

## 7. REDEMPTION OF DEBENTURES

## ASSIGNMENT SOLUTIONS

## PROBLEM NO: 1

Dr. 6% mortgage debentures A/c Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2013			2013		
Feb 28	To Debenture holders A/c	10,00,000	Jan 1	By Balance b/d	10,00,000
		10,00,000			10,00,000

Dr. Premium on redemption of debentures A/c Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2013			2013		
Feb 28	To Debenture holders A/c	10,000	Feb 28	By Debenture Redemption Reserve A/c	10,000
		10,000			10,000

Dr. Debenture redemption reserve investment A/c Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
2013			2013		
Jan 1	To Balance b/d (5,28,000 + 5,42,000)	10,70,000	Feb 28	By Bank Rs. 5,28,000 (govt. loan @ Rs.90)	4,75,200
				By Bank Rs. 5,60,000 (govt. paper @ Rs.87)	4,87,200
				By D.R.R (Loss)	1,07,600
		10,70,000			10,70,000

Dr. Debenture Interest A/c Cr.

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2013			2013		
Feb 28	To Cash $(10,000 \times 100 \times 6\% \times \frac{2}{12})$	10,000	Feb 28	By profit & loss A/c	10,000
		10,000			10,000

Dr. Cash A/c Cr.

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2013			2013		
Feb 28	To Balance b/d	?	Feb 28	By debenture holders A/c	10,10,000
	To Debenture redemption reserve investment A/c	9,62,400		By debenture interest A/c	10,000
				By Balance c/d	?

Dr. Debenture redemption reserve A/c Cr.

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2013			2013		
Feb 28	To D.R.R Investment (loss)	1,07,600	Jan 1	By Balance b/d	10,42,000
	To Premium on redemption of debentures A/c	10,000		By profit & loss (appropriation) A/c	75,600
	To General reserves	10,00,000			
		11,17,600			11,17,600

**PROBLEM NO: 2****Calculation of number of equity shares to be allotted**

	Number of debentures
Total number of debentures	30,000
Less: Debenture holders who not opted for conversion	(2,500)
Debenture holders who opted for conversion	27,500
Option for conversion	20%
Number of debentures to be converted (20% of 27,500)	5,500

Redemption value of 5,500 debentures at a premium of 5% [5,500 x (100+5)] Rs. 5,77,500

Equity shares of Rs.10 each issued on conversion [Rs.5,77,500/ Rs.15] 38,500 shares

**PROBLEM NO: 3****Entyce Limited****Balance Sheet as on 01.04.2013**

Particulars	Note No.	Figures as at the end of current reporting period
<b>I. Equity and Liabilities</b>		
1. Shareholder's Funds		
a) Share Capital	1	55,00,000
b) Reserves and Surplus	2	85,85,000
2. Non-Current Liabilities		
a) Long-term borrowings - Unsecured Loans		45,00,000
3. Current Liabilities		
a) Short-term provisions		90,00,000
Total		<u>2,75,85,000</u>
<b>II. Assets</b>		
1. Non-current assets		
a) Fixed assets		
i) Tangible assets		1,50,00,000
2. Current assets		
a) Cash and cash equivalents		5,85,000
b) Other current assets		1,20,00,000
Total		<u>2,75,85,000</u>

**Notes to Accounts:**

<b>1. Share Capital</b>		
5,50,000 Equity Shares of Rs. 10 each		55,00,000
<b>2. Reserve and Surplus</b>		
General Reserve	50,00,000	
Add: Debenture Redemption Reserve transfer	35,00,000	
	85,00,000	
Add: Profit on sale of investments	2,00,000	
	87,00,000	
Less: Premium on redemption of debentures (80,000 x Rs. 5)	(4,00,000)	83,00,000
Securities Premium Account (1,50,000 x Rs. 1.9)		<u>2,85,000</u>
		85,85,000

**Working Notes:****i) Calculation of number of shares to be allotted**

Total number of debentures	80,000
Less: Number of debentures not opting for conversion	(12,000)
	68,000
25% of 68,000 debentures	17,000
Redemption value of 17,000 debentures	Rs. 17,85,000

Number of Equity Shares to be allotted =  $\frac{17,85,000}{11.90} = 1,50,000$  shares of Rs 10 each.

