

1. True, 2.False, 3.False, 4.True, 5.False, 6.True, 7. True

Fill in the blanks

1. Redeemable at par.
2. Miscellaneous Expenditure
3. Bank A/c Dr  
 Loss on issue of debentures A/c Dr.  
     To Debentures A/c  
     To Premium on redemption of debentures A/c
4. Contingent
5. face value
6. Securities Premium A/c.
7. Secured debentures

### 3.11 SOLVED PROBLEMS :

**Illustration: 1** A Ltd. issued 5000 debentures of Rs. 100 each at 10% discount redeemable at par after 10 years.

Total discount = 10% of Rs. 5, 00,000= Rs. 50,000

Discount returned off each year =  $\frac{\text{Rs. 50000}}{10 \text{ years}}$

= Rs. 5,000 each year.

a) When debentures are redeemable in installment by annual drawings.

In this case, discount written off each year is proportionate to the debentures outstanding at the beginning of the year. At the end of the life of debentures the entire discount on issue of debenture is written off.

**Illustration: 2** K Ltd., issued Rs. 1000000 15% debentures at 5% discount and redeemable at 10% premium. Debentures are to be redeemed in the following manner:

Year end	Face value of debentures to be redeemed
	Rs.
2	100000
3	200000
4	300000
5	400000

Give loss on issue of debentures account for the 5 Years.

**Solution:**

Bank A/c	950000	
Loss on issue of debentures A/c	150000	
To 15% debentures A/c		1000000

To Premium on redemption on debentures A/c 100000  
 Loss to be written off in each year.

**In the books of K Ltd.  
 Loss on issue of debentures account**

Particulars	AMT.	Particulars	AMT.
To 15% debentures A/c	1,50,000	By P & L A/c	37,500
		By Bal. C/d	1,12,500
	<b>1,50,000</b>		<b>1,50,000</b>
To Bal. B/d	1,12,500	By P & L A/c	37,500
		By Bal. C/d	75,000
	<b>1,12,500</b>		<b>1,12,500</b>
To Bal. B/d	75,000	By P & L A/c	37,500
		By Bal. C/d	75,000
	<b>75,000</b>		<b>75,000</b>
To Bal. B/d	41,250	By P & L A/c	26,250
		By Bal. C/d	
	<b>41,250</b>		<b>41,250</b>
To Bal. B/d	15,000	By P & L A/c	15,000
	<b>15,000</b>		<b>15,000</b>

**Illustration: 3** (When amount of debentures is collected in installments)

YES Ltd., issued 1000 10% debentures of Rs. 1000 each payable at Rs. 250 on application & Rs. 750 on allotment. Application mere received for 1000 debentures. All the applicants mere allotted debentures. All the money were received. Pass the journal entries in the books of the Company.

**Solution:**

**Journal of YES Ltd**

Particulars	Dr.	Cr.
Bank A/c	250000	
To Debenture Application A/c (Application money of Rs. 250 per debenture received on 1000 debenture as per details in debenture Application Book.)		250000

Debenture Application A/c To 10% Debenture A/c (Application money of Rs. 25 per debenture transferred to Debenture A/c on allotment of 1000 Debentures vide Board Resolution No. ....dated .....& per particulars in Debenture Application & Allotment Book)	Dr.	250000	250000
Debenture Allotment A/c To 10% Debenture A/c (Allotment amount due on 1000 debentures at Rs. 750 per debenture vide Board Resolution No. .... dated .....& particulars in debenture Application & Allotment Book.)	Dr.	750000	750000
Bank A/c To Debenture Allotment A/c (Allotment money of Rs. 750 per debenture received on 1000 debentures as per details in Allotment Book)	Dr.	750000	750000

**Balance Sheet of YES Ltd.**

Liabilities	Amt.	Assets	Amt.
Unsecured Loans 10% Debentures	1000000	Bank	1000000

**Note:** Only the relevant items are shown in above Balance Sheet.

**Illustration: 4** (When different conditions of issues and redemption are given)

City Enterprises Ltd., Issued 1000 debentures of Rs. 100/- each. You are asked to give journal entries on issue if.

1. The debentures are issued at par and redeemable at par.
2. Debentures are issued at discount of 5% but redeemable at par.
3. Debentures are issued at a premium of 5% but redeemable at a par.
4. Debentures are issued at a discount of 5% but redeemable at a premium of 5%.
5. Debenture issued at par but redeemable at 10% premium.

