

13. REDEMPTION OF DEBENTURES

NO. OF PROBLEMS IN 41e OF CA INTER CLASSROOM - 13, ASSIGNMENT - 7

NO. OF PROBLEMS IN 42e OF CA INTER CLASSROOM - 8, ASSIGNMENT - 6

NO. OF PROBLEMS IN 43e OF CA INTER CLASSROOM - 9, ASSIGNMENT - 9

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC & CA INTER

MODEL NO.	N-12	M-13	N-13	M-14	N-14	M-15	N-15	M-16	N-16	M-17	N-17	M-18(O)	M-18(N)	N-18(O)	N-18(N)	M-19(O)	M-19(N)	N-19(O)	N-19(N)
Model – 1	-	-	8	-	-	-	-	-	-	-	-	8	-	-	-	-	-	-	-
Model – 2	-	-	-	8	-	-	-	-	8	-	8	-	-	-	-	-	-	-	5
Model – 3	8	-	-	-	-	16	-	4	-	4	-	-	4	-	8	-	-	8	-

Model – 1 : DRR Method

Model – 2 : Convertible Debentures

Model – 3 : Purchase of Own Debentures and Cancellation

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in new SM	Problem No. in old SM	Problem No. in old PM	RTP	MTP	Previous Exams	Remarks
CR 1	ILL - 4	-	5	-	-	-	-
CR 2	PQ - 1	-	6	-	M18(N)&(O)	-	-
CR 3	PQ - 2	-	1	-	-	-	-
CR 4	ILL - 6	ILL - 9	-	-	-	-	-
CR 5	ILL - 1	ILL - 1	-	-	-	-	-
CR 6	-	-	-	M19(N&O)	-	-	-
CR 7	ILL - 3	-	-	-	-	-	-
CR 8	PQ - 4	-	-	-	-	-	-
CR 9	ILL - 5	-	-	-	-	N 13	-
ASG 1	ILL - 2	ILL - 2	-	-	-	M18(O)	-
ASG 2	-	-	-	-	M17	M17	-
ASG 3	-	-	-	-	-	-	PADHUKA
ASG 4	-	-	9	N18(N)&(O)	-	-	-
ASG 5	-	-	-	-	-	-	PADHUKA
ASG 6	-	-	-	-	-	-	-
ASG 7	-	-	-	-	-	-	PADHUKA
ASG 8	PQ - 3	-	3	-	-	-	-
ASG 9	-	-	-	-	-	-	-

THEORY

TOPICS COVERED:

I. INTRODUCTION:

- Company issue debenture to meet its medium and long term capital needs.
- A debenture is defined as “An instrument issued by a company under its seal, acknowledging the debt and containing provisions as regards repayment of the principle and interest”.
- Under Section 71 (1) of the Companies Act, 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption.

II. FEATURES OF DEBENTURES:

- They carry a common face value.
- They are repaid after certain duration.
- They earn interest during their lifetime.
- Like shares, debentures are also movable property, capable of being transferred in the manner provided in the AOA of the company (Sec 44).
- Debentures doesn't have any voting rights. A company shall not issue any debentures carrying any voting rights (Sec 71(2)).
- Debentures are generally secured by way of a charge on the assets or parts of assets of company. However, there may also be unsecured debentures.
- As per Rule 18(2) of the Companies (Share Capital and Debentures) Rules, 2014, the company shall appoint debenture trustees as required under sub-section (5) of section 71 of the Companies Act 2013, after complying with certain conditions mentioned in that rule.

III. REDEMPTION OF DEBENTURES:

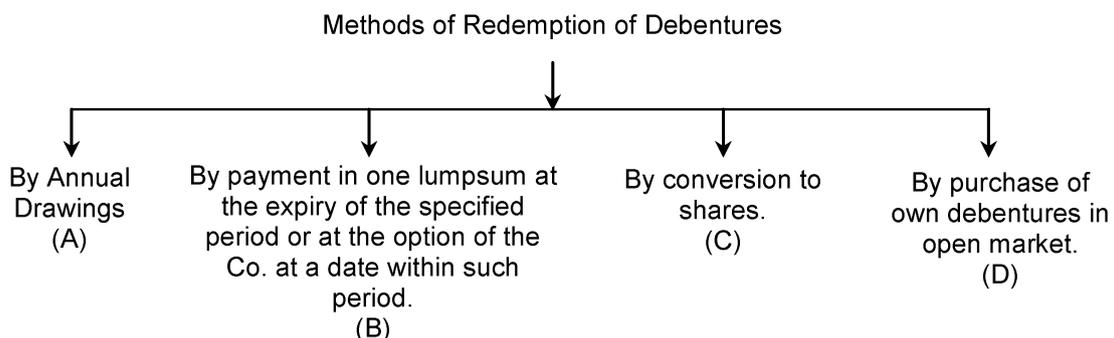
a) Meaning:

- i) Redemption of debentures means discharge of liability on account of debentures by making repayment to the debenture holders.
- ii) Redeemable debentures may be **redeemed**:
 - after a **fixed number** of years; or
 - any time after a **certain number of years** has elapsed since their issue; or
 - on giving a **specified notice**; or
 - by **annual drawing**

b) Legal Provision for redemption of debentures Sec. 71.

- i) Company may issue debentures with an option of conversion.
- ii) Debentures does not carry any voting rights.

c) METHODS OF REDEMPTION OF DEBENTURES:



A. Redemption by Annual Drawings:

- a) Redeemed over life time, every year, a certain portion,
- b) Under payment in instalments method, the payment of specified portion of debenture is made in instalments at specified intervals
- c) Such portion is determined by "Drawing of lots".

