Chapter 2: Issue and Redemption of Debentures

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Exercise 2.1 — Short & Long Answer Questions

Q1 What is meant by a Debenture?

A debenture is a written instrument acknowledging a debt under the common seal of the company. It contains a contract for repayment of principal after a specified period (or at intervals or at the company's option) and for payment of interest at a fixed rate, usually payable half-yearly or yearly on fixed dates. According to Section 2(30) of the Companies Act, 2013, 'debenture' includes debenture stock, bonds and any other securities of a company, whether or not they constitute a charge on the assets of the company. The company is under a legal obligation to pay interest on debentures whether or not it has earned a profit.

Q2 What does a Bearer Debenture mean?

Bearer debentures are debentures that can be transferred by mere delivery, like currency notes. The company does not keep any record of the names and addresses of debenture holders. Interest on bearer debentures is paid to the person who produces the interest coupon attached to the debenture certificate. Since no registration of transfer is required, they are easily negotiable instruments.

Q3 State the meaning of 'Debentures issued as a collateral security'.

When a company takes a loan from a bank or a financial institution, it may be required to provide some security in addition to the primary security. Debentures issued as collateral (subsidiary) security serve this purpose — they are deposited with the lender as a secondary guarantee. No interest is paid on these debentures because interest is already being paid on the primary loan. If the company repays the loan, the debentures are returned; if the company defaults, the lender can realise the debentures. In the books, the entry is: Debenture Suspense A/c Dr. / To Debentures A/c (no cash is received).

Q4 What is meant by 'Issue of debentures for consideration other than cash'?

Sometimes a company purchases assets (such as land, machinery, or an entire business) from a vendor and, instead of paying cash, issues debentures to the vendor as purchase consideration. Such debentures are said to be issued for consideration other than cash. They may be issued at par, at a premium, or at a discount. The vendor's account is credited with the purchase consideration and debited when debentures are allotted. No bank entry is involved because no cash changes hands.

Q5 What is meant by Issue of debenture at discount and redeemable at premium?

When debentures are issued at a price below their face value (issue price < face value), they are said to be issued at a discount. When the same debentures are to be repaid at a price above their face value (redemption price > face value), they are said to be redeemable at a premium. For example, a debenture of Rs. 100 issued at Rs. 95 and redeemable at Rs. 105 involves a discount of Rs. 5 on issue and a premium of Rs. 5 on redemption. The total loss on issue (Rs. 10 in this case) is debited to 'Loss on Issue of Debentures A/c', and the premium on redemption is credited to 'Premium on Redemption of Debentures A/c' (shown under other long-term liabilities in the balance sheet). The loss on issue is written off against Securities Premium Reserve (if available) and/or Statement of Profit and Loss.

Q6 What is 'Capital Reserve'?

Capital Reserve is a reserve created out of capital profits — profits that arise from transactions of a capital nature, not from the normal operating activities of the business. Examples include profit on reissue of forfeited shares, profit on purchase of a business at a price below the fair value of net assets taken over (i.e., when purchase consideration is less than net assets), profit on redemption of debentures by purchase in the open market at a price below face value, and premium received on issue of shares. Capital Reserve is not available for distribution as dividend to shareholders; it can be used to write off capital losses.

Q7 What is meant by a 'Irredeemable Debenture'?

Irredeemable debentures, also called perpetual debentures, are debentures for which the company gives no undertaking to repay the principal amount during its lifetime. They are repayable only on the winding up of the company or on the expiry of a very long (indefinite) period. The company continues to pay interest on them indefinitely. These are rarely issued in practice.

Q8 What is a 'Convertible Debenture'?

Convertible debentures are debentures that can be converted into equity shares or any other security, either at the option of the company or at the option of the debenture holder, as per the terms of issue. They may be: (a) Fully Convertible Debentures (FCDs) — the entire principal is converted into shares on a specified date; or (b) Partly Convertible Debentures (PCDs) — only a portion is converted into shares and the balance is redeemed in cash. Conversion is done at a predetermined price or ratio. Debentures that cannot be so converted are called Non-Convertible Debentures (NCDs).

Q9 What is meant by 'Mortgaged Debentures'?

Mortgaged debentures, also called secured debentures, are debentures that are secured by a charge (fixed or floating) on the assets of the company. A fixed charge is created on a specific identifiable asset (e.g., land or building), giving the debenture holder priority over that asset in case of default. A floating charge covers the general assets of the company — it crystallises on default and then attaches to the assets at that point. Such debentures provide greater security to debenture holders compared to unsecured (naked) debentures.

Q10 What is discount on issue of debentures?

Discount on issue of debentures arises when debentures are issued at a price less than their face value. For example, issuing a Rs. 100 debenture at Rs. 95 results in a discount of Rs. 5. It is a capital loss for the company. The discount is debited to 'Discount on Issue of Debentures A/c' (or 'Loss on Issue of Debentures A/c' when combined with premium on redemption). It is written off against Securities Premium Reserve (to the extent available) and/or the Statement of Profit and Loss during the life of the debentures. The unwritten portion is shown under 'Other Non-Current Assets' or 'Other Current Assets' in the balance sheet depending on the time remaining to write-off.

Q11 What is meant by 'Premium on Redemption of Debentures'?

Premium on Redemption of Debentures refers to the extra amount (over and above the face value) that the company agrees to pay to debenture holders at the time of redemption. For example, if a debenture of face value Rs. 100 is to be redeemed at Rs. 110, the premium on redemption is Rs. 10. It is a capital liability for the company. At the time of issue, it is credited to 'Premium on Redemption of Debentures A/c', which is shown on the liabilities side of the balance sheet under 'Other Long-term Liabilities'. The corresponding debit (forming part of 'Loss on Issue of Debentures') is written off against Securities Premium Reserve and/or the Statement of Profit and Loss.

Q12 How debentures are different from shares? Give two points.

Two key differences between debentures and shares: (1) Ownership vs. Creditorship: A share represents ownership — a shareholder is a part-owner of the company. A debenture represents a loan — a debenture holder is a creditor of the company. Shares form part of owned capital, while debentures form part of borrowed capital. (2) Return: The return on shares is dividend, which is paid from profits and only if the company decides to declare it. The return on debentures is interest, which is a fixed-rate charge on profits and must be paid even if the company makes no profit.

Q13 What is meant by redemption of debentures?

Redemption of debentures means the repayment of the amount due to debenture holders — i.e., extinguishing or discharging the liability on account of debentures in accordance with the terms of issue. Redemption can be done in four ways: (1) Payment in lump sum at maturity, (2) Payment in instalments (by draw of lots), (3) Purchase in the open market for immediate cancellation, and (4) Conversion into shares or new debentures.

Q14 Can the company purchase its own debentures?

Yes, a company can purchase its own debentures from the open market for the purpose of immediate cancellation. This is called redemption by purchase in the open market. When debentures are purchased at a price below their face value, the difference is a profit (credited to 'Profit on Redemption of Debentures A/c') which is then transferred to Capital Reserve. If purchased above face value, the excess is a loss debited to Statement of Profit and Loss. This method allows the company to redeem debentures at its convenience, particularly when it has surplus funds or when debentures are available at a discount in the market.

Q15 What is meant by redemption of debentures by conversion?

Redemption by conversion means discharging the debenture liability by converting debentures into equity shares or a new class of debentures, instead of repaying cash. This is applicable only to convertible debentures. If debenture holders find the conversion offer beneficial, they exercise their option to convert. The new shares or debentures may be issued at par, at a premium, or at a discount. The number of shares to be issued is determined on the basis of the actual proceeds received when the debentures were originally issued (not the face value), since the debenture holder should receive equivalent value. Journal entry: Debentures A/c Dr. / To Equity Share Capital A/c / To Securities Premium Reserve A/c (if at premium).

Q16 How would you deal with 'Premium on Redemption of Debentures'?

Premium on Redemption of Debentures is treated as follows: (1) At the time of issue of debentures, 'Loss on Issue of Debentures A/c' is debited (for the total of discount on issue + premium on redemption) and 'Premium on Redemption of Debentures A/c' is credited. The premium on redemption account appears on the liabilities side of the balance sheet under 'Other Long-term Liabilities'. (2) The loss on issue is written off by debiting Securities Premium Reserve (to the extent available) and/or Statement of Profit and Loss during the life of the debentures. (3) At the time of actual redemption, 'Debentures A/c' and 'Premium on Redemption of Debentures A/c' are debited and 'Debenture holders A/c' is credited for the total redemption amount. (4) Debenture holders A/c is then debited and Bank A/c credited when payment is made.

Q17 What is meant by redemption of debentures by 'Purchase in Open Market'?

Redemption by purchase in the open market means the company buys its own debentures from the stock exchange or open market and immediately cancels them, thereby extinguishing its liability. The advantage is that the company can redeem at its convenience whenever surplus funds are available, and it can take advantage of market conditions when debentures are trading below face value. When purchased below face value: Debentures A/c Dr. / To Bank A/c / To Profit on Redemption of Debentures A/c — and the profit is transferred to Capital Reserve. When purchased above face value: Debentures A/c Dr. / Loss on Redemption of Debentures A/c Dr. / To Bank A/c — and the loss is charged to Statement of Profit and Loss.

Q18 Explain the different types of debentures.

Debentures can be classified as follows:

1. From the point of view of Security: (a) Secured (Mortgaged) Debentures — secured by a fixed or floating charge on company assets; (b) Unsecured (Naked) Debentures — no charge on assets; rarely issued.

2. From the point of view of Tenure: (a) Redeemable Debentures — repayable on a specified date or in instalments during the company's lifetime; (b) Irredeemable (Perpetual) Debentures — no fixed date of repayment; repaid only on winding up or after a very long period.

3. From the point of view of Convertibility: (a) Convertible Debentures — can be converted into equity shares or other securities (fully or partly convertible); (b) Non-Convertible Debentures — cannot be converted; most common type.

