

INTRODUCTION

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.

Section 71 (4) provides that where debentures are issued by a company, the company should create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account should not be utilised by the company for any purpose other than the redemption of debentures.

REDEMPTION OF DEBENTURES

Debentures are usually redeemable i.e. either redeemed in cash or convertible after a time period. 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**.

A company may also purchase its debentures, as and when convenient, in the open market and when debentures are quoted at a discount on the Stock Exchange, it may be profitable for the company to purchase and cancel them.

DEBENTURE REDEMPTION RESERVE

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.

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.

BALANCE IN DEBENTURE REDEMPTION RESERVE (DRR)

When the company decides to establish the Debenture Redemption Reserve Account, the amount indicated by the Debenture Redemption Reserves tables is credited to the Debenture Redemption Reserve account and debited to profit and loss account.

Immediately, the company should also purchase outside investments. The entry for the purpose naturally will be to debit Debenture Redemption Reserve investments and credit bank.

If the debentures are purchased within the interest period, the price would be inclusive of interest provided these are purchased “Cum-interest”; but if purchased “Ex-interest”, the interest to the date of purchase would be payable to the seller additionally.

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—

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

| | Debentures Issued by | Adequacy of Debenture Redemption Reserve (DRR) |
|----------|--|---|
| 1 | 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 |
| 2 | 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 3 below) |
| 3 | For Listed company (other than AIFIs and Banking Companies as specified in Sr. no. 1 above) | No DRR is required. |
| a. | All Listed NBFCs registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997 and for Housing Finance Companies registered with National Housing Bank for both public as well as privately placed debentures | |
| b. | Other Listed companies for both public as well as privately placed debentures. | |
| 4 | For unlisted companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above) | No DRR is required. DRR Shall be 10% of the value of Outstanding debentures issued. |
| a. | All unlisted NBFCs (registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures | |
| b. | Other Unlisted Companies | |

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.

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:

- (a) in deposits with any scheduled bank, free from charge or lien;
- (b) in unencumbered securities of the Central Government or of any State Government;
- (c) in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;
- (d) in unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

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.

In case of partly convertible debentures, DRR shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

The amount credited to DRR shall not be utilised by the company except for the purpose of redemption of debentures.

Note:

It should be noted that appropriation to DRR can be made any time before redemption and Investments in specified securities as mentioned above can be done before 30th April for the debentures maturing that year, however, for the sake of simplicity and ease, it is advisable to make the appropriation and investment immediately after the debentures are allotted assuming that the company has sufficient amount of profits (issued if allotment date is not given in the question). Also in some cases, the date of allotment could be missing, in such cases the appropriation and investments should be done on the first day of that year for which ledgers accounts are to be drafted.

JOURNAL ENTRIES

The necessary journal entries passed in the books of a company are given below:

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. In the illustrations given in the chapter, the same has been considered and hence interest on DRR investment is not credited to DRR A/c but taken to P&L A/c.

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

Note: In case, the company purchases its own debentures in the market, additional set of accounting entries would be passed (refer para 4.3 of this chapter for the guidance).

METHODS OF REDEMPTION OF DEBENTURES

Redemption of debentures must be done according to the terms of issue of debentures and any deviation therefrom will be treated as a default by the company. Redemption by paying off the debt on account of debentures issued can be done in one of the three methods viz:

BY PAYMENT IN LUMP SUM Under payment in lump sum method, at maturity or at the expiry of a specified period of debenture the payment of entire debenture is made in one lot or even before the expiry of the specified period.

BY PAYMENT IN INSTALMENTS Under payment in instalments method, the payment of specified portion of debenture is made in instalments at specified intervals.

PURCHASE OF DEBENTURES IN OPEN MARKET

Debentures sometimes are purchased in open market. In such a case Own Debenture Account is debited and bank is credited.

Suppose a company has issued 8% debentures for Rs10,00,000, interest being payable on 31st March and 30th September. The company purchases Rs50,000 debentures at Rs96 on 1st August 20X1. This means that the company will have to pay Rs48,000 as principal plus Rs1,333 as interest for 4 months.

| Entry | | Rs | Rs |
|---------------------------------------|-----|-----------|-----------|
| Own Debentures (50,000 x 96/ 100) | Dr. | 48,000 | |
| Interest Account (50,000 x 8% x 4/12) | Dr. | 1,333 | |
| To Bank | | | 49,333 |

It should be noted that even though Rs50,000 debentures have been purchased for Rs48,000 there is no profit. On purchase of anything, profit does not arise; only on sale, and in this case on cancellation of debentures, profit could arise.

