

REDEMPTION OF DEBENTURES

Meaning of Debenture:

A debenture is an instrument issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.

Legal Provisions:

- 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.
- Provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, should be approved by a special resolution passed at a duly convened general meeting.
- Section 71 (2) further provides that no company can issue any debentures which carry any voting rights.

Rule 18 (1) of the Companies (Share Capital and Debentures) Rules, 2014

A company shall not issue secured debentures, unless it complies with the following conditions, namely: An issue of secured debentures may be made, provided the date of its redemption shall not exceed 10 years from the date of issue:

Provided that the following classes of companies may issue secured debentures for a period exceeding 10 years but not exceeding 30 years,

- (i) Companies engaged in setting up of infrastructure projects;
- (ii) Infrastructure Finance Companies
- (iii) Infrastructure Debt Fund Non-Banking Financial Companies
- (iv) Companies permitted by a Ministry or Department of the Central Government or by Reserve Bank of India or by the National Housing Bank or by any other statutory authority to issue debentures for a period exceeding ten years.

Issue of Debentures
(For consideration other than cash)

Assets A/c - Dr

Goodwill A/c - Dr (B.P.)

To Liabilities A/c

To Vendor A/c

To Capital Reserve A/c (B.P.)

No. of Debentures

Purchase consideration

Issue Price

PAR

Vendor A/c - Dr

To - 7. Debentures

PREMIUM

Vendor A/c - Dr

To - 7. Debentures

To Securities Premium

DISCOUNT

Vendor A/c - Dr

Disc on Issue A/c - Dr

To - 7. Debentures

Entries at the time of Issue (For Cash)

Issue	Redemption	Entry
1) Par	Par	Bank A/c - Dr To - 7. Debentures A/c
2) Premium	Par	Bank A/c - Dr To - 7. Debentures A/c To Securities Premium A/c
3) Discount	Par	Bank A/c - Dr Discount on Issue A/c - Dr To - 7. Debentures A/c
4) Par	Premium	Bank A/c - Dr Loss on Issue A/c - Dr To - 7. Debentures A/c To Premium on Redemption
5) Premium	Premium	Bank A/c - Dr Loss on Issue A/c - Dr To - 7. Debentures To Securities Premium To Premium on Redemption
6) Discount	Premium	Bank A/c - Dr Loss on Issue A/c - Dr To - 7. Debentures To Premium on Redemption

DEBENTURE REDEMPTION RESERVE

A company issuing debentures may be 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 utilized by the company except for redemption of debentures.

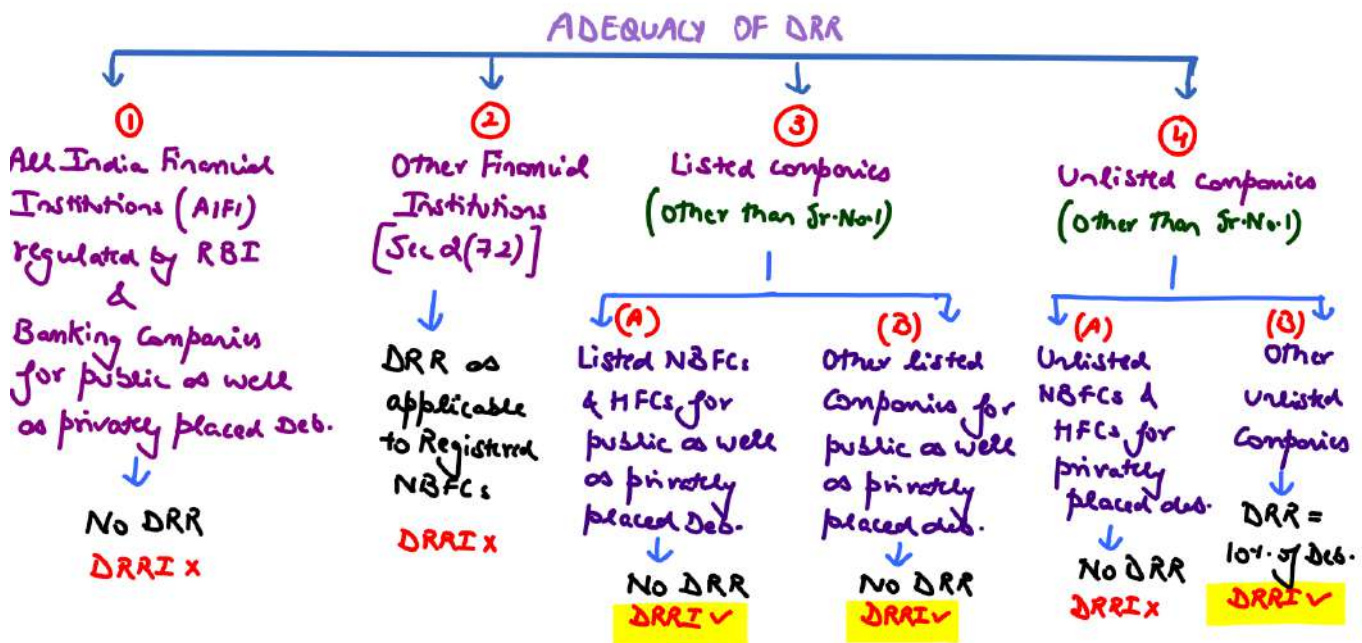
Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they fall due for payment.