## ii) Calculation of cash to be paid

Number of debentures	80,000
Less: Number of debentures to be converted into equity shares	(17,000)
	<u>63,000</u>
Redemption value of 63,000 debentures (63,000 × Rs 105)	Rs 66,15,000

## iii) Cash and Bank Balance

Balance before redemption	40,00,000
Add: Proceeds of investments sold	<u>32,00,000</u>
	72,00,000
Less: Cash paid to debenture holders	(66,15,000)
	<u>5,85,000</u>

**PROBLEM NO: 4**

Mk Ltd.'s Ledger

Dr. Own Debentures Account Cr.

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs.)
31-05-12	To Bank A/c	7,84,000	31-12-12	By 9% debentures A/c	5,00,000
31-12-12	To Capital reserve (Profit on cancellation)	10,000	31-01-13	By Bank (Resale of 2,000 debentures) A/c	2,02,000
31-01-13	To Profit & Loss A/c (Profit on resale)	<u>6,000</u>	31-03-13	By Balance c/d	<u>98,000</u>
		<u>8,00,000</u>			<u>8,00,000</u>

Dr. Interest on Debentures Account Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
31-05-12	To Bank A/c [Interest for 2 months on 8,000 deb]	12,000	31-03-13	By Profit & Loss A/c	4,38,750
30-09-12	To Interest on own debentures A/c [Deb 8000 for 4 months]	24,000			
30-09-12	To Bank A/c (42,000 for 6 months)	1,89,000			
31-12-12	To Interest on own debentures A/c [5,000 for 3 months]	11,250			
31-03-13	To Interest on own debentures A/c [Interest for 6M on 1,000 debentures]	4,500			
31-03-13	To Bank A/c (Interest for 6M on 44,000* debt)	<u>1,98,000</u>			
		<u>4,38,750</u>			<u>4,38,750</u>

\*50,000 - 5,000 - 1,000

Dr. Interest on Own Debentures Account Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31/03/13	To Profit & Loss A/c	45,750	30/09/12	By Interest on Debentures A/c	24,000
			31/12/12	By Interest on Debentures A/c	11,250

		31/01/13	By Bank (Interest for 4 months on 2,000)	6,000
		31/03/13	By Interest on Debentures	4,500
		<u>45,750</u>		<u>45,750</u>

**Working Note:**

Date	Particulars	Amount (Rs.)
31/05/12	Acquired 8000 Debentures @ 98 per Debentures (Ex-Interest) Purchase price for debentures (8,000 Deb x Rs.98) Interest for 2 Months [Rs.8,00,000 x 9% x 2/12]	7,84,000 12,000
30/09/12	Interest on Own debentures [Rs.8,00,000 x 9% x 1/2] - Rs. 12,000 Interest on debentures [Rs. 42,00,000 x 9% x 1/2]	24,000 1,89,000
31/12/12	Cancellation of 5000 Own debentures Face Value of Rs.100 Less acquired at Rs.98 (2 x 5,000)	10,000
31/01/13	Resale of 2000 debentures Sold for Rs. 101 (Ex-interest) acquired for Rs.98 (Ex-interest) (2000 x Rs.3 per debenture)	6,000
31/12/12	Interest on Cancellation 5000 debentures (5,000 x 100 x 9% x 1/4)	11,250
31/03/13	Interest on 1000 Own debentures (Rs.1,00,000 x 9% x 1/2)	4,500

**PROBLEM NO: 5****Journal**

Date	Particulars	Debit (Rs.)	Credit (Rs.)
2006 Jan 1	Bank A/c Dr. To 9% Debenture Application & 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 Dr. To 9% Debentures Account (Being allotment of 20,000 9% Debentures of Rs 100 each at Par)	20,00,000	20,00,000
(i) 2008 Jan. 1	9% Debentures Account Dr. Loss on Redemption of Debentures Account Dr. To Bank A/c (Being redemption of 2000 9% Debentures of Rs 100 each by purchase in the open Market @Rs 101 each)	2,00,000 2,000	2,02,000
Jan. 1	Profit & Loss Account/Securities Premium Account Dr. To Loss on Redemption of Debentures Account (Being Loss on Redemption of Debentures being Written off by transfer to Profit and Loss Account or Securities Premium Account)	2,000	2,000
(ii) 2011 Jan. 1	9% Debentures Account Dr. 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)	6,00,000	6,00,000
Jan. 1	Sundry Debenture holders Dr. To Bank A/c (Being Payment made to sundry Debenture holders for redeeming debentures of Rs 6,00,000 at par)	6,00,000	6,00,000
(iii) 2012 Jan.1	Own Debentures Dr. To Bank A/c (Being Purchase of Own Debentures of Face value of Rs 4,00,000 for Rs 3,95,600)	3,95,600	3,95,600
2013 Jan.1	9% Debentures Dr. To Own Debentures To Profit on Cancellation of Own Debentures A/c (Being Cancellation of Own debentures of the Face value of Rs 4,00,000 purchased last Year for Rs 3,95,600)	4,00,000	3,95,600 4,400
2013 Jan.1	Profit on Cancellation of Own Debentures A/c Dr. To Capital Reserve Account	4,400	4,400