These debentures are cancelled on same date; the journal entries to be passed will be the following:

| Particulars | | Rs | Rs |
|--|-----|--------|--------|
| 8% Debentures A/c | Dr. | 50,000 | |
| To Own Debentures A/c | | | 48,000 |
| To Profit on cancellation of debentures (Cancellation of Rs50,000 Debentures) | | | 2,000 |

Note: Students should refer to Illustration 1 for complete and detailed understanding of this concept.

CLASS WORK QUESTION

Question - 1.

On January 1, Rama Ltd., had 500 Debentures of Rs100 each outstanding in its books carrying interest at 6% per annum. DRR balance is standing in books at Rs12,500. In accordance with the powers in the deed, the directors acquired debentures from the open market for immediate cancellation as follows:

March 1 **Rs5,000 at Rs98.00 (cum interest)**

Aug. 1 **Rs10,000 at Rs100.25 (cum interest)**

Dec. 15 **Rs2,500 at Rs98.50 (ex-interest)**

Debenture interest is payable half-yearly, on 30th June and 31st Dec.

Show ledger accounts of Debentures and Debenture interest for the first year, ignoring income-tax.

Solution:

6% Debentures Account

1st Half Year

| Date | Particulars | Rs | Rs | Date | Particulars | Rs |
|---------|---|-------|---------------|-----------|----------------|---------------|
| Mar. 1 | To Bank-Debentures Purchased [(5,000 x 98/ 100) - 50] | 4,850 | | Jan. 1 | By Balance b/d | 50,000 |
| | To Profit & Loss on cancellation of debenture A/c (5,000 - 4,850) | 150 | 5,000 | | | |
| June 30 | To Balance c/d | | 45,000 | | | |
| | | | 50,000 | | | 50,000 |

Debenture Interest Account

| Date | Particulars | Rs | Date | Particulars | Rs |
|------------|---|--------------|------------|-------------------------|--------------|
| Mar. 1 | To Bank-Interest for 2 months on Rs5,000 Debentures @ 6% | 50 | June 30 | By Profit & Loss A/c | 1,400 |
| June 30 | To Debenture-holders (Interest) A/c (45,000 x 6% x 6/12) | 1,350 | | | |
| | | 1,400 | | | 1,400 |

2nd Half Year**6% Debentures Account**

| Date | Particulars | Rs | Date | Particulars | Rs |
|---------|---|---------------|--------|----------------|---------------|
| Aug. 1 | To Bank-Debenture Purchased [(10,000 x 100.25/ 100) – 50] | 9,975 | July 1 | By Balance b/d | 45,000 |
| | To P & L A/c on Cancellation of debentures (10,000 – 9,975) | 25 | | | |
| Dec. 15 | To Bank-Deb. (2,500 x 98.50/ 100) Purchased | 2,462.50 | | | |
| | To Profit & Loss on Cancellation of Debentures (2,500 – 2,462.50) | 37.50 | | | |
| Dec. 31 | To Balance c/d | 32,500 | | | |
| | | 45,000 | | | 45,000 |

Debenture Interest Account

| Date | Particulars | Rs | Date | Particulars | Rs |
|--------|---|----------------|------|------------------|----------------|
| Aug 1 | To bank interest for one month on Rs 10000 @ 6% | 50.00 | Dec. | By P & L Account | 1093.75 |
| Dec 15 | To bank (2500 × 6% × 5.5/12) | 68.75 | | | |
| Dec 31 | To debenture holders (32500 × 6% × 6/12) | 975.00 | | | |
| | | 1093.75 | | | 1093.75 |

Notes:

- (i) Profit or loss on redemption of debenture arises only on sale or cancellation. Adjustments related to own purchases have been made in the debentures account directly since the cancellation also happened on the same day. If debentures are straightway cancelled on purchase, the profit or loss on redemption of debentures will be ascertained by comparing (i) the nominal value of debentures cancelled, and (ii) the price paid less interest to the date of purchase (if the transaction is cum-interest).
- (ii) Alternatively, Own Debentures Account can be debited on own purchase and the same can be knocked off against debentures account on cancellation i.e. Own debentures account will be credited and debenture Account debited on cancellation. The difference between the nominal value of the debentures cancelled and the amount standing to the debit on Own Debentures Account will be profit or loss on redemption of debentures.
- (iii) In case the transaction is ex-interest, the interest to the date of transaction will be paid in addition to the settled price and hence profit on redemption will be nominal value minus the settled price.

Question - 2.

