium of 4% either by payment in cash or by allotment of Preference Shares and/or other debentures according to the option of the debentureholders.

On 10th April, 2014, the company informed the debentures holders to redeem the debentures on 1st October, 2014 either by payment in cash or by allotment of 8% Preference Shares of ₹ 100 each at ₹130 per share or 7% 2nd debenture of ₹ 100 each at ₹ 96 per debentures.

Holders of 4,000 debentures accepted the offer of the Preference Shares, holders of 4,800 debentures accepted the offer of 7% 2nd debentures and the rest demanded cash.

Give journal entries recording the above redemption.

(CA Modified)

Solution:

Journal of X Ltd.

Date	Particulars		Debit ₹	Credit ₹
1	6% Debentures A/c	Dr.	10,00,000	
	Premium on Redemption of Debentures A/c	Dr.	40,000	
	To Debentureholders A/c			10,40,000
	[Being amount payable on redemption of 10,000 debentures at premium of 4%]			

2	Debentureholders A/c To 8% Preference Share Capital A/c To Share Premium A/c [Being preference shares of ₹ 100 each at a premium of ₹ 30 each allotted to 4,000 debentureholders]	Dr.	4,16,000	3,20,000 96,000
3	Debentureholders A/c Discount on Issue of Debentures A/c To 7% Debentures of ₹ 100 [Being 7% debentures of ₹ 100 each at a discount of 4% allotted to 4,800 debentureholders]	Dr. Dr.	4,99,200 20,800	5,20,000
4	Debentureholders A/c To Bank A/c [Being amount paid to 1,200 debentureholders on redemption]	Dr.	1,24,800	1,24,800
5	Share Premium A/c To Premium on Redemption of Debentures A/c To Discount of Issue of Debentures A/c [Being premium on redemption of debentures and discount on issue of debentures written off]	Dr.	60,800	40,000 20,800
6	Profit and Loss (Appropriation) A/c To General Reserve A/c [Being transfer of an amount equal to face value of debentures redeemed in cash]	Dr.	1,20,000	1,20,000

Notes:

- Conversion into Preference Shares: ₹
Total Amount Due: Holders of 4,000 debentures × ₹ 104 4,16,000
Preference Share Capital: 4,16,000 × 100/130 3,20,000
Premium on issue of Preference Shares: Balance 96,000
- Conversion into New Debentures: ₹
Total Amount Due: Holders of 4,800 Debentures × ₹ 104 4,99,200
New Debentures: 4,99,200 × 100/96 5,20,000
Discount on Issue of New Debentures: Balance 20,800
- Cash Paid: Holders of 1,200 Debentures × ₹ 104 1,24,800

Illustration 10: Hindustan Manufacturing Limited gave notice of its intention to redeem its 6% Debentures, amounting to ₹ 4,00,000 of ₹ 100 each at ₹ 102 and offered the debentureholders the following three options, to apply the redemption money to subscribe for:

- 5% cumulative preference shares of ₹ 20 each at ₹ 22.50 per share
- 6% debentures at ₹ 96 and
- to have their holdings redeemed for cash.

Debentureholders for ₹ 1,71,000 accepted the proposal (a)

Debentureholders for ₹ 1,44,000 accepted the proposal (b)

Remaining debentureholders accepted the proposal (c)

Pass the necessary journal entries to record the above transactions in the books of the company.

(T.Y.B.Com., Modified, M.U., April 96)

Solution: Journal of Hindustan MFG. Co. Ltd.

Date	Particulars	Debit ₹	Credit ₹
1	6% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders A/c [Being amount payable on redemption of debentures at premium of 2%]	4,00,000 8,000	4,08,000
2	Debentureholders A/c Dr. To 5% Cumulative Preference Share Capital A/c To Share Premium A/c [Being 7,752 shares of ₹ 20 issued at premium of ₹ 2.50 against redemption of debentures worth ₹ 1,71,000]	1,74,420	1,55,040 19,380
3	Debentureholders A/c Dr. Discount on Issue of 6% Debentures A/c Dr. To 6% Debentures (New) A/c [Being new debentures of ₹ 100 issued @ ₹ 96 each against redemption of debentures worth ₹ 1,44,000]	1,46,880 6,120	1,53,000
4	Debentureholders A/c Dr. To Bank A/c [Being amount paid on redemption of part debentures in cash]	86,700	86,700
5	Profit and Loss Appropriation A/c Dr. To General Reserve A/c [Being transfer of amount equal to face value of debentures redeemed in cash]	85,000	85,000

Notes:**1. Options for Redemption:**

₹

(a) Preference Shares of ₹ 20 @ ₹ 22.50:

Face value of Debentures redeemed against Preference Shares	1,71,000
Add: 2% Premium	3,420
Total Amount Due	<u>1,74,420</u>
No. of Preference Shares Issued (1,74,420/22.50) = 7,752	1,55,040
Face value of Preference Shares (7,752 × ₹ 20)	19,380
Premium on issue of Preference Shares (7,752 × ₹ 2.50)	<u>1,74,420</u>

(b) 6% Debentures of ₹ 100 @ ₹ 96:

Face value of Debentures redeemed against New Debentures	1,44,000
Add: 2% Premium	2,880
Total Amount Due	<u>1,46,880</u>
No. of Debentures Issued (1,46,880/96) = 1,530	1,53,000
Face value of Debentures (1,530 × 100)	6,120
Less: Discount on Issue of Debentures (1,530 × ₹ 4)	<u>1,46,880</u>

(c) Cash:

Face value of Debentures redeemed against Cash (balance) (4,00,000 – 1,71,000 – 1,44,000)	85,000
Add: 2% Premium	1,700
Total Amount Due and Paid in Cash	<u>86,700</u>

2. Entry (5) is passed to transfer the amount equal to face value of debentures redemption in cash to general reserves assuming redemption out of profits; if redemption is assumed to be out of capital, it will not be passed.

Illustration 11: Beeta Limited had issued 5,000 12% Debentures of ₹ 100/- each redeemable on 31st December, 1995 at a premium of 5%. The company offered three options to Debentureholders as follows: (i) 14% Preference Shares of ₹ 10 at ₹ 12; (ii) 15% Debentures of ₹ 1,500 debentures; (iii) Redemption in cash.

The option were accepted as under: (i) option by holders of 1,500 debentures; (ii) option by holders of 1,500 debentures; (iii) option by holders of 2,000 debentures. The redemption was carried out by the company. Show journal entries. (T.Y.B.Com./BAF, Modified, M.U., Oct. 2006)

Solution: **Journal of Beeta Ltd.**

1995 Dec. 31	Particulars		Debit ₹	Credit ₹
1	12% Debentures A/c	Dr.	5,00,000	
	Premium on Redemption of Debentures A/c	Dr.	25,000	
	To Debentureholders A/c			5,25,000
	[Being amount payable on redemption of 5,000 debentures at premium of 5%]			
2	Debentureholders A/c	Dr.	1,57,500	
	To 14% Preference Share Capital A/c			1,31,250
	To Share Premium A/c			26,250
	[Being shares issued at premium against redemption of 1,500 debentures]			
3	Debentureholders A/c	Dr.	1,57,500	
	To 15% Debentures A/c			1,57,500
	[Being new debentures issued against redemption of existing 1,500 debentures]			
4	Debentures A/c	Dr.	2,10,000	
	To Bank A/c			2,10,000
	[Being amount paid on redemption of 2,000 debentures in cash]			
5	Share Premium A/c	Dr.	25,000	
	To Premium on Redemption of Debentures			25,000
	[Being premium on redemption of debentures adjusted]			

Notes:

1. Options for Redemption:

(a) Preference Shares of ₹ 10 @ ₹ 12:

Face value of Debentures redeemed against Preference Shares (1,500 × 100)	1,50,000
Add: 5% Premium	7,500
Total Amount Due	<u>1,57,500</u>
No. of Preference Shares Issued (1,57,500/12) = 13,125	
Face value of Preference Shares (13,125 × ₹ 10)	1,31,250
Premium on issue of Preference Shares (13,125 × ₹ 2)	26,250
	<u>1,57,500</u>

(b) 15% Debentures of ₹ 100 at par:

Face value of Debentures redeemed against New Debentures (1,500 × 100)	1,50,000
Add: 5% Premium	7,500
Total Amount Due	<u>1,57,500</u>
No. of Debentures Issued (1,57,500/100) = 1,575	
Face value of Debentures 1,575 × 100	<u>1,57,500</u>

(c) Cash:

Face value of Debentures redeemed against Cash (balance)	2,00,000
(5,00,00 – 1,50,000 × 1,50,000)	
Add: 5% Premium	10,000
Total Amount Due and Paid in Cash	<u>2,10,000</u>

Illustration 12: M/s Solvent Ltd. intends to redeem its Secured Debts on 1st April, 2014 when its financial position indicated:

Particulars	₹ in lakhs		
SOURCES			
I. Own Fund:			
1. Equity Share Capital	7.00		
2. Preference Share Capital	1.00	8.00	
3. Reserves and Surplus:			
Sinking Fund	3.85		
Profit and Loss Account	0.90	4.75	12.75
II. Owed Fund:			
1. 10% Debentures Stock Redeemable @ Premium of 10% (Secured against Fixed Assets)		4.00	
2. Public Deposits		0.25	4.25
Total Fund			17.00
APPLICATIONS			
I. Fixed Assets:			10.00
II. Sinking Fund Investments:			
₹ 80,000, 5% Infrastructure Bonds		0.76	
₹ 90,000, 6% National Defence Bonds		1.00	
₹ 70,000, 7½% State Finance Corporation Bonds		0.70	
₹ 1,90,000, 7% IDBI Securities		1.85	4.31
Working Capital			2.69
Total Assets			17.00

The Debentureholders were given option to get:

1. Cash on Redemption OR
2. Equity Shares of ₹ 10/- each @ premium of ₹ 5/- per share OR
3. 15% Debentures of ₹ 100/- each @ premium of ₹ 10 per debenture.

Accordingly:

- (a) 50% Debentureholders opted for 1st option.
- (b) 30% Debentureholders opted for 2nd option.
- (c) 20% Debentureholders opted for 3rd option.
- (d) All investments were sold @ 15% below cost.

