

4. REDEMPTION OF DEBENTURES

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

NO. OF PROBLEMS IN 41.5e OF CA INTER CLASSROOM - 8, ASSIGNMENT - 7

NO. OF PROBLEMS IN 42.5(2ndVersion) OF CA INTER: CLASSROOM - 06, ASSIGNMENT - 05

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)
Model – 1	-	-	8	-	-	-	-	-	-	-	-	8	-	-	-	-	-
Model – 2	-	-	-	8	-	-	-	-	8	-	8	-	-	-	-	-	-
Model – 3	8	-	-	-	-	16	-	4	-	4	-	-	4	-	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	-	-	-	-	-	-
CR 2	ILL-6	-	-	-	-	-	-
CR 3	PQ-2	-	-	-	-	-	-
CR 4	ILL-1	-	-	-	-	-	-
CR 5	ILL-3	-	-	-	-	-	-
CR 6	PQ-4	-	-	-	-	-	-
ASG 1	ILL-2	-	-	-	-	-	-
ASG 2	PQ-1	-	-	-	-	-	-
ASG 3	PQ-3	-	-	-	-	M-18	-
ASG 4	-	-	-	M-17	-	-	-
ASG 5	-	-	-	-	-	N-18	-

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:

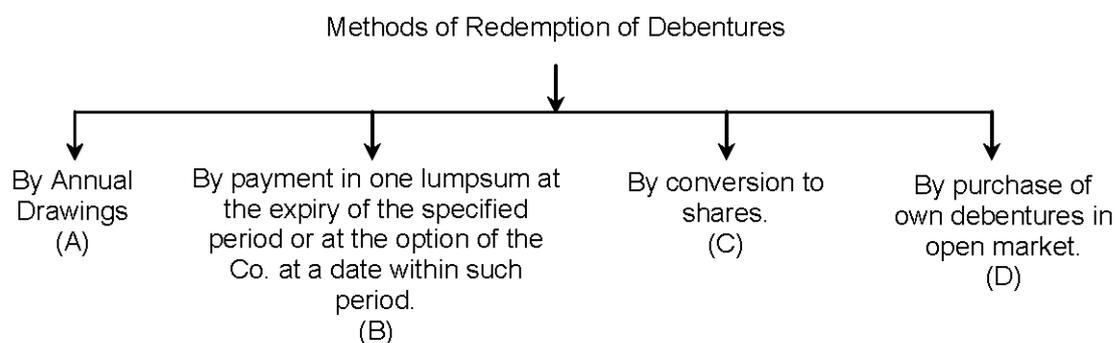
- They carry a common face value.
- They are repaid after certain duration.
- They earn interest during their lifetime.
- Like shares, debentures are also movable property, capable of being transferred in the manner provided in the AOA of the company (Sec 44).
- Debentures doesn't have any voting rights. 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:**1. Meaning:**

- Redemption of debentures means discharge of liability on account of debentures by making repayment to the debenture holders.
- 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

2. Legal Provision for redemption of debentures Sec. 71.

- Company may issue debentures with an option of conversion.
- Every company to create DRR equivalent to atleast 25% of the amount of debentures outstanding before commencement of redemption.
- Debentures does not carry any voting rights.

3. METHODS OF REDEMPTION OF DEBENTURES:**A. Redemption by Annual Drawings:**

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

B. Lumpsum Redemption method:

1. 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.

2. 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)**1. After allotment of debentures**

(a) For setting aside the fixed amount of profit for redemption

Profit and Loss A/c	Dr.
---------------------	-----

To Debenture Redemption Reserve A/c

(b) For investing the amount set aside for redemption

Debenture Redemption Reserve Investment A/c	Dr.
---	-----

To Bank A/c

(c) For receipt of interest on Debenture Redemption Reserve Investments

Bank A/c	Dr.
----------	-----

To Interest on Debenture Redemption Reserve Investment A/c
--

(d) 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)

2. At the time of redemption of debentures:

(a) For encashment of Debenture Redemption Reserve Investments

Bank A/c	Dr.
----------	-----

To Debenture Redemption Reserve Investment A/c
--

(b) For amount due to debenture holders on redemption

Debentures A/c	Dr.
----------------	-----

To Debenture holders A/c

(c) For payment to debenture holders

Debenture holders A/c	Dr.
-----------------------	-----

To Bank A/c

(d) 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) According, MCA clarifies that (circular no. 04/2013 dated 11 Feb, 2013) creation of Debenture redemption reserve equivalent to 25% of the Debenture Issue is obligatory. However, a company may create more reserve if it so desires, this being justified by the creation of Debenture redemption reserve.