The following balances appeared in the books of a company as on December 31, 20X1:

6% Mortgage 10,000 debentures of Rs100 each;

Debenture Redemption Reserve (for redemption of debentures) Rs50,000;

Investments in deposits with a scheduled bank, free from any charge or lien Rs1,50,000 at interest 4% p.a. receivable on 31st December every year.

Bank balance with the company is Rs9,00,000.

**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 concerned ledger accounts (excluding bank transactions). Ignore taxation.**

Solution:

6% Mortgage Debentures Account

| 20X2 | Particulars | Rs | 20X2 | Particulars | Rs |
|---------|--------------------------|-----------|--------|----------------|-----------|
| Feb. 28 | To Debenture-holders A/c | 10,00,000 | Jan. 1 | By Balance b/d | 10,00,000 |

Premium on Redemption of Debentures Account

| 20X2 | Particulars | Rs | 20X2 | Particulars | Rs |
|---------|--------------------------|--------|---------|----------------------|--------|
| Feb. 28 | To Debenture-holders A/c | 10,000 | Feb. 28 | By Profit & loss A/c | 10,000 |

Debentures Redemption Reserve Investment Account

| 20X2 | Particulars | Rs | 20X2 | Particulars | Rs |
|--------|----------------|----------|---------|-------------|----------|
| Jan. 1 | To Balance b/d | 1,50,000 | Feb. 28 | By Bank | 1,50,000 |

Debenture Interest Account

| 20X2 | Particulars | Rs | 20X2 | Particulars | Rs |
|---------|------------------------------------|--------|---------|----------------------|--------|
| Feb. 28 | To Bank (10,000 x 100 x 6% x 2/12) | 10,000 | Feb. 28 | By Profit & Loss A/c | 10,000 |

Bank A/c

| 20X2 | Particulars | Rs | 20X2 | Particulars | Rs |
|---------|---|------------------|---------|-------------------------------------|------------------|
| Jan 01 | To Balance b/d | 9,00,000 | Feb. 28 | By Debenture-holders (10,000 x 101) | 10,10,000 |
| Feb. 28 | To Interest on Debentures Redemption Investments (1,50,000 x 4% x 2/12) | 1,000 | | By Deb. Interest A/c | 10,000 |
| | To Debentures Redemption Reserve investment A/c | 1,50,000 | | By Balance c/d | 31,000 |
| | | 10,51,000 | | | 10,51,000 |

Debenture Redemption Reserve Account

| 20X2 | Particulars | Rs | 20X2 | Particulars | Rs |
|--------|-------------------------|-----------------|-------|----------------|-----------------|
| Feb 28 | To General Reserve-note | 1,00,000 | Jan.1 | By Balance b/d | 50,000 |
| | | | Jan.1 | By P&L (b/f) | 50,000 |
| | | 1,00,000 | | | 1,00,000 |

Note: Amount to be transferred to DRR before the redemption
1,00,000 = 10% of (10,000 X 100)

Question - 3.

Sencom Limited issued Rs1,50,000 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 31 December 20X0, balance in the DRR of the company was Rs25,000 and investments made for the purpose of redemption were Rs20,000.

1st March 20X2 - Rs25,000 nominal value purchased for Rs24,725 ex-interest.

1st September 20X2 - Rs20,000 nominal value purchased for Rs20,125 cum-interest.

You are required to draw up the following accounts up to the date of cancellation:

- (i) Debentures Account; and
(ii) Own Debenture (Investment) Account.

Ignore taxation.

Solution:

**Sencom Limited
Debenture Account**

| 20X2 | Particulars | Rs | 20X 2 | Particulars | Rs |
|--------|--|-----------------|----------|----------------|-----------------|
| Mar 1 | To Own Debentures | 24,725 | Jan 1 | By Balance b/d | 1,50,000 |
| Mar 1 | To Profit on cancellation (25,000-24,725) | 275 | | | |
| Sep 1 | To Own Debentures (Note 3) | 19,708 | | | |
| Sep 1 | To Profit on cancellation (20,000-19,708) | 292 | | | |
| Dec 31 | Balance c/d | 1,05,000 | | | |
| | | 1,50,000 | | | 1,50,000 |