4. From the point of view of Coupon Rate: (a) Specific Coupon Rate Debentures — carry a fixed or floating rate of interest; (b) Zero Coupon Rate (Deep Discount) Debentures — no stated interest; issued at a deep discount, and the difference between issue price and face value is the total return.

5. From the point of view of Registration: (a) Registered Debentures — company maintains a register of holders; transfer requires a deed; (b) Bearer (Unregistered) Debentures — transferable by delivery; no register kept; interest paid against coupons.

Q19 Distinguish between a debenture and a share. Why debenture is known as loan capital? Explain.

Distinction between Debentures and Shares:

1. Nature: A share represents ownership of the company (part of owned capital). A debenture represents a loan to the company (part of borrowed capital).
2. Return: Shareholders receive dividend, which depends on profits and directors' discretion. Debenture holders receive interest at a fixed rate, which is a charge on profits and payable even if there is a loss.
3. Repayment: Share capital is generally not repaid during the life of the company. Debentures are normally issued for a fixed term and repaid on maturity.
4. Voting Rights: Shareholders enjoy voting rights and participate in management. Debenture holders do not normally have voting rights.
5. Security: Shares are not secured. Debentures are generally secured by a charge on company assets.
6. Convertibility: Shares cannot be converted into debentures. Debentures (if convertible) can be converted into shares.
7. In Winding Up: Shareholders are paid last, after all liabilities. Debenture holders are creditors and are paid before shareholders.

Why Debentures are called Loan Capital: Debentures represent money borrowed by the company from the public or institutions. Like a loan, they carry a fixed rate of interest (payable irrespective of profit or loss), have a fixed repayment date, are generally secured against assets, and the holders are creditors (not owners) of the company. Since they form a permanent and significant part of a company's long-term funds raised through borrowing, they are collectively referred to as loan capital.

Q20 Describe the meaning of 'Debenture Issued as Collateral Securities'. What accounting treatment is given to the issue of debentures in the books of accounts?

Meaning: Collateral security is any security given in addition to the primary security for a loan. When a company obtains a loan from a bank or financial institution and is required to deposit debentures as a subsidiary guarantee, those debentures are said to be issued as collateral security. No cash is received; no interest is paid on these debentures (interest is paid on the loan itself). If the loan is repaid, the debentures are returned; if the company defaults, the lender realises the debentures.

Accounting Treatment: There are two methods:
(a) No journal entry method: No entry is made in the books; only a note is given in the balance sheet disclosing the deposit of debentures as collateral security.
(b) Journal entry method (preferred): Debenture Suspense A/c Dr. / To Debentures A/c — with the face value of debentures deposited. On the balance sheet, 'Debentures A/c' appears on the liabilities side (under long-term borrowings) and 'Debenture Suspense A/c' appears on the assets side, netting to zero effect. When the loan is repaid, the reverse entry is passed: Debentures A/c Dr. / To Debenture Suspense A/c.

Q21 Explain the different terms for the issue of debentures with reference to their redemption.

Debentures can be issued and redeemed under various combinations of terms:

1. Issued at par, redeemable at par: Issue price = face value; redemption price = face value. No discount or premium on either side. Journal: Bank Dr. / To Debentures A/c at full face value.

2. Issued at premium, redeemable at par: Issue price > face value. Securities Premium Reserve is credited for the premium. No loss on issue.

3. Issued at discount, redeemable at par: Issue price < face value. Discount on issue is debited to Discount/Loss on Issue A/c and written off against Securities Premium Reserve / Statement of P&L.

4. Issued at par, redeemable at premium: Redemption price > face value. Premium on Redemption of Debentures A/c is credited at the time of issue and Loss on Issue of Debentures A/c is debited. Premium on redemption is shown as a long-term liability.

5. Issued at discount, redeemable at premium: Total loss = discount on issue + premium on redemption. Both debited to Loss on Issue of Debentures A/c, with Premium on Redemption Cr. at issue.

6. Issued at premium, redeemable at premium: Securities Premium Reserve Cr. for issue premium; Premium on Redemption Cr. (Loss on Issue Dr.) for redemption premium. The SP can be used to write off the loss on issue.

Q22 Differentiate between redemption of debentures out of capital and out of profits.

Redemption out of Capital: The debentures are redeemed without transferring any profits to Debenture Redemption Reserve. The funds come from fresh issue of shares or debentures, or from existing capital. No DRR is required. Listed companies (other than 'other unlisted companies') and certain regulated entities (banks, NBFCs, housing finance companies) are permitted to redeem out of capital under the Companies Act, 2013 and SEBI regulations.

Redemption out of Profits: Profits are transferred to Debenture Redemption Reserve (DRR) before redemption, ensuring that the redeemed capital is retained in the business as a reserve (to protect creditors). 'Other unlisted companies' must create DRR equal to 10% of the outstanding debentures. The DRR is then transferred to General Reserve after redemption. This route ensures that the company does not deplete its capital base by paying out debenture holders from profits without retention.

Key difference: Redemption out of profits retains an equivalent amount in reserves (DRR → General Reserve), preserving the capital base. Redemption out of capital does not require this retention.

Q23 Explain the guidelines of SEBI for creating Debenture Redemption Reserve.

Debenture Redemption Reserve (DRR) is a reserve created to ensure that funds are set aside for the repayment of debentures. The key guidelines are:

1. Exempted entities (no DRR required): All India Financial Institutions registered with RBI, banking companies, NBFCs registered with RBI, housing finance companies registered with NHB, and companies listed on a recognised stock exchange — these may redeem debentures out of capital.

2. 'Other unlisted companies': Must create DRR of 10% of the value of outstanding debentures before commencing redemption.

3. Debenture Redemption Investment (DRI): Every company (including listed companies) is required to invest or deposit, on or before April 30 each year, at least 15% of the amount of debentures maturing during the financial year ending March 31 of the next year. This investment must be kept in specified instruments such as government securities, deposits with scheduled banks, or specified bonds, and must not be used for any purpose other than debenture redemption.

4. After redemption: The DRR created is transferred to General Reserve once the debentures are fully redeemed.

Q24 Describe the steps for creating Sinking Fund for redemption of debentures.

A Sinking Fund is created by setting aside a fixed amount every year (called the sinking fund instalment) out of profits, investing it in outside securities, and accumulating the fund until it is sufficient to redeem the debentures at maturity. Steps involved:

1. Determine the annual instalment: Using sinking fund tables (annuity method), ascertain the fixed amount to be set aside each year so that, with compound interest, the total equals the redemption amount.

2. Transfer to Sinking Fund: Each year, debit 'Statement of Profit and Loss' and credit 'Sinking Fund A/c' (or 'Debenture Redemption Reserve') with the instalment amount.

3. Investment: Invest the instalment in safe, outside securities by debiting 'Sinking Fund Investment A/c' and crediting 'Bank A/c'.

4. Interest on investments: Credit interest received to 'Sinking Fund A/c' and reinvest it.

5. At the time of redemption: Sell the investments (Bank Dr. / Sinking Fund Investment Cr.), use the proceeds to pay off debenture holders, and transfer the balance in Sinking Fund A/c to General Reserve.

The sinking fund method ensures that adequate funds are available at maturity without straining the company's finances in any single year.

Q25 Can a company purchase its own debentures in the open market? Explain.

Yes, a company can purchase its own debentures in the open market for immediate cancellation. This constitutes redemption by purchase in the open market. Key points:

1. Advantage: The company can redeem debentures at its convenience whenever surplus funds are available, and it can buy them at a discount if the market price is below face value.

2. When purchased below face value: Debentures A/c Dr. (face value) / To Bank A/c (purchase price) / To Profit on Redemption of Debentures A/c (difference). The profit is a capital profit and is transferred to Capital Reserve: Profit on Redemption A/c Dr. / To Capital Reserve.

3. When purchased above face value: Debentures A/c Dr. / Loss on Redemption of Debentures A/c Dr. / To Bank A/c. The loss is charged to Statement of Profit and Loss.

4. The purchased debentures are immediately cancelled and not reissued. The liability is extinguished to the extent of debentures bought back.

5. If the company redeeming involves DRR, the required DRR and DRI entries must be completed

before actual redemption.

Q26 What is meant by conversion of debentures? Describe the method of such a conversion.

Conversion of debentures means redeeming the debenture liability not by paying cash but by issuing equity shares or new debentures to the debenture holders in exchange. This method is applicable only to convertible debentures.

Method:
1. The company offers existing debenture holders the option (or obligation, for fully convertible debentures) to exchange their debentures for equity shares or new debentures at a predetermined ratio or price.
2. If the offer is attractive, debenture holders exercise their conversion right.
3. The number of new shares to be issued is computed on the basis of the actual proceeds originally received when the debentures were issued (not necessarily the face value), ensuring equivalence of value.
4. Journal entries: (a) Debentures A/c Dr. / To Debenture holders A/c (amount due); (b) Debenture holders A/c Dr. / To Equity Share Capital A/c / To Securities Premium Reserve A/c (if shares issued at premium) — for the converted portion.
5. New shares or debentures may be issued at par, at a premium, or at a discount.
6. Partly convertible debentures involve conversion of one portion and cash redemption of the remaining portion.

Exercise 2.2 — Numerical Questions

Q1 G. Ltd. a listed company issued 75,00,000, 6% debentures of Rs. 50 each at par payable Rs. 15 on application and Rs. 35 on allotment, redeemable at par after 7 years from the date of issue of debentures. Record necessary entries in the books of Company.

