INTER CA

ACCOUNTING

PAPER - 1

EDNOVATE
Innovating Education

EDNOVATE

Innovating Education

CAFC | CA Inter | CA Final

INTER CA ACCOUNTING

PREFACE

Hello Friends,

Team Ednovate at the very outset extends its warm Welcome to You ALL in the Magical world of Chartered Accountancy.

This Enriching journey will be sometimes Tiring, sometimes Lengthy, sometimes Complex but it's our promise to you that it will Certainly be Enjoyable and Worthy of your time and efforts.

Through this book and lectures we intend to provide you with:

1. Exam oriented Exhaustive, Amended and Easy to understand Content.
2. Questions are selected from ICAI material and past examination.
3. Seamless Conceptual Understanding of the subject with Real Life Practical examples.

Examples.

As per a Famous Saying,

"A journey of a Thousand miles begins with a Single Step"

So let's take our First step towards unwinding CA FINAL and come out of it as a PRO.

Wish you all the Best

Team Ednovate

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ACCOUNTING STANDARD

1 REDEMPTION OF PREFERENCE SHARES

THEORY

Salient features of Preference Shares:

1. Rate of dividend is fix
2. Repayment [REDEMPTION] is mandatory max in 20years.
3. On liquidation preference share capital shall be repaid before payment of equity capital.

Legal Provisions (section 55)

1. Only fully paid preference shares can be redeemed.

#Note: If in question partly paid preference shares are given it should be assumed that final call is made and it is paid by all preference shareholders.

Preference shares on which calls are in arrears can't be redeemed.

2. When the preference shares are redeemed at a premium, the premium on redemption should be met out of divisible profits (Divisible Profits means profits available for dividend and it includes General Reserve or Reserve Fund, Profit & Loss A/c, dividend equalisation reserve, Revenue reserve, etc.)

   OR

   Securities premium [However, if co's covered u/s133 of companies act 2013 doing compliance of Accounting Standards then such co's can't use Securities premium for payment of premium on redemption of preference shares]

3. **Creation of CRR:**

   The Preference Shares can be redeemed either out of **FRESH ISSUE** or **OUT OF DIVISIBLE PROFTS.**

   TO THE EXTENT REDEMPTION OF PREFERENCE SHARES IS OUT OF DIVISIBLE PROFIT AMOUNT OF DIVISIBLE PROFIT SHALL BE TRANSFER TO 'CAPITAL REDEMPTION RESERVE'[CRR]

   FV OF REDEEMABLE PSC= PROCEEDS OF FRESH ISSUE + CRR

   Proceeds of fresh issue

   Issue at par= FV OF FRESH ISSUE

   Issue at Premium= FV OF FRESH ISSUE

Journal Entries

1	**Entry for fresh issue**	
	Bank a/c	Dr.
	To Share Capital a/c	
	To Securities Premium a/c	
2	**Entry for Redemption (money payable to PSH)**	
	Preference share capital a/c	Dr.
	Premium on redemption a/c	Dr.
	To Preference shareholders a/c	
3	**Entry for writing off the premium**	
	Divisible Profit a/c	Dr.
	To Premium on redemption a/c	
	Note: If nothing is specified it is assumed that the company is governed by section 133 of the companies Act, 2013 which does not allow use of securities premium to write off premium on Redemption.	
4	**Entry for creation of CRR**	
	Divisible Profit a/c	Dr.
	To CRR a/c	
5	**Entry for pay off**	
	Preference shareholders a/c	Dr.
	To Bank a/c	

(I) Types of Reserves/Profits

1. Non Divisible Profits/Reserves

Not regular profits in business & created out of exceptional events. These profits can't be used for payment of dividend.

Examples:

a. Capital Redemption Reserve
b. Capital Reserve
c. Securities Premium
d. Revaluation Reserve

2. Statutory Types of Reserves

They are created as per some statute or law and they are neither available for dividend nor for bonus.