B. Lumpsum Redemption method:

- a) A company issuing debentures is required to create a debenture redemption reserve account out of the profits available for distribution of dividend and amounts credited to such account cannot be utilised by the company except for redemption of debentures. Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they fall due for payment.
- b) An appropriate amount is transferred from profits every year to Debenture Redemption Reserve and its investment is termed as Debenture Redemption Reserve Investment. In the last year or at the time of redemption of debentures, Debenture Redemption Reserve Investments are encashed and the amount so obtained is used for the redemption of debentures.

Note: Generally for redemption of debentures under this method company create debenture reserve named after "DRR"

C. Accounting treatment for Debenture Redemption Fund: (Sinking Fund)**a) After allotment of debentures**

- i) For setting aside the fixed amount of profit for redemption

Profit and Loss A/c Dr.

To Debenture Redemption Reserve A/c

- ii) For investing the amount set aside for redemption

Debenture Redemption Reserve Investment A/c Dr.

To Bank A/c

- iii) For receipt of interest on Debenture Redemption Reserve Investments

Bank A/c Dr.

To Interest on Debenture Redemption Reserve Investment A/c

- iv) For transfer of interest on Debenture Redemption Reserve Investments (DRRI)

Interest on Debenture Redemption Reserve Investment A/c Dr.

To Profit and loss A/c*

* Considering the fact that interest is received each year through cash/bank account and it is not re-invested. Hence interest on DRR investment is not credited to DRR A/c but taken to P&L A/c. (in accordance with AS 5)

b) At the time of redemption of debentures:

- i) For encashment of Debenture Redemption Reserve Investments

Bank A/c Dr.

To Debenture Redemption Reserve Investment A/c

- ii) For amount due to debenture holders on redemption

Debentures A/c Dr.

To Debenture holders A/c

- iii) For payment to debenture holders

Debenture holders A/c Dr.

To Bank A/c

iv) After redemption of debentures, DRR should be transferred to general reserve

DRR A/c Dr.
 To General Reserve

Notes:

- a) Debentures sometimes are redeemable at a premium. In such a case, premium on redemption of debentures shall have to be set off with P&L account.

When premium on redemption is due:

Premium on Redemption of Debentures A/c Dr.
 To Debenture Holders A/c

For cancellation of such premium:

Profit & Loss account Dr.
 To Premium on Redemption of Debentures A/c

Note:

- If the debentures are issued at par and Redeemable at a premium, then an additional entry is to be passed for providing premium payable on redemption and for loss on issue of Debentures
 - Premium on redemption of Debentures represents liability of the company
 - Loss on issue of debentures is to be recognized as expense (amortised) over the life of debentures in the ratio of amount outstanding or in equal ratio.
 - Loss on issue of Debentures is a capital loss and shown as Non – Current / Current asset depending upon the period for which it has to be written off.
- b) As per Companies (Share Capital and Debentures) Rules, 2014 the amount of remaining DRR deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

D. Redemption by Conversion into Shares:

- a) According to the terms of Issue of Debentures the Debenture holders may be given the right to exercise the option to convert their Debentures into (i)Equity Shares,(ii)Preference Shares.
- b) The Issue price of the shares must be equal to the amount actually received from the Debenture holders at the time of Issue of those Debentures.
- c) **Accounting Treatment:**

1.	If shares are issued at Par: Debentures A/c Dr. To Share Capital A/c	Nominal value of the Deb.converted Nominal Amount of shares issued
2.	If shares are issued at Premium: Debentures A/c Dr. To Share Capital A/c To Securities Premium A/c	Value of Deb. Converted Nominal Amount of shares Difference between issue price and Face value

- E. **Purchase of Debentures in the Open Market:** If market price of Debentures goes down below par, the Company usually takes the opportunity to buy the Debentures in the open Market to cancel them.

Purchase of Debentures for Immediate Cancellation: The Accounting Entries in such a case will be as follows:

- i) **Where no DRR exists:**

1.	Debentures A/c Dr. To Bank A/c	(With the amount paid)
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Notes:

- a) If there is any difference between the nominal value of the Debentures cancelled and the price paid for them, the same has to be treated as Profit/Loss on cancellation and should be credited or debited to Profit on Redemption of Debentures A/c or Loss on Redemption of Debentures A/c. Thus the entry for this will be as follows:

1.	<p>In case of Profit: Debentures A/c Dr. To Bank A/c (with the price paid for them) To Profit on Redemption of Deb.s A/c</p> <p>For transferring the Profit on Redemption: Profit on Redemption of Debentures A/c Dr. To P&L A/c</p>	<p>With the nominal value of debentures cancelled with the profit, if any.</p> <p>With the profit on redemption.</p>
2.	<p>In case of loss: Debentures A/c Dr. Loss on Redemption of Debentures A/c Dr. To Bank A/c</p> <p>For Cancellation of such loss: Profit & Loss A/c Dr. To Loss on Redm. of Debentures A/c</p>	<p>With Nominal value of debentures cancelled.</p> <p>With the loss, if any with the total.</p> <p>With the loss on Redemption.</p>

ii) **When DRR exists:**

1.	<p>On sale of Debenture Redemption Reserve Investments: Bank A/c Dr. To Debenture Redm. Reserve Investment A/c</p> <p>Note: Profit/Loss on sale of investment is transferred to profit and loss account.</p>	<p>With the realisation value.</p>
2.	<p>On purchase and cancellation of Debentures: Debentures A/c Dr. To Bank A/c</p> <p>Note: Profit/loss on cancellation or Redemption of debentures shall be transferred to P&L account.</p>	<p>With the amount paid.</p>

Note: Profit or Loss on sale of Debenture Redemption Reserve investments, if any, shall also be transferred to P&L Account.