SOLUTION

Total debentures: 75,00,000; Face value: Rs. 50 each; Issue price: Rs. 50 (at par)
Application money: Rs. 15 per debenture × 75,00,000 = Rs. 11,25,00,000
Allotment money: Rs. 35 per debenture × 75,00,000 = Rs. 26,25,00,000
Total proceeds: Rs. 37,50,00,000 (= 75,00,000 × 50) ✓

Journal Entries in the Books of G. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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...	Bank A/c Dr.	11,25,00,000	
	To 6% Debenture Application A/c		11,25,00,000
	(Application money received on 75,00,000 debentures @ Rs. 15 each)		
...	6% Debenture Application A/c Dr.	11,25,00,000	
	To 6% Debentures A/c		11,25,00,000
	(Application money transferred to Debentures A/c on allotment)		
...	6% Debenture Allotment A/c Dr.	26,25,00,000	
	To 6% Debentures A/c		26,25,00,000
	(Allotment money due on 75,00,000 debentures @ Rs. 35 each)		
...	Bank A/c Dr.	26,25,00,000	
	To 6% Debenture Allotment A/c		26,25,00,000
	(Allotment money received)		

Note: These are listed company debentures redeemable at par after 7 years. No DRR is required for listed companies.

Q2 Y. Ltd. issued 2,000, 6% debentures of Rs. 100 each payable as follows: Rs. 25 on application; Rs. 50 on allotment and Rs. 25 on first and final call. Record necessary entries in the books of the company.

SOLUTION

Total debentures: 2,000; Face value: Rs. 100 each; Issue: at par
Application: Rs. 25 × 2,000 = Rs. 50,000
Allotment: Rs. 50 × 2,000 = Rs. 1,00,000
First and Final Call: Rs. 25 × 2,000 = Rs. 50,000
Total: Rs. 2,00,000 ✓

Journal Entries in the Books of Y. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
---	---	---	---
...	Bank A/c Dr.	50,000	
	To 6% Debenture Application A/c		50,000
	(Application money received on 2,000 debentures @ Rs. 25 each)		
...	6% Debenture Application A/c Dr.	50,000	
	To 6% Debentures A/c		50,000
	(Application money transferred to Debentures A/c on allotment)		
...	6% Debenture Allotment A/c Dr.	1,00,000	
	To 6% Debentures A/c		1,00,000
	(Allotment money due on 2,000 debentures @ Rs. 50 each)		
...	Bank A/c Dr.	1,00,000	
	To 6% Debenture Allotment A/c		1,00,000
	(Allotment money received)		
...	6% Debenture First and Final Call A/c Dr.	50,000	
	To 6% Debentures A/c		50,000

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	(First and final call money due @ Rs. 25 per debenture)		
...	Bank A/c Dr.	50,000	
	To 6% Debenture First and Final Call A/c		50,000
	(First and final call money received)		

Q3 A. Ltd. issued 10,000, 10% debentures of Rs. 100 each at a premium of 5% payable as follows: Rs. 10 on Application; Rs. 20 along with premium on allotment and balance on first and final call. The debentures were fully subscribed and all money was duly received. Record necessary Journal entries. Also show how the amount will appear in the balance sheet.

SOLUTION

Total debentures: 10,000; Face value: Rs. 100; Issue price: Rs. 105 (at 5% premium)
Premium per debenture: Rs. 5; Total Securities Premium: Rs. 5 × 10,000 = Rs. 50,000

Payment schedule per debenture:
Application: Rs. 10
Allotment: Rs. 20 + Rs. 5 (premium) = Rs. 25
First and Final Call: Rs. 100 − Rs. 10 − Rs. 20 = Rs. 70
Total per debenture: Rs. 10 + Rs. 25 + Rs. 70 = Rs. 105 ✓

Total amounts:
Application: Rs. 10 × 10,000 = Rs. 1,00,000
Allotment (incl. premium): Rs. 25 × 10,000 = Rs. 2,50,000
First and Final Call: Rs. 70 × 10,000 = Rs. 7,00,000
Total proceeds: Rs. 10,50,000 ✓

Journal Entries in the Books of A. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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...	Bank A/c Dr.	1,00,000	
	To 10% Debenture Application A/c		1,00,000
	(Application money received on 10,000 debentures @ Rs. 10 each)		
...	10% Debenture Application A/c Dr.	1,00,000	

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	To 10% Debentures A/c		1,00,000
	(Application money transferred to Debentures A/c on allotment)		
...	10% Debenture Allotment A/c Dr.	2,50,000	
	To 10% Debentures A/c		2,00,000
	To Securities Premium Reserve A/c		50,000
	(Allotment money due @ Rs. 20 per debenture plus premium of Rs. 5 each)		
...	Bank A/c Dr.	2,50,000	
	To 10% Debenture Allotment A/c		2,50,000
	(Allotment money received)		
...	10% Debenture First and Final Call A/c Dr.	7,00,000	
	To 10% Debentures A/c		7,00,000
	(First and final call money due @ Rs. 70 per debenture)		
...	Bank A/c Dr.	7,00,000	
	To 10% Debenture First and Final Call A/c		7,00,000
	(First and final call money received)		

Balance Sheet (Extract)

Particulars	Note No.	Amount (Rs.)
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I. Equity and Liabilities		
Shareholders' Funds		
Reserves and Surplus	1	50,000
Non-Current Liabilities		

Particulars	Note No.	Amount (Rs.)
Long-term Borrowings	2	10,00,000
II. Assets		
Current Assets: Cash and Cash Equivalents		10,50,000

Notes to Accounts:
1. Reserves and Surplus: Securities Premium Reserve — Rs. 50,000
2. Long-term Borrowings: 10,000, 10% Debentures of Rs. 100 each — Rs. 10,00,000

Q4 A. Ltd. issued 90,00,000, 9% debentures of Rs. 50 each at a discount of 8%, redeemable at par any time after 9 years. Record necessary entries in the books of A. Ltd., for issue of debentures.

SOLUTION

Total debentures: 90,00,000; Face value: Rs. 50 each
Discount: 8% of Rs. 50 = Rs. 4 per debenture
Issue price: Rs. 50 − Rs. 4 = Rs. 46 per debenture
Total face value: 90,00,000 × Rs. 50 = Rs. 45,00,00,000
Total issue proceeds (Bank): 90,00,000 × Rs. 46 = Rs. 41,40,00,000
Total discount on issue: 90,00,000 × Rs. 4 = Rs. 3,60,00,000

Journal Entries in the Books of A. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
---	---	---	---
...	Bank A/c Dr.	41,40,00,000	
	To 9% Debenture Application & Allotment A/c		41,40,00,000
	(Application money received on 90,00,000 debentures @ Rs. 46 each)		
...	9% Debenture Application & Allotment A/c Dr.	41,40,00,000	
	Discount on Issue of Debentures A/c Dr.	3,60,00,000	
	To 9% Debentures A/c		45,00,00,000
	(Debentures allotted at 8% discount; application money transferred)		

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
...	Securities Premium Reserve A/c / Statement of P&L Dr.	3,60,00,000	
	To Discount on Issue of Debentures A/c		3,60,00,000
	(Discount on issue of debentures written off)		

Q5 A. Ltd. issued 4,000, 9% debentures of Rs. 100 each on the following terms: Rs. 20 on Application; Rs. 20 on Allotment; Rs. 30 on First call; and Rs. 30 on Final call. The public applied for 4,800 debentures. Applications for 3,600 debentures were accepted in full. Applications for 800 debentures were allotted 400 debentures and applications for 400 debentures were rejected. All money called and duly received. Record necessary journal entries.

SOLUTION

Debentures issued: 4,000 of Rs. 100 each
Applications received: 4,800
Category A: 3,600 fully accepted
Category B: 800 applied → 400 allotted (excess app money: 400 × Rs. 20 = Rs. 8,000 adjusted against allotment)
Category C: 400 rejected → refund Rs. 400 × Rs. 20 = Rs. 8,000

Application money received: 4,800 × Rs. 20 = Rs. 96,000
Allotment money due: 4,000 × Rs. 20 = Rs. 80,000
From Category A (cash): 3,600 × Rs. 20 = Rs. 72,000
From Category B (from excess app money): 400 × Rs. 20 = Rs. 8,000 (adjusted)
First call: 4,000 × Rs. 30 = Rs. 1,20,000
Final call: 4,000 × Rs. 30 = Rs. 1,20,000
Total: Rs. 4,00,000 ✓

Journal Entries in the Books of A. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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...	Bank A/c Dr.	96,000	
	To 9% Debenture Application A/c		96,000
	(Application money received on 4,800 debentures @ Rs. 20 each)		
...	9% Debenture Application A/c Dr.	96,000	

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	To 9% Debentures A/c		80,000
	To 9% Debenture Allotment A/c		8,000
	To Bank A/c		8,000
	(Application money transferred: allotted 4,000 debs; excess of Category B adjusted to allotment; Category C refunded)		
...	9% Debenture Allotment A/c Dr.	80,000	
	To 9% Debentures A/c		80,000
	(Allotment money due on 4,000 debentures @ Rs. 20 each)		
...	Bank A/c Dr.	72,000	
	To 9% Debenture Allotment A/c		72,000
	(Allotment money received in cash from Category A; Category B adjusted from application)		
...	9% Debenture First Call A/c Dr.	1,20,000	
	To 9% Debentures A/c		1,20,000
	(First call money due on 4,000 debentures @ Rs. 30 each)		
...	Bank A/c Dr.	1,20,000	
	To 9% Debenture First Call A/c		1,20,000
	(First call money received)		
...	9% Debenture Final Call A/c Dr.	1,20,000	
	To 9% Debentures A/c		1,20,000
	(Final call money due on 4,000 debentures @ Rs. 30 each)		

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
...	Bank A/c Dr.	1,20,000	
	To 9% Debenture Final Call A/c		1,20,000
	(Final call money received)		

Q6 T. Ltd. offered 2,00,000, 8% debentures of Rs. 500 each on June 30, 2014 at a premium of 10% payable as Rs. 200 on application (including premium) and balance on allotment, redeemable at par after 8 years. But applications are received for 3,00,000 debentures and the allotment is made on pro-rata basis. All the money due on application and allotment was received. Record necessary entries regarding issue of debentures.