Note: Mandatorily applicable for problematic part (if nothing else is mentioned in the question)

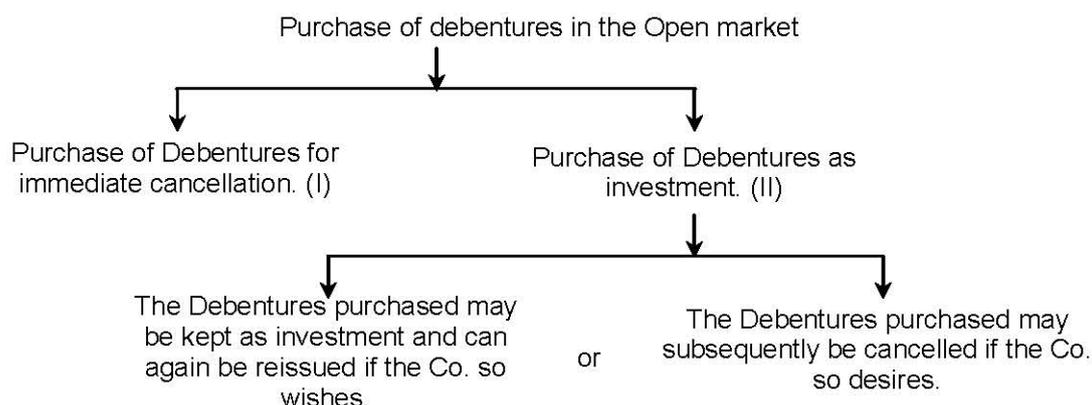
c) As per Companies (Share Capital and Debentures) Rules, 2014 the amount of remaining DRR deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

D. Redemption by Conversion into Shares:

1. 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.
2. 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.
3. **Accounting Treatment:**

1.	If shares are issued at Par: Debentures A/c To Share Capital A/c	Dr	Nominal value of the Deb. converted Nominal Amount of shares issued
2.	If shares are issued at Premium: Debentures A/c To Share Capital A/c To Securities Premium A/c	Dr	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 either to cancel them or to keep it as own Investment.



I. **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 To Bank A/c	Dr	(With the amount paid)
----	-------------------------------	----	------------------------

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

ii. When DRR exists:

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

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

II. **Purchase of Debentures as Investment (Own Debentures):**

a) Where no DRR exists:

*	On purchase of debentures as investment: Own Debentures A/c Investment in Own Debentures A/c To Bank A/c	Dr. (or) Dr	With the amount paid for the Debentures.
---	--	----------------	--

b) Where DRR exists:

1	On sale of Investments: Bank A/c To Deb. Redem. Fund investment A/c Note: If there is any Profit/Loss on sale of Investments the same has to be transferred to P&L A/c.	Dr	With Realised amount.
---	--	----	-----------------------

2.	On purchase of Debentures as Investment: Own Debentures A/c (or) Dr Investment in Own Debentures A/c Dr To Bank A/c Notes: a. Own Debentures A/c signifies Investment and will be shown as non-current investment as per Schedule – III an Asset in the Balance Sheet until such Debentures are reissued or cancelled in future. b. Until and unless, these debentures are re-issued or cancelled in future, the question of profit/loss on redemption of debentures will not arise.	With Amount paid for the Debentures	
3.	When Own Debentures are subsequently cancelled: Debentures A/c Dr To Own Debentures A/c (or) To Investment in Own Debentures A/c	With Nominal value of Debentures	
4.	If there is any difference between the nominal value of the debentures cancelled and the amount standing to the debit of Own Debentures Account, the same has to be treated as follows: a. In case of Profit: Debentures A/c Dr To Own Debentures A/c To P&L A/c b. In case of loss: Debentures A/c Dr Profit and Loss A/c Dr To Own Debentures A/c	XXX XXX XXX	XXX XXX XXX
5.	When own debentures are subsequently sold then: a. For sale of Debentures: Bank A/c Dr To Own debentures A/c To Interest A/c b. In case of Loss: P&L A/c Dr To Own debentures A/c c. In case of profit: Own debentures A/c Dr To P&L A/c	XXX XXX XXX	XXX XXX XXX XXX

ADEQUACY OF DEBENTURE REDEMPTION RESERVE (DRR)

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Rules, 2014, the company shall create a Debenture Redemption Reserve for the purpose of redemption of debentures, in accordance with the conditions given below—

- the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend;
- the company shall create Debenture Redemption Reserve (DRR) in accordance with conditions given in below table:

		Adequacy of Debenture Redemption Reserve (DRR)
(i)	For debentures issued by 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

(ii)	For 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 (iii) below)
(iii)	For debentures issued by NBFCs registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997 and for Housing Finance Companies registered with National Housing Bank	25% of the value of outstanding debentures issued through public issue. No DRR is required in the case of privately placed debentures
(iv)	For debentures issued by other companies including manufacturing and infrastructure companies	25% of the value of outstanding debentures issued through public issue. Also 25% DRR is required in the case of privately placed debentures by listed companies. For unlisted companies issuing debentures on private placement basis, the DRR will be 25% of the value of outstanding debentures.