ADEQUACY OF DEBENTURE REDEMPTION RESERVE (DRR)

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, the company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year in accordance with the conditions given below—

- i) The Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;
- ii) The limits with respect to adequacy of DRR and investment or deposits, as the case may be, shall be as under:

S.No.	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
1	All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures	No DRR is required

2	Other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013	DRR will be as applicable to NBFCs registered with RBI (as per (3) below)
3	For listed companies (other than AIFs and Banking Companies as specified in Sr. No. 1 above):	
a)	All listed NBFCs (registered with RBI under section 45-IA of the RBI Act,) and listed HFCs (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures	No DRR is required
b)	Other listed companies for both public as well as privately placed debentures	No DRR is required
4	For unlisted companies (other than AIFs and Banking Companies as specified in Sr. No. 1 above)	
a)	All unlisted NBFCs (registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures	No DRR is required
b)	Other unlisted companies	DRR shall be 10% of the value of the outstanding debentures issued

Note: Where a company intends to redeem its debentures prematurely, it may provide for transfer of such amount in Debenture Redemption Reserve as is necessary for redemption of such debentures even it exceeds the limits specified in this sub-rule.

d) INVESTMENT OF DEBENTURE REDEMPTION RESERVE (DRR) AMOUNT

Further, as per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, following companies

- i)** All listed NBFCs
- ii)** All listed HFCs
- iii)** All other listed companies (other than AIFs, Banking Companies and Other FIs); and
- iv)** All unlisted companies which are not NBFCs and HFCs

shall on or before the 30th day of April in each year, in respect of debentures issued, deposit or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March of next year, in any one or more of the following methods, namely:

- i)** In deposits with any scheduled bank, free from charge or lien;
- ii)** In unencumbered securities of the Central Government or of any State Government;
- iii)** In unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;
- iv)** In unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the redemption of debentures maturing during the year referred to above.

Provided that the amount remaining deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

In case of partly convertible debentures, DRR shall be created in respect of non- convertible portion of debenture issue in accordance with this sub-rule.

The amount credited to DRR shall not be utilised by the company except for the purpose of redemption of debentures.

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the repayment of debentures maturing during the year referred to above.

Provided that the amount remaining deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year

e) CUM-INTEREST QUOTATION:

Example: If the purchase price of Rs.95 is taken to be the cum-interest price, it implies that this includes the Interest for the expired period of 4 months (i.e. from 1st April, 2003 to 31st July, 2003) which amounts to $Rs.100 \times \frac{9}{100} \times \frac{4}{12} = Rs.3$. Therefore, the price actually paid for the Debentures should be taken at $(Rs.95 - Rs.3) = Rs.92$. The accounting entry in such a case is:

✳	Debentures are purchased for immediate cancellation:			
	9% Debentures A/c	Dr.	100	
	Debenture Interest A/c	Dr.	3	
	To Bank A/c			95
	To Profit on Redemption of Debentures A/c			8
	Note: Profit/Loss on redemption of debentures is transferred to :P&L account			

f) EX-INTEREST QUOTATION:

Example: If the purchase price of Rs.95 is taken to be the Ex-interest price it implies that this does not include the interest for the expired period of 4 months (i.e. from 1st April, 03 to 31st July, 03) which amounts to $Rs.100 \times \frac{9}{100} \times \frac{4}{12} = Rs.3$. In this case, the price of Rs.95 represents the price actually paid for the Debentures and the Co. is required to pay Rs.3 for every Debenture as interest in addition to the purchase price of Rs.95. Therefore, the Co. is required to pay $(Rs.95 + Rs.3) = Rs.98$ for every Debenture in total. The Accounting Entry in such a case should be as follows:

✳	If Deb. are purchased for immediate cancellation:			
	9% Debentures A/c	Dr.	100	
	Debenture Interest A/c	Dr.	3	
	To Bank A/c			98
	To Profit on Redemption of Debentures A/c			5

PROBLEMS FOR CLASSROOM DISCUSSION

MODEL 1: DRR METHOD

PROBLEM 1: (PRINTED SOLUTION AVAILABLE) The following balances appeared in the books of Paradise Ltd (Unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-20X1:

- a) 12 % Debentures Rs. 7,50,000
- b) Balance of DRR Rs. 25,000
- c) DRR Investment 1,12,500 represented by 10% Rs. 1,125 Secured Bonds of the Government of India of Rs. 100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-20X2, balance at bank was Rs. 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 20X2:

- | | |
|-----------------------------|------------------------------|
| i) Debentures Account | iv) Bank Account |
| ii) DRR Account | v) Debenture Holders Account |
| iii) DRR Investment Account | |

(A) (NEW SM) (ANS: TOTAL OF 12% DEBENTURES A/C IS 7,50,000 & DRR A/C IS 75,000 & DRR INVESTMENT A/C IS 1,12,500, BANK A/C IS 8,73,500 & DEBENTURE HOLDERS A/C IS 8,25,000)

(SOLVE PROBLEM NO. 1 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS: What would be the impact on above Question?