Pass necessary journal entries and prepare revised Balance Sheet after redemption.

(T.Y.B.Com., Modified, M.U.)

Solution:**Journal of Solvent Limited**

No.	Particulars		Debit ₹	Credit ₹
1	10% Debentures Stock A/c	Dr.	4,00,000	
	Premium on Redemption of Debentures A/c	Dr.	40,000	
	To Debentureholders A/c			4,40,000
	[Being amount due on redemption]			

2	Cash/Bank A/c Sinking Fund A/c (loss) To Sinking Fund Investments A/c [Being amount received on sale of sinking fund investments]	Dr. Dr.	3,66,350 64,650	4,31,000
3	Debentureholders A/c To Cash/Bank A/c [Being amount paid on redemption to 50% of debentureholders]	Dr.	2,20,000	2,20,000
4	Debentureholders A/c To Equity Share Capital A/c To Share Premium A/c [Being shares issued at premium against redemption to 30% of debentureholders]	Dr.	1,32,000	88,000 44,000
5	Debentureholders A/c To 15% Debentures A/c To Debenture Premium A/c [Being debentures issued at premium against redemption to 20% of debentureholders]	Dr	88,000	80,000 8,000
6	Sinking Fund A/c To Profit and Loss A/c [Being transfer on redemption of debentures: 3,85,000 – 64,650]	Dr.	3,20,350	3,20,350
7	Share Premium A/c To Premium on Redemption of Debentures A/c [Being premium on redemption of debentures adjusted]	Dr	40,000	40,000

Balance Sheet as on 1st April, 2014

Particulars	₹	₹	₹
SOURCE OF FUNDS			
I. Own Fund:			
1. Share Capital:			
Authorised:		?	
Issued, Subscribed and Paid up:			
(i) Preference Shares		1,00,000	
(ii) 78,800 Equity Shares of ₹ 10 each		7,88,000	8,88,000
2. Reserves and Surplus:			
(i) Sinking Fund: b/d	3,85,000		
Less: Loss on SF Investment	64,650		
	3,20,350		
Less: Tfd. To P & L A/c	3,20,350	Nil	
(ii) Share Premium A/c: b/d	Nil		
Add: Fresh issue	44,000		
Less: Premium on redemption of debentures written off	40,000	4,000	
(iii) Profit and Loss A/c: b/d	90,000		
Add: Tdf. from Sinking Fund	3,20,350	4,10,350	
(iv) Debentures Premium (during the year)		8,000	4,22,350
			14,15,350

II. Owned Funds			
(1) 15% Debentures		80,000	
(2) Public Deposits		25,000	1,05,000
APPLICATION OF FUNDS			
I. Fixed Assets			10,00,000
II. Working Capital (see note)			4,15,350
			14,15,350

Notes:

1. Working Capital:	₹	₹
Balance b/d		2,69,000
<i>Add:</i> Cash/Bank A/c balance:		
Cash received on sale of investments	3,66,350	
<i>Less:</i> Cash paid to Debentureholders	2,20,000	1,46,350
Balance		4,15,350

2. It is assumed that the Sinking Fund is for redemption of debentures

Illustration 13: Bharat Ltd. issued 50,000 15% debentures of ₹ 1,000 each at ₹ 952 per debenture. The debentures are redeemable in five annual instalments of ₹ 200 each. It is decided to write off discount in proportion to the amount of debenture finance usage over the various years.

You are asked to:

- Prepare statement for write off of discount over the five year period.
- Pass appropriate journal entries in year 1 and year 2.
- Show the disclosure in final accounts of year 1 and year 2.

(T.Y.BAF/B.Com., Modified, M.U., Apr. 98/2008)

Solution:**Journal of Bharat Limited**

No.	Particulars		Debit ₹	Credit ₹
Year 1				
1	Bank A/c Dr.		4,76,00,000	
	Discount on Issue of Debentures A/c Dr.		24,00,000	
	To 15% Debentures A/c			5,00,00,000
	[Being 50,000 debentures of ₹ 1,000 each issued @ ₹ 952 each vide Board resolution dt....]			
2	Debenture Interest A/c Dr.		75,00,000	
	To Bank A/c			75,00,000
	[Being Interest @ 15% p.a. on debentures of ₹ 5,00,00,000]			
3	Profit and Loss A/c Dr.		83,00,000	
	To Debenture Interest A/c			75,00,000
	To Discount on Interest of Debenture A/c			8,00,000
	[Being above expenses transferred]			
4	15% Debentures A/c Dr.		1,00,00,000	
	To Bank A/c			1,00,00,000
	[Being 1st instalment of ₹ 200 each on 50,000 debentures repaid]			
Year 2				
5	Debenture Interest A/c Dr.		60,00,000	
	To Bank A/c			60,00,000
	[Being interest @ 15% p.a. on debentures of ₹ 4,00,00,000]			

6	Profit and Loss A/c To Debenture Interest A/c To Discount on Issue of Debenture A/c [Being above expenses transferred]	Dr.	66,40,000	60,00,000 6,40,000
7	15% Debentures A/c To Bank A/c [Being 2nd instalment of ₹ 200 each on 50,000 debentures repaid]	Dr.	1,00,00,000	1,00,00,000

Profit and Loss Account for the Year Ended (Extracts)

	Year 2	Year 1
Expenses	60,00,000	75,00,000
Debenture Interest	6,40,000	8,00,000

Balance Sheet as on ... [Extracts]

Particulars	Year 2	Year 1
SOURCES OF FUNDS		
Owed Funds		
Secured Loans:		
50,000 15% Debentures of ₹ 600 each (previous year ₹ 800 each); repayable in yearly instalments of ₹ 200 per debentures	3,00,00,000	4,00,00,000
APPLICATION OF FUNDS		
Misc. Expenditure (to the extent not adjusted)		
Discount on Issue of Debentures	9,60,000	16,00,000

Note:

Statement Showing Discount Write-off

Year	Proportion	Discount W/O
1	$24,00,000 \times 5/15$	8,00,000
2	$24,00,000 \times 4/15$	6,40,000
3	$24,00,000 \times 3/15$	4,80,000
4	$24,00,000 \times 2/15$	3,20,000
5	$24,00,000 \times 1/15$	1,60,000
		24,00,000

Illustration 14 (Redemption by Conversion): Hindustan Ltd. had issued 5,000 – 12% debentures of ₹ 100 each redeemable on 31st December, 2007 at par.

The company offered three options to the debentureholders as under:

- (i) 14% preference shares of ₹ 10 each at ₹ 12
- (ii) 15% debentures of ₹ 100 each at par
- (iii) Redemption in cash

The options were accepted as under:

Option 1 by holders of 1,500 debentures

Option 2 by holders of 1,500 debentures

Option 3 by holders of 2,000 debentures

The redemption was carried out by the company.

Pass Journal Entries in the books of Hindustan Ltd. without narration.

(T.Y.BAF, Modified, M.U. March 2008)

Solution:

Hindustan Ltd. Journal

No.	Particulars	Debit ₹	Credit ₹
1	12% Debentures A/c To 12% Debentureholders A/c (5,000 × 100)	Dr. 5,00,000	5,00,000
2	12% Debentureholders A/c To 14% Preference Share Capital (12,500 × 10) To Securities Premium A/c	Dr. 1,50,000	1,25,000 25,000
3	12% Debentureholders A/c To 15% Debentures A/c (1,500 × 100)	Dr. 1,50,000	1,50,000
4	12% Debentureholders A/c To Bank A/c (2,000 × 100)	Dr. 2,00,000	

Working Note:

1. Number of Preference Shares Issued = $\frac{1,50,000}{12} = 12,500$

2. Redemption in cash is assumed to be out of capital.

Illustration 15 (Sinking Fund Method): A company issued 10,000 – 8% debentures of ₹ 100 each at par on 1st January, 2012; redeemable on 31st December, 2015 at par. The company decided to invest money outside business to provide funds for redemption. The outside investments were made @ 5% p.a. on the last day of each year.

On 31st December, 2015, the company sold all investments for ₹ 7,25,000 and redeemed the 8% debentures. The sinking fund value of ₹ 1 @ 5% interest for 4 years is 0.23012.

Prepare for all the four years:

- 8% Debentures Account
- Sinking Fund Account
- Sinking Fund Investment Account.

(T.Y.BAF, Modified, M.U., 2006)

Note: Calculations to be rounded off to the nearest rupee.

Solution:

1.

Dr.		8% Debentures A/c		Cr.	
Date	Particulars	₹	Date	Particulars	₹
2012 Dec. 31	To Balance c/d	10,00,000	2012 Jan. 1	By Cash/Bank A/c	10,00,000
		10,00,000			10,00,000
2013 Dec. 31	To Balance c/d	10,00,000	2013 Jan. 1	By Balance b/d	10,00,000
		10,00,000			10,00,000
2014 Dec. 31	To Balance c/d	10,00,000	2014 Jan. 1	By Balance b/d	10,00,000
		10,00,000			10,00,000
2015 Dec. 31	To Bank A/c	10,00,000	2015 Dec. 31	By Balance b/d	10,00,000
		10,00,000			10,00,000

2.

Dr.			Sinking Fund A/c			Cr.		
Date	Particulars	₹	Date	Particulars	₹			₹
2012 Dec. 31	To Balance c/d	2,30,120	2012 Jan. 1	By Profit and Loss Appr. A/c	2,30,120			2,30,120
		2,30,120						2,30,120
2013 Dec. 31	To Balance c/d	4,71,746	2013 Jan. 1	By Balance b/d	2,30,120			2,30,120
			2013 Dec. 31	By Profit and Loss Appr. A/c	2,30,120			2,30,120
			2013 Dec. 31	By Bank A/c (interest)	11,506			11,506
		4,71,746						4,71,746
2014 Dec. 31	To Balance c/d	7,25,453	2014 Jan. 1	By Balance b/d	4,71,746			4,71,746
			2014 Dec. 31	By Profit and Loss Appr. A/c	2,30,120			2,30,120
			2014 Dec. 31	By Bank A/c (Interest)	23,587			23,587
		7,25,453						7,25,453
2015 Dec. 31	To Sinking Fund Investment A/c	453	2015 Jan. 1	By Balance b/d	7,25,453			7,25,453
2015 Dec. 31	To General Reserve A/c	9,91,393	2015 Dec. 31	By Profit and Loss Appr. A/c	2,30,120			2,30,120
			2015 Dec. 31	By Bank A/c (interest)	36,273			36,273
		9,91,846						9,91,846

3.