ENTRY:

P&L / Surplus A/c - Dr
To DRR A/c

Note:

- 1) After Redemption of debentures, balance of DRR is transferred to General Reserve
- 2) In respect of partly convertible debentures, DRR shall be created in respect of non convertible portion



Investment of DRR Amount:

Company which is required to create DRR shall before 30th April of each year deposit / invest a sum not less than 15% of amount of its debentures maturing during the year ending 31st March next in an one or more of the following modes, namely :-

- in deposits with any scheduled bank free from charge or lien
- unencumbered government securities
- unencumbered securities mentioned in Sec 20 of Indian Trusts Act, 1882.
- unencumbered bonds issued by any other company which is notified under Sec 20 of Indian Trusts Act, 1882.

Methods of Redemption of Debentures

- Redemption in Lumpsum after specified period
- Redemption by draw of lots (in annual instalments)
- Redemption by Conversion
- Redemption by Purchase in Open Market

I) Lumpsum after specified period

1) Creation of DRR

P&L A/c - Dr
To DRR A/c

2) Purchase of DRR Investment

DRR Investment A/c - Dr
To Bank A/c

3) Receipt of Interest on DRR Inv.

Bank A/c - Dr
To Interest on DRR Inv. A/c

4) Transfer of Interest on DRR Inv.

Interest on DRR Inv. A/c - Dr
To P&L A/c
(Assuming Non-cumulative)

5) Making payment Due to Debentureholders

a) PAR

-/- Debenture A/c - Dr
To Debentureholders A/c

b) PREMIUM

-/- Debenture A/c - Dr
Premium on Redemption A/c - Dr
To Debentureholders A/c

c) DISCOUNT

-/- Debenture A/c - Dr
To Debentureholders A/c
To Profit on Redemption A/c

6) Sale of DRR Investments

Bank A/c - Dr
To DRR Investments

7) Payment

Debentureholders A/c - Dr
To Bank A/c

(Any profit/loss will be tpa. to P&L A/c)

8) Transfer of DRR

DRR A/c - Dr
To General Reserve

9) W/off of Premium on Redemption

PAL A/c - Dr
General Res. A/c - Dr
To Premium on Redemption
* If not created at time of Issue

II. Redemption by Draw of Lots:

Entries in this method remains the same except that entries shall be passed on regular basis at the time of each redemption.

III. Redemption by Conversion

1. It means redeeming the debentures by converting them into shares.
2. A scheme for such redemption may be offered to debentureholders & those who do not accept the same may be given cash.