Own Debenture (Investment) Account

| Date | Particulars | Nominal Cost Rs | Interest Rs | Cost Rs | Date | Particulars | Nominal Cost Rs | Interest Rs | Cost Rs |
|------------------|----------------------|-----------------|-------------|---------------|------------------|-------------------|-----------------|-------------|---------------|
| 20X 2 | | | | | 20X 2 | | | | |
| Mar 1 | To Bank (W.N. 1) | 25,000 | 521 | 24,725 | Mar 1 | By Debentures A/c | 25,000 | - | 24,725 |
| Sep 1 | To Bank (W.N. 2 & 3) | 20,000 | 417 | 19,708 | Sep 1 | By Debentures A/c | 20,000 | - | 19,708 |
| | | | | | Dec. 31 | By P&L A/c | | 938 | |
| | | 45,000 | 938 | 44,433 | | | 45,000 | 938 | 44,433 |

Working notes:

- $25,000 \times 5\% \times 5/12 = 521$
- $20,000 \times 5\% \times 5/12 = 417$
- $20,125 - 417 = 19,708$

Question - 4.

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

- 12 % Debentures Rs7,50,000
- Balance of DRR Rs25,000
- DRR Investment 1,12,500 represented by 10%, 1,125 Secured Bonds of the Government of India of Rs100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-20X2, balance at bank was Rs7,50,000 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.

Solution:

1. **12% Debentures Account**

| Date | Particulars | Rs | Date | Particulars | Rs |
|------------------------------|--------------------------|-----------------|-----------------------------|----------------|-----------------|
| 31 st March, 20X2 | To Debenture holders A/c | 7,50,000 | 1 st April, 20X1 | By Balance b/d | 7,50,000 |
| | | 7,50,000 | | | 7,50,000 |

2. **DRR Account**

| Date | Particulars | Rs | Date | Particulars | Rs |
|------------------------------|-------------------------------|-----------------|-----------------------------|---------------------------------------|-----------------|
| 1 st April, 20X1 | | | | By Balance b/d | 25,000 |
| 31 st March, 20X2 | To General reserve A/c note 1 | 75,000 | 1 st April, 20X1 | By Profit and loss A/c (Refer Note 1) | 50,000 |
| | | 1,87,500 | | | 1,87,500 |

3. **10% Secured Bonds of Govt. (DRR Investment) A/c**

| Date | Particulars | Rs | Date | Particulars | Rs |
|-----------------------------|----------------|-----------------|------------------------------|-------------|-----------------|
| 1 st April, 20X1 | To Balance b/d | 1,12,500 | 31 st March, 20X2 | By Bank A/c | 1,12,500 |
| | | 1,12,500 | | | 1,12,500 |

4. **Bank A/c**

| Date | Particulars | Rs | Date | Particulars | Rs |
|------------------------------|-------------------------------|-----------------|------------------------|------------------|-----------------|
| 31 st March, 20X2 | To Balance b/d | 7,50,000 | 31 st March | By 12% Debenture | 8,25,000 |
| 20X2 | To Interest on DRR Investment | 11,250 | | | |
| 20X2 | To DRR Investment A/c | 1,12,500 | | By Balance c/d | 48,750 |
| | | 8,73,750 | | | 8,73,750 |

5. **Debenture holders A/c**

| Date | Particulars | Rs | Date | Particulars | Rs |
|------|-------------|----|------|-------------|----|
|------|-------------|----|------|-------------|----|

| | | | | | |
|------------------|-------------|-----------------|------------------|--|--------------------|
| 31st March, 20X2 | To Bank A/c | 8,25,000 | 31st March, 20X2 | By 12% Debentures By Premium on redemption of debentures @ 10% | 7,50,000 75,000 |
| | | 8,25,000 | | | 8,25,000 |

Note 1 –

Calculation of DRR before redemption = 10% of Rs 7,50,000 = 75,000

Available balance = Rs 25,000

DRR required = 75,000 – 25,000 = Rs 50,000.

Question - 5.

The Summarized Balance Sheet of BEE Co. Ltd. as on 31st March, 20X1 is as under:

| Liabilities | Rs | Assets | Rs |
|--|-----------------|-------------------|-----------------|
| Share Capital : | | Freehold property | 1,15,000 |
| Authorised: | | Stock | 1,35,000 |
| 30,000 Equity Shares of Rs10 each | 3,00,000 | Trade receivables | 75,000 |
| Issued and Subscribed: | | Cash | 30,000 |
| 20,000 Equity Shares of Rs10 each fully paid | 2,00,000 | Balance at Bank | 2,00,000 |
| Profit and Loss Account | 1,20,000 | | |
| 12% Debentures | 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 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.