Dr.			Sinking Fund Investment A/c			Cr.		
Date	Particulars	₹	Date	Particulars	₹			₹
2012 Dec. 31	To Bank A/c	2,30,120	2012 Dec. 31	By Bank c/d	2,30,120			2,30,120
		2,30,120						2,30,120
2013 Jan. 1	To Balance b/d	2,30,120	2013 Dec. 31	By Balance c/d	4,71,746			4,71,746
2013 Dec. 31	To Bank A/c	2,41,626						–
		4,71,746						4,71,746
2014 Jan. 1	To Balance c/d	4,71,746	2014 Dec. 31	By Balance c/d	7,25,453			7,25,453
2014 Dec. 31	To Bank A/c	2,53,707						–
		7,25,453						7,25,453
2015 Jan. 1	To Balance b/d	7,25,453	2015 Dec. 31	By Bank A/c	7,25,000			7,25,000
		–	2015 Dec. 31	By Sinking Fund A/c(loss)	453			453
		7,25,453						7,25,453

Interest

$$12\% \text{ of ₹ } 1,50,000 \text{ for 2 months} = \frac{18,000}{12} \times 2 = 3,000$$

Illustration 16 (Sinking Fund Method): The following balances appeared in books of Sidney Potier Ltd. as on 31st March, 2014:

10% First Mortgage Debentures: ₹ 5,00,000.
 Income received on Sinking Fund Investment: ₹ 50,000
 Discount on Issue of Debentures: ₹ 25,000
 Sinking Fund Account: ₹ 4,00,000

Sinking Fund Investment:

₹ 90,000 15% Government of Maharashtra Loans: ₹ 85,000.
 ₹ 1,00,000 14% Konkan Railway Bonds: ₹ 90,000
 ₹ 80,000 12% Krushna Valley Loan: ₹ 75,000
 ₹ 1,30,000 10% Central Government Securities: ₹ 1,50,000

On the same day, the investments were sold as follows:

15% Government of Maharashtra Loans @ ₹ 90
 14% Konkan Railway Bonds at par
 12% Krushna Valley Loan @ ₹ 90
 10% Central Government Securities @ ₹ 120

On 1st April, 2014, debentures of ₹ 4,00,000 were redeemed at a premium of 5%. On the same day, Maharashtra Road Development Corporation Bonds of ₹ 1,00,000 were purchased at 10% premium annual contribution for sinking fund was ₹ 90,000. Ignore interest.

You are required to prepare:

1. Debentures Account.
2. Sinking Fund Account.
3. Sinking Fund Investment Account.
4. General Reserve Account.

(T.Y.BAF Modified, M.U.)

Solution: **In the Books of Sidney Potier Ltd.**

Dr.			Cr.		
10% Debentures A/c					
Date	Particulars	₹	Date	Particulars	₹
2014			2014		
April	To Debentures A/c	4,00,000	April 1	By Balance b/d	5,00,000
2015					
Mar. 31	To Balance c/d	1,00,000			
		5,00,000			5,00,000

Dr.			Cr.		
Sinking Fund A/c					
Date	Particulars	₹	Date	Particulars	₹
2014			2014		
April 1	To Debentureholders A/c	20,000	April 1	By Balance b/d	4,00,000
April 1	To General Reserve A/c	4,00,000	April 1	By Bank A/c	50,000
				By Sinking Fund Investment	9,000
2015					
Mar. 31	To Balance c/d	1,29,000	Mar. 31	By Profit and Loss A/c	90,000
		5,49,000			5,49,000

Dr.			Cr.		
Sinking Fund Investment A/c					
Date	Particulars	₹	Date	Particulars	₹
2014			2014		
April 1	To Balance b/d	4,00,000	April 1	By Bank A/c	4,09,000
April 1	To Sinking Fund A/c	9,000	2015		
April 1	To Bank A/c	1,10,000	Mar. 31	By Balance c/d	1,10,000
		5,19,000			5,19,000

Dr.			Cr.		
Debentureholders A/c					
Date	Particulars	₹	Date	Particulars	₹
2014			2014		
April 1	To Bank A/c	4,20,000	April 1	By Debentures A/c	4,00,000
			April 1	By Sinking Fund A/c	20,000
		4,20,000			4,20,000

Dr.			Cr.		
General Reserve A/c					
Date	Particular	₹	Date	Particulars	₹
2015			2014		
Mar. 31	To Bank A/c	4,00,000	April 1	By Sinking Fund A/c	4,00,000
		4,00,000			4,00,000

Illustration 17 (Redemption by Conversion): A company gave notice of its intention to redeem its outstanding ₹ 50,000 10% Debentures of 100 each at a premium of 5% and offered the holders the following options:

1. To accept 12% Cumulative Preference Shares of ₹ 20 each at ₹ 25 per share.
2. To accept 10% Debentures stock at 96%
3. To have their holding redeemed for cash accordingly.
 - (i) ₹ 25,000 debentureholders accepted the Proposal 1
 - (ii) ₹ 20,000 debentureholders accepted the Proposal 2
 - (iii) Remaining debentureholders accepted the Proposal 3.

Pass the Journal Entries in the books of the company to record only the above transactions.

(T.Y.B.Com., Modified, M.U., April 2002)

Solution: Option 1:

Journal of Company

Date	Particulars	Debit ₹	Credit ₹
1	10% Debentures A/c	Dr. 25,00,000	
	Premium on Redemption of Debentures A/c	Dr. 1,25,000	
	To Debentureholders A/c		26,25,000
	[Being the amount transferred to Debentureholders A/c]		
2	Debentureholders A/c	Dr. 26,25,000	
	To 12% Cumulative Preference Shares A/c (1,05,000 × 20)		21,00,000
	To Securities Premium A/c (1,05,000 × 5)		5,25,000
	[Being preference shares allotted to debentureholders on redemption of debentures]		

Option 2:**Journal of Company**

Date	Particulars	Debit ₹	Credit ₹
1	10% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders A/c [Being the amount transferred to Debentureholders A/c]	20,00,000 1,00,000	21,00,000
2	Debentureholders A/c (21.875 × 96) Dr. Discount on Issue of Debentures A/c (21,875 × 4) To 10% Debentures A/c [Being 21,875 debentures issued to debentureholders at a discount of ₹ 4 for redemption]	21,00,000 87,500	21,87,500

Option 3:**Journal of Company**

Date	Particulars	Debit ₹	Credit ₹
1	10% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders A/c [Being the amount transferred to Debentureholders A/c]	5,00,000 25,000	5,25,000
2	Debentureholders A/c Dr. To Cash/Bank A/c [Being the debentureholders paid off]	5,25,000	5,25,000

Illustration 18 (Sinking Fund Method): Indosys Ltd. issued on 1st April, 2011; 4,000, 14% redeemable debentures of ₹ 100 each at par redeemable at a premium of 10% after 4 years. The company decided to set up a sinking fund for the redemption of the debentures setting aside necessary amount every year and investing it in investments carrying 12% interest per annum. The sinking fund factor for 4 years @ 12% was ₹ 0.20964. On 31st March, 2015, the sinking fund investments were sold for ₹ 3,15,000,

You are required to show the ledger accounts in the books of Indosys Ltd. to carry out the redemption of debentures.

(T.Y.BAF. Modified, M.U., October 2011)

Solution:**Ledger of Indosys Ltd.**

Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
Y1-2011-12 Mar. 31	To Balance c/d	92,242	Y1-2011-12 Mar. 31	By Profit and Loss Appr. A/c	92,242
		92,242			92,242
Y2-2012-13 Mar. 31	To Balance c/d	1,95,553	Y2-2012-13 Apr. 1	By Balance b/d	92,242
			Mar. 31	By Profit and Loss Appr. A/c	92,242
				By Bank (interest)	11,069
		1,95,553			1,95,553
Y3-2013-14 Mar. 31	To Balance c/d	3,11,261	Y3-2013-14 Apr. 1	By Balance b/d	1,95,553
			Mar. 31	By Profit and Loss Appr. A/c	92,242
			Mar. 31	By Bank (interest)	23,466
		3,11,261			3,11,261

Y4-2014-15 Mar. 31	To General Reserve A/c	4,44,593	Y4-2014-15 Apr. 1	By Balance b/d	3,11,261
			Mar. 31	By Profit and Loss Appr. A/c	92,242
			Mar. 31	By Bank (interest)	37,351
			Mar. 31	By Sinking Fund Investment A/c	3,739
		4,44,593			4,44,593

Dr. Sinking Fund Investments A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
Y1-2011-12 Mar. 31	To Bank A/c	92,242	Y1-2011-12 Mar. 31	By Balance c/d	92,242
		92,242			92,242
Y2-2012-13 April 1	To Balance b/d	92,242	Y2-2012-13 Mar. 31	By Balance c/d	1,95,553
Mar. 31	To Bank A/c	1,03,311			1,95,553
		1,95,553			
Y3-2013-14 April 1	To Balance b/d	1,95,553	Y3-2013-14 Mar. 31	By Balance c/d	3,11,261
Mar. 31	To Bank A/c	1,15,708			3,11,261
		3,11,261			
Y4-2014-15 April 1	To Balance b/d	3,11,261	Y4-2014-15 Mar. 31	By Bank A/c	3,15,000
Mar. 31	To Sinking Fund A/c (profit)	3,739			3,15,000
		3,15,000			

Dr. Interest on Debentures A/c Cr.

