

13. REDEMPTION OF DEBENTURES**SOLUTIONS TO ASSIGNMENT PROBLEMS****PROBLEM NO.1****6% Mortgage Debentures Account**

20X2		Rs.	20X2		Rs.
Feb. 28	T Debiture- holders A/c o	10,00,000	Jan. 1	By Balance b/d	10,00,000

Premium on Redemption of Debentures Account

20X2		Rs.	20X2		Rs.
Feb. 28	T Debiture- holders A/c o	10,000	Feb. 28	B Profit and loss A/c y	10,000

Debentures Redemption Reserve Investment Account

20X2		Rs.	20X2		Rs.
Jan. 1	T Balance b/d o	1,50,000	Feb. 28	B Bank y	1,50,000

Debenture Interest Account

20X2		Rs.	20X2		Rs.
Feb. 28	T Bank (10,000 x 100 x o 6% x 2/12)	10,000	Feb. 28	B Profit & Loss A/c y	10,000

Bank A/c

20X2		Rs.	20X2		Rs.
Jan 01	To Balance b/d	9,00,000	Feb.28	By Debiture holders (10,000 x 101)	10,10,000
Feb 28	To Interest on Debentures Redemption Investments (1,50,000 x 4% X 2/12)	1,000		By Deb. Interest A/c	10,000
	To Debentures Redemption Reserve Investment a/c	1,50,000		By Balance c/d	31,000
		10,51,000			10,51,000

Debenture Redemption Reserve Account

20X2		Rs.	20X2		Rs.
Feb 28			Jan. 1	By Balance b/d	50,000
	To General Reserve- note	50,000	Jan. 1	By Profit & Loss (b/f)	50,000
		1,00,000			1,00,000
		0			

Note: Amount to be transferred to DRR before the redemption = 1,00,000 = 10 % of (10,000 X 100)

PROBLEM NO.2

Calculation of number of equity shares to be allotted

	No of debentures
Total number of debentures	30,000
Less: Debenture holders not opted for conversion	(2,400)
Debenture holders opted for conversion	27,600
Option for conversion	25%
Number of debentures to be converted (25% of 27,600)	6,900
Redemption value of 6,900 debentures at a premium of 5% [6,900 x (100+5)]	Rs. 7,24,500
Equity shares of Rs. 10 each issued on conversion @ Rs.12 each	
[Rs. 724500/ Rs. 12]	60,375 shares

PROBLEM NO.3

Journal Entries

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1 st June 2013	Bank A/c [3,00,000 Debentures × Rs. 100] Dr. To Debenture Application & Allotment A/c (Being application money received for 3,00,000 Debentures at Rs. 100 each)	3,00,00,000	3,00,00,000
1 st July 2013	Debenture Application & Allotment A/c Dr. Underwriters A/c Dr. To Debentures A/c (Being allotment of 3,00,000 Debentures to Applicants, balance to Underwriters)	3,00,00,000 1,00,00,000	4,00,00,000
1 st July 2013	Underwriting Commission A/c [4,00,00,000 × 3%] Dr. To Underwriters A/c (Being Commission payable to Underwriters at 3%)	12,00,000	12,00,000
1 st July 2013	Bank A/c Dr. To Underwriters A/c (Being balance amount receivable from Underwriters, received)	88,00,000	88,00,000
30 th Sept 2013	Debenture Interest A/c Dr. To Bank A/c (Being Debenture interest paid at 10% p.a. for 3 months)	10,00,000	10,00,000
1 st Jan 2014	10 % Debentures A/c Dr. To Equity Share Capital A/c (at Rs. 10) To Securities Premium A/c (at Rs. 30) (Being 8,00,000 shares issued on conversion of 4,00,000 × 80% = 3,20,000 Debentures)	3,20,00,000	80,00,000 2,40,00,000
31 st March 2014	Debenture Interest A/c Dr. To Cash / Bank A/c (Being interest paid on Debentures for 2 nd half-year, computed as under- $4,00,00,000 \times 10\% \times \frac{3}{12} + 80,00,000 \times 10\% \times \frac{3}{12}$)	12,00,000	12,00,000
31 st March 2014	Profit & Loss A/c Dr. To Debenture Interest A/c (Being Total Interest for the year transferred to P & L)	22,00,000	22,00,000