Examples:

(a) Investment Allowance Reserve

(b) Development Rebate Reserve

(c) Development Reserve

(d) Export profit reserves

(e) Foreign Project Reserve

3. **Revenue type of reserves/Divisible Profits/Free Reserves**

These profits are created out of revenue profits & can be utilised for distribution of dividend.

Examples:

(a) General Reserve/Reserve Fund

(b) Profit and Loss A/c

(c) Dividend equalisation reserve

(d) Reserve fund

(II) Issue of Bonus Shares (Sec. 63):

(a) **Conversion of partly paid shares into fully paid by way of bonus**

Demand Final Call

(i) Share final call A/c	Dr.
To equity shares capital A/c	

Declaration of Bonus

(ii) Divisible profits A/c	Dr.
To Bonus to shareholders A/c	

Adjustments of Bonus & Final Call

(iii) Bonus to share holder A/c	Dr.
To Share final call A/c	

(b) **Issue of fully paid bonus shares**

Declaration of Bonus

(i) Capital Redemption Reserve A/c	Dr.
Capital Reserve (excluding Revl. Res) A/c	Dr.
Securities Premium (earned in cash) A/c	Dr.
Divisible Profit (if required) A/c	Dr.
To Bonus to shareholders A/c	

Issue of Bonus Shares

(ii) Bonus to shareholders A/c Dr.

To Equity share capital A/c

Notes:

As per bonus guidelines given in the companies Act, no company can issue fully paid bonus shares until all partly paid shares are converted into fully paid shares by way a bonus.

CLASS WORK

Question 1

The Balance sheet of EDNOVATE LTD., as on 31st March, 2021 is as follows:

		₹			₹
Share Capital :			Fixed Assets :		
Issued & fully paid shares			Land & Bldg.	10,00,000	
5000 11% Red. Preference			Plant	3,00,000	
Shares of ₹ 100 each		5,00,000	Furniture	20,000	13,20,000
9,0000 equity shares of ₹10 each		9,00,000	Current Assets:		
Reserves and Surplus :			Stocks	3,00,000	
Securities Premium	1,00,000		Debtors	1,50,000	
General Reserve	2,00,000		Investment	2,80,000	
P & L.A/c	2,50,000	5,50,000	Bank	2,00,000	9,30,000
Current Liabilities		3,00,000			
		22,50,000			22,50,000

The company decided to redeem its preference shares at a premium of 5% on 1st April, 2017. A fresh issue of 1,0000 equity shares of ₹10/- each was made at ₹ 12/- per share payable in full. These were fully subscribed and all moneys were duly collected. All the investments were sold realising ₹ 27,0000.

You are required to give the journal entries, including those relating to cash, to record the above transactions and draw up the balance sheet as would appear after redemption of preference shares.

Question 2

X Ltd. gives you the following information as at 31st March, 20X3

	Particulars		₹
	EQUITY AND LIABILITIES		
1.	**Shareholders' funds**		
	a	Share capital	2,90,000
	b	Reserves and Surplus	48,000
2.	**Current liabilities**		
		Trade Payables	56,500
	ASSETS		
1.	**Property, Plant and Equipment**		3,45,000
2.	**Non-current investments**		18,500
3.	**Current Assets**		
		Cash and cash equivalents (bank)	31,000

The share capital of the company consists of ₹ 50 each equity shares of ₹ 2,25,000 and ₹ 100 each Preference shares of ₹65,000(issued on 1.4.20X1). Reserves and Surplus comprises Profit and Loss Account only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

(a) to sell all the investments for ₹ 15,000.

(b) to finance part of redemption from company funds, subject to, leaving a bank balance of ₹ 12,000.

(c) to issue minimum equity share of ₹ 50 each share to raise the balance of funds required.