Solution

Journal of BEE Co. Ltd.

| Particulars | | Dr. Rs | Cr. Rs |
|---|------------|------------------|------------------|
| Bank A/c To Equity Shareholders A/c (Application money received on 5,000 shares @ Rs15 per share to be issued as rights shares in the ratio of 1:4) | Dr. | 75,000 | 75,000 |
| Equity Shareholders A/c To Equity Share Capital A/c To Securities Premium A/c (Share application money on 5,000 shares @ Rs10 per share transferred to Share Capital Account, and Rs5 per share to Securities Premium Account vide Board's Resolution dated....) | Dr. | 75,000 | 50,000 25,000 |
| Securities Premium A/c Profit & Loss A/c To Bonus to Shareholders A/c (Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...) | Dr. Dr. | 25,000 25,000 | 50,000 |

| | | | |
|---|-----|----------|----------|
| Bonus to Shareholders A/c To Equity Share Capital A/c (Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated....) | Dr. | 50,000 | 50,000 |
| Profit and Loss A/c To Debenture Redemption Reserve (for DRR created 10% x 1,20,000) | Dr. | 12,000 | 12,000 |
| Debenture Redemption Reserve Investment A/c To Bank A/c (For DRR investment Created 15% x 1,20,000) | Dr. | 18,000 | 18,000 |
| 12% Debentures A/c | Dr. | 1,20,000 | |
| Premium Payable on Redemption A/c @ 3% To Debenture holders A/c (Amount payable to debentures holders) | Dr. | 3,600 | 1,23,600 |
| Profit and loss A/c To Premium Payable on Redemption A/c (Premium payable on redemption charged to Profit & Loss A/c) | Dr. | 3,600 | 3,600 |
| Debenture Redemption Reserve A/c To General Reserve (for DRR transferred to general reserve) | Dr. | 12,000 | 12,000 |
| Bank A/c Dr. To DRR Investment A/c (DRR Investment realised) | | 18,000 | 18,000 |
| Debenture holders A/c To Bank A/c (Amount paid to debenture holders on redemption) | Dr. | 1,23,600 | 1,23,600 |

Balance Sheet of BEE Co. Ltd. as on..... (after completion of transactions)

| Particulars | Note No | Rs |
|-----------------------------------|---------|-----------------|
| I. Equity and liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 3,00,000 |
| (b) Reserves and Surplus | 2 | 91,400 |
| (2) Current Liabilities | | |
| (a) Trade payables | | 1,15,000 |
| Total | | 5,06,400 |
| II. Assets | | |
| (1) Non-current assets | | |
| (a) Property, Plant and Equipment | | |
| (i) Tangible Assets | 3 | 1,15,000 |
| (2) Current assets | | |
| (a) Inventories | | 1,35,000 |
| (b) Trade receivables | | 75,000 |
| (c) Cash and bank balances | 4 | 1,81,400 |
| Total | | 5,06,400 |

Notes to Accounts

| 1. | Share Capital | Rs |
|----|--|----------|
| | 30,000 shares of Rs10 each fully paid (5,000 shares of Rs10 each, fully paid issued as bonus shares out of securities premium and P&L Account) | 3,00,000 |
| 2. | Reserve and Surplus | |
| | Profit & Loss Account | 1,20,000 |

| | | | |
|-----------|---|---------------|----------|
| | Less: Premium on redemption of debenture | (3,600) | |
| | Less: Utilisation for issue of bonus shares | (25,000) | |
| | Less: DRR created | (12,000) | |
| | General Reserve | 61,400 | 91,400 |
| | 12,000 | | |
| 3. | Tangible assets | | |
| | Freehold property | | 1,15,000 |
| 4. | Cash and bank balances | | |
| | Cash at bank (2,00,000 + 75,000 – 1,23,600) | 1,51,400 | |
| | Cash in hand | <u>30,000</u> | 1,81,400 |

Question 6.

The summarised Balance Sheet of Convertible Limited, as on 30th June, 20X1, stood as follows:

Liabilities

| | |
|---|--------------------|
| Share Capital: 5,00,000 equity shares of Rs10 each fully paid | 50,00,000 |
| General Reserve | 90,00,000 |
| Profit And loss A/c | 10,00,000 |
| Debenture Redemption Reserve | 10,00,000 |
| 13.5% Convertible Debentures, 1,00,000 Debentures of Rs100 | 1,00,00,000 |
| Other loans | 65,00,000 |
| Current Liabilities and Provisions | 1,25,00,000 |
| Total | 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 |
| Total | 4,50,00,000 |

The debentures are due for redemption on 1st July, 20X1. 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 holdings into equity shares at a pre-determined price of Rs15.75 per share and the payment in cash.