PROBLEM NO.4**Balance sheet of Spices Ltd. as on 01.04.2018**

Particulars	Note No.	Figures as at the end of current reporting period
I. Equity and Liabilities		
1) Shareholders' funds		
a) Share capital	1	1,10,000
b) Reserves and surplus	2	72,000
2) Non-current liabilities		
a) Long term borrowings- Unsecured loans		28,000
3) current liabilities		
a) Short term borrowings		19,000
TOTAL		2,29,000
II. ASSETS		
1) Non-current assets		
a) Fixed assets		
i) Tangible assets		1,00,000
2) Current assets		
a) Cash and cash equivalents		51,000
b) Other current assets		78,000
TOTAL		2,29,000

Notes to Accounts

	Rs.	Rs.
1. Share capital (11,000 shares of Rs. 10 each) (out of above 2000 shares issued to debentures holders who opted for conversion into shares)		1,10,000
2. Reserves and surplus		
General reserve	70,000	
Add: Debenture redemption reserve transfer	<u>6,000</u>	
	76,000	
Less: Premium on redemption of debentures (1200*Rs.5)	<u>(6,000)</u>	70,000
Add: Securities premium account(2000*Rs.1)		<u>2,000</u>
		<u>72,000</u>

Working notes:

i) Calculation of number of shares to be allotted

Total number of debentures = 1200

Less: No. of debentures not opting for conversion = (200)

1000

40% of 1000 = 400

Redemption value of 400 debentures(400*55) Rs. 22,000

No. of equity shares to be allotted 22000/11= 2000 shares of Rs. 10 each

ii) Calculation of cash to be paid

No. of debentures = 1200

Less: No. of debentures to be converted into equity shares = (400)

Redemption value of 800 debentures (800*55) Rs. 44,000.

iii) Cash and Bank balance

Balance before redemption = 86000

Add: proceeds of investments sold = 9,000

Less: cash paid to debenture holders = (44000)

= 51,000

PROBLEM NO.5

Journal Entries

Date.	Particulars	Debit (Rs.)	Credit (Rs.)
01.07.2017	Investment in Own 8% Debentures A/c Dr. Interest in Own 8% Debentures A/c Dr. To Bank A/c (WN 1) (Being 1,000 Debentures purchased at Rs. 97 cum-interest. Payment = 97,000, Interest from 1 st July to 30 th Sep = 1,00,000 $\times 8\% \times \frac{3}{12} = 2,000$, hence, balance = Cost.	95,000 2,000	97,000
01.07.2017	8 % Debentures A/c Dr. To Investment in Own 8% Debentures A/c To Profit on Cancellation of Own Debentures A/c (Being Cancellation of Own Debentures)	1,00,000	95,000 5,000
30.09.2017	Interest Expense A/c Dr. To Bank A/c ($9,00,000 \times 8\% \times \frac{6}{12}$) (Being half yearly Debenture Interest paid on Rs. 9,00,000 for 6 months)	36,000	36,000
29.02.2018	Investment in Own Debentures A/c (1,800 × Rs. 99) Dr. Interest in Own 8% Debentures A/c Dr. To Bank A/c (Being 1,000 Debentures purchased at Rs. 99 ex-interest. Interest from 1 st Oct to 29 th Feb, i.e. for 5 months $1,800 \times 100 \times 8\% \times \frac{5}{12} = \text{Rs. } 6,000$)	1,78,200 6,000	1,84,200
29.02.2018	8 % Debentures A/c Dr. To Investment in Own 8% Debentures A/c To Profit on Cancellation of Own Debentures A/c (Being Cancellation of Own Debentures)	1,80,000	1,78,200 1,800
31.03.2018	Interest Expense A/c Dr. To Bank A/c ($7,20,000 \times 8\% \times 6/12$) (Being half yearly Debenture Interest paid on Rs. 7,20,000 for 6 months)	28,800	28,800
31.03.2018	Profit & Loss A/c Dr. To Interest in Own 8% Debentures A/c Interest Expense A/c (Being Interest Expense transferred to Profit & Loss A/c)	72,800	8,000 64,800
31.03.2018	Profit on Cancellation of Own Debentures A/c Dr. To Profit & Loss A/c (Being Profit on Cancellation transferred to Profit & Loss A/c)	6,800	6,800

PROBLEM NO.6

Journal Entries

Date	Particulars	Rs. Dr.	Rs. Cr.
2006 Jan 1 st	Bank Dr To 9% Debenture Applications & Allotment Account (Being application money on 40,000 debentures @ Rs. 100 per debenture received)	40,00,000	40,00,000
	9% Debentures Applications & Allotment Account Dr To 9% Debentures Account	40,00,000	40,00,000