Entries

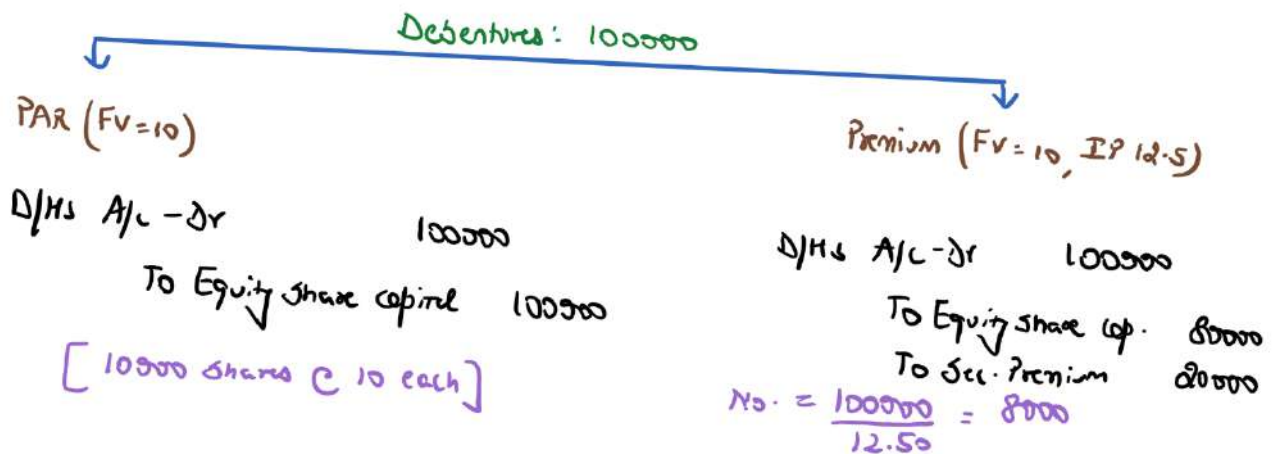
- 1) Due: Same as earlier
- 2) Conversion

a) At Par

Debentureholders A/c - Dr
To Share Capital A/c

b) At Premium

Debentureholders A/c - Dr
To Share Capital A/c
To Securities Premium A/c



IV Purchase in Open Market (For Immediate Cancellation)

- 1. Debentures A/c - Dr (Face value)
 Interest on deb. A/c - Dr (Interest)
 * Loss on Cancellation A/c - Dr
 To Bank A/c (Payment incl. Interest)
 To Profit on Cancellation

* Profit/Loss on cancellation → Trfd. to P/L A/c

Ex interest = Excluding Interest [Over is silent]

Cum interest = Including Interest

Example: 1/4/20 12% Debentures 1000000
 [10000 Deb. of 100 each] Interest payable yearly

Case 1: Redemption on 31/3/21 (unlisted)

1/4/20	P/L A/c - Dr	100000	31/3/21	Bank A/c - Dr	150000
(10L x 10%)	To DRR	100000		To DRR I	150000
1/4/20	DRR Inv. A/c - Dr	150000	31/3/21	Deb. holders A/c - Dr	1000000
(10L x 15%)	To Bank	150000		To Bank A/c	1000000
31/3/21	Interest on Deb. A/c - Dr	120000	31/3/21	DRR A/c - Dr	100000
[10L x 12%]	To Bank A/c	120000		To General Res.	100000
31/3/21	12% Debentures A/c - Dr	1000000	31/3/21	P/L A/c - Dr	120000
	To Deb. holders A/c	1000000		To Int. on Deb.	120000

Case 2: Opening DRR = 60000
 DRR I = 95000

1/4/20	P/L A/c - Dr	40000	DRR Inv. A/c - Dr	55000
	To DRR A/c	40000	To Bank A/c	55000
	(100000 - 60000)		(150000 - 95000)	

Case 3:

7% Debentures Redeemed only

1/4/20 DRR: $10L \times 10\% = 100000$

DRRI: $10L \times 15\% = 150000$

3/3/21 Interest on Deb. A/c - Dr 100000
To Bank A/c 100000

3/3/21 Deb. holders A/c - Dr 70000
To Bank A/c 70000

3/3/21 12% Debentures A/c - Dr 70000
($10L \times 7\%$) To D/Hs A/c 70000

3/3/21 DRR A/c - Dr 7000
($1L \times 7\%$) To General Reserve 7000

3/3/21 Bank A/c - Dr 105000
($7L \times 15\%$) To DRR I 105000
OR
($150000 \times 7\%$)