Date	Particulars	₹	Date	Particulars	₹
Y1-2011-12 Mar. 31	To Bank A/c	56,000	Y1-2011-12 Mar. 31	By Profit and Loss A/c	56,000
		56,000			56,000
Y2-2012-13 Mar. 31	To Bank A/c	56,000	Y2-2012-13 Mar. 31	By Profit and Loss A/c	56,000
		56,000			56,000
Y3-2013-14 Mar. 31	To Bank A/c	56,000	Y3-2013-14 Mar. 31	By Profit and Loss A/c	56,000
		56,000			56,000
Y4-2014-15 Mar. 31	To Bank A/c	56,000	Y4-2014-15 Mar. 31	By Profit and Loss A/c	56,000
		56,000			56,000

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

Date	Particulars	₹	Date	Particulars	₹
Y1-2011-12 Apr. 1	To Premium on Redemption of Debentures A/c	40,000	Y1-2011-12 Mar. 31	By Profit and Loss A/c	10,000
			Mar. 31	By Balance c/d	30,000
		40,000			40,000

Y2-2012-13 Apr. 1	To Balance b/d	30,000 – 30,000	Y2-2012-13 Mar. 31 Mar. 31	By Profit and Loss A/c By Balance c/d	10,000 20,000 30,000
Y3-2013-14 Apr. 1	To Balance b/d	20,000 – 20,000	Y3-2013-14 Mar. 31 Mar. 31	By Profit and Loss A/c By Balance c/d	10,000 10,000 20,000
Y4-2014-15 Apr. 1	To Balance b/d	10,000 10,000	Y4-2014-15 Mar. 31	By Profit and Loss A/c	10,000 10,000

Working Note:

- Annual appropriation set aside:

Sinking Fund Factor for 4 years @ 12%	0.20964
Redeemable Debentures	₹ 4,00,000
Add: Premium @ 10%	₹ 40,000
Amount to be paid after 4 years	<u>₹ 4,40,000</u>
∴ $0.20964 \times 4,40,000$	92,241.60
∴ Annual Appropriation	92,242

- Interest on debenture is payable once in a year, i.e., at the end of the accounting year.
- Loss on issue of debentures is equally written off to Profit and Loss A/c in 4 years.

EXERCISES**Objective Type Questions****(I) Fill in the Blanks:**

- Interest on Sinking Fund Investment is credited to _____ Account.
- Sinking Fund Account always shows _____ balance.
- Sinking Fund Investment Account always shows _____ balance.
- Profit on cancellation of own debentures is _____ profit.
- If debentures are to be redeemed at a premium, such premium must be provided as a liability at the time of _____ (issue/redemption).
- Redemption of debentures out of capital may happen if the debentures are for a period of _____ (less than/more than/equal to) 18 months.
- A company which issues debentures must create a _____ (Debenture Redemption Reserve/Debenture Redemption Sinking Fund), for redemption of such debentures, out of its profits, every year, until such debenture are redeemed.
- A company _____ (can/cannot) purchase its own debenture.
- Interest on Debenture Redemption Sinking Fund Investments is transferred to _____ (Debenture Redemption Sinking Fund Investments/Profit and Loss Account).
- Debenture Redemption Reserve is _____ (to/not to) be created if debentures are redeemed through conversion.
- Debenture Redemption Reserve is _____ (to/not to) be created in respect of the non-convertible portion of the convertible debentures.

12. After cancellation of own debentures, the debentures _____ (can/cannot) be reissued.
13. Profit on cancellation of own debentures is transferred to _____ (Capital Reserve/Capital Redemption Reserve).
14. Loss on cancellation of own debentures is transferred to _____ (Goodwill Profit and Loss Account).
15. Profit on cancellation of own debentures held as sinking fund investments is transferred to _____ (Sinking Fund Account/Capital Reserve).
16. Interest on Sinking Fund Investment is credited to _____ A/c (Profit and Loss, Sinking Fund).
17. If the own debentures purchased in the open market are not cancelled, these will appear on the _____ side of the balance sheet (assets, liabilities).
18. Sinking Fund A/c shall always show a _____ balance (debit, credit).
19. Sinking Fund Investment A/c shall always show a _____ balance (debit, credit).
20. Profit on the cancellation of own debentures is _____ profit (revenue, capital).

[Ans.: 1. Sinking Fund, 2. Credit, 3. Debit, 4. Capital, 5. Issue, 6. less than, 7. Debenture Redemption Reserve, 8. Can, 9. Debenture Redemption Sinking Fund Investments, 10. to, 11. to, 12. cannot, 13. Capital Reserve, 14. Profit and Loss Account, 15. Capital Reserve, 16. Sinking Fund, 17. assets, 18. credit, 19. debit, 20. capital]

(II) State Whether the Following Statements are True or False:

1. A company cannot purchase its own debenture.
2. Interest on Debenture Redemption Sinking Fund Investments is transferred to Profit and Loss Account.
3. After debentures are redeemed, balance of Debenture Redemption Reserve is transferred to Capital Reserve.
4. Whenever debentures are redeemed out of profits, an equivalent amount will be transferred to Debenture Redemption Reserve.
5. Debenture Redemption Reserve is to be created even if debentures are redeemed through conversion.
6. The balance of Debenture Sinking Fund Investment A/c is transferred to Debenture Sinking Fund A/c.
7. The balance of Debenture Sinking Fund A/c is transferred to Debenture Sinking Fund Investment A/c.
8. A debentureholder is an owner of the company.
9. A debentureholder can get his money back only on the liquidation of the company.
10. A debenture issued at a discount can be redeemed at a premium.
11. A debentureholder receives interest only in the event of profits.
12. Debentures can be redeemed by payment in lumpsum at the end of a specified period.
13. Debentures cannot be redeemed during the lifetime of the company.
14. Debentures can be redeemed by payments in annual instalments.
15. Debentures can be purchased in the open market for cancellation.
16. When all the debentures are redeemed, balance in the Debenture Redemption Fund Account is transferred to General Reserve.

17. The nominal and book values of Debenture Redemption Fund Investments Account are respectively ₹ 50,000 and ₹ 48,000. The company sold investments of the nominal value of ₹ 30,000 at a price which was just sufficient to redeem debentures of ₹ 30,000 at 10% premium. The profit on sale of investments is ₹ 3,000.

[Ans.: True: 5, 6, 7, 10, 12, 14, 15, 16, 19

False: 1, 2, 3, 4, 8, 9, 11, 13, 17, 18, 20, 21

17. False; ₹ 4,200

18. False; the company purchases from the market and keeps them as investments.

20. False; to Debenture Redemption Reserve.

21. False; to Debenture redemption fund account.]

(III) Match the Columns:

(A) Group A

1. Debenture Redemption Reserve Account
2. Balance of Debenture Redemption Reserve Account after redemption
3. Interest received on Non-cumulative Sinking Fund Investments
4. Interest received on Cumulative Sinking Fund Investments
5. Loss on sale of Cumulative Sinking Fund Investments
6. Balance of Sinking Fund for redemption of debentures

Group B

- (a) Shown under 'Reserves and Surplus' in balance sheet
- (b) Transfer to Capital Redemption Reserve
- (c) S.117C of the Companies Act
- (d) Shown under 'Investments' in balance sheet
- (e) Credited to Profit and Loss Account
- (f) Sec. 81 of the Companies Act
- (g) Debited to Sinking Fund Account
- (h) Credited to Sinking Fund Account
- (i) Credited to General Reserve

[Ans.: 1. (c), 2. (e), 3. (i), 4. (h), 5. (g), 6. (a)]

(B) Group A

1. Annual Instalment in Sinking Fund for Redemption of Debentures
2. Profit on Cancellation of Debenture is transferred to
3. Loss on Cancellation of Debentures is transferred to
4. Price paid by company for purchase of own debentures excluding the accrued interest
5. Price paid by company for purchase of own debentures including the accrued interest
6. If a company resells its debentures in open market at ex-interest price

Group B

- (a) Capital Reserve Account
- (b) Cum-interest price
- (c) The amount credited to own Debenture A/c is equal to price received Less Interest accrued till date of sale
- (d) The amount credited to Own Debentures A/c is equal to Price received
- (e) Amount of Redemption \times Factor in S.F. Table
- (f) Profit and Loss Account

7. If a company resells its debentures in open market at cum-interest price
- (g) Amount of Redemption/Factor in S.F. Table
 - (h) is ignored
 - (i) ex-interest price

[Ans.: 1. (e), 2. (a), 3. (f), 4. (i), 5. (b), 6. (d), 7. (c)]

(IV) Multiple Choice Questions:

1. Debentures can be redeemed _____.
 - (a) only out of the proceeds of the fresh issue of debentures
 - (b) only out of divisible profits
 - (c) only out of capital
 - (d) out of capital or profits
2. When debentures are redeemed out of profits, an amount equal to the nominal value of debentures redeemed should be transferred to _____.
 - (a) Capital Reserve Account
 - (b) Capital Redemption Reserve Account
 - (c) General Reserve Account
 - (d) Profit and Loss Account
3. When debentures are redeemed out of profits, the amount be transferred to General Reserve should be equal to _____.
 - (a) Premium payable on redemption
 - (b) Amount payable on redemption
 - (c) The nominal value of debentures redeemed
 - (d) None of the above
4. Which of the following statements is wrong in respect of Debenture Redemption Reserve (DRR)?
 - (a) A company which issues debentures for a term 18 months, or more must create a DRR
 - (b) The amount shall be transferred out of profits to DRR in the year of redemption
 - (c) The transfer to DRR is to be made every year
 - (d) Transfer to DRR must be made in respect of non-convertible portion of convertible debentures
5. In case of Cumulative Sinking Fund, the following statement is true.
 - (a) Interest received on Sinking Fund Investments is credited to Profit and Loss Account
 - (b) Interest received on Sinking Fund Investments is added back to the sinking fund and reinvested
 - (c) Sinking fund Investments are made in cumulative preference shares
 - (d) None of the above
6. In case of cumulative sinking fund for redemption of debentures, interest received _____.
 - (a) is credited to Profit and Loss A/c
 - (b) is credited to Sinking Fund Investment A/c
 - (c) is credited to Sinking Fund A/c
 - (d) is credited to Interest A/c
7. Loss on sale of Non-Cumulative Sinking Fund Investments _____.
 - (a) is debited to Profit and Loss A/c
 - (b) is debited to Sinking Fund Investment A/c