SOLUTION

Debentures issued: 2,00,000; Face value: Rs. 500; Issue price: Rs. 550 (10% premium = Rs. 50)
Applications received: 3,00,000 (pro-rata: allot 2 for every 3 applied)

Payment schedule:
Application (incl. premium): Rs. 200 per debenture applied
Allotment: Rs. 550 − Rs. 200 = Rs. 350 per debenture allotted

Application money received: 3,00,000 × Rs. 200 = Rs. 6,00,00,000
Application money attributable to 2,00,000 allotted debentures: 2,00,000 × Rs. 200 = Rs. 4,00,00,000
Excess application money (pro-rata, adjusted against allotment): Rs. 6,00,00,000 − Rs. 4,00,00,000 = Rs. 2,00,00,000
Allotment due: 2,00,000 × Rs. 350 = Rs. 7,00,00,000
Allotment received in cash: Rs. 7,00,00,000 − Rs. 2,00,00,000 = Rs. 5,00,00,000
Securities Premium: 2,00,000 × Rs. 50 = Rs. 1,00,00,000
Total proceeds: Rs. 6,00,00,000 + Rs. 5,00,00,000 = Rs. 11,00,00,000 = 2,00,000 × Rs. 550 ✓

Journal Entries in the Books of T. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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June 30, 2014	Bank A/c Dr.	6,00,00,000	

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	To 8% Debenture Application A/c		6,00,00,000
	(Application money received on 3,00,000 debentures @ Rs. 200 each)		
...	8% Debenture Application A/c Dr.	6,00,00,000	
	To 8% Debentures A/c		4,00,00,000
	To 8% Debenture Allotment A/c		2,00,00,000
	(Pro-rata allotment of 2,00,000 debentures; excess application money of Rs. 2,00,00,000 adjusted to allotment)		
...	8% Debenture Allotment A/c Dr.	7,00,00,000	
	To 8% Debentures A/c		6,00,00,000
	To Securities Premium Reserve A/c		1,00,00,000
	(Allotment money due on 2,00,000 debentures @ Rs. 350 each including premium of Rs. 50 each)		
...	Bank A/c Dr.	5,00,00,000	
	To 8% Debenture Allotment A/c		5,00,00,000
	(Allotment money received in cash; excess adjusted from application)		

Q7 X. Ltd. invited applications for the issue of 10,000, 14% debentures of Rs. 100 each payable as to Rs. 20 on application, Rs. 60 on allotment and the balance on call. The company receives applications for 13,500 debentures, out of which applications for 8,000 debentures are allotted in full, applications for 5,000 debentures were allotted 40% of received application, and the remaining applications were rejected. The surplus money on partially allotted applications is utilised towards allotment. All the sums due are duly received. Record necessary journal entries regarding issue of debentures.

SOLUTION

Debentures issued: 10,000 of Rs. 100 each
Applications: 13,500
Fully allotted: 8,000
Partially allotted: 5,000 applied → 2,000 allotted (40%); excess = 3,000 × Rs. 20 = Rs. 60,000
Rejected: 13,500 − 8,000 − 5,000 = 500; refund = 500 × Rs. 20 = Rs. 10,000
Total allotted: 8,000 + 2,000 = 10,000 ✓

Application money received: 13,500 × Rs. 20 = Rs. 2,70,000
Allotment money due: 10,000 × Rs. 60 = Rs. 6,00,000
From fully allotted (cash): 8,000 × Rs. 60 = Rs. 4,80,000
From partially allotted — excess app adjusted: Rs. 60,000; cash needed: 2,000 × Rs. 60 − Rs. 60,000 = Rs. 60,000
Total allotment cash received: Rs. 4,80,000 + Rs. 60,000 = Rs. 5,40,000
Call (balance): Rs. 100 − Rs. 20 − Rs. 60 = Rs. 20 per debenture; 10,000 × Rs. 20 = Rs. 2,00,000
Total: Rs. 2,70,000 − Rs. 10,000 (refund) + Rs. 5,40,000 + Rs. 2,00,000 = Rs. 10,00,000 ✓

Journal Entries in the Books of X. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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...	Bank A/c Dr.	2,70,000	
	To 14% Debenture Application A/c		2,70,000
	(Application money received on 13,500 debentures @ Rs. 20 each)		
...	14% Debenture Application A/c Dr.	2,70,000	
	To 14% Debentures A/c		2,00,000
	To 14% Debenture Allotment A/c		60,000
	To Bank A/c		10,000

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	(Allotted 10,000 debentures; excess of partially allotted Rs. 60,000 adjusted to allotment; 500 rejected applications refunded Rs. 10,000)		
...	14% Debenture Allotment A/c Dr.	6,00,000	
	To 14% Debentures A/c		6,00,000
	(Allotment money due on 10,000 debentures @ Rs. 60 each)		
...	Bank A/c Dr.	5,40,000	
	To 14% Debenture Allotment A/c		5,40,000
	(Allotment money received in cash; excess of partially allotted applications adjusted from application money)		
...	14% Debenture Call A/c Dr.	2,00,000	
	To 14% Debentures A/c		2,00,000
	(Call money due on 10,000 debentures @ Rs. 20 each)		
...	Bank A/c Dr.	2,00,000	
	To 14% Debenture Call A/c		2,00,000
	(Call money received)		

Q8 R. Ltd. offered 20,00,000, 10% debentures of Rs. 200 each at a discount of 7% redeemable at premium of 8% after 9 years. Record necessary entries in the books of R. Ltd.

SOLUTION

Debentures: 20,00,000 of Rs. 200 each
Discount on issue: 7% × Rs. 200 = Rs. 14 per debenture
Issue price: Rs. 200 − Rs. 14 = Rs. 186 per debenture
Premium on redemption: 8% × Rs. 200 = Rs. 16 per debenture
Redemption price: Rs. 200 + Rs. 16 = Rs. 216 per debenture

Total face value: 20,00,000 × Rs. 200 = Rs. 40,00,00,000
Total issue proceeds (Bank): 20,00,000 × Rs. 186 = Rs. 37,20,00,000
Total discount on issue: 20,00,000 × Rs. 14 = Rs. 2,80,00,000
Total premium on redemption: 20,00,000 × Rs. 16 = Rs. 3,20,00,000
Loss on Issue of Debentures: Rs. 2,80,00,000 + Rs. 3,20,00,000 = Rs. 6,00,00,000

Journal Entries in the Books of R. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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...	Bank A/c Dr.	37,20,00,000	
	To 10% Debenture Application & Allotment A/c		37,20,00,000
	(Application money received on 20,00,000 debentures @ Rs. 186 each)		
...	10% Debenture Application & Allotment A/c Dr.	37,20,00,000	
	Loss on Issue of Debentures A/c Dr.	6,00,00,000	
	To 10% Debentures A/c		40,00,00,000
	To Premium on Redemption of Debentures A/c		3,20,00,000
	(Debentures allotted at 7% discount redeemable at 8% premium; loss on issue = discount + premium on redemption)		
...	Securities Premium Reserve A/c / Statement of P&L Dr.	6,00,00,000	
	To Loss on Issue of Debentures A/c		6,00,00,000
	(Loss on issue of debentures written off)		

Q9 M. Ltd. took over assets of Rs. 9,00,00,000 and liabilities of Rs. 70,00,000 of S. Ltd. and issued 8% debentures of Rs. 100 each. Record necessary entries in the books of M. Ltd.

SOLUTION

Assets taken over: Rs. 9,00,00,000
Liabilities taken over: Rs. 70,00,000
Purchase consideration (net assets): Rs. 9,00,00,000 − Rs. 70,00,000 = Rs. 8,30,00,000
Debentures issued at par (Rs. 100 each): Rs. 8,30,00,000 ÷ Rs. 100 = 8,30,000 debentures

Journal Entries in the Books of M. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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...	Sundry Assets A/c Dr.	9,00,00,000	
	To Sundry Liabilities A/c		70,00,000
	To S. Ltd. (Vendor)		8,30,00,000
	(Assets and liabilities of S. Ltd. taken over at agreed purchase consideration)		
...	S. Ltd. (Vendor) Dr.	8,30,00,000	
	To 8% Debentures A/c		8,30,00,000
	(Issue of 8,30,000, 8% debentures of Rs. 100 each at par as purchase consideration)		

Q10 B. Ltd. purchased assets of the book value of Rs. 4,00,000 and took over the liability of Rs. 50,000 from Mohan Bros. It was agreed that the purchase consideration, settled at Rs. 3,80,000, be paid by issuing debentures of Rs. 100 each. What Journal entries will be made in the following three cases, if debentures are issued: (a) at par; (b) at 10% discount; (c) at premium of 10%? It was agreed that any fraction of debentures be paid in cash. (Note: Goodwill Rs. 30,000)

SOLUTION

Assets: Rs. 4,00,000; Liabilities: Rs. 50,000; Net assets: Rs. 3,50,000
Purchase consideration: Rs. 3,80,000 (> net assets, so Goodwill = Rs. 3,80,000 − Rs. 3,50,000 = Rs. 30,000)

First entry (common to all cases):
Goodwill A/c Dr. Rs. 30,000
Sundry Assets A/c Dr. Rs. 4,00,000
  To Sundry Liabilities A/c Rs. 50,000
  To Mohan Bros. Rs. 3,80,000
(Purchase of assets and taking over liabilities)

--- Case (a): Debentures issued at par ---
Debentures issued: Rs. 3,80,000 ÷ Rs. 100 = 3,800 debentures (no fraction)
Mohan Bros. Dr. Rs. 3,80,000 | To 12% Debentures A/c Rs. 3,80,000
(Issue of 3,800 debentures of Rs. 100 each at par)

--- Case (b): Debentures issued at 10% discount ---
Issue price: Rs. 100 × 90% = Rs. 90 per debenture