Assuming that:

- Except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.
- the investments were realised at par on sale; and
- All the transactions are put through, without any lag, on 1st July, 20X1.

Redraft the balance sheet of the company as on 1st July, 20X1 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the necessary cash payment.

Solution

Convertible Limited Balance Sheet as on July 1, 20X1

| Particulars | Note No | Figures as at the end of current reporting period |
|----------------------------------|---------|---|
| | | Rs |
| I. Equity and Liabilities | | |
| (1) Shareholder's Funds | | |
| (a) Share Capital | 1 | 60,00,000 |

| | | |
|--|---|--------------------|
| (b) Reserves and Surplus | 2 | 1,10,75,000 |
| (2) Non-Current Liabilities | | |
| (a) Long-term borrowings - Unsecured Loans | | 65,00,000 |
| (3) Current Liabilities | | |
| (a) Short-term provisions | | 1,25,00,000 |
| Total | | 3,60,75,000 |
| II. Assets | | |
| (1) Non-current assets | | |
| (a) Property, Plant & Equipment | | |
| (i) Tangible assets | | 1,60,00,000 |
| (2) Current assets | | |
| (a) Cash and bank balances (Refer WN (iii)) | | 75,000 |
| (b) Other current assets | | 2,00,00,000 |
| Total | | 3,60,75,000 |

Notes to Accounts

| | Particulars | Rs | |
|--------------------------------|--|------------|--------------------|
| 1. Share Capital | | | |
| | 6,00,000 Equity Shares (5,00,000 + 1,00,000) of Rs10 each (Refer WN (i)) | | 60,00,000 |
| 2. Reserves and Surplus | | | |
| | General Reserve | 90,00,000 | |
| | Profit & Loss | 10,00,000 | |
| | Add: Debenture Redemption Reserve transfer | 10,00,000 | |
| | | 110,00,000 | |
| | Less: Premium on redemption of debentures (1,00,000 debentures x Rs5 per debenture) | (5,00,000) | 1,05,00,000 |
| | Securities Premium (1,00,000 shares x 5.75) (Refer WN (i)) | | 5,75,000 |
| | | | 1,10,75,000 |

Working Notes:

(i) Calculation of number of shares to be allotted:

| | |
|--|------------------|
| Total number of debentures | 1,00,000 |
| Less: Number of debentures for which debenture holders did not opt for conversion: | (25,000) |
| | 75,000 |
| 20% of 75,000 | 15,000 |
| Redemption value of 15,000 debentures (15,000 x 105) | 15,75,000 |

Number of Equity Shares to be allotted: $\frac{1575000}{15.75} = 1,00,000$ shares of Rs10 each.

(ii) Calculation of cash to be paid:

| | |
|---|------------------|
| Total number of debenture | 1,00,000 |
| Less: number of debentures to be converted into equity shares | (15,000) |
| Balance | 85,000 |
| Redemption value of 85,000 debentures (85,000 x Rs105) | 89,25,000 |

(iii) Cash and Bank Balance:

| | |
|--------------------------------------|---------------|
| Balance before redemption | 75,00,000 |
| Add: Proceeds of investments sold | 15,00,000 |
| | 90,00,000 |
| Less: Cash paid to debenture holders | (89,25,000) |
| | 75,000 |

Question 7.

A company had issued 20,000, 13% debentures of Rs100 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 Rs10) at a price of Rs15 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.

Solution

Calculation of number of equity shares to be allotted

| | Number of debentures |
|---|-----------------------------|
| Total number of debentures | 20,000 |
| Less: Debenture holders not opted for conversion | (2,500) |
| Debenture holders opted for conversion | 17,500 |
| Option for conversion | 20% |
| Number of debentures to be converted (20% of 17,500) | 3,500 |
| Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)] | Rs 3,67,500 |
| Equity shares of Rs10 each issued on conversion [Rs 3,67,500 / Rs 15] | 24,500 shares |

Question 8.

Libra Limited recently made a public issue in respect of which the following information is available:

- (a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- Rs100 per debenture.
- (b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.
- (c) Date of closure of subscription lists- 1.5.20X1, date of allotment- 1.6.20X1, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- Rs60 (Face Value Rs10).
- (d) Underwriting Commission- 2%.
- (e) No. of debentures applied for- 1,50,000.
- (f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 20X2 (including cash and bank entries).

Solution

Journal Entries in the books of Libra Ltd.