3/3/21 P/L A/c - Dr 120000
To Int. on Deb. 120000

Case 4:

4% Convertible to shares & 6% cash

1/4/20 P/L A/c - Dr 60000
($10L \times 6\%$) $\times 10\%$ To DRR A/c 60000

3/3/21 Bank A/c - Dr 90000
To DRR I 90000

1/4/20 DRR I A/c - Dr 90000
($10L \times 6\%$) $\times 15\%$ To Bank A/c 90000

3/3/21 D/Hs A/c - Dr 100000
To Bank A/c 60000
To Equity share cap. 40000

3/3/21 Interest on Deb. A/c - Dr 120000
To Bank A/c 120000

3/3/21 DRR A/c - Dr 60000
To General Reserve 60000

3/3/21 12% Debentures A/c - Dr 100000
To D/Hs A/c 100000

3/3/21 P/L A/c - Dr 120000
To Int on Deb. 120000

Case 5: 1/12/20 2000 own deb. purchased @ 98 for immediate cancellation
 Remaining Redeemed on 3/3/21 (Unlisted)

1/4/20 P/L A/c - Dr 100000
 (10L X 107) To DRR A/c 100000
 DRR I A/c - Dr 150000
 (10L X 157) To Bank A/c 150000

3/3/21 Interest on Deb. A/c - Dr 96000
 (8L X 127) To Bank A/c 96000
 Bank A/c - Dr 120000
 To DRR I A/c 120000

1/12/20 Bank A/c - Dr 30000
 (2L X 157) To DRR I A/c 30000

127. Deb. A/c - Dr 80000
 To D/Hs A/c 80000

1/12/20 127. Debentures A/c - Dr 200000
 Interest on Deb. A/c - Dr 16000
 (2L X 127 X 8/12)
 (2000 X 98) + 16000
 To Bank A/c 212000
 To Profit on conc. 4000

D/Hs A/c - Dr 80000
 To Bank A/c 80000

DRR A/c - Dr 80000
 To General Res. 80000

1/12/20 DRR A/c - Dr 20000
 (2L X 107) To General Reserve 20000

P/L A/c - Dr 112000
 To Int on Deb. 112000
 (16000 + 96000)

Question

M Limited recently made a public issue of debentures. The following information is available in respect of the issue:

- 3,00,000 partly convertible debentures of face value and issue price of Rs. 100 per debenture were issued;
- Conversion of 50% of each debenture is to be done on expiry of 6 months from date of close of issue;
- Date of closure of subscription list is 1st June, 2019. Date of allotment is 1st July, 2019;
- Interest on debenture at the rate of 12% is payable from date of allotment;
- Equity share of Rs. 10 each are issued at Rs. 50 per share for the purpose of conversion;
- Underwriting commission is 2%;
- 2,25,000 debentures were applied for;
- Interest on debentures is payable half yearly on 30th September and 31st March.

Give Journal entries for all transactions for the year ended 31st March, 2020

Solution

Journal Entries

Date	Particulars	Dr.	Cr.
1.06.2019	Bank A/c Dr.	2,25,00,000	
	To Debenture Application and Allotment A/c (Application money received on 2,25,000 debentures @ Rs.100 each)		2,25,00,000
1.07.2019	Debenture Application and allotment A/c Dr.	2,25,00,000	
	Underwriters' A/c Dr.	75,00,000	
	To 12% Debentures A/c		3,00,00,000