Debentures (whole): Rs. 3,80,000 ÷ Rs. 90 = 4,222 debentures; value = 4,222 × Rs. 90 = Rs. 3,79,980
Fraction paid in cash: Rs. 3,80,000 − Rs. 3,79,980 = Rs. 20
Face value of 4,222 debentures: 4,222 × Rs. 100 = Rs. 4,22,200
Discount: Rs. 4,22,200 − Rs. 3,79,980 = Rs. 42,220

Mohan Bros. Dr. Rs. 3,79,980	Discount on Issue of Debentures A/c Dr. Rs. 42,220	To Debentures A/c Rs. 4,22,200
Bank A/c Dr. Rs. 20	To Mohan Bros. Rs. 20 (fractional cash payment)	

--- Case (c): Debentures issued at 10% premium ---
Issue price: Rs. 100 × 110% = Rs. 110 per debenture
Debentures (whole): Rs. 3,80,000 ÷ Rs. 110 = 3,454 debentures; value = 3,454 × Rs. 110 = Rs. 3,79,940
Fraction paid in cash: Rs. 3,80,000 − Rs. 3,79,940 = Rs. 60
Face value of 3,454 debentures: 3,454 × Rs. 100 = Rs. 3,45,400
Securities Premium: 3,454 × Rs. 10 = Rs. 34,540

Mohan Bros. Dr. Rs. 3,79,940	To Debentures A/c Rs. 3,45,400	To Securities Premium Reserve A/c Rs. 34,540
Bank A/c Dr. Rs. 60	To Mohan Bros. Rs. 60 (fractional cash payment)	

Q11 X. Ltd. purchased a Machinery from Y. Ltd. at an agreed purchase consideration of Rs. 4,40,000 to be satisfied by the issue of 12% debentures of Rs. 100 each at a premium of Rs. 10 per debenture. Journalise the transactions.

SOLUTION

Purchase consideration: Rs. 4,40,000
Issue price per debenture: Rs. 100 + Rs. 10 = Rs. 110
Number of debentures issued: Rs. 4,40,000 ÷ Rs. 110 = 4,000 debentures (no fraction) ✓
Face value: 4,000 × Rs. 100 = Rs. 4,00,000
Securities Premium: 4,000 × Rs. 10 = Rs. 40,000

Journal Entries in the Books of X. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
...	Machinery A/c Dr.	4,40,000	
	To Y. Ltd.		4,40,000
	(Machinery purchased from Y. Ltd. at agreed purchase consideration)		
...	Y. Ltd. Dr.	4,40,000	
	To 12% Debentures A/c		4,00,000
	To Securities Premium Reserve A/c		40,000
	(Issue of 4,000, 12% debentures of Rs. 100 each at a premium of Rs. 10 each as purchase consideration)		

Q12 X. Ltd. issued 15,000, 10% debentures of Rs. 100 each. Give journal entries and present it in the balance sheet in each of the following cases: (i) The debentures are issued at a premium of 10%; (ii) The debentures are issued at a discount of 5%; (iii) The debentures are issued as a collateral security to bank against a loan of Rs. 12,00,000; and (iv) The debentures are issued to a supplier of machinery costing Rs. 13,50,000.

SOLUTION

Total debentures: 15,000 of Rs. 100 each; total face value = Rs. 15,00,000

--- Case (i): Issued at 10% premium ---
Issue price: Rs. 110; Proceeds: 15,000 × Rs. 110 = Rs. 16,50,000
Securities Premium: 15,000 × Rs. 10 = Rs. 1,50,000

Bank A/c Dr. Rs. 16,50,000	To 10% Debenture Application & Allotment A/c Rs. 16,50,000	
10% Debenture Application & Allotment A/c Dr. Rs. 16,50,000	To 10% Debentures A/c Rs. 15,00,000	To Securities Premium Reserve A/c Rs. 1,50,000

Balance Sheet (Extract): Reserves & Surplus — SP Reserve Rs. 1,50,000; Long-term Borrowings — 15,000, 10% Debs Rs. 15,00,000; Cash & Cash Equivalents Rs. 16,50,000

--- Case (ii): Issued at 5% discount ---
Issue price: Rs. 95; Proceeds: 15,000 × Rs. 95 = Rs. 14,25,000
Discount: 15,000 × Rs. 5 = Rs. 75,000

Bank A/c Dr. Rs. 14,25,000	To 10% Debenture Application & Allotment A/c Rs. 14,25,000	
10% Debenture Application & Allotment A/c Dr. Rs. 14,25,000	Discount on Issue of Debentures A/c Dr. Rs. 75,000	To 10% Debentures A/c Rs. 15,00,000
Securities Premium Reserve A/c / Statement of P&L Dr. Rs. 75,000	To Discount on Issue of Debentures A/c Rs. 75,000 (write-off)	

Balance Sheet (Extract): Reserves & Surplus — (deficit) Rs. (75,000) if written off against P&L; Long-term Borrowings — 15,000, 10% Debs Rs. 15,00,000; Cash Rs. 14,25,000

--- Case (iii): Issued as collateral security for bank loan of Rs. 12,00,000 ---
No cash received; no interest on these debentures.

Debenture Suspense A/c Dr. Rs. 15,00,000 | To 10% Debentures A/c Rs. 15,00,000
(Debentures deposited as collateral security with bank against loan of Rs. 12,00,000)

Balance Sheet (Extract): Long-term Borrowings — Bank Loan Rs. 12,00,000; also 10% Debs deposited as collateral Rs. 15,00,000 (shown with offsetting Debenture Suspense on assets side, net effect = nil)

--- Case (iv): Issued to supplier of machinery costing Rs. 13,50,000 ---
Machinery value = Rs. 13,50,000; Debentures issued = 15,000 at face = Rs. 15,00,000
Debentures issued at a discount (purchase consideration Rs. 13,50,000 satisfied by Rs. 15,00,000 face value debs = at 10% discount)
Discount on issue: Rs. 15,00,000 − Rs. 13,50,000 = Rs. 1,50,000

Machinery A/c Dr. Rs. 13,50,000 | Discount on Issue of Debentures A/c Dr. Rs. 1,50,000 | To 10% Debentures A/c Rs. 15,00,000

Balance Sheet (Extract): Fixed Assets — Machinery Rs. 13,50,000; Long-term Borrowings — 15,000, 10% Debs Rs. 15,00,000; Other Non-Current Assets — Discount on Issue Rs. 1,50,000 (to be written off)

Q13 Journalise the following: (i) A debenture issued at Rs. 95, repayable at Rs. 100; (ii) A debenture issued at Rs. 95, repayable at Rs. 105; and (iii) A debenture issued at Rs. 100, repayable at Rs. 105. The face value of debenture in each of the above cases is Rs. 100.

SOLUTION

--- Case (i): Issued at Rs. 95, repayable at Rs. 100 (at par) ---
Face value: Rs. 100; Issue price: Rs. 95; Discount: Rs. 5
No premium on redemption.

Bank A/c Dr. Rs. 95 | Discount on Issue of Debentures A/c Dr. Rs. 5 | To Debentures A/c Rs. 100
(Debenture issued at Rs. 5 discount; redeemable at par)

--- Case (ii): Issued at Rs. 95, repayable at Rs. 105 ---
Face value: Rs. 100; Issue price: Rs. 95; Discount: Rs. 5; Premium on redemption: Rs. 5
Loss on Issue of Debentures: Rs. 5 (discount) + Rs. 5 (prem on red.) = Rs. 10

Bank A/c Dr. Rs. 95 | Loss on Issue of Debentures A/c Dr. Rs. 10 | To Debentures A/c Rs. 100 | To Premium on Redemption of Debentures A/c Rs. 5
(Debenture issued at Rs. 5 discount and redeemable at Rs. 5 premium; loss on issue = Rs. 10)

--- Case (iii): Issued at Rs. 100 (par), repayable at Rs. 105 ---
Face value: Rs. 100; Issue price: Rs. 100; No discount; Premium on redemption: Rs. 5
Loss on Issue of Debentures: Rs. 5 (only prem on redemption)

Bank A/c Dr. Rs. 100 | Loss on Issue of Debentures A/c Dr. Rs. 5 | To Debentures A/c Rs. 100 | To Premium on Redemption of Debentures A/c Rs. 5
(Debenture issued at par and redeemable at Rs. 5 premium)

Q14 A. Ltd. issued 50,00,000, 8% debentures of Rs. 100 at a discount of 6% on April 01, 2018, redeemable at premium of 4% by draw of lots as under: 20,00,000 debentures on March, 2020; 10,00,000 debentures on March, 2021; 20,00,000 debentures on March, 2022. Record journal entries for issue of debentures. Prepare discount/loss on issue of debenture account.