	(Being allotment of 40,000 9% Debentures of 100 each at par)			
	P& L A/c To DRR A/c (Being DRR Created - 10% Of 40,00,000)	Dr	4,00,000	4,00,000
	Debenture Redemption Reserve Investment A/c To Bank A/c (15 % of 40,00,000) (Being Investment made for redemption purpose)	Dr	6,00,000	6,00,000
2008 Jan 1 st	Bank A/c To Deb. Red. Reserve Invst. A/c (4,000 x 100 x 15%) (WN 1) (Being realization of Debenture Redemption reserve investment in respect of 4,000 debenture)	Dr.	60,000	60,000
	Own Debenture A/c To Bank A/c (Being purchase of 4,000 own debentures @ Rs.102 each)	Dr.	4,08,000	4,08,000
	9% Debentures A/c Loss on cancellation of Debentures A/c To Own Debenture A/c (Being cancellation of 4,000 Debentures)	Dr. Dr.	4,00,000 8,000	4,08,000
	Profit & Loss Account To Loss on cancellation of Debentures Account (Being loss on cancellation of debentures being written off by transfer to Profit and Loss Account)	Dr	8,000	8,000
	DRR A/c To General Reserve A/c (4,000 x 100 x 10%) (Being cancellation of DRR in respect of 4,000 Debentures)	Dr.	40,000	40,000
2011 Jan 1 st	Bank A/c To Deb. Red. reserve Invst A/c (20,000 x 100 x 15%) (WN 2) (Being realization of Debenture Redemption reserve investment in respect of 20,000 debenture)	Dr.	3,00,000	3,00,000
	9% Debentures Account To Sundry Debenture holders (Being Amount payable to debenture holders on redemption debentures for Rs. 20,00,000 at par by draw of a lot)	Dr.	20,00,000	20,00,000
	Sundry Debenture holders To Bank (Being Payment made to sundry debenture holders for redeeming debentures of Rs. 20,00,000 at par)	Dr.	20,00,000	20,00,000
	DRR A/c To General Reserve A/c (20,000 x 100 x 10%) (Being cancellation of DRR in respect of 20,000 Debentures)	Dr.	2,00,000	2,00,000
2012 Jan 1 st	Bank A/c To Deb-Redemption reserve investment A/c (8,000 x 100 x 15%)(WN3) (Being realization of Debenture Redemption reserve investment in respect of 8,000 debenture)	Dr.	1,20,000	1,20,000
	Own Debenture A/c To Bank A/c (Being purchase of 8,000 own debentures of Rs.100 each for Rs.7,91,200)	Dr.	7,91,200	7,91,200
	9% Debentures A/c To Own Debenture A/c To P & L (Profit on cancellation of Debentures) A/c (Being cancellation of 8,000 Debentures)	Dr.	8,00,000	7,91,200 8,800
	Profit on Cancellation of Own Debentures a/c	Dr.	8,800	

	To Profit & loss Account (Being transfer of profit on cancellation of own debentures to capital reserve)			8,800
	DRR A/c To General Reserve A/c (8,000 × 100 × 10%) (Being cancellation of DRR in respect of 8,000 Debentures)	Dr.	80,000	80,000
2016 Jan 1 st	Bank A/c To Deb. Red. Reserve Invst. A/c (8,000 x 100 x 15%) (WN 4) (Being realization of Debenture Redemption reserve investment in respect of 8,000 debenture)	Dr.	1,20,000	1,20,000
	9% Debentures Account Premium on Redemption of Debentures A/c To Sundry Debenture holders (Being amount payable to holders of debentures of the face value of Rs. 8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)	Dr. Dr.	8,00,000 16,000	8,16,000
	Sundry Debenture holders A/c To Bank Account (Being payment to sundry debenture holders)	Dr.	8,16,000	8,16,000
	Profit & Loss Account To Premium on Redemption of Debentures Account (Being Premium on Redemption of Debentures Account is closed with P&L Account)	Dr.	16,000	16,000
	DRR A/c To General Reserve A/c (8,000 × 100 × 10%) (Being cancellation of DRR in respect of 8,000 Debentures)	Dr.	80,000	80,000

Relevant Provision: As per Rule 18(7) of the companies (share capital and debentures amendment) rules, 2014. In respect of Unlisted Company other than AIF1, Banking Company, NBFC and HFC, the company shall be required to create D.R.R of 10% value of the outstanding debentures issued. The company shall be required to invest minimum 15% of debentures outstanding.