Journal Entries

| Date | Particulars | Amount Dr. | Amount Cr. |
|------|-------------|------------|------------|
|------|-------------|------------|------------|

| | | Rs | Rs |
|-------------------|--|--------------------------|--------------------------|
| 1.5.20X1 | Bank A/cDr. To Debenture Application A/c (Application money received on 1,50,000 debentures @ Rs100 each) | 1,50,00,000 | 1,50,00,000 |
| 1.6.20X1 | Debenture Application A/cDr. Underwriters A/cDr. To 15% Debentures A/c (Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters) | 1,50,00,000 50,00,000 | 2,00,00,000 |
| | Underwriting CommissionDr. To Underwriters A/c (Commission payable to underwriters @ 2% on Rs2,00,00,000) | 4,00,000 | 4,00,000 |
| | Bank A/cDr. To Underwriters A/c (Amount received from underwriters in settlement of account) | 46,00,000 | 46,00,000 |
| 1.6.20X1 | Profit & Loss A/cDr. To Debenture Redemption Reserve a/c (200,000 X 100 X 25% X 40%) (Being Debenture Redemption Reserve created on non-convertible debentures) | 8,00,000 | 8,00,000 |
| | Debenture Redemption Investment A/c Dr. To Bank A/c (200,000 X 100 x 15% X 40%) (Being Investments made for redemption purpose) | 12,00,000 | 12,00,000 |
| 30.9.20X1 | Debenture Interest A/c Dr. To bank A/c (interest paid on debentures for 4 months @15% on Rs 2,00,00,000) | 10,00,000 | 10,00,000 |
| 31.10.20X1 | 15% debenture A/c To Equity shares capital A/c To Securities Premium A/c (Converestion of 60% of debentutres into share of Rs 60 each with a face value of Rs 10) | 1,20,00,000 | 20,00,000 1,00,00,000 |
| 31.3.20X2 | Debentures Interest A/c Dr. To Bank A/c (Interest paid on debentures for the half year) (refer working note below) | 7,50,000 | 7,50,000 |

Working Note:

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

| | |
|-------------------------------------|---------------------|
| On Rs80,00,000 for 6 months @ 15% | = Rs6,00,000 |
| On Rs1,20,00,000 for 1 months @ 15% | = <u>Rs1,50,000</u> |
| | <u>Rs7,50,000</u> |

Question 9.

On 1st April, 20X1, in MK Ltd.'s ledger 9% debentures appeared with a opening balance of Rs50,00,000 divided into 50,000 fully paid debentures of Rs100 each issued at par.

Interest on debentures was paid half-yearly on 30th of September and 31st March every year.

On 31.5.20X1, the company purchased 8,000 debentures of its own @ Rs98 (ex-interest) per debenture.

On same day it cancelled the debentures acquired.

You are required to prepare necessary ledger accounts (excluding bank A/c).

Solution

MK Ltd.'s Ledger

(i) Debentures Account

| Date | Particulars | Rs | Date | Particulars | Rs |
|---------|-----------------------------------|------------------|--------|----------------|------------------|
| 31.5.X1 | To Own Debentures (8,000 X 98) | 7,84,000 | 1.4.X1 | By balance b/d | 50,00,000 |
| 31.5.X1 | To Profit on cancellation | 16,000 | | | |
| 31.3.X2 | To balance c/d | 42,00,000 | | | |
| | | 50,00,000 | | | 50,00,000 |

(ii) Interest on Debentures Account

| Date | Particulars | Rs | Date | Particulars | Rs |
|---------|--|-----------------|-------------|----------------------------------|-----------------|
| 31.5.X1 | To Bank (Interest for 2 months on 8,000 debentures) | 12,000 | 31.3.X 2 | By Profit and Loss A/c (b.f.) | 3,90,000 |
| 30.9.X1 | To Bank (Interest for 6 months on 42,000 debentures) | 1,89,000 | | | |
| 31.3.X2 | To Bank (Interest for 6 months on 42,000 debentures) | 1,89,000 | | | |
| | | 3,90,000 | | | 3,90,000 |

(iii) Debentures Redemption Reserve A/c

| Date | Particulars | Amount | Date | Particulars | Amount |
|------------------|---|-----------------|-----------------|-------------------------|-----------------|
| 31 may 20X1 | By General Reserve (8,000 × 100 × 25%) | 80,000 | 1 April 20X1 | To Profit & Loss A/c | 5,00,000 |
| 31 March 20X2 | By Balanced c/d | 4,20,000 | | | |
| | | 5,00,000 | | | 5,00,000 |