	(Being transfer of Profit on Cancellation of Own debentures to Capital reserve)			
(iv) 2016 Jan 1	9% Debentures Account Dr. Premium on Redemption of Debentures Account 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
Jan 1	Sundry Debenture holders Dr. To Bank Account (Being payment to Sundry Debenture holders)	8,16,000		8,16,000
Jan 1	Securities Premium Account Dr. To Premium on Redemption of Debentures Account (Being utilisation of a part of the Balance in Securities premium Account to Write off premium paid on redemption of debentures)	16,000		16,000

**PROBLEM NO: 6**

In the Books of Progressive Ltd.

Dr.			Cr.		
Debenture Stock A/c					
2010	Particulars	Amount (Rs.)	2010	Particulars	Amount (Rs.)
Sep 30	To Debenture Redemption A/c	1,20,000	Jan. 1	By Balance b/d	10,00,000
Dec 31	To Balance C/d	8,80,000			
		<u>10,00,000</u>			<u>10,00,000</u>
2011	Particulars	Amount (Rs.)	2011	Particulars	Amount (Rs.)
May 31	To Debenture Redemption A/c	75,000	Jan. 1	By Balance b/d	8,80,000
Dec.31	To Debenture Redemption A/c	25,000			
	To Balance c/d	7,80,000			
		<u>8,80,000</u>			<u>8,80,000</u>
2012	Particulars	Amount (Rs.)	2012	Particulars	Amount (Rs.)
July 31	To Debenture Redemption A/c	1,15,000	Jan. 1	By Balance b/d	7,80,000
Dec.31	To Balance c/d	6,65,000			
		<u>7,80,000</u>			<u>7,80,000</u>

Dr.			Cr.		
Debenture Redemption Account					
2010	Particulars	Amount (Rs.)	2010	Particulars	Amount (Rs.)
Sept. 30	To Bank A/c (Rs. 1,20,000 × 0.98 - Rs. 1,800) To Capital Reserve A/c	1,15,800 4,200	Sept.30	By Debenture Stock A/c	1,20,000
		<u>1,20,000</u>			<u>1,20,000</u>
2011	Particulars	Amount (Rs.)	2010	Particulars	Amount (Rs.)
May 30	To Bank A/c (Rs. 75,000 × 0.95)	71,250	May 31	By Debenture Stock A/c	75,000
	To Capital Reserve A/c (Profit on cancellation)	3,750	Dec. 31	By Debenture Stock A/c	25,000
Dec.31	To Bank A/c (Shortfall Rs 1,00,000 - Rs. 75,000)	25,000			
		<u>1,00,000</u>			<u>1,00,000</u>
2012	Particulars	Amount (Rs.)	2012	Particulars	Amount (Rs.)
July 31	To Bank A/c (Rs.1,15,000 × 0.92 - Rs.575) To Capital Reserve A/c (Profit on cancellation)	1,05,225 9,775	July 31	By Debenture Stock A/c	1,15,000
		<u>1,15,000</u>			<u>1,15,000</u>