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.

4. INVESTMENT OF DEBENTURE REDEMPTION RESERVE (DRR) AMOUNT

Further, as per Rule 18 (7) of the Companies (Share Capital and Debentures) Rules, 2014, every company required to create DRR shall on or before the 30th day of April of each year, 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:

- in deposits with any scheduled bank, free from charge or lien;
- in unencumbered securities of the Central Government or of any State Government;
- in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;
- 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 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

5. INTEREST ON OWN DEBENTURES:

a) Where no DRR exists:

No.	Particulars	Rs.
1.	On interest becoming due on debentures: Debenture Interest A/c Dr To Debenture holders A/c To Interest on Own Debentures A/c	With total interest on all Debentures. With amount of interest payable on Debentures held by outsiders. With the amount of Interest on Debentures held by the Company.
2.	On payment of interest on Debentures: Debenture holders A/c Dr To Bank A/c	With the amount of interest Paid to outsiders.
3.	On transfer of Deb. Interest to P&L A/c: Profit & Loss A/c Dr To Debenture Interest A/c	With the total interest on all the Debentures.

4.	On transfer of Int. on Own Deb. To P & L A/c Interest on Own Debentures A/c To P & L A/c	Dr.	With the amount of interest on Debentures held by the Company.
----	--	-----	--

b) Where DRR Exists: Where the Debentures purchased as an Investment against the DRR, the Interest on such Debentures is credited to the P&L A/c as if the Debentures are outside securities. The Accounting Entries will be as follows:

1.	On interest becoming due on debentures: Debenture Interest A/c To Interest on Own Debentures A/c To Debenture holders A/c	Dr	With total amount of interest Payable on all the Debentures. With the amount of Interest payable on Debentures held by the Company. With the amount of interest payable on Debentures held by outsiders.
2.	On payment of interest to Debenture holders: Debenture holders A/c To Bank A/c	Dr	With the amount paid.
3.	On transfer of Interest to P&L A/c: Profit & Loss A/c To Debenture Interest A/c	Dr	With the total interest payable.
4.	For transfer on Interest on Own Debentures A/c to P&L A/c: Interest on Own Debentures A/c To P&L A/c	Dr	With the Interest on own Debentures

Note:

- In case own debentures are purchased as general investment then interest on own debentures will be credited to profit and loss account.
- Interest accrued and due:

✳	Debenture Interest A/c To O/s Debenture Interest A/c	Dr	XXX	XXX
Note: Deb. Interest accrued and due should be shown as an item of Other Current Liabilities.				

- Interest accrued but not yet due:

✳	Debenture Interest A/c To Deb. Interest accrued but not yet due.	Dr	XXX	XXX
Note: Deb. Interest accrued but not yet due should be shown as an item of Other Current Liabilities.				

6. 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 $Rs.100 \times 9/100 \times 4/12 = Rs.3$. 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:

✳	If Debentures are purchased for immediate cancellation: 9% Debentures A/c Debenture Interest A/c To Bank A/c To Profit on Redemption of Debentures A/c	Dr. Dr.	100 3	95 8
Note: Profit/Loss on redemption of debentures is transferred to :P&L account				
✳	If Debentures are purchased as investment: Own Debentures A/c Debenture Interest A/c To Bank A/c	Dr. Dr.	92 3	95

	Note: The question of Profit/Loss on Redemption of Debentures does not arise here as the Debentures are purchased as Investment. In such a case, Own Debentures A/c should always be debited with the actual price paid for them.		
✳	When Debentures are cancelled in future: 9% Debentures A/c To Own Debentures A/c To P&L A/c	Dr.	100 92 8

7. 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. $100 \times 9/100 \times 4/12 = \text{Rs.}3$. 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 Debenture Interest A/c To Bank A/c To Profit on Redemption of Debentures A/c	Dr. Dr.	100 3	98 5
✳	If Debentures are purchased as investment: Own Debentures A/c Debenture Interest A/c To Bank A/c	Dr. Dr.	95 3	98
✳	When Debentures are cancelled in future: 9% Debentures A/c To Own Debentures A/c To P&L A/c	Dr.	100	95 5