- (c) is debited to Sinking Fund A/c
 (d) is credited to Sinking Fund A/c
8. Balance of Sinking Fund, after redemption of debentures _____.
- (a) is transferred to Profit and Loss A/c
 (b) is transferred to Debenture Redemption Reserve
 (c) is transferred to Capital Redemption Reserve
 (d) is transferred to General Reserve
9. Balance of Sinking Fund for redemption of debentures is _____.
- (a) Shown under 'Long-term Borrowings' in balance sheet
 (b) Shown under 'Investments' in balance sheet
 (c) Shown under 'Reserves and Surplus' in balance sheet
 (d) Shown under 'Current Liabilities' in balance sheet
10. Annual Instalments in Sinking Fund for Redemption of Debentures is equal to _____.
- (a) Face Value of Debentures \times Factor in S.F. Table
 (b) Amount of Redemption \times Factor in S.F. Table \times Period of Debentures
 (c) Amount of Redemption \times Factor in S.F. Table
 (d) Amount of Redemption \div Factor in S.F. Table
11. Debentures of ₹ 100 issued at a discount of 5% _____.
- (a) cannot be converted into shares of ₹ 100, ₹ 95 paid up
 (b) can be converted into shares of ₹ 100, ₹ 95 paid up
 (c) must be converted into shares having face value and paid-up value of ₹ 95 only
 (d) can be converted into shares having face value of ₹ 95 and paid-up value of ₹ 100
12. If debentures are redeemed by conversion into equity shares, then the amount transferred to General Reserve is _____.
- (a) nil
 (b) equal to the face value of debentures redeemed
 (c) equal to the face value of the equity shares issued
 (d) equal to difference between the face value of the debentures redeemed and the equity shares issued
13. Interest received on Debenture Redemption Fund Investment will be _____.
- (a) Credited to Profit and Loss A/c
 (b) Credited to Debenture Redemption Fund A/c
 (c) Credited to Profit and Loss Appropriation A/c
 (d) None of the above
14. The balance of Debenture Sinking Fund is transferred to _____.
- (a) Profit and Loss Account
 (b) Debenture Redemption Fund Investment Account
 (c) General Reserve Account
 (d) Capital Reserve Account
15. Loss of sale of Sinking Fund Investment will be debited to _____.
- (a) Profit and Loss Account
 (b) Sinking Fund Account
 (c) Sinking Fund Investment Account
 (d) General Reserve Account

16. A company issuing debentures is required to create Debenture Redemption Reserve if the maturity period is more than _____.
- (a) 12 months (b) 18 months
(c) 24 months (d) none of the above
17. A company may redeem debentures out of capital if the maturity period is less than _____.
- (a) 12 months (b) 18 months
(c) 24 months (d) none of the above
18. Which of the following statements is true?
- (a) A debentureholder is an owner of the company
(b) A debentureholder can get his money back only on the liquidation of the company
(c) A debenture issued at a discount can be redeemed at a premium
(d) A debentureholder receives interest only in the event of profits
19. When interest on own debentures becomes due, it will be credited to _____.
- (a) Profit and Loss Account (b) Own Debenture Account
(c) Debenture Interest Account (d) Interest on Own Debenture Account
20. Which of the following statements is false?
- (a) Debentures can be redeemed by payment in lumpsum at the end of a specified period.
(b) Debentures cannot be redeemed during the lifetime of the company.
(c) Debentures can be redeemed by payments in annual instalments.
(d) Debentures can be purchased in the open market for cancellation.
21. The periodical interest received from investments against Debenture Redemption Fund is credited to _____.
- (a) Interest Income Account (b) Debentureholders Account
(c) Debentures Account (d) Debenture Redemption Fund Account
22. When debentures become due for redemption, the entry is _____.
- (a) debit Debentures A/c; credit Bank A/c
(b) debit Debentureholders A/c; credit Bank A/c
(c) debit Debentures A/c; credit Debentureholders A/c
(d) none of the above
23. Till debentures are redeemed, loss on issue of debentures is _____.
- (a) shown on the liability side of balance sheet
(b) credited to P & L A/c
(c) Shown on the asset side of balance sheet
(d) none of the above
24. The premium payable on the redemption of debentures is _____.
- (a) Written off from the accumulated profit (b) Written off from the capital profit
(c) Not be written off at all (d) None of the above
25. According to SEBI guidelines, the company is required to create a debentures redemption reserve equivalent to _____.
- (a) 50% of the issue size (b) 15% of the issue size
(c) 100% of the issue size (d) none of the above

26. For the redemption of debentures, sinking fund is created out of _____.
- (a) Capital reserve (b) Share capital
(c) Secured loans (d) Current year profits
27. When interest on own debentures becomes due, it will be credited to _____.
- (a) Own Debentures A/c (b) Interest on Own Debentures A/c
(c) Profit and Loss Appropriation A/c (d) None of the above
28. A Ltd. purchased its own 10% debentures from the open market and later on cancelled them. The gain on redemption of its own debentures by cancellation is to be credited to _____.
- (a) Capital Reserve (b) Profit and Loss Appropriation A/c
(c) Capital Redemption Reserve (d) None of the above
29. The profit or loss on cancellation of own debentures is calculated at the time of _____.
- (a) Issue of own debentures (b) Cancellation of own debentures
(c) Purchase of own debentures (d) None of above
30. Till the date of redemption of debentures, 'Premium on Redemption of Debentures' appears on the _____.
- (a) Asset side of balance sheet (b) Credit side of Profit and Loss account
(c) Liabilities side of balance sheet (d) None of the above
31. Following balances are given in trial balance:
 Debenture redemption fund 50,000
 Debenture redemption fund investments 50,000
 Interest on debenture redemption fund investment 3,000
 Increase in debenture redemption fund by 10,000
 Debenture Redemption Fund in Balance Sheet will be _____.
- (a) ₹ 60,000 (b) ₹ 63,000
(c) ₹ 50,000 (d) ₹ 65,000
- 32-34. On March 31, 2005, the balance of 12% Debentures of ₹ 100 each of C Ltd. was ₹ 5,00,000. The company reserves the right to redeem the debentures in any year by purchase in the open market. Interest on debentures is payable on September 30 and March 31, every year.
- On July 1, 2005, the company purchased 1,000 of its 12% Debentures as investment at ₹ 99 cum-interest. On August 01, 2005, it purchased another 1,000 of its debentures at ₹ 98 ex-interest. The company cancelled 2,000 own debentures on September 01, 2005.
32. Amount debited to Own Debentures Account at the time of purchase on 01-07-2005 = ?
- (a) ₹ 1,00,000 (b) ₹ 99,000
(c) ₹ 98,000 (d) ₹ 96,000
33. Amount debited to Own Debentures Account at the time of purchase on 01-08-2005 = ?
- (a) ₹ 1,00,000 (b) ₹ 99,000
(c) ₹ 98,000 (d) ₹ 97,000
34. The profit/loss on cancellation of own debentures is _____.
- (a) ₹ 1,000 (Loss) (b) ₹ 6,000 (Profit)
(c) ₹ 3,000 (Profit) (d) ₹ 2,000 (Loss)

[Ans.: 1. (d), 2. (c), 3. (c), 4. (b), 5. (b), 6. (c), 7. (a), 8. (d), 9. (c), 10. (c), 11. (b), 12. (a), 13. (b), 14. (c), 15. (b), 16. (b), 17. (b), 18. (c), 19. (d), 20. (b), 21. (d), 22. (c), 23. (c), 24. (a), 25. (a), 26. (d), 27. (b), 28. (a), 29. (b), 30. (c), 31. (b), 32. (d), 33. (c), 34. (b)]

Short Problem

1. On 31-1-2015, Janta Ltd. converted its ₹ 88,00,000, 6% debentures into equity shares of ₹ 20 each at a premium of ₹ 2 per share.

Pass necessary journal entries in the books of the company for redemption of debentures.

$$[\text{Hint: No. of Equity Shares} = \frac{\text{Debentures Redemption Value}}{\text{Share Issued Value}} = \frac{88,00,000}{20 + 2} = 4,00,000 \text{ Shares}]$$

2. On 1-2-2015, Janta Ltd. converted 9,000, 8% debentures of ₹ 100 each into 8% preference shares of ₹ 100 each issued at a discount of 10%.

Pass necessary journal entries for redemption of debentures.

$$[\text{Ans.: Preference Shares issued} = 10,000]$$

3. Pass necessary journal entries in the books of the company in the following cases for redemption of 6,000, 12% Debentures of ₹ 10 each issued at par:

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

4. Y Ltd. redeemed ₹ 50,00,000, 8% debentures at a premium of 10% out of profits on 31-3-2015. Pass necessary journal entries for the redemption of debentures.

5. Z Ltd. issued ₹ 20,00,000, 8% debentures on 1-4-2010 at a premium of 5%. On 31-3-2015, out of these ₹ 2,00,000, 8% debentures were redeemed by converting them into equity shares of ₹ 100 each issued at par and ₹ 5,00,000, 8% debentures were converted into 10% preference shares of ₹ 100 each issued at a premium of 25%.

Pass necessary journal entries in the books of Z Ltd. for the redemption of debentures.

6. White Ltd. issued 8,00,000, 8% debentures of ₹ 100 each redeemable at a premium of 10%. According to the terms of redemption, the company redeemed 25% of the above debentures by converting them into shares of ₹ 50 each issued at a premium of 60%. Pass journal entries regarding issue and redemption of debentures.

$$[\text{Hint: No. of shares to be issued} = \frac{\text{₹ } 2,20,00,000}{\text{₹ } 80} = 2,75,500 \text{ shares}]$$

7. Ekta Ltd. issued 60,000, 9% debentures of ₹ 100 each redeemable at a premium of 10% after three years. Pass the necessary journal entries for the issue of 9% debentures.

8. Thandak Refrigerators Ltd. has an outstanding balance of 5,000, 6% debentures of ₹ 100 each redeemable at a premium of 10%. According to the terms of redemption, the company redeemed 10% of these debentures by converting them into 8% preference shares of ₹ 100 each issued at a premium of 10%. Calculate the number of shares to be issued on conversion and record journal entries for the redemption in the books of the company.

$$[\text{Hint: No. of shares} = \frac{55,000}{110} = 500 \text{ shares}]$$

Practical Problems

1. R Ltd. has issued ₹ 12,00,000 8% Debentures at a discount of 6% payable over a period of 10 years by Annual Drawings of ₹ 1,20,000 without creating Debenture Redemption Reserve. Write up the Cash Book, Debentures Account and Discount on Debenture Accounts for the first three years.