- If on 31-03-12, balance at bank was Rs. 7,50,000 after receipt of interest.
- If Debentures are redeemed at par

Note: _____

MODEL 2: CONVERTIBLE DEBENTURES

PROBLEM 2: A Company had issued 20,000, 13% Convertible debentures of Rs.100 each on 1st April, 20X1. The debentures are due for redemption on 1st July, 20X2. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value Rs.10) at a price of Rs.15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the Debenture holders exercising the option to the maximum.

(A) (NEW SM) (ANS.:24,500 SHARES)

(SOLVE PROBLEM NO. 2 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 3: Libra Limited recently made a public issue in respect of which the following information is available:

- No. of partly convertible Debentures issued 2,00,000; face value and issue price Rs.100 per debenture.
- Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue.
- Date of closure of subscription lists 1-5-2012, date of allotment 1-6-2012, rate of interest on debenture 15% payable from the date of allotment, value of Equity share for the purpose of conversion Rs.60 (Face Value Rs.10)
- Underwriting Commission 2%.
- No. of debentures applied for 1,50,000.
- Interest payable on debentures half-yearly on 30th September & 31st March.

Write relevant Journal Entries for all transactions arising out of the above during the year ended 31st March 20X2. (Including cash & Bank entries)

(A) (NEW SM)

(SOLVE PROBLEM NO. 3 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS: What would be the impact on above Question?

- If Convertible portion per debenture is 30%
- If interest payable half-yearly on 30th June & 31st December.

Note: _____

PROBLEM 4: Conversion of Debentures: The summarised Balance Sheet of Convertible Limited, (Unlisted company other than AIFI, Banking company, NBFC and HFC) as on 30th June, 2012, stood as follows:

LIABILITIES:	Rs.
Share Capital: 5,00,000 equity shares of Rs. 10 each fully paid	50,00,000
General Reserve	90,00,000
Profit & Loss a/c	10,00,000
Debenture Redemption Reserve	10,00,000
13.5% Convertible Debentures, 1,00,000 Debentures of Rs. 100 each	1,00,00,000
Other loans	65,00,000
Current Liabilities and Provisions	1,25,00,000
	4,50,00,000
ASSETS:	
Fixed Assets (at cost less depreciation)	1,60,00,000
Debenture Redemption Reserve Investments	15,00,000
Cash and bank Balances	75,00,000
Other Current Assets	2,00,00,000
	4,50,00,000

The debentures are due for redemption on 1st July, 2012. The terms of issue of debentures provided that they were redeemable at a premium 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares at a predetermined price of Rs. 15.75 per share and the payment in cash.

Assuming that:

- Except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.
- The investments realized at par on sale and
- All the transactions are put through, without any lag, on 1st July, 2012.

Redraft the balance sheet of the company as on 1st July, 2012 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary.

(A) (NEW SM) (ANS.: TOTAL OF BALANCE SHEET 3,60,75,000)
(SOLVE PROBLEM NO. 4 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS: What would be the impact on above Question?

- Instead of option being conferred to the debenture holders to convert 20% of their holding, if it is given that they are partly convertible debentures and convertible portion is 20%.

Note: _____

MODEL 3: PURCHASE OF OWN DEBENTURES AND CANCELLATION

PROBLEM 5: On January 1, Rama Ltd.(Listed company) had 500 Debentures of Rs. 100 each outstanding in its books carrying interest at 6% per annum. In accordance with the powers in the deed, the directors acquired debentures from the open market for immediate cancellation as follows:

March 1	Rs. 5,000 at Rs. 98.00 (cum interest)
Aug. 1	Rs. 10,000 at Rs. 100.25 (cum interest)
Dec. 15	Rs. 2,500 at Rs. 98.50 (ex-interest)

Debenture interest is payable half-yearly, on 30th June and 31st Dec.

Show ledger accounts of Debentures, Debenture interest for the first year, ignoring income-tax.

(A) (NEW SM) (ANS.: BALANCE IN DEBENTURES A/C – RS.32,500; Debenture interest 1st half year 1400 2nd half year 1093.75)

(SOLVE PROBLEM NO. 5 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS: What would be the impact on above Question?

- i) If interest due dates are 30th Sep & 31st March
- ii) If Transaction on Aug 1st is on ex-interest basis.

Note: _____

PROBLEM 6: (PRINTED SOLUTION AVAILABLE) On 1st January, 2006 Raman Ltd (Unlisted company other than AIFI, Banking company, NBFC and HFC). allotted 20,000 9% Debentures of Rs.100 each at par, the total amount having been received along with applications.

- a) On 1st January, 2008 the Company purchased in the open market 2,000 of its own debentures @ Rs. 101 each and cancelled them immediately.
- b) On 1st January, 2011 the company redeemed at par debentures for Rs.6,00,000 by draw of a lot.
- c) On 1st January, 2012 the company purchased debentures of the face value of Rs.4,00,000 for 3,95,600 in the open market and cancelled them immediately.
- d) Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of 2% on 1st January, 2016.

Pass journal entries for the above mentioned transactions.

(A) (RTP M19(N&O))

(SOLVE PROBLEM NO. 6 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS: What would be the impact on above Question?

- i) If Raman Ltd is a Listed company.

Note: _____

PROBLEM 7: Sencom Limited (Listed company) issued Rs.1,50,000 5% Debentures on 30th September 20X0 on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase debentures in the open market for cancellation thereof. The following purchases were made during the year ended 31st December, 20X2 and the cancellation were made on the same date. And investments made for the purpose of redemption were Rs. 22,500.