(iv) Debentures Redemption Investments A/c

| Date | Particulars | Amount | Date | Particulars | Amount |
|-----------------|-------------|-----------------|------------------|-----------------------------------|-----------------|
| 1 April 20X1 | To Bank A/c | 7,50,000 | 30 May 20X1 | By Bank A/c (8000 × 100 × 15%) | 1,20,000 |
| | | | 31 March 20X2 | To Balance C/d | 6,30,000 |
| | | 7,50,000 | | | 7,50,000 |

Working Note:

| | | |
|----------|--|-----------------|
| 31.5. X1 | Acquired 8,000 Debentures @ 98 per debenture (ex-interest) Purchase price of debenture (8,000 × Rs98) = | 7,84,000 |
| 31.5.X1 | Interest for 2 months [Rs8,00,000 × 9% × 2/12] = | 12,000 |
| 30.9. X1 | Interest on other debentures Rs42,00,000 × 9% × ½ = | 1,89,000 |

Question 10

YZ Ltd.(an unlisted company other than AIFI, Banking Company, NBFC & HFC) had 16,000, 12% debentures of Rs100 each outstanding as on 1st April, 20X1, redeemable on 31st March, 20X2.

On 1 April 20X1, the following balances appeared in the books of accounts- Investment in 2,000 9% secured Govt. bonds of Rs100 each. DRR is Rs1,00,000. Interest on investments is received yearly at the end of financial year.

2,000 own debentures were purchased on 31st March 2012 at the average price of Rs99 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.

Solution:

12% Debentures Account

| Date | Particulars | Rs | Date | Particulars | Rs |
|------------------|---------------------------|------------------|------------------|----------------|------------------|
| 31st March, 20X2 | To Own debentures A/c | 1,98,000 | 1st April, 20 X1 | By Balance b/d | 16,00,000 |
| 31st March, 20X2 | To Profit on cancellation | 2,000 | | | |
| 31st March, 20X2 | To Bank A/c | 14,00,000 | | | |
| | | 16,00,000 | | | 16,00,000 |

Debenture Redemption Reserve Account

| Date | Particulars | Rs | Date | Particulars | Rs |
|-------------------|------------------------|-----------------|------------------|--|-----------------|
| | | | 1st April, 20 X1 | By Balance b/d | 1,00,000 |
| 31st March, 20 X2 | To General Reserve A/c | 1,60,000 | 1st April, 20 X1 | By Profit and loss A/c (16,00,000 X 10%) | 60,000 |
| | | 1,60,000 | | | 1,60,000 |

Debenture Redemption Investments A/c

| Date | Particulars | Amount | Date | Particulars | Amount |
|--------------|----------------|-----------------|-----------------|---------------------------------|-----------------|
| 1 April 20X1 | To Balance b/d | 2,00,000 | 30th March 20X2 | By Bank A/c (2,000 x 100 x 15%) | 30,000 |
| 1 April 20X1 | To Bank A/c | 40,000 | 31 March 20X2 | By Bank A/c | 2,10,000 |
| | | 2,40,000 | | | 2,40,000 |

Working Note 1:

Debenture Redemption Investment A/c

The Company would be required to invest an amount equivalent to 15% of the value of debentures in specified investments which would be equivalent to:

= Total No. of debentures X Face value per debentures X 15%

= 16,000 X 100 X 15%

= Rs. 2,40,000/-

The company has already invested in specified investments i.e. 9% Govt bonds for an amount of Rs.2,00,000 as per the information given in the question.

The balance amount of Rs. 40,000 (i.e. Rs. 2,40,000 less Rs. 2,00,000) would be invested by the company on 1 April 20X1.

Working Note 2:

Redemption of Debenture Redemption Investments on 30 March 20X2 amounting to Rs.30,000

Since the company purchased 2,000 own debentures on 31 March 20X2, the company would also realize the investments of 15% corresponding to these debentures for which computation is as follows:

= No of own debentures to be bought X Face value per debenture X 15%

= 2,000 X 100 X 15% = Rs.30,000/-

These investments have been realized a day before purchasing own debentures. Alternatively, these investments may also be realized on 31 March 20X2.

Working Note 3:

Redemption of Debenture Redemption Investments on 31 March 20X2 amounting to Rs.2,10,000

The remaining debentures i.e. total debentures less own debentures would be redeemed on 31 March 20X2 and hence the company would also realize the balance investments of 15% corresponding to these debentures for which computation is as follows:

= (Total no of debentures - No of own debentures) X Face value per debenture X 15%

= (16,000 - 2,000) X 100 X 15%

= Rs.2,10,000/-

These investments have been realized a day before redemption of debentures. Alternatively, these investments may also be realized on 31 March 20X2.



Student Notes:-