You are required to pass:

The necessary Journal Entries to record the above transactions and prepare the balance sheet as on completion of the above transactions

Question 3

The Balance Sheet of XYZ Ltd. as at 31st December, 20X1, inter alia includes the following information:

	₹
50,000, 8% Preference Shares of ₹100 each, ₹70 paid up	35,00,000
1,00,000 Equity Shares of ₹100 each fully paid up	1,00,00,000
Securities Premium	5,00,000
Capital Redemption Reserve	20,00,000
General Reserve	50,00,000
Bank	15,00,000

Under the terms of their issue, the preference shares are redeemable on 31st March, 20X2 at 5% premium. In order to finance the redemption, the company makes a rights issue of 50,000 equity shares of ₹ 100 each at ₹ 110 per share, ₹ 20 being payable on application, ₹ 35 (including premium) on allotment and the balance on 1st January, 20X3. The issue was fully subscribed and allotment made on 1st March, 20X2. The money due on allotment were duly received by 31st March, 20X2. The preference shares were redeemed after fulfilling the necessary conditions of Section 55 of the Companies Act, 2013.

You are asked to pass the necessary Journal Entries and show the relevant extracts from the balance sheet as on 31st March, 20X2 with the corresponding figures as on 31st December, 20X1.

Question 4

Trinity Ltd. gives you the following information as at 31.3.20X1:

Property, Plant and Equipment:	₹
Gross Block	3,00,000
Less: Depreciation	1,00,000
	2,00,000
Investments	1,00,000
Inventory	45,000
Trade receivables	25,000
Cash and Bank Balances	50,000
Share Capital:	
Authorised:	
10,000 10% Redeemable Preference Shares of ₹ 10 each	1,00,000
90,000 Equity Shares of ₹10 each	9,00,000
Issued, Subscribed and Paid-up Capital:	
10,000 10% Redeemable Preference Shares of ₹ 10 each	1,00,000
10,000 Equity Shares of ₹ 10 each	1,00,000
Reserves and Surplus:	
General Reserve	1,20,000
Securities Premium	70,000
Profit and Loss A/c	18,500
Current Liabilities and Provisions	11,500

For the year ended 31.3.20X2, the company made a net profit of ₹35,000 after providing ₹20,000 depreciation. The following additional information is available with regard to company's operation:

1. The preference dividend for the year ended 31.3.20X2 was paid.
2. Except cash and bank balances other current assets and current liabilities as on 31.3.20X2, was the same as on 31.3.20X1.
3. The company redeemed the preference shares at a premium of 10%.
4. The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.20X2.
5. To meet the cash requirements of redemption, the company sold investments.
6. Investments were sold at 90% of cost on 31.3.20X2.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares.

Question 5

The following is the summarised Balance Sheet of Redeemable Limited:

Liabilities	₹	Assets	₹
Paid up Share Capital		Bank	90,000
Equity Shares: 50,000 shares of ₹ 10 each	5,00,000	Other Assets	8,10,000
1,000 10% Red. Pref. Shares of ₹ 100 each 1,00,000			
(-) calls in Arrears 1,000	99,000		
(On 50 shares @ ₹ 20 each)			
General Reserve	1,00,000		
Development Rebate Reserve	50,000		
Other Liabilities	1,51,000		
	9,00,000		**9,00,000**

The Redeemable Preference Shares were redeemed on the following basis:

(1) Further 4,500 equity shares were issued at a premium of 10%

(2) Of the 50 Preference Shares, holder for 40 shares paid the call money before the date of redemption. The balance 10 shares were forfeited and reissued for a total sum of ₹ 500.

(3) Preference shares were redeemed at a premium of 10 per cent.

(4) Securities premium was utilised to write off premium on redemption.

Show journal entries including those relating to cash.

