

7. ISSUE & REDEMPTION OF DEBENTURES

PROBLEM NO: 1

Convertible limited

Balance sheet as on July 1, 2012

Particulars	Note No.	Amount (Rs)
I. Equity & Liabilities		
1. Shareholders funds		
(a) Share capital	1	60,00,000
(b) Reserves & Surplus	2	1,29,75,000
2. Non-Current liabilities		
(a) Long term borrowings (Unsecured loans)		50,00,000
3. Current Liabilities		
(a) Short-term provisions		1,25,00,000
Total		3,64,75,000
II. Assets		
1. Non-Current assets		
(a) Fixed assets		
(i) Tangible assets		1,60,00,000
2. Current Assets		
(a) Cash & cash equivalents		4,75,000
(b) Other current assets		2,00,00,000
Total		3,64,75,000

WORKING NOTES:

i. Calculation of number of shares to be allotted:	
Total no. of debentures	1,00,000
(-) No. of debentures not for conversion	(25,000)
	75,000
20% of 75000	(15,000)
Redemption value of 15000 debentures (15000 x Rs.105)	Rs.15,75,000
No. of equity shares to be allotted = $\frac{15,75,000}{15.75} = 1,00,000$ shares of Rs.10 each	
ii. Calculation of cash to be paid:	
No. of debentures	1,00,000
(-) No. of debentures to be converted into equity shares	(15,000)
	85,000
Redemption value of 85,000 debentures (85,000 x Rs.105)	Rs.89,25,000
iii. Cash and bank balance:	
Balance before redemption	50,00,000
(+) Proceeds of investments sold	44,00,000
	94,00,000
(-) Cash paid to debentures holders	(89,25,000)
	4,75,000

Notes to Accounts:

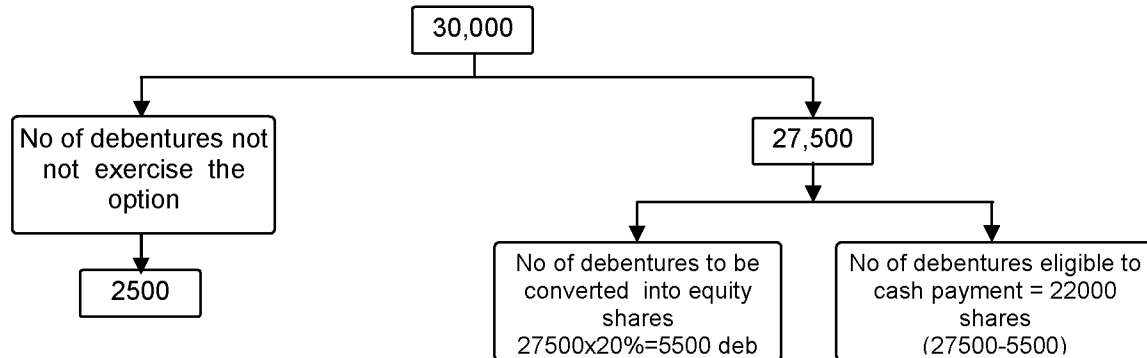
(Amount Rs.)

1. Share capital 6,00,000 equity shares of Rs.10 each		60,00,000
2. Reserves and Surplus		
General reserve	75,00,000	
(+) Debentures redemption reserve transfer	50,00,000	
	1,25,00,000	
(+) Profit on sale of investments	4,00,000	
	1,29,00,000	

(-) Premium on redemption of debentures	(5,00,000)	1,24,00,000
		<u>5,75,000</u>
Securities premium		<u>1,29,75,000</u>

PROBLEM NO: 2**Computation of no. of debentures to be converted into equity shares**

Particulars	Rs.
Total no of debentures	30,000
Nominal value of debentures (30,000 X Rs. 100)	Rs.30,00,000
Premium payable in above (Rs. 30,00,000 X 5%)	Rs. 1,50,000



(27500-22000) = Rs. 5,500 Deb

NV of deb = Rs. 5,50,000

Premium on above = Rs. 27,500
Rs. 5,77,500

Total No. of equity shares = $\frac{\text{Rs. 577500}}{\text{Rs.15}}$
= 38,500 shares

PROBLEM NO: 3

In Books of Rama limited

Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
2012				
1-Apr	Own debentures A/c Dr.		49,450	
	To Bank A/c			49,450
	[Being own debentures purchased ex interest]			
1-Sep	Own debentures A/c Dr.		29,250	
	Interest on own debentures A/c Dr.		1,000	
	(30,000 x 8% x 5/12)			
	To Bank A/c			30,250
	[Being own debentures purchased cum interest]			
30-Sep	Interest on debentures A/c Dr.		12,000	
	To Bank A/c			8,800
	To interest on own debentures A/c			3,200
	[Being interest @ 8% on Rs.2,20,000 & adjustment of interest on Rs.50,000 & Rs.30,000 own debentures]			