**Solution:**

**Journal of City Enterprise Ltd.**

Particulars	Dr.	Cr.
Bank A/c <span style="float: right;">Dr.</span> To Debenture A/c (Issue of 1000 7% debenture of Rs. 100 each vide Board Resolution No. ....dated .....& per details in Debenture Application & Allotment Register)	100000	100000
Bank A/c <span style="float: right;">Dr.</span> Discount on issue of Debentures A/c <span style="float: right;">Dr.</span> To 10% Debenture A/c (Issue of 1000 debentures of Rs. 100 each at a discount of 5% vide Board Resolution No. ..... dated ..... & per particulars in Debenture Application & Allotment Register)	95000 5000	100000
Bank A/c <span style="float: right;">Dr.</span> To 10% Debenture A/c To Security Premium A/c (Issue of 1000 debenture of Rs. 100 each at Rs. 105 vide Board Resolution No. ....dated .....& particulars in Debenture Application & Allotment Register)	105000	100000 5000
Bank A/c <span style="float: right;">Dr.</span> Loss of issue of Debenture A/c <span style="float: right;">Dr.</span> To 10% Debenture A/c To Premium on redemption of Debentures A/c (Issue of 1000 debentures of Rs. 100 each at Rs. 95 but redemeable at Rs. 105 vide Board Resolution No. .... dated .....& particulars in Debenture Application & Allotment Register)	95000 10000	100000 5000

Bank A/c	Dr.	100000	
Loss of issue of Debenture A/c	Dr.	10000	
To 10% Debenture A/c			100000
To Premium on redemption of Debentures A/c			10000
(issue of 1000 debentures at par redemeable at Rs. 110 vide Board Resolution No..... dated ..... & per detail in Debenture Application & Allotment Register)			

**Illustration: 5** (When amount of debenture is collected in installments)

N Ltd. issued 1000, 8% Debenture of Rs. 100/- each at a discount of 10% Payable as Rs. 10/- on application, Rs. 30/- on allotment and Balance on final call All the money were duly received.

Pass necessary journal entries in the books of company.

**Solution:**

**Journal of N Ltd.**

Particulars		Dr.	Cr.
Bank A/c	Dr.	10000	
To 8% Debenture Application A/c			10000
(Being application money received)			
8% Debenture Application A/c	Dr.	10000	
To 8% Debenture A/c			10000
(Being application money transferred to Debenture A/c)			
8% Debenture Allotment A/c	Dr.	30000	
Discount on 8% Debenture A/c	Dr.	10000	
To 8% Debenture A/c			40000
(Being amount due on allotment)			
Bank A/c	Dr.	30000	
To 8% Debenture Allotment A/c			30000
(Being Allotment money received)			
8% Debenture First Call A/c	Dr.	40000	
To 8% Debenture A/c			40000
(Being first call of Rs. 40 per share due)			

Bank A/c To 8% Debenture First Call A/c (Being first call money received)	Dr.	40000	40000
8% Debenture Final Call A/c To 8% Debenture A/c (Being final call of Rs. 10 per share due)	Dr.	10000	10000
Bank A/c To 8% Debenture Final Call A/c (Being final call received)	Dr.	10000	10000

**Illustration: 6** R. Ltd. issued 10000, 10% debentures of Rs. 100 each at a premium of 10% Payable Rs. 40 on application, Rs. 30 on allotment, Rs. 25 on first call and Rs. 15 on final call Company received application for 14,000 debentures, out of which company received applications for 4000 debentures. All the money was duly received prepare Cash book and pass journal entries in the books of Company.

**Solution:**

**In the books R. Ltd.  
Cash Book (Bank column)**

Dr.		Cr.	
Particulars	Amt.	Particulars	Amt.
To Debenture Application A/c (14000 Deb. *Rs.40)	5,60,000	By Debenture Application A/c (4000 Deb. *Rs.40) (Refunded)	1,60,000
To Debenture Allotment A/c (10000 Deb. *Rs.30)	3,00,000	By Bal. C/d (Bal. fig)	11,00,000
To Debenture First Call A/c (10000 Deb. *Rs.25)	2,50,000		
To Debenture Final Call A/c (10000 Deb. *Rs.15)	1,50,000		
	<b>12,60,000</b>		<b>12,60,000</b>

**Journal of R Ltd.**

Particulars	Dr.	Cr.
Debenture Application A/c Dr. To 10% Debentures A/c (Being 10000 debentures allotted at Rs. 40 each as per Board resolution dated.)	400000	400000
Debenture Allotment A/c Dr. To 10% Debentures A/c To Security Premium A/c (Being allotment due on 10000 debentures at Rs. 30 each as per Board resolution dated)	300000	200000 100000
Debenture First Call A/c Dr. To 10% Debentures A/c (Being first call due on 10000 debentures at Rs. 25 each as per Board resolution date .....)	250000	250000
Debenture Final Call A/c Dr. To 10% Debentures A/c (Being final call due on 10000 debentures at Rs. 15 each as per Board Resolution dated .....)	150000	150000

**Illustration: 7** R. K. Ltd. issued 10,000, 10% Debentures of Rs. 100 each at a discount of 5%, payable Rs. 30 on application, Rs. 40 on allotment and Rs. 25 on First & final call. The Debentures are redeemable on a Premium of 8%. Company received applications for 18000 debentures and rejected applications for 3000 Debentures. On the remaining Debenture applications, pro-rata allotment was made. The excess money on application is to be adjusted against allotment money due. Mr. N who applied for 600 Debentures did not pay allotment money & call. Miss. Arti holding 300 Debentures did not pay final call All other Debenture holders paid the dues.