Question 6

Following is the Balance Sheet of Comfortable Ltd. as on 31.3.2018

		SOURCES:	₹ in lakhs	₹ in lakhs
(I)		OWN FUND :		
	1.	Share Capital		
		(i) Equity Shares		1.00
		(ii) 11% Red. Preference Shares of ₹ 100 each	1.00	
		Less : Calls in arrears (@ ₹ 20/-per share)	0.06	0.94
		(iii) 10% Redeemable Preference Shares		1.00
	2.	Reserves A Surplus :		
		(i) Share Premium Account	0.06	
		(ii) Capital Reserve (Profit on Sale of Assets available for Distribution by way of Dividend as per A/A of Co.)	0.36	
		(iii) General Reserve Account	0.40	
		(iv) P&L Account	0.20	1.02

				3.96
		APPLICATIONS :		
(I)		Fixed Assets	2.60	
(ii)		Investments	0.30	
(iii)		Working Capital	1.06	3.96

Directors Resolved:

(1) To issue reminders to 300 shareholders in default.

(2) To issue 2000 Equity Shares of ₹ 10/-each @ Premium of ₹ 5/-per share

(3) To redeem 11% Redeemable Preference Shares @ Premium of ₹ l0/-each.

(4) To sell off all investments to redeem Preference Shares.

(5) To forfeit shares on which calls are not received.

Accordingly:

(1) 200 shareholders paid off their dues and remaining shares forfeited.

(2) Sold off investments @ 90% of the costs.

(3) Utilised divisible profit for redemption.

(4) Redeemable the 11% Redeemable Preference Shares of which shareholders holding 20 shares were not traceable.

You are required to:

(1) Pass necessary Journal entries to implement redemption.

(2) Prepare Balance Sheet after redemption.

Show necessary Journal Entries in the books of the company and prepare the extract of the Balance Sheet after bonus issue. Necessary assumption, if any should form part of your answer.

HOME WORK

Question 1

The books of B Ltd. showed the following balance on 31st December, 20X3:

30,000 Equity Shares of ₹10 each fully paid; 18,000 12% Redeemable Preference Shares of ₹10 each fully paid; 4,000 10% Redeemable Preference Shares of ₹ 10 each, ₹ 8 paid up (all shares issued on 1st April, 20X2).

Undistributed Reserve and Surplus stood as: Profit and Loss Account ₹ 80,000; General Reserve ₹ 1,20,000; Securities Premium Account ₹ 15,000 and Capital Reserve ₹ 21,000.

For redemption, 3,000 equity shares of ₹10 each are issued at 10% premium. At the same time, Preference shares are redeemed on 1st January, 20X4 at a premium of ₹2 per share. The whereabouts of the holders of 100 shares of ₹10 each fully paid are not known.

A bonus issue of equity share was made at par, two shares being issued for every five held on that date out of the Capital Redemption Reserve Account. However, equity shares, issued for redemption are not eligible for bonus.

Show the necessary Journal Entries to record the transactions.

Solution:

In the books of B Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
20X1 Jan 1	12% Redeemable Preference Share Capital A/c	Dr.	1,80,000	
	Premium on Redemption of Preference Shares A/c	Dr.	36,000	
	To Preference Shareholders A/c			2,16,000
	(Being the amount payable on redemption of 18,000 12% Redeemable Preference Shares transferred to Shareholders Account)			
	Preference Shareholders A/c	Dr.	2,14,800	
	To Bank A/c			2,14,800
	(Being the amount paid on redemption of 17,900 preference shares)			
	Bank A/c	Dr.	33,000	
	To Equity Shares Capital A/c			30,000
	To Securities Premium A/c			3,000
	(Being the issue of 3,000 Equity Shares of ₹ 10 each at a premium of 10% as per Board's Resolution No....... Dated......)			

	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve A/c as per the requirement of the Act.)	Dr. Dr.	1,20,000 30,000	 1,50,000
	Capital Redemption Reserve A/c To Bonus to Shareholders A/c (Being the amount appropriated for issue of bonus share in the ratio of 5:2 as per shareholders Resolution No dated...)	Dr.	1,20,000	 1,20,000
	Bonus to Shareholders A/c To Equity Share Capital A/c (Being the utilisation of bonus dividend for issue of 12,000 equity shares of ₹ 10 each fully paid)	Dr.	1,20,000	 1,20,000
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption of preference shares adjusted against to Profit & Loss Account)	Dr.	36,000	 36,000

Working Note:

(1) Partly paid-up preference shares cannot be redeemed.