2013				
31-Mar	Interest on debentures A/c	Dr.	12,000	
	To Bank A/c			8,800
	To interest on own debentures A/c			3,200
	[Being interest @ 8% paid on Rs.2,20,000 & adjustment of interest on Rs.80,000 own debentures for 6 months]			
31-Mar	8% debentures A/c	Dr.	80,000	
	To own debentures A/c			78,700
	To profit on cancellation of debentures A/c			1,300
	[Being cancellation of own debentures]			
31-Mar	Interest on own debentures A/c	Dr.	5,400	
	To profit and loss A/c (3,200+3,200-1,000)			5,400
	[Being total interest paid on own debentures credited to P/L A/c]			
31-Mar	Profit and loss A/c (12,000 + 12,000)	Dr.	24,000	
	To interest on debentures A/c			24,000
	[Being total interest paid on debentures transferred to P & L A/c]			
31-Mar	Profit on cancellation of debentures A/c	Dr.	1,300	
	To capital reserve A/c			1,300
	[Being profit on cancellation of debentures transferred to capital reserve]			

PROBLEM NO: 4

Mk Ltd.'s Ledger

Own Debentures Account

Dr.

Cr.

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
31-5-12	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	31-1-13	By Bank (Resale of 2000 debentures) A/c	2,02,000
31-1-13	To profit & loss A/c (Profit on resale)	6,000	31-3-13	By Balance c/d	98,000
		<u>8,00,000</u>			<u>8,00,000</u>

Interest on Debentures Account

Dr.

Cr.

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
31-5-12	To Bank A/c [Interest for 2 months on 8,000 deb]	12,000	31-3-13	By profit & loss A/c	4,38,750
30-9-12	To interest on own debentures A/c [Deb 8000 for 4 months]	24,000			
30-9-12	To Bank A/c (42000 for 6 months)	1,89,000			
31-12-12	To Interest on own debentures A/c [5000 for 3 months]	11,250			

31-3-13	To Interest on own debentures A/c [Int for 6M on 1000 debentures]	4,500			
31-3-13	To Bank A/c (Int for 6M on 44,000 debt)	<u>1,98,000</u>			
		<u>4,38,750</u>			<u>4,38,750</u>

Interest On Own Debentures Account

Dr.			Cr.		
Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
31/3/13	To Profit & Loss A/c	45,750	30/9/12	By Interest on Debentures A/c	24,000
			31/12/12	By Interest on Debentures A/c	11,250
			31/1/13	By Bank (Interest for 4 months on 2000)	6,000
			31/3/13	By Interest on Debentures	4,500
		<u>45,750</u>			<u>45,750</u>

Working Note:

Date	Particulars	Amount (Rs)
31/5/12	Acquired 8000 Debentures @ 98 per Debentures (ex-interest) Purchase price for debentures (8000 DebxRs.98) Interest for 2 Months [Rs.8,00,000 x 9% x 2/3]	7,84,000 12,000
30/09/12	Interest on Own debentures [Rs.8,00,000 x 9% x 1/2] – Rs.12000 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 5000)	10,000
31/01/13	Resale of 2000 debentures Sold for 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 (5000 x 100 x 9% x 1/4)	11,250
31/03/13	Interest on 1000 Own debentures (Rs.1,00,000x9%x1/2)	4,500

PROBLEM NO: 5

Sencom limited
Debentures A/c

Dr.			Cr.		
Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2012 Dec 31	To Balance c/d	1,50,000	2012 Jan 1	By Balance b/d	1,50,000
		150000			150000
2013 Mar 31	To own debentures A/c [Deb 8000 for 4 months]	45,000	2013 Jan 1	By Balance b/d	1,50,000
	To Balance c/d	<u>1,05,000</u>			<u>1,50,000</u>
		<u>1,50,000</u>			<u>1,50,000</u>
			April 1	By Balance b/d	1,05,000

Own Debenture investment A/c

Dr.

Cr.

