

ISSUE OF DEBENTURES

Chapter 10 : ISSUE OF DEBENTURES

COMMON ERRORS

1. At the time of Issue of Debentures, error in recording securities premium reserve and premium on redemption of debentures a/c.
2. Students use Share Capital or Debenture capital in place of % Debentures while recording accounting entries for issue of debentures.
3. In case of Issue of Debentures for Consideration other than Cash number of Debentures to be issued is calculated wrongly.
4. If no. of debentures to be issued come in decimal, student tend to round off the same.
5. In case of Purchase of Business, amount of Goodwill and Capital Reserves are wrongly calculated.
6. Calculates Goodwill or Capital Reserve in case of purchase of an asset.
7. Recording of issue of loan in case of debentures issued as collateral security.

VERY SHORT ANSWER QUESTIONS:

(Questions carrying 1 mark)

1. Give the meaning of Debenture.
2. Write any one difference between Debenture holder and equity shareholder.
3. Why would an investor prefer to invest in debenture of a company rather than in
4. shares?
5. Why would an investor prefer to invest partly in shares and partly in debentures of a company?
6. Why would an investor prefer to invest in shares of a company rather than its debentures?
7. What are registered debentures?
8. What are bearer debentures?
9. Distinguish between debentures on the basis of coupon rate.
10. What does an irredeemable or perpetual debenture mean?
11. What are redeemable debentures?
12. What is the meaning of secured debentures?
13. What are first debentures?
14. What are second debentures?
15. Give one difference between non- convertible and convertible debentures.
16. What are partly convertible debentures?
17. What is meant by debentures issued as collateral security?
18. What is maximum limit of allowing discount on issue of debentures according to companies act 2013?
19. What is meant by debentures issued for consideration other than cash.?
20. What is purchase consideration?
21. Differentiate between premium on issue of debentures and premium on redemption of debentures.
22. What is the nature of Debenture Interest?
23. Jairam Ltd has incurred a loss of Rs3,00,000 before payment of interest on debentures. The director of the company is of the opinion that interest on debentures is payable only when company earns profits. Do you agree?

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24. In which case interest on debentures is not to be paid?
25. What is the nature of discount on issue of debentures?
26. How is discount/loss on issue of debentures written off?
27. Bajaj Ltd issued 2,000 13% debentures of Rs100 each at a discount of 10%. How should amount of discount to be written off if debentures are redeemable at the end of five years?
28. How is unwritten off portion of discount/loss on issue of debentures disclosed in the balance sheet if it is to be written off in next 12 months?
29. How is Debentures shown in the balance sheet?
30. How is Debentures are shown in the balance sheet if such debentures are due for redemption in next 12 months?
31. ABC Ltd has agreed to pay purchase consideration of Rs1,25,000 by issuing fully paid debentures of Rs100 each at Rs120 each. How will the purchase consideration be settled?
32. Calculate the number of debentures to be issued by Atul Ltd if the company purchased business of Hemant Ltd for a purchase consideration of Rs7,60,000 and made the payment by issue of 9% Debentures of Rs100 each at a premium of 25%.

SHORT ANSWER QUESTIONS:

(Questions carrying 3-4 marks)

33. What is meant by debenture? State any two characteristics of debenture.
34. Distinguish between share and debenture.
35. Explain the meaning of debentures issued as collateral security. How is it shown in the balance sheet of the company?
36. Explain the process of writing off discount/loss on issue of debentures.
37. M Ltd issued 4,000 12% debentures of Rs100 each at par payable as follows:
On application RS40; on allotment Rs30 ; on I and final call Rs30
Company received application for 6,000 debentures. It rejected applications for 1000 debentures and pro-rata allotment made to the remaining applicants. Excess money received was utilised on allotment. All the amount duly received except the first and final call money on 200 debentures. Pass necessary journal entries.
38. Sawan Ltd issued for subscription 10,000 9% Debentures of Rs100 each payable Rs60 on application and Rs40 on balance on allotment. Subscription was received for 9,000 debentures. Allotment was made to all the applicants and all the amount due was received.
39. ABC Ltd issued 6,000 11% debentures of Rs100 each at a premium of 20%, redeemable after five years. The amount is payable as follows:

On application: Rs30; on allotment Rs50 (including premium) ; On I and final call Rs40.

The public applied for 7,000 debentures. Applications for 5,000 debentures were allotted in full, applications for 1,500 debentures allotted 1,000 debentures and the remaining applicants were rejected. All money were duly received. Calculate the excess application money to be adjusted towards allotment. Also pass necessary journal entries.

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[Ans: excess money adjusted towards allotment Rs12,000]

40. Meena ltd took over assets of Rs8,40,000 and liabilities of Rs80,000 of Raju ltd at an agreed value of Rs7,20,000. Meena ltd paid to Raju ltd by issue of 9% Debentures of Rs100 each at a premium of 20%. Pass necessary journal entries in the books of Meena ltd.
41. Bawa ltd purchased a piece of land from JSS ltd and paid the consideration as follows:
 - a. Issued a cheque of Rs10,00,000
 - b. Issued a bills of exchange for 3 months for Rs5,00,000
 - c. Issued 5000 9% Debentures of Rs100 each at par redeemable at 10% premium after five years.
 Pass the journal entry.
42. On 1st April 2017, ABC ltd issued 10,000 9% Debentures of Rs100 each at a discount of 10% redeemable after 5 years. The issue price is payable along with application. The debentures were subscribed. It has a balance of Rs1,75,000 in capital reserve. It decided to write off discount in the year ended 31st March 2018 from capital reserve. Pass the journal entries for issue of debentures and writing off the discount and prepare Discount on issue of debentures account.
43. On 1st May 2017, ABC ltd issued 10,000 9% Debentures of Rs100 each at a discount of 10% redeemable after 5 years. The issue price is payable along with application. The debentures were subscribed. It has a balance of Rs60,000 in capital reserve and Rs1,00,000 in securities premium reserve which the company decided to use for writing off the loss. It decided to write off discount in the first year itself.