(2) Amount to be Transferred to Capital Redemption Reserve Account

Face value of share to be redeemed	₹1,80,000
Less: Proceeds from fresh issue (excluding premium)	(₹ 30,000)
	₹1,50,000

(3) No bonus shares on 3,000 equity shares issued for redemption.

Question 2

C Ltd. had 10,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of ₹ 10 each at a premium of ₹ 2 per share as fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Solution:

In the books of C Ltd.

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	12,00,000	
	To Equity Share Capital A/c			10,00,000
	To Securities Premium A/c			2,00,000
	(Being the issue of 1,00,000 Equity Shares of ₹10 each at a premium of ₹2 per share as per Board's Resolution No….. dated)			
	10% Redeemable Preference Share Capital A/c	Dr.	10,00,000	
	To Preference Shareholders A/c			10,00,000
	(Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c)			
	Preference Shareholders A/c	Dr.	10,00,000	
	To Bank A/c			10,00,000
	(Being the amount paid on redemption of preference shares)			

Note: Amount required for redemption is ₹ 10,00,000. Therefore, face value of equity shares to be issued for this purpose must be equal to ₹ 10,00,000. Premium received on new issue cannot be used to finance the redemption.

Question 3

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1.

Share capital: 40,000 Equity shares of ₹ 10 each fully paid - ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid - ₹ 1,00,000.

Reserve & Surplus: Capital reserve - ₹ 50,000; Securities premium - ₹ 50,000; General reserve -₹ 75,000; Profit and Loss Account - ₹ 35,000

On 1st January 20X2, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

Solution:

In the books of ABC Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
20X2				
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
	To Preference Shareholders A/c			1,00,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,00,000	
	To Bank A/c			1,00,000
	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	75,000	
	Profit & Loss A/c	Dr.	25,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			

Note: Securities premium and capital reserve cannot be utilised for transfer to Capital Redemption Reserve.

Question 4

C Limited had 3,000, 12% Redeemable Preference Shares of ₹100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

(i) 25,000 Equity Shares of ₹10 each at par,

(ii) 1,000 14% Debentures of ₹100 each.

The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

Solution:

In the books of C Limited

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Being the issue of 25,000 equity shares of ₹ 10 each at par as per Board's resolution No...... dated.....)			
	Bank A/c	Dr.	1,00,000	
	To 14% Debenture A/c			1,00,000
	(Being the issue of 1,000 Debentures of ₹ 100 each as per Board's Resolution No.....dated......)			
	Profit & Loss A/c	Dr.	50,000	
	To Capital Redemption Reserve A/c			50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	12% Redeemable Preference Share Capital A/c	Dr.	3,00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	30,000	
	To Preference Shareholders A/c			3,30,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	3,30,000	
	To Bank A/c			3,30,000
	(Being the amount paid on redemption of preference shares)			
	Profit & Loss A/c	Dr.	30,000	
	To Premium on Redemption of Preference Shares A/c			30,000
	(Being the adjustment of premium on redemption against Profits & Loss Account)			

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	3,00,000
Less: Proceeds from new issue	(2,50,000)
Total Balance	50,000

2 REDEMPTION OF DEBENTURES

THEORY

1. INTRODUCTION

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. 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.

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 utilized by the company for any purpose other than the redemption of debentures.

2. 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. When the debentures are quoted at a discount on the Stock Exchange, it may be profitable for the company to purchase and cancel them.

3. REQUIREMENT TO CREATE DEBENTURE REDEMPTION RESERVE

Section 71 of the Companies Act 2013 covers the requirement of creating a debenture redemption reserve account. Section 71 states as follows:

1) Where a company issues debentures under this section, it should create a debenture redemption reserve account out of its profits which are available for distribution of dividend every year until such debentures are redeemed.
2) The amounts credited to the debenture redemption reserve should not be utilised by the company for any purpose except for the purpose aforesaid.
3) The company should pay interest and redeem the debentures in accordance with the terms and conditions of their issue.
4) Where a company fails to redeem the debentures on the date of maturity or fails to pay the interest on debentures when they fall due, the Tribunal may, on the application of any or all the holders of debentures or debenture trustee and, after hearing the parties concerned, direct, by order, the company to redeem the debentures forthwith by the payment of principal and interest due thereon.