2. On 1.4.2013, Reliance Ltd. issued 2,000 Debentures of ₹ 100 each at a discount of 5%. These debentures were repayable at par on 31.3.2014 and a Sinking Fund was to be created out of profits by setting aside an equal amount of ₹ 15,900 on 1st March every year to be invested in 5% securities.

You are requested to show the Sinking Fund Account and the Investment Account in the books for five years. **(CA Modified)**

3. P Ltd. issued ₹ 2,00,000 in 5% Debentures of ₹ 100 each at par, repayable at the end of 5 years at a premium of 6%. A Sinking Fund at 4% compound interest is created for the redemption of debentures.

Draw up the Debenture Redemption Fund Account for the 5 years.

(₹ 1 p.a. at 4% compound interest amounts to ₹ 5.4163 in 5 years) **(CMA Modified)**

4. Power Flow Ltd. company issued 4% Debentures of the face value of ₹ 1,00,000 at a discount of 5%.

A Sinking Fund was created for repayment of the debentures and at the end of ten years ₹ 1,00,000 had been invested.

The sale proceeds of the investment realised ₹ 1,00,500 and the debentures were repaid.

Show the entries and the necessary ledger accounts. **(T.Y.B.Com., Modified, P.U.)**

5. On January 1, 2012, Alpha Ltd. gave notice of its intention to redeem its ₹ 10,00,000 8% Debentures on 31, March, 2012 at 105% and offered the debentureholders the following options:

- (a) To apply the redemption money in subscribing:
- (i) 11% Cumulative preference shares of ₹ 100 each at 110 (opted by the holders of ₹ 1,10,000 debentures) or
 - (ii) 9% Debentures at 95% (opted by the holders of ₹ 7,12,500 debentures)
- (b) To get their holding redeemed for cash if neither of the options under (a) was accepted.

Show as on 31st March, 1993, the Journal entries to record the redemption and allotments involved in the above transactions. Also show the Debenture Redemption account.

6. M/s Dimple Ltd. has ₹ 60,000 7% Debentures showing balance on 1st January, 2012. The Debenture Redemption Fund Account shows the balance of ₹ 50,000 represented by investments in 3% Government Securities worth ₹ 59,000/-. The company appropriates every year ₹ 8,230/- to Sinking Fund Account.

The Directors of Dimple Ltd. decided to redeem the debentures on 31st December, 2013 by selling out investments at 83%. The balance at Bank amounted to ₹ 12,500/-.

You are required to show necessary ledger accounts in the books of Dimple Ltd. for the year 2013. **(T.Y.BAF Modified, M.U.)**

7. The summarised Balance Sheet of Jayadev Ltd. on March 31, 2014 was as follows:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets at Cost less Depreciation	5,12,000
6% Redeemable preference shares of ₹ 10 each	2,00,000	Goodwill	1,00,000

Equity Shares of ₹ 10 each	4,00,000	Stock	3,50,000
6% Debentures	3,00,000	Sundry Debtors	3,15,000
Profit and Loss A/c	2,50,000	Discount on Debentures	15,000
Current Liabilities:			
Bank Loan	50,000		
Creditors	92,000		
	12,92,000		12,92,000

Wanting to redeem the preference shares and the debentures, the company offered to the redeemable preference shareholders and the debentureholders the option to convert their holdings into equity shares which are to be treated as worth ₹ 12.50. The half of the preference shareholders and one-third of the debentureholders agreed to do this. The company issued 30,000 equity shares at ₹ 12.50 to the public for cash and with the fund available paid off the bank loan and redeemed the remaining redeemable preference shares and debentures.

Journalise the transactions and show how the balance sheet will appear after the transactions have been completed.

(CA/CMA Modified)

[Ans.: Balance Sheet Total ₹ 13,17,000]

8. Hitech Refineries Ltd. issued 9% Debentures of ₹ 1,00,00,000 on 1st January, 2008. These debentures were to be redeemed on 31st December, 2014. For this purpose, a sinking fund was established. The investments were expected to earn @ 6% per annum. Sinking fund table shows that ₹ 0.119135 invested annually @ 6%, gives an amount of ₹ 1 in seven years. Give journal entries assuming investments realised ₹ 73.33,400 on 31st December, 2014.

(Round off your calculations to the nearest rupee)

(T.Y.B.Com., Modified, M.U.)

9. Inder Leasing Ltd. issued (10,000, 9% Debentures of ₹ 100 each redeemable after 3 years at par.

The company took an endowment insurance policy of ₹ 60,00,000/-. The annual premium is ₹ 16,60,000/-. The company received ₹ 60,00,000/- at the end of the third year on maturity of policy. The debentures were redeemed. Give journal entries and show the necessary ledger accounts for three years.

10. On 1st January, 2012, M/s Trishna Metals Corporation issued 20,000, 15% debenture of ₹ 100/- each at par redeemable also at par. The company desired to provide a fund for redemption of debentures on 31st December, 2014. The directors took an insurance policy to provide the necessary cash, the annual premium being ₹ 5,29,195/-. The company estimated the return of 12% p.a. compound interest.

(While calculating, fraction of rupee is to be ignored).

Give necessary journal entries and show the ledger accounts.

(T.Y.BAF Modified, M.U.)

11. On 1st January, 2011, X Limited issued 10,000 fifteen years debentures of ₹ 100 each bearing interest at 10% p.a. One of the conditions of issue was that the company could redeem the debentures by giving six month's notice at any time after 5 years, at a premium of 4%, either by payment in cash or by allotment of preference shares and/or other debentures at the option of the debentureholders.

On 1st April, 2006, the company gave notice to the debentureholders of its intention to redeem the debentures on 1st October, 2006 either by payment in cash or by allotment of 11% preference shares of ₹ 100 each at ₹ 130 per share or 11% Second Debentures of ₹ 100 at ₹ 96 per debenture.

Holders of 4,000 debentures accepted the offer of the preference shares, holders of 4,800 debentures accepted the offer of the 11% second debentures and the rest demanded cash on 1st October, 2006.

Given the journal entries to give effect to the above as of 1st October, 2006. Suggest how debentures can be dealt in the accounts.

(T.Y.B.Com./BAF Modified, M.U.)

[Ans.: Redemption of debentures in cash ₹1,24,800]

12. The summarised Balance Sheet of Vasudha Ltd. as on 30th September, 2012 was:

Particulars	₹	Assets	₹
Share Capital:		Fixed Assets	15,00,000
Issued and fully paid 5,000 equity shares of ₹ 100 each fully paid	5,00,000	Investments:	
6% Redeemable preference shares of ₹ 100 each (less calls-in-arrears on 200 shares)	4,95,000	(Own Debenture of Nominal value of ₹ 1,00,000)	95,000
Reserves and Surplus:		Other Securities	1,00,000
Share Premium	1,00,000	Current Assets:	
Capital Reserve	1,00,000	Stock	2,00,000
General Reserve	2,00,000	Debtors	1,00,000
Profit and Loss Account	3,00,000	Cash at Bank	6,00,000
10% Debentures	2,00,000		
Creditors	7 00 000		
	25,95,000		25,95,000

On 30th September, 2014, the following were due for redemption:

- 5,000 6% Redeemable Preference Shares at a premium of ₹ 25 per share.
- 2,000 10% Redeemable Debentures at a premium of 10%.

The Redemption was made on that date or subsequently thus:

- For the half year ending 30th September, 1998, the debenture interest and Preference dividend were paid out of the profits of the company
- On an offer made to the 10% Debentureholders, the outsiders agreed to take new 12% Debentures at par in exchange of old debentures; the company also decided to assume the new debentures.
- A fresh issue of 1,000 equity shares of ₹ 100 each were made at a premium of ₹ 50 per share and subscribed in full. All moneys due were received forthwith.
- Redemption of all preference shares were made on 10th October, 2012.

You are required to show all journal entries for the above transactions and to give the company's opening Balance Sheet after giving effect to them.

(T.Y.B.Com./BAF, Modified, M.U.)

[Ans: Balance Sheet ₹21,20,150]

13. The following three alternatives have been given to redeem 5,000 8% Debentures of ₹ 100 each at 5% premium.

- Payment in cash.
- 10% Redeemable Preference Share to be issued at ₹ 120 (face value ₹ 100)
- 9% New Debenture of ₹ 100 each at ₹ 90.

Holders of 2,000 Debentures accepted Preference shares; 1,800 holders accepted 9% new Debentures and the remaining holders demanded cash.

Pass entries for the redemption of debentures. **(T.Y.B.Com., Modified, M.U.)**

[Ans.: Holders of 2,000 Debentures will get 1,750 Preference Shares at ₹120; Holders of 1,800 Debentures will get 2,100 New Debentures at ₹90 and the holders of remaining 1,200 Debentures will get ₹1,26,000 in cash]

14. On June 30, 2014, the following balances stood in the books of S Ltd.:

	₹
10% Debentures	3,00,000
Debenture redemption reserve fund	2,80,000
Bank balance	45,000

The above fund was invested in the following securities:

₹ 1,00,000 6% Gujarat Govt. Loan

₹ 1,80,000 5% Central Govt. Loan.

To redeem the debentures on June 30, 2014, the above investments were sold on the same day as under:

6% Gujarat Govt. Loan at par

5% Central Govt. Loan at ₹ 95.

The debentures were paid immediately after the selling of the securities.