1st March 20x2 Rs.25,000 nominal value purchased for Rs.24,725 ex-interest.

1st September 20x2 Rs.20,000 nominal value purchased for Rs.20,125 cum-interest.

You are required to draw up the following accounts up to the date of cancellation:

- a) Debentures Account;
- b) Own Debenture Account; and

Ignore taxation and make calculations to the nearest rupee.

(B) (NEW SM) (ANS.: DEBENTURES A/C:RS.1,50,000, OWN DEBENTURES A/C : 44,433)

(SOLVE PROBLEM NO. 7 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS: What would be the impact on above Question?

- i) If Sencom Ltd is an Unlisted company other than AIFI, Banking company, NBFC and HFC

Note: _____

PROBLEM 8: (PRINTED SOLUTION AVAILABLE) YZ Ltd (Unlisted company other than AIFI, Banking company, NBFC and HFC) had 16,000, 12% debentures of Rs.100 each outstanding as on 1st April 20X1, redeemable at the end of the year.

On 1 April 20X1, the following balances appeared in the books of accounts- Investment in 2,000 9% secured Govt. bonds of Rs.100 each. DRR is Rs.1,00,000. Interest on investments is received yearly at the end of financial year.

2,000 own debentures were purchased on 31st March 20X2 at the average price of Rs.99 and cancelled on the same date.

On 31st March, 20X2, the investments were realised at par and the debentures were redeemed. You are required to write up the following accounts for the year ended 31st March 20X2:

- a) 12% Debentures Account
- b) Debenture Redemption Reserve Account
- c) Debenture Redemption Investments Account.

(A) (NEW SM) (ANS.: DEBENTURES A/C:RS.16,00,000, DRR A/C :1,60,000,DRIA:2,40,000)
(SOLVE PROBLEM NO. 8 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS: What would be the impact on above Question?

- i) If the balance 14,000 debentures were not redeemed at the year end.

Note: _____

PROBLEM 9: The summary Balance sheet of BEE Co. Ltd. (Unlisted company other than AIFI, Banking company, NBFC and HFC) as on 31st March, 2012 read as under.

Particulars	Rs.	Assets	Rs.
Share Capital:		Freehold property	1,15,000
Authorised		Stock	1,35,000
30,000 Equity shares of Rs.10 each	3,00,000	Trade Receivables	75,000
Issued and Subscribed:		Cash	30,000
20,000 Equity shares of Rs.10 each fully paid	2,00,000	Balance at bank	2,00,000
Reserves and surplus			
Profit and Loss A/c	1,20,000		
12% Convertible Debentures	1,20,000		
Trade Payables	1,15,000		
	5,55,000		5,55,000

At the Annual General Meeting it was resolved:

- b) To give the existing shareholders the option to purchase one Rs.10 share at Rs.15 for every four shares (held prior to the bonus distribution), this option being taken up by all shareholders.
- c) To issue one bonus share for every five shares held.
- d) To repay the debentures at a premium of 3%

Give the necessary journal entries and the company's Balance sheet after these transactions are completed.

(NEW SM, SIMILAR: N13) (ANS.: TOTAL OF BALANCE SHEET 5,06,400)
(SOLVE PROBLEM NO. 9 OF ASSIGNMENT PROBLEMS AS REWORK)

CONCEPT QUESTIONS: What would be the impact on above Question?

- i) If in point (a), option is taken by only 80% of the shareholders.

PRINTED SOLUTIONS FOR SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 1,6,8

PROBLEM NO: 1

1. Dr. 12% Debentures Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31 st Mar, 20X2	To Debenture holders A/c	7,50,000	1 st Apr, 20X1	By Balance b/d	7,50,000
		7,50,000			7,50,000

2. Dr. DRR Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31 st Mar, 20X2	To General reserve A/c (Note:1.)	75,000	1 st Apr, 20X1	By Balance b/d	25,000
			31 st Mar, 20X2	By Profit and loss A/c (Note:1)	50,000
		75,000			75,000

3. Dr. 10% Secured Bonds of Govt. (DRR Investment) A/c Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1 st Apr, 20X1	To Balance B/d	1,12,500	31 st Mar, 20X2	By Bank A/c	1,12,500
		1,12,500			1,12,500

4. Dr. Bank A/c Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31 st Mar, 20X2	To Balance B/d	7,50,000	31 st Mar, 20X2	By 12% Debenture	8,25,000
	To interest on DRR	1,250		By Balance c/d	48,750
	To DRR Investment A/c	1,12,500			
		8,73,750			8,73,750

5. Dr. Debenture holders A/c Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31 st Mar, 20X2	To Bank A/c	8,25,000	31 st Mar, 20X2	By 12% Debentures	7,50,000
				By premium on redemption of debentures @ 10% (7,50,000 x 10%)	75,000
		8,25,000			8,25,000

Note 1

Calculation of DRR before redemption = 10% of Rs. 7,50,000 = 75,000

Available balance = Rs. 25,000

DRR required = 75,000 – 25,000 = Rs. 5,0000.