SOLUTION

Total debentures: 50,00,000 of Rs. 100 each
Discount on issue: 6% × Rs. 100 = Rs. 6 per debenture
Issue price: Rs. 94; Proceeds: 50,00,000 × Rs. 94 = Rs. 47,00,00,000
Premium on redemption: 4% × Rs. 100 = Rs. 4 per debenture
Loss on issue per debenture: Rs. 6 + Rs. 4 = Rs. 10
Total loss on issue: 50,00,000 × Rs. 10 = Rs. 5,00,00,000
Total premium on redemption: 50,00,000 × Rs. 4 = Rs. 2,00,00,000

--- Journal Entry for Issue ---

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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Apr. 01, 2018	Bank A/c Dr.	47,00,00,000	
	To 8% Debenture Application & Allotment A/c		47,00,00,000
	(Application money received @ Rs. 94 per debenture)		
Apr. 01, 2018	8% Debenture Application & Allotment A/c Dr.	47,00,00,000	

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	Loss on Issue of Debentures A/c Dr.	5,00,00,000	
	To 8% Debentures A/c		50,00,00,000
	To Premium on Redemption of Debentures A/c		2,00,00,000
	(Debentures allotted at 6% discount, redeemable at 4% premium)		

--- Loss on Issue of Debentures A/c (Ledger) ---

The loss is written off proportionately to the face value of debentures redeemed in each batch:

Loss per debenture: Rs. 10

Batch 1 (March 2020) — 20,00,000 debs: Write-off = 20,00,000 × Rs. 10 = Rs. 2,00,00,000

Batch 2 (March 2021) — 10,00,000 debs: Write-off = 10,00,000 × Rs. 10 = Rs. 1,00,00,000

Batch 3 (March 2022) — 20,00,000 debs: Write-off = 20,00,000 × Rs. 10 = Rs. 2,00,00,000

Total write-off: Rs. 5,00,00,000 ✓

Loss on Issue of Debentures Account (abbreviated)

Dr. side	Cr. side
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Apr. 01, 2018: To 8% Debentures A/c / Premium on Redemption A/c — Rs. 5,00,00,000	Mar. 2020: By Securities Prem. Reserve / P&L — Rs. 2,00,00,000
	Mar. 2021: By Securities Prem. Reserve / P&L — Rs. 1,00,00,000
	Mar. 2022: By Securities Prem. Reserve / P&L — Rs. 2,00,00,000

Q15 A listed company issues the following debentures: (i) 10,000, 12% debentures of Rs. 100 each at par but redeemable at premium of 5% after 5 years; (ii) 10,000, 12% debentures of Rs. 100 each at a discount of 10% but redeemable at par after 5 years; (iii) 5,000, 12% debentures of Rs. 1000 each at a premium of 5% but redeemable at par after 5 years; (iv) 1,000, 12% debentures of Rs. 100 each issued to a supplier of machinery costing Rs. 95,000. The debentures are repayable after 5 years; and (v) 300, 12% debentures of Rs. 100 each as a collateral security to a bank which has advanced a loan of Rs. 25,000 to the company for a period of 5 years. Pass the journal entries to record the: (a) issue of debentures; and (b) repayment of debentures after the given period.

SOLUTION

--- (i): 10,000 debs Rs. 100, at par, redeemable at 5% premium ---

Premium on redemption: Rs. 5 per deb; Total: Rs. 50,000	Loss on issue = Rs. 50,000		
(a) Issue: Bank Dr. Rs. 10,00,000	Loss on Issue Dr. Rs. 50,000	To 12% Debs A/c Rs. 10,00,000	To Prem on Redemption A/c Rs. 50,000
Write-off: SP Reserve / P&L Dr. Rs. 50,000	To Loss on Issue A/c Rs. 50,000		
(b) Redemption: 12% Debs A/c Dr. Rs. 10,00,000	Prem on Red. A/c Dr. Rs. 50,000	To Debentureholders A/c Rs. 10,50,000	
Debentureholders A/c Dr. Rs. 10,50,000	To Bank A/c Rs. 10,50,000		

--- (ii): 10,000 debs Rs. 100, at 10% discount, redeemable at par ---

Discount: Rs. 10 per deb; Total discount: Rs. 1,00,000	Issue proceeds: Rs. 9,00,000	
(a) Issue: Bank Dr. Rs. 9,00,000	Discount on Issue Dr. Rs. 1,00,000	To 12% Debs A/c Rs. 10,00,000
Write-off: SP Reserve / P&L Dr. Rs. 1,00,000	To Discount on Issue A/c Rs. 1,00,000	
(b) Redemption: 12% Debs A/c Dr. Rs. 10,00,000	To Debentureholders A/c Rs. 10,00,000	
Debentureholders A/c Dr. Rs. 10,00,000	To Bank A/c Rs. 10,00,000	

--- (iii): 5,000 debs Rs. 1,000, at 5% premium, redeemable at par ---

SP per deb: Rs. 50; Total SP: Rs. 2,50,000	Issue proceeds: Rs. 52,50,000	
(a) Issue: Bank Dr. Rs. 52,50,000	To 12% Debs A/c Rs. 50,00,000	To Securities Premium Reserve A/c Rs. 2,50,000
(b) Redemption: 12% Debs A/c Dr. Rs. 50,00,000	To Debentureholders A/c Rs. 50,00,000	
Debentureholders A/c Dr. Rs. 50,00,000	To Bank A/c Rs. 50,00,000	

--- (iv): 1,000 debs Rs. 100, issued to supplier for machinery Rs. 95,000; repayable at par ---
Face value of debentures: 1,000 × Rs. 100 = Rs. 1,00,000; Machinery cost: Rs. 95,000
Debentures issued at discount: Rs. 1,00,000 face for Rs. 95,000 consideration; Discount = Rs. 5,000
Capital Reserve: Rs. 1,00,000 − Rs. 95,000 = Rs. 5,000 (purchase consideration < face value = capital profit)

(a) Issue: Machinery A/c Dr. Rs. 95,000	To Supplier (Vendor) A/c Rs. 95,000	
Vendor A/c Dr. Rs. 95,000	Discount on Issue of Debs A/c Dr. Rs. 5,000	To 12% Debs A/c Rs. 1,00,000
SP Reserve / P&L Dr. Rs. 5,000	To Discount on Issue of Debs A/c Rs. 5,000 (write-off)	
(b) Redemption: 12% Debs A/c Dr. Rs. 1,00,000	To Debentureholders A/c Rs. 1,00,000	
Debentureholders A/c Dr. Rs. 1,00,000	To Bank A/c Rs. 1,00,000	

--- (v): 300 debs Rs. 100, as collateral security for bank loan Rs. 25,000 for 5 years ---
Face value of debentures: 300 × Rs. 100 = Rs. 30,000 (no cash received)
(a) Issue: Debenture Suspense A/c Dr. Rs. 30,000 | To 12% Debentures A/c Rs. 30,000
(Debentures deposited as collateral; the bank loan of Rs. 25,000 is a separate liability)
(b) Repayment (after 5 years — loan repaid, debentures returned):
12% Debentures A/c Dr. Rs. 30,000 | To Debenture Suspense A/c Rs. 30,000
(Debentures returned on repayment of bank loan)

Q16 A listed company issued debentures of the face value of Rs. 5,00,000 at a discount of 6% on April 01, 2014. These debentures are redeemable by annual drawings of Rs. 1,00,000 made on March 31 each year starting from March 31, 2016. Give journal entries for issue of debentures, writing-off discount and regarding redemption of debentures.

SOLUTION

Face value: Rs. 5,00,000; Discount: 6%; Total discount: Rs. 30,000; Issue proceeds: Rs. 4,70,000

5 annual drawings of Rs. 1,00,000 starting March 31, 2016 (i.e., March 2016, 2017, 2018, 2019, 2020)

Discount written off: proportionately, Rs. 6,000 per batch (Rs. 30,000 ÷ 5 batches)

--- Journal Entry for Issue (April 01, 2014) ---

Bank A/c Dr. Rs. 4,70,000 | Discount on Issue of Debentures A/c Dr. Rs. 30,000 | To Debentures A/c Rs. 5,00,000

--- Discount Write-off (each year when batch is redeemed) ---

Statement of P&L / SP Reserve A/c Dr. Rs. 6,000 | To Discount on Issue of Debentures A/c Rs. 6,000

(Written off proportionately: Rs. 6,000 per Rs. 1,00,000 batch redeemed)

--- Redemption Entries (repeated for each annual drawing) ---

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
---	---	---	---
Mar. 31, 2016	Debentures A/c Dr.	1,00,000	
	To Debentureholders A/c		1,00,000
	(1st drawing: Rs. 1,00,000 debentures due for redemption)		
	Debentureholders A/c Dr.	1,00,000	
	To Bank A/c		1,00,000
	(Payment to debentureholders)		

(Same entries repeated on March 31, 2017, 2018, 2019, and 2020 for each Rs. 1,00,000 drawing.)

Note: Being a listed company, no DRR is required. Discount of Rs. 6,000 is written off each year as the corresponding batch is redeemed.

Q17 B. Ltd. a listed company issued debentures at 94% for Rs. 4,00,000 on April 01, 2011 repayable by five equal drawings of Rs. 80,000 each. The company prepares its final accounts on March 31 every year. Give Journal entries for issues and redemption of debentures.

SOLUTION

Face value: Rs. 4,00,000; Issue price: 94%; Issue proceeds: Rs. 3,76,000
Discount: Rs. 4,00,000 × 6% = Rs. 24,000
Five equal drawings of Rs. 80,000 each (March 31 each year: 2012, 2013, 2014, 2015, 2016)

Discount write-off — proportionate to outstanding balance (weighted average method):
Year 1 (4,00,000 outstanding): Rs. 24,000 × 4,00,000 / 12,00,000 = Rs. 8,000
Year 2 (3,20,000 outstanding): Rs. 24,000 × 3,20,000 / 12,00,000 = Rs. 6,400
Year 3 (2,40,000 outstanding): Rs. 24,000 × 2,40,000 / 12,00,000 = Rs. 4,800
Year 4 (1,60,000 outstanding): Rs. 24,000 × 1,60,000 / 12,00,000 = Rs. 3,200
Year 5 (80,000 outstanding): Rs. 24,000 × 80,000 / 12,00,000 = Rs. 1,600
Total: Rs. 24,000 ✓

--- Journal Entry for Issue (April 01, 2011) ---
Bank A/c Dr. Rs. 3,76,000 | Discount on Issue of Debentures A/c Dr. Rs. 24,000 | To Debentures A/c Rs. 4,00,000

--- Year 1: March 31, 2012 ---

SP Reserve / Statement of P&L Dr. Rs. 8,000	To Discount on Issue A/c Rs. 8,000 (write-off)
Debentures A/c Dr. Rs. 80,000	To Debentureholders A/c Rs. 80,000
Debentureholders A/c Dr. Rs. 80,000	To Bank A/c Rs. 80,000