Give Journal entries to record the above transactions. **(T.Y.B.Com., Modified, M.U.)**

[Ans.: Finally, the balance of Debenture Redemption Fund ₹ 2,71,000 transferred to General Reserve Account]

15. On 30th June, 2014, the following balance stood in the books of Samor & Co. Ltd.:

	₹
13% First mortgage debentures	4,50,000
Debenture redemption reserve fund	4,79,430

The above fund was invested in the following securities:

₹ 2,70,000 7½% Govt. Loan (2002) ₹ 2,72,835

₹ 2,13,750 8% Narmada Bonds (2004-2009) ₹ 2,06,595

To redeem the debentures on June 30, 2014, the above investments were sold on the same day as under:

7½% Govt. Loan, 1994 at par

8% Narmada Bonds (2004-2009) at ₹ 96

Draw up the necessary accounts **(T.Y.BAF, Modified, M.U.)**

[Ans.: Finally, the balance of Debenture Redemption Fund ₹ 4,75,200 transferred to General Reserve Account]

16. The following were the balance in the books of S Limited as on 31st December, 2014:

	₹
12% Mortgage Debentures	5,00,000
Debenture Redemption Fund	5,50,000
Debenture Redemption Fund Investments:	
(i) 6% Gujarat Govt. Loan (Purchased at par)	3,00,000

(ii) 5% National Defence Bonds (Face value ₹ 2,00,000) 1,90,000 4,90,000

On 31st March, 2015, 6% Gujarat Govt. Loan was sold at ₹ 105 and 5% National Defence Bonds at ₹ 98. On the same date, debentures were redeemed at ₹ 106 together with accrued interest, The interest on debentures had been paid up to 31st December, 1989.

Pass Journal entries in the books of S Limited. (CA Modified)

[Ans.: Debenture Redemption Fund Account closed by transferring ₹ 5,56,000 to General Reserve]

17. On 30th September, 2014, the following balances stood in the books of P Limited:

	₹
5% First Mortgage Debentures	2,00,000
Debenture Redemption Reserve Fund	2,13,080

The above fund was invested in the following securities and shares:

	₹
₹ 70,000 3½% Government Loan, 2009	71,260
₹ 80,000 3% Government Loan 2009-10	64,068
₹ 22,000 3% Conversion Loan	16,042
600 Second Preference Shares of ₹ 100 each fully paid of Tata Iron & Steel Co. Ltd.	61,716

The above investments were sold net on the same day as under:

3½% Governments loan, 2009 at par

Government Loan 2009-10 at ₹ 91

3% Conversion Loan at ₹ 75

Second Preference Shares of Tata Iron & Steel Co. Ltd. at ₹ 109.

On 1st October, 2014, the company redeemed the debentures at a premium of 5%.

Draw up the necessary accounts (other than cash), bring down their balances, if any after recording the above transactions and state how they will be disclosed in the Balance Sheet of the company as at 31st December, 2014. (CMA Modified)

[Ans.: Transfer balance of Debenture Redemption Fund ₹ 2,14,700 to General Reserve and show it in Balance Sheet under the heading "Reserves and Surplus"]

18. A company issued debentures of ₹ 1,00,000 on 1st January, 2014 repayable at par at the end of 5 years. It was resolved to establish a sinking fund for the purpose and invested in tax-free securities.

Show the ledger accounts for five years, assuming that the interest received on the investments representing the sinking fund was at the rate of 5% on the cost, and that the interest was received yearly and immediately invested. Finally all the investments were sold at a loss of ₹ 500 to repay the debentures.

The sinking fund table shows that ₹ 0.180975 invested at the end of each year at 5% compound interest will produce ₹ 1 at the end of 5 years. (CS Modified)

[Ans.: Transfer ₹ 18,098 annually from Profit and Loss Appropriation Account to Debenture Redemption Fund Account]

19. (i) “ABC” Limited issued 5,000 Debentures of ₹ 200 each on 1-1-2014 at 10% discount and 5% premium payable at the time of redemption. Interest to Debentures is payable half-yearly at 12%. Debentures are of 10 years.

The company decided to transfer ₹ 1,00,000 to Debenture Redemption Fund Account and to invest the same in 8% Government Securities ever year.

Journalise all the transactions regarding debentures in the books of the company for the first year only.

(ii) Balances (1-1-2015):

	₹
Debentures	4,00,000
Debenture Redemption Fund	3,00,000
12% D.R.F. Investments	3,00,000

The company transfers ₹ 1,00,000 to Debenture Redemption Fund A/c every year. On 31-12-2015, the company sold out investments in ₹ 2,75,000 and redeemed the debentures.

Give Journal entries for redeeming debentures. Prepare Debenture Redemption Fund Account and Debenture Redemption Fund Investment Account. **(T.Y.BAF, Modified)**

[Ans.: (1) ₹ 1,00,000 debited to Discount on Debentures A/c; ₹ 50,000 debited to Loss on Issue of Debentures A/c; Interest on Debentures ₹ 60,000 Paid on 30th June and 31st December]

20. Z Ltd. issued 4,000, 15% Debentures of ₹ 100 each on 1-1-2003 at a discount of 10% redeemable at a premium of 10% out of profits by creating Debenture Redemption Reserve in four equal annual drawings. Journalise all the transactions for 2003. The company closes its book on 31st December every year. The interest on debentures is payable on half-yearly basis the dates being 30th June and 31st December. Ignore tax.

[Ans : Loss on issue w/o in 4 : 3 : 2 : 1]

21. (Red. @ Prem.; JV + Ledger A/c for 4 yrs; Inv. sold at profit): On 1st January, 1999, A Ltd. issues 2,000 14% Debentures of ₹ 100 each repayable at the end of four years at a premium of 5%. It has been decided to institute a Sinking Fund for the purpose, the investments being expected to realise 4% net. Sinking Fund tables show that ₹ 0.235490 amount to one at 4% in four years. Investments were made in multiples of hundred only.

On 31st December, 2003, the balance at the bank was ₹ 59,000 and the investments realised ₹ 1,56,800. The debentures were paid off. Give journal entries and show ledger account (except the debenture interest).

**[Ans.: Amount of Annual Appropriation ₹ 49,452.90,
Profit on sale of investments ₹ 1,900]**

22. (Red. @ Par; Ledger A/c for 6 yrs; Inv. sold at par/profit/loss): B. Co. issues 7% Debentures of ₹ 1,35,000 on 1-1-98 with a condition that they should be redeemed by setting aside at the end of every year 30,000 out of profits, investing the amount in 10% Govt. Securities. The interest received at the end of the year should be invested in the same securities.

Securities were sold off on 30-6-2004 for ₹ 1,40,000 and the debentures were paid off.

Show the Debentures Redemption Fund Account and the Debentures Redemption Fund Investments A/c.

[Ans.: Profit on sale of D.R.F. Investments ₹ 770; At the end, the balance of Debenture Redemption Fund Account of ₹ 1,40,000 will be transferred to General Reserve]

23. (Red. @ Par; Ledger A/c for 5 yrs; Inv. sold at loss) : A company issued debentures of ₹ 1,00,000 on 1st January, 1999 repayable at par at the end of 5 years. It was resolved to establish a sinking fund for the purpose and invested in tax-free securities.

Show the ledger accounts for five years, assuming that the interest received on the investments representing the sinking fund was at the rate of 5% on the cost, and that the interest was received yearly and immediately invested. Finally, all the investments were sold at a loss of ₹ 300 to repay the debentures.

The sinking fund table shows that ₹ 0.180975 invested at the end of each year at 5% compound interest will produce ₹ 1 at the end of 5 years. Investments were made at the nearest multiple ₹ 100.

[Ans.: Transfer ₹ 18,098 annually from Profit and Loss Appropriation Account to Debenture Redemption Fund Account]

24. (Red. @ Par; Ledger A/c for last yr; Inv. sold at loss): M/s Dimple Ltd. has ₹ 60,000 15% Debentures showing balance on 1st January, 2003. The Debenture Redemption Fund Account shows the balance of ₹ 50,000 represented by Investments in 10% Government Securities worth ₹ 59,000. The company appropriates every year ₹ 8,230 to Sinking Fund Account.

The Directors of Dimple Ltd. decided to redeem the debentures on 31st December, 2003 by selling out investments at 83%. The balance at bank after receiving interest amounted to ₹ 15,640.

You are required to show necessary ledger accounts in the books of Dimple Ltd. for the year 2003.

25. (Red. @ Prem; Ledger A/c for last yr; Inv. sold at par/profit/loss): The following balances appeared in books of Sidney Potier Ltd. as on 31-3-2004:

	₹
10% First Mortgage Debentures	5,00,000
Income Received on Sinking Fund Investments	50,000
Discount on Issue of Debentures	25,000
Sinking Fund Account	4,00,000
Sinking Fund Investments:	
(a) ₹ 90,000 15% Government of Maharashtra Loans	85,000
(b) ₹ 1,00,000 14% Konkan Railway Bonds	90,000
(c) ₹ 80,000 12% Krushna Vally Loan	75,000
(d) ₹ 1,30,000 10% Central Government Securities	1,50,000

On the same day, the investments were sold as follows:

- (a) 15% Government of Maharashtra Loans @ ₹ 90
- (b) 14% Konkan Railway Bonds at par
- (c) 12% Krushna Vally Loan @ ₹ 90
- (d) 10% Central Government Securities @ ₹ 120

On 1st April, 2004, Debentures of ₹ 4,00,000 were redeemed at a premium of 5%. On the same day, Maharashtra Road Development Corporation Bonds of ₹ 1,00,000 were purchased at 10% premium. Annual contribution for Sinking Fund was ₹ 90,000. Ignore interest:

You are required to prepare: (1) Debentures A/c, (2) Sinking Fund A/c, (3) Sinking Fund Investment A/c and (4) General Reserve A/c.

(Mumbai, Oct. 2002, Adapted)

[Ans.: Profit on sale of investment - ₹ 9,000]

26. (Red. @ Prem; Ledger A/c for last yr; Inv. sold at par/profits/loss): On 30th June, 2003, the following balances stood in the books of P Limited:

	₹
8% First Mortgage Debentures	2,00,000
Debenture Redemption Reserve Fund	2,13,080

The above fund was invested in the following securities and shares :

	₹
₹ 70,000 6% Government Loan 2005	71,260
₹ 80,000 5% Government Loan 2007	64,068
₹ 16,000 7% Conversion Loan	16,042
₹ 60,000 8% Government of India Loan	61,710

The above investments were sold net on the same days as under: 6% Government Loan at par; 5% Government Loan at ₹ 91.7% Conversion Loan at ₹ 103 and 8% Government Loan at ₹ 109.

On 1st July, 2003, the company redeemed the debentures at premium of 5%.