PROBLEM 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 20,000 debentures @ Rs. 100 per debenture received)	20,00,000	20,00,000

	9% Debentures Applications & Allotment Account To 9% Debentures Account (Being allotment of 20,000 9% Debentures of 100 each at par)	Dr. 	20,00,000	20,00,000
	P&L A/c To DRR A/c (Being DRR Created – 10% Of 20,00,000)	Dr. 	2,00,000	2,00,000
	Debenture Redemption Reserve Investment A/c To Bank A/c (15 % of 20,00,000) (Being Investment made for redemption purpose)	Dr. 	3,00,000	3,00,000
2008 Jan 1 st	Bank A/c To Debenture Redemption reserve investment A/c (WN1) (2000 × 100 × 15%) (Being realization of Debenture Redemption reserve investment in respect of 2,000 debenture)	Dr. 	30,000	30,000
	Own Debenture A/c To Bank A/c (Being purchase of 2,000 own debentures @ Rs.101 each)	Dr. 	2,02,000	2,02,000
	9% Debentures A/c Loss on cancellation of Debentures A/c To Own Debenture A/c (Being cancellation of 2,000 Debentures)	Dr. Dr. 	2,00,000 2,000	2,02,000
	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. 	2,000	2,000
	DRR A/c To General Reserve A/c (2,000 × 100 × 10%) (Being cancellation of DRR in respect of 2,000 Debentures)	Dr. 	20,000	20,000
2011 Jan 1 st	Bank A/c To Deb-Redemption reserve investment A/c (WN2) (6000 × 100 × 15%) (Being realization of Debenture Redemption reserve investment in respect of 6,000 debenture)	Dr. 	90,000	90,000
	9% Debentures Account To Sundry Debenture holders (Being Amount payable to debenture holders on redemption debentures for Rs. 6,00,000 at par by draw of a lot)	Dr. 	6,00,000	6,00,000
	Sundry Debenture holders To Bank (Being Payment made to sundry debenture holders for redeeming debentures of Rs. 6,00,000 at par)	Dr. 	6,00,000	6,00,000
	DRR A/c To General Reserve A/c (6,000 × 100 × 10%) (Being cancellation of DRR in respect of 6,000 Debentures)	Dr. 	60,000	60,000
2012 Jan 1 st	Bank A/c To Deb-Redemption reserve investment A/c (WN3) (4000 × 100 × 15%) (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 of Rs.100 each for Rs.3,95,600)	Dr. 	3,95,600	3,95,600
	9% Debentures A/c To Own Debenture A/c To P & L (Profit on cancellation of Debentures) A/c (Being cancellation of 4,000 Debentures)	Dr. 	4,00,000	3,95,600 4,400
	Profit on Cancellation of Own Debentures a/c	Dr	4,400	

	To Profit & loss Account (Being transfer of profit on cancellation of own debentures to capital reserve)		4,400
	DRR A/c Dr. To General Reserve A/c (4,000 × 100 × 10%) (Being cancellation of DRR in respect of 4,000 Debentures)	40,000	40,000
2016 Jan 1 st	Bank A/c Dr. To Deb-Redemption reserve investment A/c (WN4) (8000 × 100 × 15%) (Being realization of Debenture Redemption reserve investment in respect of 8,000 debenture)	1,20,000	1,20,000
	9% Debentures Account Dr. Premium on Redemption of Debentures A/c Dr. 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)	8,00,000 16,000	8,16,000
	Sundry Debenture holders Dr. To Bank Account (Being payment to sundry debenture holders)	8,16,000	8,16,000
	Profit & Loss Account Dr. To Premium on Redemption of Debentures Account (Being Premium on Redemption of Debentures Account is closed with P&L Account)	16,000	16,000
	DRR A/c Dr. To General Reserve A/c (8,000 × 100 × 10%) (Being cancellation of DRR in respect of 8,000 Debentures)	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 AIFI, 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.

Working Note 1:

Redemption of Debenture Redemption Investments on 1st Jan 2008 amounting to Rs.30,000.

Since the company purchased 2,000 own debentures on 1st Jan 2008 the company would realize the investments 15% corresponding to these debentures of which computation is as follows :

=No of own debentures to be bought X value per debenture X15%

=2000X100X15%=30,000/-

Working Note 2:

Redemption of Debenture Redemption Investments on 1st Jan 2011 amounting to Rs.90,000.

Since the company redeemed Rs.6,00,000 debentures on 1st Jan 2011, the company would also realize investment of 15% corresponding to these debentures for which computation is as follows:

= No of own debentures to be bought X value per debenture X15%

= 6,000 x 100 x 15 % = 90,000.

Working Note 3:

Redemption of Debenture Redemption Investments on 1st Jan 2012 amounting to Rs.60,000.

Since the company purchased Rs.4,00,000 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 :

=No of own debentures to be bought X value per debenture X15%.

=4,000X100X15%=60,000/-

Working Note 4:

Redemption of Debenture Redemption Investments on 1st Jan 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:

= remaining debentures X Face value per debenture X 15%.
 = (20,000 - 2,000 – 6,000 – 4,000) X 100 X 15%
 = Rs.1,20,000

PROBLEM NO: 8

Dr. 12% Debentures Account			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
31 st Mar, 20X2	To Own debentures A/c	1,98,000	1 st April, 20X1	By Balance b/d	16,00,000
	To Profit on cancellation	2,000			
	To Bank A/c	14,00,000			
		16,00,000			16,00,000

Dr. Debenture Redemption Reserve Account			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
31 st Mar, 20X2	To General reserve A/c (B/f)	1,60,000	1 st Apr, 20X1	By Balance b/d	1,00,000
				By Profit and loss A/c (16,00,000*10%) – 1,00,000	60,000
		1,60,000			1,60,000

Dr. Debenture Redemption investment Account			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.
1 st Apr, 20X1	To Balance b/d	2,40,000	31 st Mar, 20X2	By Bank A/c (WN2) (2000x100x15%)	30,000
	To Bank account (WN1)	40,000		31 st Mar 20x2	By Bank A/c (WN3)
		2,40,000			2,40,000

Working Note 1:

Debenture Redemption Investment A/c

The company would be required to invest an amount equivalent to 15% of the value of the debentures in specified investments which would be equivalent to:

= Total No of debentures X Face value per debenture X 15%.
 = 16,000 X 100 X 15%.
 = Rs.2,40,000/-

The company has already invested in specified investments i.e. 9% Govt bonds for an amount of Rs.2,00,000 as per the information given in the question.