Pass journal entries in the books of Company.

**Solution:**

**Journal of R.K. Ltd.**

Particulars	Dr.	Cr.
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Bank A/c To 10% Debenture Application A/c (Being application money received on 18000 debenture at Rs. 30 each)	Dr.	540000	540000
Debenture Application A/c Loss of issue of Debenture A/c To 10% Debentures A/c (10000 Deb. Rs. 30) To Bank A/c (3000 Deb, *Rs. 30) (Refunded) To Debenture Allotment A/c (5000 Deb. *Rs. 30) advance. To Premium on Redemption of 11% Debenture A/c (10000 Deb. *Rs.8) (Being 10000 debenture allotted & loss on issue of debenture due to redemption of debenture at a premium of 8% recorded as per board resolution dated .....)	Dr. Dr.	540000 80000	300000 90000 150000 80000
Debenture Allotment A/c Loss of issue of Debenture A/c To 10% Debentures A/c (Being allotment money due on 10000 debentures at Rs. 40 & discount on issue i.e, loss of Rs. 5 each as per board resolution dated.....)	Dr. Dr.	400000 50000	450000
Bank A/c To Debenture Allotment A/c (Being allotment money received)	Dr.	240000	240000
Debenture First & Final call A/c To 10% Debenture A/c (Being first & final call due on 10000 debentures at Rs. 25 each as per board resolution dated)	Dr.	250000	250000
Bank A/c To Debenture First & Final Call A/c (Being first & final call received on 9300 (10000-400-300) debenture)	Dr.	232500	232500

**Working note:**

- |   |         |          |
|---|---------|----------|
| 1. Number of Debentures allotted to Mr. N |         |          |
| Debentures                                | Applied | Allotted |

Total	(18000-3000) =15000	10000	
Mr. N	600		400

2. Allotment dues of Mr. N.		
Gross allotment use		
(400 Debentures allotted*40		16000
Less excess paid on applications		
of 200 Debentures @ 30 Rs.		-6000
Allotment dues of Mr. N.	10000	
3. Allotment amount received		
Allotment money due, with discount		400000
Less application amount adjusted on		
Pro-rata basis		-150000
Less N's Default of allotment dues		-10000
Allotment amount received		240000

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### 3.12 EXERCISE :

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#### Illustration: 1

J. Ltd. Took over the assets of Rs. 150000 & liabilities of A Ltd. For an agreed purchase consideration of Rs. 108000 is to be satisfied by the issue of 10% debentures of Rs. 100 each. Show journal entries in the books of J Ltd. Under the following circumstances:

- When Debentures are issued at par
- When Debentures are issued at 20% premium &
- When Debentures are issued at 10% discount.

#### Working Note:

- Number of Debentures to be issued =  $\text{Purchase consideration} \div \text{Issued price}$
- Debenture issued at 20% premium  
 $\text{Debenture} = 108000 \div 120 = 900$  Debentures of Rs. 100 each at 20% premium
- Debenture issued at 10% discount  
 $\text{Debentures} = 108000 \div 90 = 1200$  Debentures of Rs. 100 each at 10% discount.

#### Illustration: 2

P.T. Ltd., took a loan of Rs. 100000 from a bank & deposited 1000, 8% Debentures of Rs. 100 each as Collateral security, Company again took a loan of Rs. 100000 after 3 months from a bank & deposited 1000, 8% Debentures of Rs. 100 each as a collateral securities.

With this amount company purchased plant & machineries for Rs. 150000 pass necessary Journal entries in the books of the company & prepare balance sheet.

**Illustration: 3**

J. Ltd. took over the assets of Rs. 150000 & liabilities of A Ltd. For an agreed purchase consideration of Rs. 108000 is to be satisfied by the issue of 10% debentures of Rs. 100 each. Show journal entries in the books of J Ltd. Under the following circumstances:

- a) When Debentures are issued at par
- b) When Debentures are issued at 20% premium &
- c) When Debentures are issued at 10% discount.

**Working Note:**

- a) Number of Debentures to be issued = Purchase consideration  $\div$  Issued price
- b) Debenture issued at 20% premium  
 $\text{Debenture} = 108000 \div 120 = 900$  Debentures of Rs. 100 each at 20% premium
- c) Debenture issued at 10% discount  
 $\text{Debentures} = 108000 \div 90 = 1200$  Debentures of Rs. 100 each at 10% discount.

**Illustration: 4**

P.T. Ltd., took a loan of Rs. 100000 from a bank & deposited 1000, 8% Debentures of Rs. 100 each as Collateral security, Company again took a loan of Rs. 100000 after 3 months from a bank & deposited 1000, 8% Debentures of Rs. 100 each as a collateral securities. With this amount company purchased plant & machineries for Rs. 150000 pass necessary Journal entries in the books of the company & prepare balance sheet.



## REDEMPTION OF PREFERENCE SHARES

### Unit Structure