Note: Profit or loss on cancellation of debentures and sale of investments is transferred to profit and loss account (in line with AS 13)

PROBLEMS FOR CLASSROOM DISCUSSION

MODEL 1: DRR METHOD

PROBLEM 1: (PRINTED SOLUTION AVAILABLE)

The following balances appeared in the books of Paradise Ltd as on 1-4-20X1:

- (i) 12 % Debentures Rs. 7,50,000
- (ii) Balance of DRR Rs. 1,00,000
- (iii) 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:

- (1) Debentures Account
- (2) DRR Account
- (3) DRR Investment Account

(4) Bank Account

(5) Debenture Holders Account

(A) (NEW SM) (ANS: TOTAL OF 12% DEBENTURES A/C IS 7,50,000 & DRR A/C IS 1,87,500 & 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)

Note: _____

MODEL 2: CONVERTIBLE DEBENTURES

PROBLEM 2: Conversion of Debentures: The summarised Balance Sheet of Convertible Limited, 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	75,00,000
Profit & Loss a/c	10,00,000
Debenture Redemption Reserve	25,00,000
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:

1. Except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.
2. The investments realized at par on sale; and
3. 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.2 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 3: (PRINTED SOLUTION AVAILABLE) Libra Limited recently made a public issue in respect of which the following information is available:

1. No. of partly convertible Debentures issued 2,00,000; face value and issue price Rs.100 per debenture.
2. Convertible portion per debenture 60%, date of conversion on expiry of 6 months from the date of closing of issue.
3. 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)

CA Inter_42.5(2ndversion)_Accounting_Redemption of Debentures_____4.10

4. Underwriting Commission 2%.
5. No. of debentures applied for 1,50,000.
6. 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)

Note: _____

MODEL 3: PURCHASE OF OWN DEBENTURES AND CANCELLATION

PROBLEM 4: On January 1, Rama Ltd., had 500 Debentures of Rs. 100 each outstanding in its books carrying interest at 6% per annum. DRR balance is standing in books at Rs. 12,500. 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.3 OF ASSIGNMENT PROBLEMS AS REWORK)

Note: _____

PROBLEM 5: Sencom Limited 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. On 31st December 20X0, balance in the DRR of the company was Rs. 25,000 and investments made for the purpose of redemption were Rs. 20,000.

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:

- i) Debentures Account;
- ii) 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)

Note: _____

PROBLEM 6: (PRINTED SOLUTION AVAILABLE)

A Company 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.2,50,000. 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:

- (1) 12% Debentures Account
- (2) Debenture Redemption Reserve Account
- (3) Debenture Redemption Investments Account.

(A) (NEW SM)

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

Note: _____

PRINTED SOLUTIONS FOR CLASS ROOM PROBLEMS

PROBLEM NO: 1

1. Dr.	12% Debentures Account	Cr.			
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.			
31 st Mar, 20X2	To General reserve A/c (Note:1.)	1,87,500	1 st Apr, 20X1	By Balance b/d	1,00,000
			31 st Mar, 20X2	By Profit and loss A/c (Note:1)	87,500
		7,85,000			7,85,000
3. Dr.	10% Secured Bonds of Govt. (DRR Investment) A/c	Cr.			
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.			
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	11,250		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.			
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%	75,000
		8,25,000			8,25,000

Note 1

Calculation of DRR before redemption = 25% of Rs. 7,50,000 = 1,87,500

Available balance = Rs. 1,00,000

DRR required = 1,87,500 – 1,00,000 = Rs. 87,500.

PROBLEM NO:3

Journal Entries in the books of Libra Ltd.