Dr.			Debenture Interest Account			Cr.		
2010	Particulars	Amount (Rs.)	2010	Particulars	Amount (Rs.)			
June 30	To Bank A/c	30,000	Dec. 31	By Profit and Loss A/c	58,200			
Sept 30	To Bank A/c	1,800						
Dec. 31	To Bank A/c	26,400						
		<u>58,200</u>			<u>58,200</u>			
2011	Particulars	Amount (Rs.)	2011	Particulars	Amount (Rs.)			
May 31	To Bank A/c	1,875	Dec. 31	By Profit and Loss A/c	50,175			
June 31	To Bank A/c	24,150						
Dec. 31	To Bank A/c	24,150						
		<u>50,175</u>			<u>50,175</u>			
2012	Particulars	Amount (Rs.)	2012	Particulars	Amount (Rs.)			
June 30	To Bank A/c	23,400	Dec. 31	By Profit and Loss A/c	43,925			
July 31	To Bank A/c	575						
Dec. 31	To Bank A/c	19,950						
		<u>43,925</u>			<u>43,925</u>			

**Working Notes:**

Interest paid on Debentures @6% per annum

Date	Amount of Debentures (Rs.)	Period	Interest (Rs.)
<b>2010</b>			
June 30	10,00,000	6 months	30,000
Sept. 30	1,20,000	3 months	1,800
Dec. 31	8,80,000	6 months	26,400
<b>2011</b>			
May 31	75,000	5 months	1,875
June 30	8,05,000	6 months	24,150
Dec. 31	8,05,000	6 months	24,150
<b>2012</b>			
June 30	7,80,000	6 months	23,400
July 31	1,15,000	1 month	575
Dec. 31	6,65,000	6 months	19,950

**Notes:**

- It has been assumed that debentures are purchased for immediate cancellation.
- The purchases of 30<sup>th</sup> September, 2010 and 31<sup>st</sup> July, 2012 have been taken on cum-interest basis

**PROBLEM NO: 7**

Dr.			Debenture Redemption Reserve Account			Cr.		
2014	Particulars	Amount (Rs.)	2014	Particulars	Amount (Rs.)			
Dec. 31	To 13.5% Debenture in Sneha Ltd. (Loss on sale of Sneha Ltd. investment)	50,000	Jan. 1	By Balance b/d	70,00,000			
	To General Reserve (Transfer)	<u>77,67,500</u>	Dec.31	By 13.5% Debentures in Sneha Ltd. By Own Debentures A/c (Int. on own Debenture)	4,05,000			
		<u>78,17,500</u>			<u>4,12,500</u>			
					<u>78,17,500</u>			

Dr.					Own Debentures Account					Cr.				
Date	Particulars	Nominal (Rs.)	Interest (Rs.)	Amount (Rs.)	Date	Particulars	Nominal (Rs.)	Interest (Rs.)	Amount (Rs.)					
2014														
Jan. 1	To Balance b/d	30,00,000	-	27,00,000	June 30	By Debenture Interest A/c		2,20,000						
Feb. 1	To Bank	5,00,000	4,583	4,85,417										
June 1	To Bank	5,00,000	22,917	4,95,000	Dec. 31	By Debenture Interest A/c		2,20,000						
Dec. 31	To Capital Reserve (profit on cancellation)			3,19,583		By 11% Debentures Account - cancellation	40,00,000		40,00,000					
	To Debenture Redemption Reserve		4,12,500											
		40,00,000	4,40,000	40,00,000			40,00,000	4,40,000	40,00,000					

Working Note:

1. Dr. **13.5% Debentures in Sneha Ltd.** Cr.

2014	Particulars	Interest (Rs.)	Amount (Rs.)	2014	Particulars	Interest (Rs.)	Amount (Rs.)
Jan. 1	To Balance b/d (30,00,000)		29,00,000	June 30	By Bank	2,02,500	
Dec.31	To Debenture Redemption Reserve	4,05,000		Dec. 31	By Bank	2,02,500	
					By Bank		28,50,000
					By Debenture Redemption Reserve (Loss on sale)		50,000
		4,05,000	29,00,000			4,05,000	29,00,000

2. Dr. **11% Debentures Account** Cr.

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
Dec 31	To Own Debentures A/c	40,00,000	Jan.1	By Balance B/d	80,00,000
	To Bank	40,00,000			
		80,00,000			80,00,000

3. Cost of debentures purchased on 01.02.2014

Particulars	Amount (Rs.)
Purchase price of debentures [5,000 x 98 (cum-interest)]	4,90,000
Less: Interest	(4,583)
	<b>4,85,417</b>

4. Cost of debentures purchased on 01.06.2014

Purchase price of debentures [5,000 x 99 (Ex-Interest)] 4,95,000

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