The balance amount of Rs. 40,000 (i.e. Rs. 2,40,000 less Rs. 2,00,000) would be invested by the company on 1 April 20X1.

Working Note 2:

Redemption of Debenture Redemption Investments on 30th March 20X2 amounting to Rs. 30,000

Since the company purchased 2,000 own debentures on 31st March 2012 the company would realize the investments 15% corresponding to these debentures of which computation is as follows :

=No of own debentures to be bought X value per debenture X 15%

=2000X100X15%=30,000/-

These investments have been realized a day before purchasing own debentures. Alternatively, these investments may also be realized on 31st March 20X2

Working Note 3:

Redemption of Debenture Redemption Investments on 31 March 20X2 amounting to Rs. 2,10,000

The remaining debentures i.e. total debentures less own debentures would be redeemed on 31st March 20X2 and hence the company would also realize the balance investments of 15% corresponding to these debentures for which computation is as follows:

= (Total no of debentures - No of own debentures) X Face value per debenture X 15%

= (16,000 - 2,000) X 100 X 15%

= Rs. 2,10,000/-

These investments have been realized a day before redemption of debentures. Alternatively, these investments may also be realized on 31 March 20X2.

ASSIGNMENT PROBLEMS

MODEL 1: DRR METHOD

PROBLEM 1: The following balances appeared in the books of a company (Unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 20X1: 6% Mortgage 10,000 debentures of Rs. 100 each; Debenture Redemption Reserve (for redemption of debentures) Rs. 50,000; Investments in deposits with a scheduled bank, free from any charge or lien Rs. 1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is Rs. 9,00,000.

The Interest on debentures had been paid up to December 31, 20X1.

On February 28, 20X2, the investments were realised at par and the debentures were paid off at 101, together with accrued interest.

Write up the ledger accounts concerned. The Debenture Redemption Reserve is non-cumulative.

(A) (NEW SM, M18 - 8M (O))(ANS:DEBENTURE A/C:10,00,000, BANK A/C:10,51,000, DRR A/C:1,00,000)

CONCEPT QUESTIONS: What would be the impact on above Question?

i) If Debentures are redeemed at par

MODEL 2: CONVERTIBLE DEBENTURES

PROBLEM 2: XYZ Ltd has issued 30,000, 15% convertible debentures of Rs.100 each on 1st April 2008. The debentures are due for redemption on 1st March, 2011. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 25% of their holding in to equity shares (Nominal value Rs.10) at a price of Rs.12 per share. Debentures holders holding 2400 debentures did not exercise the option. Calculate the number equity shares to be allowed to the debenture holders exercising the option to the maximum

(MTP M17, M17) (ANS.:60,375 SHARES)

PROBLEM 3: Venus limited recently made a public issue in respect of which of the following information is available.

- No. of Partly Convertible Debentures issued 4,00,000 Face Value and issue price of ₹ 100 per Debenture.
- Convertible Portion per Debenture – 80%, Date of Conversion – on expiry of 7 months from the date of closing issue.
- Date of Closure of Subscription List – 01.06.2013, Date of Allotment – 01.07.2013, Rate of interest on Debentures –10% p.a. payable from the date of allotment. Value of Equity Share for the purpose of conversion - ₹40(Face Value ₹ 10)

- d) Underwriting Commission – 3%
- e) No. of Debentures applied for 3,00,000.
- f) Interest payable on Debentures – half yearly on 30th September and 31st March.

Write relevant Journal entries for all transactions arising out of the above during the year ended on 31st March, 2014 (including Cash and Bank entries) (PDK)

CONCEPT QUESTIONS: What would be the impact on above Question?

- i) If Convertible portion per debenture is 40%
- ii) If interest payable half-yearly on 30th June & 31st December

PROBLEM 4: Conversion of Debentures: The summarized Balance Sheet of Spices Ltd (Unlisted Company other than AIFI, Banking Company, NBFC and HFC). as on 31st March, 2018 read as under:

Particulars	Rs.
LIABILITIES:	
Share Capital: 9,000 equity shares of Rs. 10 each fully paid up	90,000
General Reserve	70,000
Debenture Redemption Reserve	6,000
12% Convertible Debentures: 1200 Debentures of Rs. 50 each	60,000
Other Loans	28,000
Current Liabilities and Provisions	19,000
	2,73,000
ASSETS:	
Fixed Assets (at cost less depreciation)	1,00,000
Debenture Redemption Reserve Investments	9,000
Cash and Bank Balances	86,000
Other Current Assets	78,000
	2,73,000

The debentures are due for redemption on 1st April, 2018. The terms of issue of debentures provided that they were redeemable at a premium 10% and also conferred option to the debenture holders to convert 40% of their holding into equity shares at a predetermined price of Rs. 11 per share and the balance payment in cash.