Date	Particulars	Nominal value	Int.	cost	Date	Particulars	Nominal value	Int.	Cost
2012		(Rs.)	(Rs.)	(Rs.)	2012		(Rs.)	(Rs.)	(Rs.)
Mar 1	To Bank	25,000	521	24,725	Mar 31	By Debenture interest A/c	-	625	-
Sep 1	To Bank	20,000	417	19,708	Sep 30	By Debenture interest A/c	-	1125	-
Dec 31	To P&L A/c		1,375		Dec 31	By Debenture interest A/c	-	583	-
						By Balance c/d	45,000	-	44,433
		45,000	2,313	44,433			45,000	2,313	44,433
2013					2013				
Jan 1	To Balance b/d	45,000	-	44,433	Mar 31	By Debenture interest A/c	-	563	-
Mar 31	To Capital reserve (profit on cancellation)	-	-	567		By 5% Deb A/c	45,000	-	45,000
	To p&l A/c	-	563	-					
		45,000	563	45,000			45,000	563	45,000

Debenture interest A/c

Dr.

Cr.

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2012			2012		
Mar 31	To Bank (on Rs.1,25,000 @6% for 6 months)	3,125	Jan 1	By Accrued interest (on Rs.1,50,000 @ 5% for 3M)	1,875
	To interest on own debentures	625	Dec 31	By P & L A/c	7,500
Sep 30	To Bank (on Rs.1,05,000 @ 5% for 6m)	2,625			
	To interest on own debentures	1,125			
Dec 31	To interest accrued (on Rs.1,05,000 for 3M)	1,312			
	To interest on own debentures (on Rs.45,000 on 3 months)	563			
		9,375			9,375
2013			2013		
Mar 31	To Bank (on Rs.1,05,000 5% for 6 months)	2,625	Jan 1	By Interest accrued	1,312
	To interest on own debentures (on Rs.45,000 @5% on 3 months)	563	Mar 31	By p&l A/c	1,876
		3,188			3,188

PROBLEM NO: 6

10% Debentures A/c

Dr.

Cr.

Date	Particulars	Amount Rs.	Date	Particulars	Amount Rs.
	To Debenture redemption A/c	1,00,000		By Balance b/d	8,00,000
	To Balance c/d	7,00,000			
		8,00,000			8,00,000
	To Debenture redemption A/c	60,000		By Balance b/d	7,00,000

	To Debenture redemption A/c	20,000			
	To Balance c/d	<u>6,20,000</u>			
		<u>7,00,000</u>			<u>7,00,000</u>
	To Debenture redemption A/c	90,000		By Balance b/d	6,20,000
	To Balance c/d	<u>5,30,000</u>			
		<u>6,20,000</u>			<u>6,20,000</u>

Debenture redemption A/c

Dr.			Cr.		
Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
30/09/01	To Bank A/c	95,500		By 10% Debentures A/c	1,00,000
30/09/01	To Profit on redemption of debentures	4,500			
		<u>1,00,000</u>			<u>1,00,000</u>
31/05/02	To Bank A/c	57,000		By 10% Debentures A/c	60,000
31/05/02	To Profit on redemption of debentures	3,000		By 10% Debentures A/c	20,000
31/12/02	To Bank A/c	20,000			
		<u>80,000</u>			<u>80,000</u>
31/07/03	To Bank A/c	85,650		By 10% Debentures A/c	90,000
31/07/03	To Profit on redemption of debentures	<u>4,350</u>			
		<u>90,000</u>			<u>90,000</u>

Debenture interest A/c

Dr.			Cr.		
Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
	To Bank A/c	40,000		By p & I A/c	77,500
	To Bank A/c	2,500			
	To Bank A/c	<u>35,000</u>			
		<u>77,500</u>			<u>77,500</u>
	To Bank A/c	2,500		By p & I A/c	66,500
	To Bank A/c	32,000			
	To Bank A/c	<u>32,000</u>			
		<u>66,500</u>			<u>66,500</u>
	To Bank A/c	750		By p & I A/c	58,250
	To Bank A/c	31,000			
	To Bank A/c	<u>26,500</u>			
		<u>58,250</u>			<u>58,250</u>

WORKING NOTES:

Date	Particulars	Rs.
30-9-01	No. of debentures purchased	1000
	Purchase price per debenture	98
	Purchase value of debentures	98,000
	Less: Interest on the above (1,00,000 x 10% x 3/12)	(2,500)
	Cost of the above debentures	95,500
31-5-02	No. of debentures purchased	600
	Purchase price per debenture	95
	Purchase value of debentures	57,000
	Less: Interest on the above (60,000 x 10% x 5/12)	(2,500)
	Cost of the above debentures	54,500

30-9-01	No.of debentures purchased	900
	Purchase price per debenture	96
	Purchase value of debentures	86,400
	Less: Interest on the above (90,000 x 10% x1/12)	(1,750)
	Cost of the above debentures	84,650