--- Year 2: March 31, 2013 ---

SP Reserve / Statement of P&L Dr. Rs. 6,400	To Discount on Issue A/c Rs. 6,400
Debentures A/c Dr. Rs. 80,000	To Debentureholders A/c Rs. 80,000
Debentureholders A/c Dr. Rs. 80,000	To Bank A/c Rs. 80,000

--- Year 3: March 31, 2014 ---

SP Reserve / Statement of P&L Dr. Rs. 4,800	To Discount on Issue A/c Rs. 4,800
Debentures A/c Dr. Rs. 80,000	To Debentureholders A/c Rs. 80,000
Debentureholders A/c Dr. Rs. 80,000	To Bank A/c Rs. 80,000

--- Year 4: March 31, 2015 ---

SP Reserve / Statement of P&L Dr. Rs. 3,200	To Discount on Issue A/c Rs. 3,200
Debentures A/c Dr. Rs. 80,000	To Debentureholders A/c Rs. 80,000

SP Reserve / Statement of P&L Dr. Rs. 3,200	To Discount on Issue A/c Rs. 3,200
Debentureholders A/c Dr. Rs. 80,000	To Bank A/c Rs. 80,000

--- Year 5: March 31, 2016 ---

SP Reserve / Statement of P&L Dr. Rs. 1,600	To Discount on Issue A/c Rs. 1,600
Debentures A/c Dr. Rs. 80,000	To Debentureholders A/c Rs. 80,000
Debentureholders A/c Dr. Rs. 80,000	To Bank A/c Rs. 80,000

Q18 B. Ltd. issued 1,000, 12% debentures of Rs. 100 each on April 01, 2014 at a discount of 5% redeemable at a premium of 10%. Give journal entries relating to the issue of debentures and debentures interest for the period ending March 31, 2015 assuming that interest is paid half-yearly on September 30 and March 31 and tax deducted at source is 10%.

SOLUTION

Debentures: 1,000 of Rs. 100 each; Discount: 5% = Rs. 5 per deb; Premium on redemption: 10% = Rs. 10 per deb
Issue price: Rs. 95; Issue proceeds: 1,000 × Rs. 95 = Rs. 95,000
Loss on issue per deb: Rs. 5 + Rs. 10 = Rs. 15; Total loss: Rs. 15,000
Total premium on redemption: Rs. 10,000

Half-yearly interest (gross): 1,000 × Rs. 100 × 12% × 6/12 = Rs. 6,000
TDS @ 10%: Rs. 6,000 × 10% = Rs. 600
Net interest paid to holders: Rs. 6,000 − Rs. 600 = Rs. 5,400
Annual interest charge: Rs. 12,000; Annual TDS: Rs. 1,200

Journal Entries in the Books of B. Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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Apr. 01, 2014	Bank A/c Dr.	95,000	
	To 12% Debenture Application & Allotment A/c		95,000
	(Issue proceeds received)		
Apr. 01, 2014	12% Debenture Application & Allotment A/c Dr.	95,000	
	Loss on Issue of Debentures A/c Dr.	15,000	
	To 12% Debentures A/c		1,00,000

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	To Premium on Redemption of Debentures A/c		10,000
	(Debentures allotted at 5% discount, redeemable at 10% premium)		
Apr. 01, 2014	Securities Premium Reserve A/c / Statement of P&L Dr.	15,000	
	To Loss on Issue of Debentures A/c		15,000
	(Loss on issue written off in year of issue)		
Sep. 30, 2014	Debenture Interest A/c Dr.	6,000	
	To Debentureholders A/c		5,400
	To Income Tax Payable A/c		600
	(Interest due for 6 months @ 12% p.a. on Rs. 1,00,000; TDS @ 10%)		
Sep. 30, 2014	Debentureholders A/c Dr.	5,400	
	To Bank A/c		5,400
	(Net interest paid to debenture holders)		
Sep. 30, 2014	Income Tax Payable A/c Dr.	600	
	To Bank A/c		600
	(TDS deposited with government)		
Mar. 31, 2015	Debenture Interest A/c Dr.	6,000	
	To Debentureholders A/c		5,400
	To Income Tax Payable A/c		600
	(Interest due for 6 months ending March 31, 2015; TDS @ 10%)		
Mar. 31, 2015	Debentureholders A/c Dr.	5,400	
	To Bank A/c		5,400

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
	(Net interest paid)		
Mar. 31, 2015	Income Tax Payable A/c Dr.	600	
	To Bank A/c		600
	(TDS deposited)		
Mar. 31, 2015	Statement of Profit and Loss Dr.	12,000	
	To Debenture Interest A/c		12,000
	(Annual debenture interest charged to P&L)		

Q19 Jay Kay Ltd. an 'other listed company' issued 60,000 12% debentures of Rs. 100 each at par redeemable at the end of 5 years at a premium of 20%. On this date, there existed a balance of Rs. 5,00,000 in securities premium reserve account. The company created the required amount of debenture redemption reserve in 3 equal instalments on March 31, 2017, 2018 and 2019. It invested in specified securities (DRI) the required amount on April 01 of the financial year. Debentures were duly redeemed. Record necessary journal entries for: (i) Issue of debentures; (ii) Writing off loss on issue of debentures; (iii) Interest and debentures for 2015-16 assuming it is paid annually & tax deducted at source is 10%; (iv) Regarding redemption of debentures.

SOLUTION

Debentures: 60,000 of Rs. 100 each; Issue: at par; Redemption: at 20% premium
Face value: Rs. 60,00,000; Premium on redemption: 20% × Rs. 60,00,000 = Rs. 12,00,000
Loss on issue (= premium on redemption, no issue discount): Rs. 12,00,000
SP Reserve available: Rs. 5,00,000; Balance loss charged to P&L: Rs. 12,00,000 − Rs. 5,00,000 = Rs. 7,00,000

DRR required (listed company per SEBI): 25% of Rs. 60,00,000 = Rs. 15,00,000
DRR in 3 equal instalments: Rs. 15,00,000 ÷ 3 = Rs. 5,00,000 per year (March 2017, 2018, 2019)
DRI: 15% × Rs. 60,00,000 = Rs. 9,00,000 (invested April 01 of redemption year)

Annual interest: 60,000 × Rs. 100 × 12% = Rs. 7,20,000
TDS @ 10%: Rs. 72,000; Net paid: Rs. 6,48,000

Redemption amount: 60,000 × (Rs. 100 + Rs. 20) = Rs. 72,00,000

--- (i) Issue of Debentures ---
Bank A/c Dr. Rs. 60,00,000 | Loss on Issue of Debentures A/c Dr. Rs. 12,00,000 | To 12%

Debentures A/c Rs. 60,00,000 | To Premium on Redemption of Debentures A/c Rs. 12,00,000

--- (ii) Writing off Loss on Issue ---
Securities Premium Reserve A/c Dr. Rs. 5,00,000 | Statement of P&L Dr. Rs. 7,00,000 | To Loss on Issue of Debentures A/c Rs. 12,00,000
(Loss written off: Rs. 5,00,000 from SP Reserve + Rs. 7,00,000 from P&L)

--- (iii) Interest for 2015-16 (paid annually) ---

Debenture Interest A/c Dr. Rs. 7,20,000	To Debentureholders A/c Rs. 6,48,000	To Income Tax Payable A/c Rs. 72,000
Debentureholders A/c Dr. Rs. 6,48,000	To Bank A/c Rs. 6,48,000	
Income Tax Payable A/c Dr. Rs. 72,000	To Bank A/c Rs. 72,000	
Statement of P&L Dr. Rs. 7,20,000	To Debenture Interest A/c Rs. 7,20,000	

--- DRR Creation (each March 31, 2017, 2018, 2019) ---
Statement of P&L Dr. Rs. 5,00,000 | To Debenture Redemption Reserve A/c Rs. 5,00,000

--- DRI Investment (April 01 of redemption year) ---
Debenture Redemption Investment A/c Dr. Rs. 9,00,000 | To Bank A/c Rs. 9,00,000

--- (iv) Redemption of Debentures ---

Bank A/c Dr. Rs. 9,00,000	To Debenture Redemption Investment A/c Rs. 9,00,000 (DRI encashed)	
12% Debentures A/c Dr. Rs. 60,00,000	Premium on Redemption of Debentures A/c Dr. Rs. 12,00,000	To Debentureholders A/c Rs. 72,00,000
Debentureholders A/c Dr. Rs. 72,00,000	To Bank A/c Rs. 72,00,000	
Debenture Redemption Reserve A/c Dr. Rs. 15,00,000	To General Reserve A/c Rs. 15,00,000 (DRR transferred on full redemption)	

Q20 Madhur Ltd., has outstanding 9% debentures of Rs. 50,00,000 redeemable at par on January 01, 2020. Debenture Redemption Reserve of Rs. 2,00,000 on March 31, 2018 and balance of required amount of DRR was created on March 31, 2019. The company invested in specified securities (DRI) the required amount on April 01, 2019. Debentures were redeemed on the due date. Record necessary journal entries in the books of the company and also prepare the ledger accounts (ignore interest).