Assuming that:

- a) Except for debenture holders holding 200 debentures in aggregate, rest of them exercised the option for maximum conversion,
- b) The investments realized at par on sale,
- c) All the transactions were taken place on 1st April, 2018
- d) Premium on redemption of debentures is to be adjusted against General Reserve.

Redraft the Balance Sheet of Spices Ltd. as on 01.04.2018 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary. (A) (RTP N18 (N)) (ANS.: TOTAL OF BALANCE SHEET – RS. 2,29,000)

CONCEPT QUESTIONS: What would be the impact on above Question?

- i) Instead of option being conferred to the debenture holders to convert 40% of their holding, if it is given that they are partly convertible debentures and convertible portion is 40%.

MODEL 3: PURCHASE OF OWN DEBENTURES AND CANCELLATION

PROBLEM 5: Himalayas Ltd. had ₹ 10,00,000, 8% Debentures of ₹ 100 each as on 31st March 2017. The Company purchased in the open Market following Debentures for immediate cancellation.

On 01.07.2017: 1,000 Debentures at ₹ 97 (cum-interest).

On 29.02.2017: 1,800 Debentures at ₹ 99 (ex-interest).

Debenture interest due dates are 30th September and 31st March.

Give journal entries in the books of the Company for the year ended 31st March 2018.

(PDK)

CONCEPT QUESTIONS: What would be the impact on above Question?

- If interest due dates are 30th June & 31st December
- If Transaction on 1st July is on ex-interest basis & 29th Feb is on cum-interest.

PROBLEM 6: On 1st January, 2006 Mouni Ltd (Unlisted company other than AIFI, Banking company, NBFC and HFC). allotted 40,000 9% Debentures of Rs.100 each at par, the total amount having been received along with applications.

- On 1st January, 2008 the Company purchased in the open market 4,000 of its own debentures @ Rs. 102 each and cancelled them immediately.
- On 1st January, 2011 the company redeemed at par debentures for Rs. 20,00,000 by draw of a lot.
- On 1st January, 2012 the company purchased debentures of the face value of Rs.8,00,000 for 7,91,200 in the open market and cancelled them immediately.
- Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of 2% on 1st January, 2016.

Pass journal entries for the above mentioned transactions

CONCEPT QUESTIONS: What would be the impact on above Question?

- If Mouni Ltd is a Listed company.

PROBLEM 7: Rama Limited issued 8% Debentures of ₹ 3,00,000 in earlier year, on which interest is payable half yearly on 31st March and 30th September. The Company has power to purchase its Own Debenture in the Open market for cancellation thereof. The following purchases were made during the year ended 31st March 2018 and cancellation was made on the same date.

- On 1st April, ₹ 50,000 Nominal Value Purchased for ₹ 49,450 ex-interest.
- On 1st September, ₹ 30,000 Nominal Value Purchased for ₹ 30,250 cum-interest.

Show the journal entries for the transactions held in the year 2017-2018.

(PDK)

CONCEPT QUESTIONS: What would be the impact on above Question?

- If Rama Ltd is an unlisted company other than AIFI, Banking company, NBFC and HFC

PROBLEM 8: On 1st April, 20X1, in MK Ltd.'s (Unlisted company other than AIFI, Banking company, NBFC and HFC) ledger 9% debentures appeared with a opening balance of Rs. 50,00,000 divided into 50,000 fully paid debentures of Rs. 100 each issued at par.

Interest on debentures was paid half-yearly on 30th of September and 31st March every year.

On 31.5.2012, the company purchased 8,000 debentures of its own @ Rs. 98 (ex-interest) per debenture.

On the same day it cancelled the debentures acquired.

You are required to prepare necessary ledger accounts (excluding bank a/c)

(A) (NEW SM) (ANS.: (I) TOTAL OF DEBENTURES A/C 50,00,000 (II) TOTAL OF INTEREST ON DEBENTURES A/C 3,90,000 (III) TOTAL OF DEBENTURES RESERVE A/C 5,00,000, OF DEBENTURE REDEMPTION INVESTMENT ACCOUNT 7,50,000)

PROBLEM 9: The summary Balance sheet of SEE Co. Ltd. (Unlisted company other than AIFI, Banking Company, NBFC and HFC) as on 31st March, 2012 read as under.

Particulars	Rs.	Assets	Rs.
Share Capital:		Freehold property	2,30,000
Authorized		Stock	2,70,000
60,000 Equity shares of Rs.10 each	6,00,000	Trade Receivables	1,50,000
Issued and Subscribed:		Cash	60,000
40,000 Equity shares of Rs.10 each fully paid	4,00,000	Balance at bank	4,00,000
Reserves and surplus			
Profit and Loss A/c	2,40,000		
12% Convertible Debentures	2,40,000		
Trade Payables	2,30,000		
	11,10,000		11,10,000

At the Annual General Meeting it was resolved:

- a) To give the existing shareholders the option to purchase one Rs.10 share at Rs.15 for every four shares (held prior to the bonus distribution), this option being taken up by all shareholders.
- b) To issue two bonus shares for every five shares held.
- c) To repay the debentures at a premium of 2%

Give the necessary journal entries and the company's Balance sheet after these transactions are completed
 (ANS.: TOTAL OF BALANCE SHEET – RS. 10,15,200)

CONCEPT QUESTIONS: What would be the impact on above Question?

- i) If in point (a), option is taken by only 60% of the shareholders.

M.M.C.I.P.T.D.

THE END

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