4. 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. That shows the intention of the company to set aside sum of money to build up a fund for redeeming debentures. 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. In order to adjust the effect thereof the amount of interest accrued till the date of purchase, if paid, is debited to the Interest Account against which the interest for the whole period will be credited. As a result, the balance in the account would be left equal to the interest for the period for which the debentures were held by the company.

5. ADEQUACY OF DEBENTURE REDEMPTION RESERVE (DRR)

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, the company shall comply with the requirements with regard to Debenture Redemption

Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year , 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 limits with respect to adequacy of DRR and investment or deposits, as the case may be, shall be as under:

S. No	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	Other 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 companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above):	
	a. All listed NBFCs (registered with RBI under section 45-IA of the RBI Act,) and listed HFCs (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures	No DRR is required
	b. Other listed companies for both public as well as privately placed debentures	No DRR is required
4	For unlisted companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above	
	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	No DRR is required
	b. Other unlisted companies	DRR shall be 10% of the value of the outstanding debentures issue

5. INVESTMENT OF DEBENTURE REDEMPTION RESERVE (DRR) AMOUNT

Further, as per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, following companies

a) All listed NBFCs

b) All listed HFCs

c) All other listed companies (other than AIFIs, Banking Companies and Other FIs); and

d) All unlisted companies which are not NBFCs and HFCs

shall on or before the 30th day of April in each year, in respect of debentures issued, 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.

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the redemption of debentures maturing during the year referred to above.

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 nonconvertible 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.

6. 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 Debentureholders A/c

(c) For payment to debentureholders

Debentureholders 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

7. 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 any one of the three methods viz:

BY PAYMENT IN LUMPSUM

Under payment in lumpsum 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 ₹ 10,00,000, interest being payable on 31st March and 30th September every year. The company purchases ₹ 50,000 debentures at ₹ 96 on 1st August 20X1. This means that the company will have to pay ₹ 48,000 as principal plus ₹ 1,333 as interest for 4 months.

Entry	₹	₹
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 ₹ 50,000 debentures have been purchased for ₹ 48,000 there is no profit. On purchase of the debentures , profit does not arise; only on sale and in this case on cancellation of debentures, profit could arise. These debentures may be cancelled on same date. The journal entries to be passed will be the following:

8% Debentures A/c Dr.	50,000	
To Own Debentures A/c	48,000	
To Profit on cancellation of debentures		2,000
(Cancellation of ₹ 50,000 Debentures)		

CLASS WORK

Question 1

On January 1, Rama Ltd. (listed company), had 500 Debentures of ₹ 100 each outstanding in its books carrying interest at 6% per annum. In accordance with the regulatory requirements, the directors of the company acquired debentures from the open market for immediate cancellation as follows:

March 1	₹ 5,000 at face value ₹ 98.00 (cum interest)
Aug. 1	₹ 10,000 at face value ₹ 100.25 (cum interest)
Dec. 15	₹ 2,500 at face value ₹ 98.50 (ex-interest)

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

Show ledger accounts of Debentures, Debenture interest and own Debentures accounts for the full year by splitting into first and second half years, ignoring income-tax.

Question 2

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-20X1:

(i) 12 % Debentures ₹ 7,50,000

(ii) Balance of DRR ₹ 25,000

(iii) DRR Investment ₹ 1,12,500 represented by 10% 1,125 Secured Bonds of the Government of India of ₹ 100 each.

Annual contribution to the DRR was made on 31st March every year. On 31-3-20X2, balance at bank was ₹ 7,50,000 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.