	(Allotment of 2,25,000 debentures to applicants and 75,000 debentures to underwriters)			
1.07.2019	Underwriting Commission Dr.	6,00,000		
	To Underwriters' A/c (Commission payable to underwriters @ 2% on Rs.3,00,00,000)			6,00,000
1.07.2019	Bank A/c Dr.	69,00,000		
	To Underwriters' A/c (Amount received from underwriters in settlement)			69,00,000
01.07.2019	Debenture Redemption Investment A/c Dr.	22,50,000		
	To Bank account (Being investments made for redemption purpose 3,00,000*100*15%*50%)			22,50,000
30.09.2019	Debenture Interest A/c Dr.	9,00,000		
	To Bank A/c (Interest paid on debentures for 3 months @ 12% on Rs.3,00,00,000)			9,00,000
01.12.2019	12% Debentures A/c Dr.	1,50,00,000		
	To Equity share Capital A/c			30,00,000
	To Securities Premium A/c (Conversion of 50% of debentures into shares of Rs.50 each with a face value of Rs.10)			1,20,00,000
31.03.2020	Debenture Interest A/c Dr.	12,00,000		
	To Bank A/c (Interest paid on debentures for the half year)			12,00,000
31.03.2020	Profit & loss A/c Dr.	6,00,000		
	To underwriting commission (Being underwriting comm. charged to P&L A/c)			6,00,000
31.03.2020	Profit & Loss A/c Dr.	21,00,000		
	To Debenture Interest (being interest on debenture 12,00,000 + 9,00,000 charged to profit & loss A/c at the year end)			21,00,000

Working notes:

Calculation of Debenture Interest for the half year ended 31st March, 2020

On Rs 1,50,00,000 for 6 month @ 12%p.a.	9,00,000
On Rs 1,50,00,000 for 2 month @12% p.a	3,00,000
Total	12,00,000

Note: It has been assumed that company is listed company so No DRR is created.

Question

The summarised Balance Sheet of ABC Limited (unlisted company other than AIFI, Banking company, NBFC and HFC), as on 30th June, 2020, stood as follows:

Liabilities	Rs.
Share Capital: 8,00,000 equity shares of Rs. 10 each fully paid up	80,00,000
General Reserve	1,65,00,000
Debenture Redemption Reserve	15,00,000
12% Convertible Debentures : 1,50,000 Debentures of Rs. 100 each	1,50,00,000
Other Loans	70,00,000
Current Liabilities and Provisions	1,80,00,000
	6,60,00,000

Assets:	
Fixed Assets (at cost less depreciation)	2,50,00,000
Debenture Redemption Reserve Investments	22,50,000
Cash and bank Balances	1,17,50,000
Other Current Assets	2,70,00,000
	6,60,00,000

The debentures are due for redemption on 30th June, 2020. The terms of issue of debentures provided that they were redeemable at a 10% premium and also conferred option to the debenture holders to convert 25% of their holding into equity shares at a predetermined price of Rs. 27.50 per share and the balance payment in cash.

Assuming that:

- except for 80 debenture holders holding totally 50,000 debentures, the rest of them exercised the option for maximum conversion.
- the investments realise at par on sale; and
- all the transactions are put through, without any lag, on 30th June, 2020.

Redraft the balance sheet of the company as on 30th June, 2020 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the cash payment necessary.

Solution

ABC Limited Balance Sheet as on 30th June 2020

Particulars	Note No.	Amount (Rs.)
I. Equity and Liabilities		
(1) Shareholder's Fund		
a) Share Capital	1	90,00,000
b) Reserves and Surplus	2	1,82,50,000
(2) Non-Current Liabilities		
a) Long-term borrowings – Other Loans		70,00,000
(3) Current Liabilities		
a) Short-term provisions		1,80,00,000
Total		5,22,50,000
II. Assets		
(1) Non-current assets		
a) Property, Plant & Equipment		
(i) Tangible assets		2,50,00,000
(2) Current assets		
a) Cash and cash equivalents		2,50,000
b) Other current assets		2,70,00,000
Total		5,22,50,000

Notes to Accounts

		Rs.
1	Share Capital 9,00,000 equity shares of Rs.10 each	90,00,000
2	Reserve and Surplus	
	General Reserve	1,65,00,000
	Add: Debenture Redemption Reserve transfer	15,00,000
	Less: Premium on redemption of debentures	<u>(15,00,000)</u>
	Securities Premium Account	17,50,000
		1,82,50,000

Working Notes:

1	Calculation of number of shares to be allotted	
	Total number of debentures	1,50,000
	Less: Number of debentures not opting for conversion	(50,000)
		1,00,000
	25% of 1,00,000	25,000
	Redemption value of 25,000 debentures @ 110	Rs. 27,50,000
	Number of Equity shares to be allotted : = $\frac{27,50,000}{27.50} = 1,00,000$ share of Rs.10 each.	
2	Calculation of cash to be paid	
	Number of debentures	1,50,000
	Less: Number of debentures to be converted into equity shares	(25,000)
		1,25,000
	Redemption value of 1,25,000 debentures (1,25,000 x Rs.110)	Rs. 1,37,50,000
3	Cash and Bank Balance	
	Balance before redemption	1,17,50,000
	Add: Proceeds of investments sold	22,50,000
		1,40,00,000
	Less: Cash paid to debenture holders	(1,37,50,000)
		2,50,000

Question

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) on 1-4-2019:

- 12 % Debentures Rs. 7,50,000
- Balance of DRR Rs. 25,000
- DRR Investment 1,12,500 represented by 10% 1,125 secured bonds of government of India of Rs. 100 each.

Annual contribution to the DRR was made on 31st March each year. On 31-3-2020, balance at bank was Rs. 10,00,000 before receipt of interest. The investments were realized 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, 2020:

- Debentures Account
- DRR Account
- DRR Investment Account
- Bank Account
- Debenture Holders Account

Solution**12% Debentures Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.20	To Debenture holders A/c	7,50,000	01.04.19	By Balance b/d	7,50,000
		7,50,000			7,50,000

DRR Account

Date	Particulars	Rs.	Date	Particulars	Rs.
			01.04.19	By Balance b/d	25,000

31.03.20	To General Reserve A/c	75,000	01.04.19	By Profit and loss A/c (7,50,000*10%)-25,000	50,000
		75,000			75,000

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

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.19	To Balance b/d	1,12,500	31.03.20	By Bank A/c	1,12,500
		1,12,500			1,12,500

Bank A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.20	To Balance b/d	10,00,000	31.03.20	By Debentureholders A/c	8,25,000
31.03.20	To Interest on DRR investment (1,12,500*10%)	11,250	31.03.20	By Interest on Debentures (7,50,000*12%)	90,000
31.03.20	To DRR investment A/c	1,12,500	31.03.20	By Balance c/d	2,08,750
		11,23,750			11,23,750

Debenture holders A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
31.03.20	To Bank A/c	8,25,000	31.03.20	By 12% Debentures	7,50,000
			31.03.20	By Premium on redemption of debentures (7,50,000*10%)	75,000
		8,25,000			8,25,000

Note: It has been assumed that interest on debentures has not been paid & therefore the same has been considered.

Question

ZED Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) had 25,000, 10% Debentures of Rs. 100 each outstanding as on 1st April, 2019, redeemable on 31st March, 2020.

On that day, the following balances appeared in the books of accounts-

Investment in 3,000 8% secured Govt. Bonds of Rs. 100 each. DRR is Rs.1,80,000.

Interest on investments is received yearly at the end of financial year.

4,000 own debentures purchased on 31st March 2020 at an average price of Rs. 99 and cancelled on the same date.

On 31st March, 2020 the investments were realized at par and the debentures were redeemed.

You are required to write up the following accounts for the year ending 31st March 2020:

- (1) 10% Debentures Account
- (2) Debenture Redemption Reserve Account.
- (3) Debenture Redemption Investments Account

Solution

10% Debentures Account

Date	Particulars	Rs	Date	Particulars	Rs
31.03.20	To Own debentures	3,96,000	1.04.19	By Balance b/d	25,00,000
31.03.20	To Profit on cancellation	4,000			
31.03.20	To Bank	21,00,000			
		25,00,000			25,00,000

Debenture Redemption Reserve Investment A/c

Date	Particulars	Rs.	Date	Particulars	Rs.
01.04.19	To Balance b/d	3,00,000	31.03.20	By Bank A/c (4,000*100*15%)	60,000
01.04.19	To Bank A/c (25,00,000*15%)-3,00,000	75,000	31.03.20	By Bank A/c (21,000*100*15%)	3,15,000
		3,75,000			3,75,000

Debenture Redemption Reserve Account

Date	Particulars	Rs.	Date	Particulars	Rs.
			01.04.19	By Balance b/d	1,80,000
31.03.20	To General Reserve A/c	2,50,000	01.04.19	By Profit and loss A/c (25,00,000*10%)-1,80,000	70,000
		2,50,000			2,50,000