Journal Entries

Date	Particulars		Amount Dr.	Amount Cr.
1.5.20X1	Bank A/c To Debenture Application A/c (Application money received on 1,50,000 debentures @ Rs.100 each)	Dr.	1,50,00,000	1,50,00,000
1.6.20X1	Debenture Application A/c Underwriters A/c To 15% Debentures A/c (Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)	Dr. Dr.	1,50,00,000 50,00,000	2,00,00,000
	Underwriting Commission To Underwriters A/c (Commission payable to underwriters @ 2% on Rs. 2,00,00,000)	Dr.	4,00,000	4,00,000
	Bank A/c To Underwriters A/c (Amount received from underwriters in settlement of account)	Dr.	46,00,000	46,00,000
01.06.20X1	Profit & Loss A/c To Debenture Redemption Reserve a/c (200,000 X 100 X 25% X 40%) (Being Debenture Redemption Reserve created on non-convertible debentures)	Dr.	20,00,000	20,00,000
	Debenture Redemption Investment A/c To Bank A/c (200,000 X 100 x 15% X 40%) (Being Investments made for redemption purpose)	Dr.	12,00,000	12,00,000
30.9.20X1	Debenture Interest A/c To Bank A/c (Interest paid on debentures for 4 months @ 15% on Rs. 2,00,00,000)	Dr.	10,00,000	10,00,000
31.10.20X1	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of Rs.60 each with a face value of Rs.10)	Dr.	1,20,00,000	20,00,000 1,00,00,000
31.3.20X2	Debenture Interest A/c To Bank A/c (Interest paid on debentures for the half year) (refer working note below)	Dr.	7,50,000	7,50,000

Working Note :

Calculation of Debenture Interest for the half year ended 31st March, 20X2

On Rs.80,00,000 for 6 months @ 15% = Rs.6,00,000

On Rs.1,20,00,000 for 1 months @ 15% = Rs.1,50,000

= Rs.7,50,000

PROBLEM NO: 6

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)	4,00,000	1 st Apr, 20X1	By Balance b/d	2,50,000			
			31 st Mar, 20X2	By Profit and loss A/c (16,00,000*25%) – 2,50,000	1,50,000			
		4,00,000			4,00,000			

Dr.			Debenture Redemption Investment Account			Cr.		
Date	Particulars	Rs.	Date	Particulars	Rs.			
1 st Apr, 20X1	To Balance b/d	2,00,000	31 st Mar, 20X2	By Bank A/c (2000x100x15%)	30,000			
	To Bank account	40,000		31 st Mar 20x2	By Bank A/c	2,10,000		
		2,40,000			2,40,000			

ASSIGNMENT PROBLEMS**MODEL 1: DRR METHOD**

PROBLEM 1: The following balances appeared in the books of a company as on December 31, 20X1: 6% Mortgage 10,000 debentures of Rs. 100 each; Debenture Redemption Reserve (for redemption of debentures) Rs. 2,00,000 ; 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))

Copyrights Reserved
To **MASTER MINDS**, Guntur

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) (ANS.:24,500 SHARES)

MODEL 3: PURCHASE OF OWN DEBENTURES AND CANCELLATION

PROBLEM 3: On 1st April, 20X1, in MK Ltd.'s 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 12,50,000, OF DEBENTURE REDEMPTION INVESTMENT ACCOUNT 7,50,000)

PROBLEM 4: On 1st January, 2006 Raman Ltd. allotted 20,000 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 2,000 of its own debentures @ Rs. 101 each and cancelled them immediately.
- On 1st January, 2011 the company redeemed at par debentures for Rs.6,00,000 by draw of a lot.
- 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.
- 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 ignoring debenture redemption reserve, debenture - interest and interest on own' debentures. (A) (RTP M17, SIMILAR: RTP M18 (N&O))

PROBLEM 5 : A Company had issued 1,000 12% debentures of Rs.100 each redeemable at the company's option at the end of 10 years at par or prior to that by purchase in open market or at Rs.102 after giving 6 months' notice. On 31st December, 2016, the accounts of the company showed the following balances:

Debenture redemption fund Rs.53,500 represented by 10% Govt. Loan of a nominal value of Rs.42,800 purchased at an average price of Rs.101 and Rs.10,272 uninvested cash in hand.

On 1st January 2017, the company purchased Rs.11,000 of its own debentures at par and cancelled on the same date.

On 30th June, 2017, the company gave a six months' notice to the holders of Rs.40,000 debentures and on 31st December, 2017 carried out the redemption by sale of Rs.40,800 worth of Govt. Loan at par.

Prepare ledger account of Debenture Redemption Reserve Account and Debenture Redemption Reserve Investment Account for the year ended 31.12.2017, assuming that, interest on company debentures & Govt. loan was payable on 31st December every year. (N18 – 8M (Modified))

ADDITIONAL PROBLEMS FOR SELF PRACTICE

PROBLEM 1: The summary Balance sheet of BEE Co. Ltd. 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 (1,200 Debentures of Rs.100 each)	1,20,000		
Trade Payables	1,15,000		
	5,55,000		5,55,000

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 one bonus share for every five shares held.
- c) 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)

THE END

Copyrights Reserved
To **MASTER MINDS**, Guntur