WN 1: Redemption of Debenture Redemption Investments on 1st Jan 2008 amounting to Rs.60,000

Since the company purchased 4,000 own debentures on 1st Jan 2008 the company would realize the investments 15% corresponding to these debentures of which computation is as follows :

$$= \text{No of own debentures to be bought} \times \text{value per debenture} \times 15\% = 4,000 \times 100 \times 15\% = 60,000/-$$

WN 2: Redemption of Debenture Redemption Investments on 01/01/2011 amounting to Rs.3,00,000

Since the company redeemed Rs.20,00,000 debentures on 1st Jan 2011, the company would also realize investment of 15% corresponding to these debentures for which computation is as follows:

$$= \text{No of own debentures to be bought} \times \text{value per debenture} \times 15\%$$

$$= 20,000 \times 100 \times 15\% = 3,00,000$$

WN 3: Redemption of Debenture Redemption Investments on 01/01/2012 amounting to Rs.1,20,000

Since the company purchased Rs.8,00,000 face value own debentures on 1st Jan 2012 the company would realize the investments 15% corresponding to these debentures of which computation is as follows :

$$= \text{No of own debentures to be bought} \times \text{value per debenture} \times 15\%$$

$$= 8,000 \times 100 \times 15\% = 1,20,000/-$$

WN 4: Redemption of Debenture Redemption Investments on 01/01/2016 amounting to Rs. 1,20,000

The remaining debentures i.e. total debentures less own debentures would be redeemed on 1st Jan 2016 and hence the company would also realize the balance investments of 15% corresponding to these debentures for which computation is as follows:

$$= \text{Remaining debentures} \times \text{Face Value per debenture} \times 15\%$$

$$= (40,000 - 4,000 - 20,000 - 8,000) \times 100 \times 15\% = \text{Rs.1,20,000}$$

PROBLEM NO.7

Journal Entries

Date	Particulars	Debit (Rs.)	Credit (Rs.)
01.04.17	Investment in Own Debentures A/c Dr. To Bank A/c (Being purchase of Rs. 50,000 Nominal Value Own Debentures at Rs. 49,450 ex-interest)	49,450	49,450
01.09.17	Investment in Own Debentures A/c (balancing figure) Dr. Interest in Own Debentures A/c (Rs. 30,000 × 8% × 5/12) Dr. To Bank A/c (Given) (Being purchase of Rs. 30,000 Nominal Value Own Debentures at Rs. 30,250 cum-interest)	29,250 1,000	30,250
30.09.17	Interest on Debentures A/c (Rs. 30,000 × 8% × 6/12) Dr. To Interest on Own Debentures A/c (Rs. 80,000 × 8% × 6/12) To Bank A/c (Being interest due on 30,000 Debentures for 6 months, Interest on Own Debentures recognized and balance paid to Outsiders)	12,000	3,200 8,800
31.03.18	Interest on Debentures A/c (Rs. 30,000 × 8% × 6/12) Dr. To Interest on Own Debentures A/c (Rs. 80,000 × 8% × 6/12) To Bank A/c (Being interest due on 30,000 Debentures for 6 months, Interest on Own Debentures recognized and balance paid to Outsiders)	12,000	3,200 8,800
31.03.18	8 % Debentures A/c (50,000 + 30,000) Dr. To Investment in Own Debentures A/c (49,450 + 29,250) To P & L A/c (Profit on Cancellation) (balancing figure) (Being Cancellation of Own Debentures against Debenture Liability)	80,000	78,700 1,300

PROBLEM NO.8

MK Ltd.'s Ledger

i) Dr. Debentures Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.5.X1	To Own Debentures (8,000 X 98)	7,84,000	1.4.X1	By balance b/d	50,00,000
31.5.X1	To Profit on cancellation	16,000			
31.3.X2	To balance c/d	42,00,000			
		50,00,000			50,00,000

Dr. Interest on Debentures Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.5.X1	To Bank (Interest for 2 months on 8,000 Debentures) (WN)	12,000	31.3.X2	By Profit and Loss A/c (b.f.)	3,90,000
30.9.X1	To Bank (Interest for 6 months on 42000 debentures) (WN)	1,89,000			
31.3.X2	To Bank (Interest for 6 months on 42000 debentures)	1,89,000			
		3,90,000			3,90,000

ii) Dr. **Debentures Redemption Reserve A/c** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31 st May 20X1	To General Reserve (8,000 x 100 x 10%)	80,000	1 st April, 20X1	By Profit & Loss A/c (50,000 x 100 x 10%)	5,00,000
31 st Mar 20X2	To Balance c/d	4,20,000			
		5,00,000			5,00,000

iii) Debentures Redemption Reserve Investments A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
1 st April 20X1	To Bank A/c	7,50,000	30 th May 20X1	By Bank A/c (8,000 x 100 x 15%)	1,20,000
			31 st Mar 20X2	By Balance c/d	6,30,000
		7,50,000			7,50,000