Question 3

The Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as at 31st March, 20X1 is as under:

Particulars	Note No	₹
I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	2,00,000
(b) Reserves and Surplus	2	1,20,000
(2) Non-current liabilities		
(a) Long term borrowings	3	1,20,000
(3) Current Liabilities		
(a) Trade payables		1,15,000
Total		**5,55,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	**4**	**1,15,000**
(2) Current assets		
(a) Inventories		1,35,000
(b) Trade receivables		75,000
(c) Cash and bank balances	5	2,30,000
Total		**5,55,000**

Notes to Accounts

			₹
1.	Share Capital		
	Authorised share capital 30,000 shares of ₹ 10 each fully paid		3,00,000
	Issued and subscribed share capital 20,000 shares of ₹ 10 each fully paid		2,00,000
2.	Reserve and Surplus		
	Profit & Loss Account		1,20,000
3.	Long term borrowings		
	12% Debentures		1,20,000
4.	Property, Plant and Equipment		
	Freehold property		1,15,000
5.	Cash and bank balances		
	Cash at bank	2,00,000	
	Cash in hand	30,000	2,30,000

At the Annual General Meeting, it was resolved:

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the 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.

Question 4

The Balance Sheet of Convertible Limited (unlisted company other than AIFI, Banking company, NBFC and HFC), as at 31st March, 20X1, stood as follows:

Particulars	Note No	₹
I. Equity and liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	50,00,000
(b) Reserves and Surplus	2	1,10,00,000
(2) Non-current liabilities		
(a) Long term borrowings	3	1,65,00,000
(3) Current Liabilities		
(a) Other current liabilities		1,25,00,000
Total		**4,50,00,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment		1,60,00,000
(b) Non-current investment	4	15,00,000
(2) Current assets		
(a) Cash and cash equivalents		75,00,000
(b) Other current assets		2,00,00,000
Total		**4,50,00,000**

Notes to Account:

			₹
1.	**Share Capital**		
	5,00,000 shares of ₹ 10 each fully paid		50,00,000
2.	**Reserve and Surplus**		
	General Reserve	90,00,000	
	Profit & Loss Account	10,00,000	

	Debenture redemption reserve	10,00,000	1,10,00,000
3.	**Long term borrowings**		
	13.5% convertible Debentures (1,00,000 debentures of ₹ 100 each)		1,00,00,000
	Other loans		65,00,000
4.	**Non-current investments**		**1,65,00,000**
	Debenture redemption reserve		15,00,000

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 predetermined price of ₹ 15.75 per share and the payment in cash.

Assuming that:

(i) except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.

(ii) the investments were realised at par on sale; and

(iii) 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.

Question 5

YZ Ltd (an unlisted company other than AIFI, Banking company, NBFC and HFC) had 16,000, 12% debentures of ₹ 100 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 ₹ 100 each. DRR is ₹ 1,00,000. Interest on investments is received yearly at the end of financial year.

2,000 own debentures were purchased on 31st March 20X2 at an average price of₹ 99 and cancelled on the same date.

On 30 March 20X2, the investments were realised at par and the debentures were redeemed on 31st March, 20X2. 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.

Question 6

The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2011: 6% Mortgage 10,000 debentures of ₹ 100 each; Debenture Redemption Reserve (for redemption of debentures) ₹50,000; Investments in deposits with a scheduled bank, free from any charge or lien ₹ 1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is ₹ 9,00,000. The Interest on debentures had been paid up to December 31, 2011.

On February 28, 2012, the investments were realised at par and the debentures were paid off at 101, together with accrued interest.

Write up the concerned ledger accounts (including bank transactions). Ignore taxation.