Journal entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
31-06-01	Debenture interest A/c Dr.		40,000	
	To Bank A/c			40,000
	(Being interest on debentures paid)			
30-09-01	Debenture redemption A/c Dr.		95,500	
	Debenture interest A/c Dr.		2,500	
	To Bank A/c			98,000
	(Being interest paid and debentures redeemed)			
30-09-01	10% Debenture A/c Dr.		1,00,000	
	To Debenture Redemption A/c			1,00,000
	(Being amount transferred to Debenture Redemption A/c)			
30-9-01	Debenture Redemption A/c Dr.		4500	
	To profit on redemption of debentures A/c			4500
	(Being debentures redeemed at profit)			
31-12-01	Debenture Interest A/c Dr.		35000	
	To Bank A/c			35000
	(Being Debenture Interest paid)			
31-12-01	Profit & Loss A/c Dr.		77500	
	To Debenture Interest A/c			77500
	(Being Interest on Debenture transferred to P & L A/c)			
31-05-02	Debenture Interest A/c Dr.		2500	
	To Bank A/c			2500
	(Being Debenture Interest Paid)			
31-05-02	Debenture Redemption A/c Dr.		57000	
	To Bank A/c			57000
	(Being Amount transferred to Debenture Redemption A/c)			
31-05-02	10% Debentures A/c Dr.		60,000	
	To Debenture Redemption A/c			60,000
	(Being 10% Debentures redeemed at profit)			
31-05-02	Debenture Redemption A/c Dr.		3000	
	To profit on Redemption A/c			3000
	(Being profit on cancellation of Debenture)			
30-6-02	Debenture Interest A/c Dr.		32000	
	To Bank A/c			32000
	(Being Debenture Interest paid)			
31-12-02	Debenture Interest A/c Dr.		32000	
	To Bank A/c			32000
	(Being Debenture Interest paid)			
31-12-02	Debenture Redemption A/c Dr.		20,000	
	To Bank A/c			20,000
	(Being Amount transferred to sinking fund A/c)			
31-12-02	10% Debenture A/c Dr.		20,000	
	To Debenture Redemption A/c			20,000
	(Being Debenture Cancelled)			
30-06-03	Debenture Interest A/c Dr.		31,000	
	To Bank A/c			31,000
	(Being Debenture Interest paid)			

31-07-03	Debenture Redemption A/c	Dr.	85650	
	Debenture Interest A/c	Dr.	750	
	To Bank A/c			86400
	(Being amount Transferred to Debenture Redemption & Interest paid)			
31-07-03	10% Debenture A/c	Dr.	90,000	
	To Debenture Redemption A/c			90,000
	(Being 10% Debenture Canalled)			
31-07-03	Debenture Redemption A/c	Dr.	4350	
	To Profit on Redemption of Debentures A/c			4350
	(Being Profit on cancellation of debentures)			
31-12-03	Debenture Interest A/c	Dr.	26500	
	To Bank A/c			26500
	(Being Debenture Interest Paid)			

PROBLEM NO: 7**6% mortgage debentures A/c**

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

Premium on redemption of debentures A/c

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

Debenture redemption reserve investment A/c

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2013			2013		
Jan 1	To Balance b/d	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

Debenture interest A/c

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
2013			2013		
Feb 28	To Cash	10,000	Feb 28	By profit & loss A/c	10,000
		10,000			10,000

Cash A/c

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	?
--	--	--	--	----------------	---

Debenture redemption reserve A/c

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			
		<u>11,17,600</u>			<u>11,17,600</u>

PROBLEM NO: 8Journal entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
1	Bank A/c Dr.		80,000	
	To Share application A/c			80,000
	(Being share application money received)			
2	Share application A/c Dr.		80,000	
	To Share Capital A/c			80,000
	(Being share application amount transferred to share capital A/c)			
3	Share Allotment A/c Dr.		1,20,000	
	To Share Capital A/c			80,000
	To Securities premium			40,000
	(Being share allotment amount due)			
4	Bank A/c Dr.		1,20,000	
	To Share Allotment A/c			1,20,000
	(Being share allotment amount received)			
5	Bank A/c Dr.		1,66,000	
	Loss on sale of investment A/c (or) P & L A/c Dr.		19,000	
	To investment A/c			1,85,000
	(Being investment sold at loss)			
6	6% Debentures A/c Dr.		4,00,000	
	Premium on redemption of debentures A/c Dr.		20,000	
	To Debenture holders A/c			4,20,000
	(Being the amount due on redeemed and due to Debenture holders A/c)			
7	Debenture holders A/c Dr.		4,20,000	
	To Bank A/c			4,20,000
	(Being amount paid to Debenture holders)			
8	Share issue expenses A/c Dr.		5,000	
	To Bank A/c			5,000
	(Being expenses incurred while issuing shares)			

THE END

Copyrights Reserved
To **MASTER MINDS**, Guntur