Working Note:

31.5. X1	Acquired 8,000 Debentures @ 98 per debenture	Rs.
	(ex-interest) Purchase price of debenture (8,000 × Rs.98)	= 7,84,000
31.5.X1	Interest for 2 months [Rs.8,00,000 × 9% × 2/12]	= 12,000
30.9. X1	Interest on other debentures Rs.42,00,000 × 9% × 2/12	= 1,89,000

PROBLEM NO.9

Journal of SEE Co. Ltd.

Particulars		Dr. (Rs.)	Cr. (Rs.)
Bank A/c To Equity Shareholders A/c (Application money received on 10,000 shares @ Rs. 15 per share to be issued as rights shares in the ratio of 1:4)	Dr.	1,50,000	1,50,000
Equity Shareholders A/c To Equity Share Capital A/c To Securities Premium A/c (Share application money on 10,000 shares @ Rs. 10 per share transferred to Share Capital Account and Rs. 5 per share to Securities Premium Account vide Boards Resolution dated.)	Dr.	1,50,000	1,00,000 50,000
Securities Premium A/c Profit & Loss A/c To Bonus to Shareholders A/c (Amount transferred for issue of bonus shares to existing shareholders in the ratio of 2:5 vide General Body's resolution dated...)	Dr. Dr.	50,000 1,50,000	2,00,000
Bonus to Shareholders A/c To Equity Share Capital A/c (Issue of bonus shares in the ratio of 2 for 5 vide Board's resolution dated)	Dr.	2,00,000	2,00,000
Profit and Loss A/c To Debenture Redemption Reserve (for DRR created 10% x 2,40,000)	Dr.	24,000	24,000

Debenture Redemption Reserve Investment A/c To Bank A/c (2,40,000 x 15%) (For Debenture Redemption Reserve Investment created)	Dr.	36,000	36,000
12% Debentures A/c Premium Payable on Redemption A/c @ 2% To Debenture holders A/c (Amount payable to debentures holders)	Dr. Dr.	2,40,000 4,800	2,44,800
Profit and loss A/c To Premium Payable on Redemption A/c (Premium payable on redemption charged to Profit & Loss A/c)	Dr.	4,800	4,800
Debenture Redemption Reserve A/c To General Reserve A/c (for DRR transferred to general reserve)	Dr.	24,000	24,000
Bank A/c To Debentures Redemption Reserve Investment A/c (For Debenture Redemption Reserve Investment Realised)	Dr.	36,000	36,000
Debenture holders A/c To Bank A/c (Amount paid to debenture holders on redemption)	Dr.	2,44,800	2,44,800

Balance Sheet of SEE Co. Ltd. as on (after completion of transactions)

Particulars	Note No	Rs.
I. Equity and liabilities		
1) Shareholder's Funds		
a) Share Capital	1	7,00,000
b) Reserves and Surplus	2	85,200
2) Current Liabilities		
a) Trade payables		2,30,000
Total		10,15,200
II. Assets		
1) Non-current assets		
a) Property, Plant and Equipment		
i) Tangible Assets	3	2,30,000
2) Current assets		
a) Inventories		2,70,000
b) Trade receivables		1,50,000
c) Cash and bank balances	4	3,65,200
Total		10,15,200

Notes to Accounts

		Rs.
1. Share Capital		
70,000 shares of Rs. 10 each fully paid (20,000 shares of Rs. 10 each, fully paid issued as bonus shares out of securities premium and P&L A/c)		7,00,000
2. Reserve and Surplus		
Profit & Loss Account	2,40,000	
Less: Premium on redemption of debenture	(4,800)	
Less: Utilisation for issue of bonus shares	(1,50,000)	

	Less: DRR created	(24,000)	
	General Reserve	61,200 <u>24,000</u>	85,200
3.	Tangible assets		
	Freehold property		2,30,000
4.	Cash and bank balances		
	Cash at bank (4,00,000 + 1,50,000 - 2,44,800)	3,05,200	
	Cash in hand	<u>60,000</u>	3,65,200

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