Question 7

Bumbum Limited gives you the following information as at 31st March, 20X1:

	₹
Authorized capital:	
50,000 Equity shares of ₹ 10 each	5,00,000
10,000 Preference shares of ₹ 100 each (8% redeemable)	10,00,000
	15,00,000
Issued, subscribed and paid up capital:	
30,000 Equity shares of ₹ 10 each	3,00,000
5,000, 8% Redeemable Preference shares of ₹ 100 each	5,00,000
	8,00,000
Reserves & Surplus:	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	40,000
	12,90,000
2,500, 9% Debentures of ₹ 100 each	2,50,000
Trade payables	1,70,000
Property, Plant and Equipment (net)	7,80,000
Investments (market value ₹ 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Trade receivables	6,20,000
Cash & Bank balance	2,80,000

In Annual General Meeting held on 20th June, 20X1 the company passed the following resolutions:

(i) To split equity share of ₹ 10 each into 5 equity shares of ₹ 2 each from 1st July.

(ii) To redeem 8% preference shares at a premium of 5%.

(iii) To redeem 9% Debentures by making offer to debenture holders to convert their holdings into equity shares at ₹ 10 per share or accept cash on redemption.

(iv) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 20X1 investments were sold for ₹ 5,55,000 and preference shares were redeemed.

40% of Debenture holders exercised their option to accept cash and their claims were settled on 1st August, 20X1.

The company fixed 5th September, 20X1 as record date and bonus issue was concluded by 12th September, 20X1

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 20X1. All working notes should form part of your answer.

HOME WORK

Question 1

Sencom Limited (listed company) issued ₹ 1,50,000 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, investments made for the purpose of redemption were ₹ 22,500.

1st March 20X2 - ₹ 25,000 nominal value purchased for ₹ 24,725 ex-interest. 1st September 20X2 - ₹ 20,000 nominal value purchased for ₹ 20,125 cum-interest. You are required to draw up the following accounts up to the date of cancellation:

(i) Debentures Account; and

(ii) Own Debenture Account. Ignore taxation.

Solution:

Sencom Limited

Debenture Account

20X2		₹	20X2		₹
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 Account

		Nominal Cost ₹	Cost ₹			Nominal Cost ₹	Cost ₹
20X2				20X2			
Mar 1	To Bank (W.N. 1)	25,000	24,725	Mar 1	By Debentures A/c	25,000	24,725

Sep 1	To Bank (W.N. 2 & 3)	20,000	19,708	Sep 1 Dec. 31	By Debentures A/c By P&L A/c	20,000	19,708
		45,000	44,433			45,000	44,433

Working notes:

1. 25,000 x 5% x 5/12 = 521
2. 20,000 x 5% x 5/12 = 417
3. 20,125 – 417 = 19,708

Question 2

A company had issued 20,000, 13% debentures of ₹ 100 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 ₹ 10) at a price of ₹ 15 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)]	₹ 3,67,500
Equity shares of ₹ 10 each issued on conversion [₹ 3,67,500/ ₹ 15]	24,500 shares

Question 3

On 1st April, 20X1, in MK Ltd.'s (unlisted company other than AIFI, Banking company, NBFC and HFC) ledger, 9% debentures appeared with an opening balance of₹ 50,00,000 divided into 50,000 fully paid debentures of ₹ 100 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 @ ₹ 98 (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

		₹			₹
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

			₹				
31.5.X1	To	Bank (Interest for 2 months on 8,000 debentures) **(Refer Working Note)**	12,000	31.3.X2	By	Profit and Loss A/c (b.f.)	3,90,000
30.9.X1	To	Bank (Interest for 6 months on 42,000 debentures) **(Refer Working Note)**	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 x 100 x 10%)	80,000	1 April 20x1	By Profit & Loss A/c (50,000 X 100 X 10%)	5,00,000
31 March 20X2	By Balance c/d	4,20,000			
		5,00,000			5,00,000

(iv) Debentures Redemption Reserve 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 (8,000 x 100 x 15%)	1,20,000
			31 March 20X2	To Balance b/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 × ₹ 98)	=	7,84,000
31.5.X1	Interest for 2 months [₹ 8,00,000 × 9% × 2/12]	=	12,000
30.9. X1	Interest on other debentures ₹ 42,00,000 × 9% × ½	=	1,89,000