SOLUTION

Face value: Rs. 50,00,000; Redeemable at par
DRR required: 25% × Rs. 50,00,000 = Rs. 12,50,000
DRR created: March 31, 2018 — Rs. 2,00,000 | March 31, 2019 — Rs. 10,50,000 (balance)
DRI: 15% × Rs. 50,00,000 = Rs. 7,50,000 (invested April 01, 2019)

Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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Mar. 31, 2018	Statement of P&L Dr.	2,00,000	
	To Debenture Redemption Reserve A/c		2,00,000
	(DRR created — first instalment)		
Mar. 31, 2019	Statement of P&L Dr.	10,50,000	
	To Debenture Redemption Reserve A/c		10,50,000
	(DRR created — balance amount to reach Rs. 12,50,000)		
Apr. 01, 2019	Debenture Redemption Investment A/c Dr.	7,50,000	
	To Bank A/c		7,50,000
	(15% of Rs. 50,00,000 invested in specified securities before April 30)		
Jan. 01, 2020	Bank A/c Dr.	7,50,000	
	To Debenture Redemption Investment A/c		7,50,000
	(DRI encashed at the time of redemption)		

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
Jan. 01, 2020	9% Debentures A/c Dr.	50,00,000	
	To Debentureholders A/c		50,00,000
	(Amount due on redemption at par)		
Jan. 01, 2020	Debentureholders A/c Dr.	50,00,000	
	To Bank A/c		50,00,000
	(Amount paid to debentureholders)		
Jan. 01, 2020	Debenture Redemption Reserve A/c Dr.	12,50,000	
	To General Reserve A/c		12,50,000
	(DRR transferred to General Reserve on full redemption)		

--- Ledger Accounts ---

9% Debentures Account

Dr.	Cr.
---	---
Jan. 01, 2020: To Debentureholders A/c — Rs. 50,00,000	Balance b/d: Rs. 50,00,000

Debenture Redemption Reserve Account

Dr.	Cr.
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Jan. 01, 2020: To General Reserve — Rs. 12,50,000	Mar. 31, 2018: By P&L — Rs. 2,00,000
	Mar. 31, 2019: By P&L — Rs. 10,50,000

Debenture Redemption Investment Account

Dr.	Cr.
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Apr. 01, 2019: To Bank — Rs. 7,50,000	Jan. 01, 2020: By Bank — Rs. 7,50,000

Q21 MK Ltd. has outstanding Rs. 30,000 11% debentures of Rs. 100 each redeemable at 10% premium as follows: March 31, 2018 — 10,000 debentures; March 31, 2019 — 12,000 debentures; March 31, 2020 — Remaining debentures. Pass necessary journal entries in the books of the company.

SOLUTION

Total debentures: 30,000 of Rs. 100 each; Redeemable at 10% premium
Batch 1 (March 2018): 10,000 debs; face = Rs. 10,00,000; premium = Rs. 1,00,000; total = Rs. 11,00,000
Batch 2 (March 2019): 12,000 debs; face = Rs. 12,00,000; premium = Rs. 1,20,000; total = Rs. 13,20,000
Batch 3 (March 2020): 8,000 debs; face = Rs. 8,00,000; premium = Rs. 80,000; total = Rs. 8,80,000

Journal Entries

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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Mar. 31, 2018	11% Debentures A/c Dr.	10,00,000	
	Premium on Redemption of Debentures A/c Dr.	1,00,000	
	To Debentureholders A/c		11,00,000
	(10,000 debentures due for redemption at 10% premium)		
Mar. 31, 2018	Debentureholders A/c Dr.	11,00,000	
	To Bank A/c		11,00,000
	(Payment made to debentureholders)		
Mar. 31, 2019	11% Debentures A/c Dr.	12,00,000	
	Premium on Redemption of Debentures A/c Dr.	1,20,000	
	To Debentureholders A/c		13,20,000
	(12,000 debentures due for redemption at 10% premium)		
Mar. 31, 2019	Debentureholders A/c Dr.	13,20,000	
	To Bank A/c		13,20,000
	(Payment made to debentureholders)		

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
Mar. 31, 2020	11% Debentures A/c Dr.	8,00,000	
	Premium on Redemption of Debentures A/c Dr.	80,000	
	To Debentureholders A/c		8,80,000
	(Remaining 8,000 debentures due for redemption at 10% premium)		
Mar. 31, 2020	Debentureholders A/c Dr.	8,80,000	
	To Bank A/c		8,80,000
	(Payment made to debentureholders)		

Q22 X Ltd. had outstanding 20,000 12% debentures of Rs. 100 each redeemable on June 30, 2019. Record necessary journal entries at the time of redemption.

SOLUTION

Debentures: 20,000 of Rs. 100 each; Redeemable at par on June 30, 2019

Redemption amount: 20,000 × Rs. 100 = Rs. 20,00,000

Journal Entries in the Books of X Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
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June 30, 2019	12% Debentures A/c Dr.	20,00,000	
	To Debentureholders A/c		20,00,000
	(Amount due on redemption of 20,000 debentures at par)		
June 30, 2019	Debentureholders A/c Dr.	20,00,000	
	To Bank A/c		20,00,000
	(Payment made to debentureholders on redemption)		

Q23 XYZ Ltd. Issued 6,000, 12% Debentures of Rs. 50 each on April 1, 2014. Interest on these debentures is payable annually 31st March each year. The debentures are redeemable in four equal installments at end of third, fourth, fifth and sixth year. You are required to pass journal entries at the time of issue and redemption of debentures in the books of the company under following cases: (i) Debentures are issued at par and redeemable at par; (ii) Debentures are issued at a premium of 10% and redeemable at par; (iii) Debentures are issued at a discount of 10% and redeemable at par; (iv) Debentures are issued at par but redeemable at a premium of 10%; (v) Debentures are issued at a premium of 10% and redeemable at premium of 10%; (vi) Debentures are issued at a discount of 10% and redeemable at a premium of 10%.

SOLUTION

Total debentures: 6,000 of Rs. 50 each; Total face value: Rs. 3,00,000

4 equal instalments: 1,500 debentures (Rs. 75,000 face) each — at end of years 3, 4, 5, 6 (March 2017, 2018, 2019, 2020)

--- Case (i): Issued at par, redeemable at par ---

Issue: Bank A/c Dr. Rs. 3,00,000	To 12% Debentures A/c Rs. 3,00,000
Each redemption: 12% Debentures A/c Dr. Rs. 75,000	To Debentureholders A/c Rs. 75,000
Debentureholders A/c Dr. Rs. 75,000	To Bank A/c Rs. 75,000

--- Case (ii): Issued at 10% premium, redeemable at par ---

Issue price: Rs. 55; Proceeds: 6,000 × Rs. 55 = Rs. 3,30,000; SP: Rs. 30,000

Issue: Bank A/c Dr. Rs. 3,30,000	To 12% Debentures A/c Rs. 3,00,000	To Securities Premium Reserve A/c Rs. 30,000
Each redemption (at par): 12% Debentures A/c Dr. Rs. 75,000	To Debentureholders A/c Rs. 75,000	
Debentureholders A/c Dr. Rs. 75,000	To Bank A/c Rs. 75,000	

--- Case (iii): Issued at 10% discount, redeemable at par ---

Issue price: Rs. 45; Proceeds: 6,000 × Rs. 45 = Rs. 2,70,000; Discount: Rs. 30,000

Issue: Bank A/c Dr. Rs. 2,70,000	Discount on Issue A/c Dr. Rs. 30,000	To 12% Debentures A/c Rs. 3,00,000
Write-off: SP Reserve / P&L Dr. Rs. 30,000	To Discount on Issue A/c Rs. 30,000	
Each redemption (at par): 12% Debentures A/c Dr. Rs. 75,000	To Debentureholders A/c Rs. 75,000	

Issue: Bank A/c Dr. Rs. 2,70,000	Discount on Issue A/c Dr. Rs. 30,000	To 12% Debentures A/c Rs. 3,00,000
Debentureholders A/c Dr. Rs. 75,000	To Bank A/c Rs. 75,000	

--- Case (iv): Issued at par, redeemable at 10% premium ---

Premium on redemption: Rs. 5 per deb; Total: Rs. 30,000	Loss on issue: Rs. 30,000		
Issue: Bank A/c Dr. Rs. 3,00,000	Loss on Issue A/c Dr. Rs. 30,000	To 12% Debentures A/c Rs. 3,00,000	To Premium on Redemption A/c Rs. 30,000
Write-off: SP Reserve / P&L Dr. Rs. 30,000	To Loss on Issue A/c Rs. 30,000		

Each redemption (at 10% premium on Rs. 75,000 batch):

12% Debentures A/c Dr. Rs. 75,000	Premium on Redemption A/c Dr. Rs. 7,500	To Debentureholders A/c Rs. 82,500
Debentureholders A/c Dr. Rs. 82,500	To Bank A/c Rs. 82,500	

--- Case (v): Issued at 10% premium, redeemable at 10% premium ---
SP on issue: Rs. 30,000; Premium on redemption: Rs. 30,000; Loss on issue: Rs. 30,000

Issue: Bank A/c Dr. Rs. 3,30,000	Loss on Issue A/c Dr. Rs. 30,000	To 12% Debentures A/c Rs. 3,00,000	To Securities Premium Reserve A/c Rs. 30,000	To Premium on Redemption A/c Rs. 30,000
Write-off: Securities Premium Reserve A/c Dr. Rs. 30,000	To Loss on Issue A/c Rs. 30,000 (SP used to write off loss)			
Each redemption: same as Case (iv) — 12% Debs Dr. Rs. 75,000	Prem on Red. Dr. Rs. 7,500	To Debentureholders Rs. 82,500	Debentureholders Dr. Rs. 82,500	To Bank Rs. 82,500

--- Case (vi): Issued at 10% discount, redeemable at 10% premium ---
Discount: Rs. 30,000; Premium on redemption: Rs. 30,000; Total loss on issue: Rs. 60,000

Issue proceeds: Rs. 2,70,000

Issue: Bank A/c Dr. Rs. 2,70,000	Loss on Issue of Debentures A/c Dr. Rs. 60,000	To 12% Debentures A/c Rs. 3,00,000	To Premium on Redemption of Debentures A/c Rs. 30,000
Write-off: SP Reserve / P&L Dr. Rs. 60,000	To Loss on Issue A/c Rs. 60,000		
Each redemption (at 10% premium): 12% Debs Dr. Rs. 75,000	Prem on Red. Dr. Rs. 7,500	To Debentureholders Rs. 82,500	
Debentureholders A/c Dr. Rs. 82,500	To Bank Rs. 82,500		