Pass the journal entries for issue of debentures and writing off the discount and prepare Discount on issue of debentures account.

44. TT ltd issued 15000 10% debentures of Rs100 each on 1st April 2017. The issue was fully subscribed. According to the terms of issue, interest is payable on half yearly basis. Pass journal entries for interest on debentures for the year ended 31st March 2018. TDS to be ignored.
45. ABC ltd issued 20,000 debentures of rs100 each at a discount of 5% redeemable at the end of five years.
Show the discount on issue of Debentures account in the ledger for the period.
46. ABC ltd issued 20,000 debentures of Rs100 each at a discount of 6% redeemable at par by annual drawings of Rs4,00,000 starting from the end of first year of issue. Prepare discount on issue of debentures account.

LONG ANSWER QUESTIONS:

(Questions carrying 6 marks)

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47. Aman Ltd purchased assets of the book value Rs4,00,000 and took over the liabilities of Rs50,000 from Mohak Ltd. It was agreed that the purchase consideration, settled at Rs3,80,000, be paid by issuing debentures of Rs100 each.

Pass journal entries if the debentures are issued at (a) par (b) premium of 10% and (c) discount of 10%.

It was decided to pay any fraction of debentures in cash.

48. Pass necessary journal entries for issue of debentures in each of the following alternative cases:

- a. 10% Debentures of Rs100 each at Rs100, repayable at Rs100.
- b. 10% Debentures of Rs100 each at Rs 95, repayable at Rs100.
- c. 10% Debentures of Rs100 each at Rs105, repayable at Rs100.
- d. 10% Debentures of Rs100 each at Rs100, repayable at Rs105.
- e. 10% Debentures of Rs100 each at Rs95, repayable at Rs105.
- f. 10% Debentures of Rs100 each at Rs105, repayable at Rs110.

49. On 1st April 2017 Kewal Ltd issued 5,000 9% debentures of Rs500 each at a discount of 4% redeemable at a premium of 5% after three years.

Pass necessary journal entries for the issue of debentures and debenture interest for the year ended 31st March 2018 assuming that interest is payable on 30th September and 31st March and the rate of tax deducted at source is 10%. The company closes its books on 31st March every year.

50. On 1st April 2017, ABC Ltd issued 40,000 9% Debentures of Rs100 each at a discount of 5% redeemable at a premium of 5% after 5 years. The issue price is payable along with application. The debentures were fully subscribed. It has a balance of Rs1,00,000 in capital reserve and Rs1,00,000 in securities premium reserve which the company decided to use for writing off the loss. It decided to write off discount in the first year itself.

Pass the journal entries for issue of debentures and writing off the discount and prepare Discount on issue of debentures account.

51. ABC Ltd issued 40,000 10% debentures of Rs100 each at a discount of 8% redeemable at par. Debentures are redeemable by drawings method in the following manner:

Year end	Face value
2	4,00,000
3	8,00,000
4	12,00,000
5	16,00,000

[Ans: Discount to be written off : 1st year: Rs80,000; 2nd Year : Rs80,000; 3rd Year : Rs72,000; 4th Year : Rs56,000; 5th Year : Rs32,000.]

FILL IN THE BLANKS QUESTIONS

1. Fill in the blanks where on 1.4.2018 A Ltd. issued 1,000, 10% Debentures of Rs 100 each at a discount of Rs. 5% redeemable at a premium of 5% after 5 years. (3)

Date	Particulars	L.F.	Debit(Rs.)	Credit(Rs.)

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1.4.2018	Bank A/c Dr. To Debenture Application & All A/c (For debenture application and allotment money received)		_____	_____
1.4.2018	Debenture Appl & Allot A/c Dr. _____ To 10% Debentures A/c To Premium on redemption of debenture A/C To Bank A/c (For money received on debenture application transferred to 10% Debenture A/c and excess refunded)		-----	_____ _____ _____ _____
30.9.2018	Interest on Debentures A/c Dr To Debentureholders To _____ (For interest due on debentures to be paid half yearly and tax deducted @ 10%)		_____	_____ _____

2. Fill in the missing figures in the following journal entries in the books of Shiv Ltd. :

Date	Particulars	l.f.	Dr. Rs.	Cr. Rs.
1.4.2018	Assets A/c Dr. -----A/c Dr. To Sundry Liabilities A/c To Ram Ltd. (purchased running business of Ram Ltd.)		180000 -----	40000 -----
1.4.2018	Ram Ltd. A/c Dr. To Bank A/c To 12% Debentures A/c To Securities Premium A/c (Half of the purchase consideration paid by cheque and the balance settled by issuing ---- 12% Debentures of Rs. 100 each at a premium of Rs.10)		176000 ----- ----- -----	

3. Fill in the blanks in the following cases :

ABC Ltd. — (Journal)

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Date	Part	L.F.	Dr (₹)	Cr (₹)
	Sundry Assets A/c. Dr.		10,00,000	
	To Sundry liabilities A/c			1,80,000
	To Suncity Ltd.		?.....
	To?.....		?.....
	Suncity Ltd Dr.		7,60,000	
	Discount on Issue of Debentures A/c Dr.		
	To 10% Debentures A/c		
	(Being the , 10% Debentures of 100/- each issued at 5% discount			