Draw up the necessary accounts (other than cash), bring down their balances, if any after recording the above transactions and state how they will be disclosed in the Balance Sheet of the company as at 31st December, 2003.

[Ans.: Profit on investment sold – ₹ 11,600]

27. (Red. @ Prem; JV for fast yr; Inv. sold at par; Bonus): The summarised Balance Sheet of Successful Ltd. on 31st December, 2012 was:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets	2,10,000
Ordinary Shares of ₹ 1 each fully paid	2,00,000	Debenture Redemption Reserve	
General Reserve	80,000	Fund Investments	50,000
Debenture Redemption Reserve Fund	50,000	Current Assets Including balance at Bank	2,40,000
Premium on Redemption of Debentures A/c	1,000		
5% Debentures	50,000		
Current Liabilities	1,19,000		
	5,00,000		5,00,000

The directors decided to:

- (a) Repay the debentures including premium of 2%.
- (b) Make a bonus issue to the ordinary shareholders of one share for every two shares held in order to capitalise part of the undistributed profits. The appropriate resolutions were passed, the above transactions were duly completed. Debenture Redemption Reserve Fund Investments were sold for ₹ 50,000.

You are required to show:

- (a) The appropriate journal entries to record the transactions in the books of the company and
- (b) The Balance Sheet as it would appear after the completion of the transactions.

[Ans.: Transferred to General Reserve from Debenture Redemption Reserve ₹ 50,000; Bonus issue ₹ 1,00,000; B/S Total - ₹ 4,49,000]

28. (EQ @ Discount): C Ltd. redeemed 19,200 14% Debentures of ₹ 100 each which were issued at par, at 110% by converting them into equity shares of ₹ 10 each issued at a discount of 4%. Journalise.

[Ans.: Premium on redemption ₹ 1,92,000; Discount on issue of shares ₹ 88,000; No. of shares issued 2,20,000]

29. (EQ @ Par/Cash/PS @ Prem./Deb. @ Dis.): On 10th January, 1998, X Ltd. issued 10,000 6% Debentures of ₹ 100 each redeemable at par after 15 years. The terms of issue, however, provided that the debentures could be redeemable by giving 6 month's notice at any time after 5 years at a premium of 4% either by payment in cash or by allotment of Preference Shares and/or other debentures according to the option of the debentureholders.

On 10th April, 2003, the company informed the debentureholders to redeem the debentures on 1st October, 2003 either by payment in cash or by allotments of 8% Preference Shares of ₹ 100 each at ₹ 130 per share or 7% 2nd debentures of ₹ 100 each at ₹ 96 per debenture.

Holders of 4,000 debentures accepted the offer of the Preference Shares, holders of 4,800 debentures accepted the offer of 7% 2nd debentures and the rest demanded cash.

Give Journal entries recording the above redemption.

[Ans.: Conversion into Preference 4,000 Debentures × ₹ 104; Cash 1,200 × 104; Converted in new debentures 4,800 × 104]

30. (Red. @ Prem./Cash/PS @ Prem./Deb. @ Dis.): On January 1, 2004, Alpha Ltd. gave notice of its intention to redeem its ₹ 4,00,000 8% Debentures on 31st March, 2004 at 102% and offered the debentureholders, the following options:

- (a) To apply the redemption money in subscribing:
 - (i) 11% Cumulative Preference Shares of ₹ 20 each at 22.50 (opted by the holders of ₹ 1,71,000 debentures) or
 - (ii) 9% Debentures at 95% (opted by the holders of ₹ 1,44,000 debentures)
- (b) To get their holding redeemed for cash if neither of the options under (a) was accepted.

Show as on 31st March, 2004, the Journal entries to record the redemption and allotments involved in the above transactions. Also show the Debenture Redemption account.

31. (Red. @ Prem./Cash/PS @ Prem./Deb. @ Dis.): The following three alternatives have been given to redeem 5,000 8% Debentures of ₹ 100 each at 5% premium.

1. Payment in cash.
2. 10% Redeemable Preference Shares to be issued at ₹ 120 (face value ₹ 100).
3. 9% New Debenture of ₹ 100 each at ₹ 90.

Holders of 2,000 Debentures accepted Preference shares; 1,800 holders accepted 9% new Debentures and the remaining holders demanded cash.

Pass entries for the redemption of debentures.

[Ans.: Holders of 2,000 Debentures will get 1,750 Preference Shares at ₹ 120; Holder of 1,800 Debentures will get 2,100 New Debentures at ₹ 90 and the holders of remaining 1,200 Debentures will get ₹ 1,26,000 in cash]

32. (PS @ Prem.; Deb @ Par; Red. in Cash): Enkay Ltd.'s Summary Balance Sheet on 31st March, 2012 reads as under:

Liabilities		₹	Assets		₹
Share Capital (₹ 100 each)			Fixed Assets		8,00,000
Equity	5,00,000		Investments		1,00,000
Less: Calls-in-arrears	10,000	4,90,000	Stock		80,000
10% Preference	3,00,000		Debtors		4,00,000
Less: Calls-in-arrears	10,000	2,90,000	Bank		2,00,000
Security (Share) Premium		50,000			
Capital Reserve		1,00,000			
General Reserve		2,00,000			
12% Debentures		3,00,000			
Creditors		1,50,000			
		15,80,000			15,80,000

On the same date, Preference Shares are redeemable at premium of 10% and Debentures are repayable at par.

The calls-in-arrears on both classes of shares are @ ₹ 40 per share.

To enable redemption, company took the following measures:

1. The reminders for calls were sent to all shareholders. The shareholders holding 100 Equity Shares and 150 Preference Shares paid the amount.
2. The remaining Preference Shares were forfeited and cancelled.
3. The remaining Equity Shares were forfeited and reissued later on receipt of ₹ 60 per share.
4. Investments were sold for ₹ 1,20,000.
5. 1,000 Equity Shares were issued for cash consideration at 20% Premium. The issue was fully subscribed and paid for.
6. A special discount @ 5% was offered to customers for immediate payments. 50% of customers in value accepted the offer.
7. Bank Overdraft was arranged for balance of funds required.

You are required to show Journal Entries and Revised Balance Sheet in compliance with Companies Act. **(Oct. 95, Adapted)**

[Ans. Capital Reserve ₹ 9,000; CRR ₹ 1,90,000; B/S Total ₹ 11,10,000]

33. (PS @ Prem.; Deb. @ Prem.; Red. in Cash): Resale Ltd., a retail trading company, decided that the value of its freehold properties could be used to provide additional working capital.

The summarised Balance Sheet of the company as on 31st March, 2012 showed the following:

Liabilities		₹	Assets		₹
5,000 6% Preference Shares of ₹ 10 each	50,000		Freehold Properties at cost	2,00,000	
10,000 Equity Shares of ₹ 10 each	1,00,000		Less: Prov. for Depreciation	40,000	1,60,000
Security Premium Account	5,000		Furniture and Equipment, at cost	90,000	
Profit and Loss Account	1,30,000		Less: Proc. for Depreciation	30,000	60,000
8% Debentures (secured on freehold properties)	70,000		Stock		58,000

Creditors	40,000	Debtors	52,000
		Bank	65,000
	3,95,000		3,95,000

Note: Depreciation on the freehold properties has been provided at 2% p.a. on cost.

The following action was taken:

1. The freehold properties were sold for ₹ 2,20,000 to an insurance company.
2. The 8% Debentures were discharged at premium of 10%.
3. The 5,000 6% Preference Shares were redeemed at premium of 10%.

You are required to show the Journal entires necessary to record the above transactions (including cash) in the company's books.

[Ans.: CRR ₹ 50,000]

34. (PS @ Par; Deb. @ Prem.; Red. in Cash; Bonus): The summarised Balance Sheet of Reflex Ltd. on December 31, 2012 was:

Liabilities	₹	Assets	₹
Share Capital:		Freehold Property	2,80,000
6% Preference Shares of ₹ 1 each	1,00,000	Other Fixed Assets	2,05,000
Equity Shares of ₹ 1 each	2,00,000	Current Assets	2,90,000
General Reserve	1,00,000		
Profit and Loss Account	2,05,000		
5% Debenture	50,000		
Current Liabilities	1,20,000		
	5,00,000		5,00,000

The Directors decide to:

1. Redeem the Preference Shares at par;
2. Redeem the Debenture at a premium of 2%.
3. Make a bonus issue to the Equity Shareholders of one ₹ 1 share for every two ₹ 1 shares held in order to capitalise part of the undistributed profits.

The appropriate resolutions having been passed, the above transactions were completed.

You are required to show:

- (a) The appropriate Journal entries to record the transactions in the books of the company; and
- (b) The Balance Sheet as it would appear after the completion of transactions.

[Ans.: CRR ₹ 1,00,000; Bonus ₹ 1,00,000; B/S Total ₹ 6,24,000]

35. (PS @ Prem; Deb. @ Prem; Conversion in EQ @ Prem.): The summarised Balance Sheet of Didnot Ltd. as at 31st March, 2012 was as follows:

Liabilities	₹	Assets	₹
6% Redeemable preference shares of ₹ 10 each	2,00,000	Fixed Assets at cost less depreciation	4,12,000
Equity Shares of ₹ 10 each	4,00,000	Goodwill	2,00,000
Profit and Loss Account	2,50,000	Stock	4,50,000
6% Debentures	3,00,000	Sundry Debtors	2,15,000
Bank	50,000	Discount on Debentures	12,000

Creditors	89,000	
	12,89,000	12,89,000

For redemption of Preference shares and Debentures, the company offered to the Redeemable Preference shareholders and the Debentureholders the options to convert their holdings into equity share, which are to be treated as worth ₹ 12.50 each.

Half the Preference shareholders and 1/3rd of the Debentureholders agreed to do this. The company issued 30,000, Equity shares at ₹ 12.50 to the public for cash and with the funds available paid off the Bank Loan and redeemed the remaining redeemable Preference shares and Debentures. Journalise the above transactions and recast the Balance sheet. **(Mumbai, Oct. 2000, Adapted)**

[Ans.: Debentureholders Cash 2,00,000; Equity 80,000 + Premium 20,000; Preference Holder Cash 1,00,000; Equity 80,000 + Premium 20,000; B/S Total ₹ 13,02,000]

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