

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		<u>3,64,75,000</u>
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		<u>2,00,00,000</u>
Total		<u>3,64,75,000</u>

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	<u>44,00,000</u>
	94,00,000
(-) Cash paid to debentures holders	(89,25,000)
	4,75,000

Notes to Accounts:

(Amount Rs.)

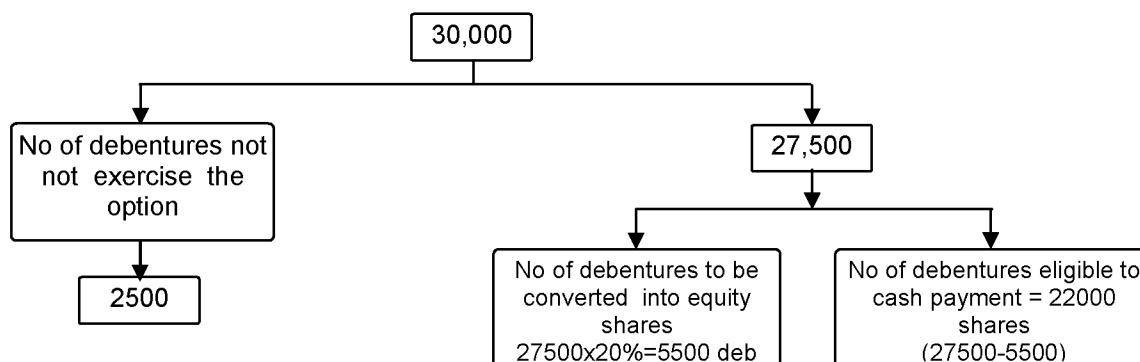
1. Share capital 6,00,000 equity shares of Rs.10 each		<u>60,00,000</u>
2. Reserves and Surplus		
General reserve		75,00,000
(+) Debentures redemption reserve transfer		<u>50,00,000</u>
		1,25,00,000
(+) Profit on sale of investments		<u>4,00,000</u>
		1,29,00,000

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

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



$$(27500-22000) = \text{Rs. } 5,500 \text{ Deb}$$

$$\text{NV of deb} = \text{Rs. } 5,50,000$$

$$\begin{aligned} \text{Premium on above} &= \text{Rs. } 27,500 \\ &= \text{Rs. } 5,77,500 \end{aligned}$$

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

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.	Particulars	Amount (Rs)	Date	Particulars	Cr.
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
		8,00,000			8,00,000

Interest on Debentures Account

Dr.	Particulars	Amount (Rs)	Date	Particulars	Cr.
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)	1,98,000			
		4,38,750			4,38,750

Interest On Own Debentures Account

Dr.	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
		45,750			45,750

Working Note:

Date	Particulars	Amount (Rs)
31/5/12	Acquired 8000 Debentures @ 98 per Debentures (ex-interest) Purchase price for debentures (8000 DebtxRs.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.	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	1,05,000			1,50,000
		1,50,000			1,50,000
			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>6,20,000</u>
		7,00,000			7,00,000
	To Debenture redemption A/c	90,000		By Balance b/d	6,20,000
	To Balance c/d	<u>5,30,000</u>			<u>5,30,000</u>
		6,20,000			6,20,000

Debenture redemption A/c

Dr.	Particulars	Amount (Rs.)	Cr.	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	4,350			
		<u>90,000</u>			<u>90,000</u>

Debenture interest A/c

Dr.	Particulars	Amount (Rs.)	Cr.	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>
		77,500			77,500
	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>
		66,500			66,500
	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>
		58,250			58,250

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% x3/12)	(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% x5/12)	(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	90,000
	To Debenture Redemption A/c			
	(Being 10% Debenture Canalled)			
31-07-03	Debenture Redemption A/c	Dr.	4350	4350
	To Profit on Redemption of Debentures A/c			
	(Being Profit on cancellation of debentures)			
31-12-03	Debenture Interest A/c	Dr.	26500	26500
	To Bank A/c			
	(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	?
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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			11,17,600
		11,17,600			

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 (on) 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
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 To **MASTER MINDS**, Guntur