REDEMPTION OF DEBENTURES

Repayment of o/s amt of Debentures

Cash
- Lumpsum
- Installment
- Open Market [Not in syllabus]

Convertible into eq. shares

→ Debenture Redemption Reserve [DRR]

↳ Out of profits available for Distribution of Dividend. (Free Reserves)

Surplus / Acc. profits — ₹ 100,000 → DRR ₹10,000

90,000 — ₹ 100,000 — Bank 100,000 (90,000) Save 10,000

DR Reserve 10,000

DRR 10,000

↳ Now 10,000 will not be distributed as dividend.

Balance Sheet

ESC -	200,000	Cash	100,000
Surplus -	100,000	Other Assets	250,000
12% Deb -	50,000		

10,000 DRR — Surplus

10,000 Savings — Cash 100,000

→ DRR cannot be used for any other purpose.

Journal

P&L A/c Dr. 10,000
To DRR 10,000

→ **Minimum 10% of the face value of o/s Debentures.**

* Deb. Redemption Reserve Investment [DRRI]

↓

Minimum 15% of Face value of Debentures to be redeemed, should be invested in the approved securities.

Journal- DRRI Dr
To Bank A/c

Int on Inv.- Bank A/c Dr
To Int on DRRI A/c

Int on DRRI A/c Dr
To P&L A/c.

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.

Issue Bank Dr
To % Deb
Liab
% Deb Dr

At the time of Redemption:

1. Sale of DRRI

Bank A/c Dr.
P&L A/c Dr - Loss
To DRRI A/c
To P&L A/c - Gain

2. Amt due for Redemption

At par (FV)

Liab ↓

12% Deb A/c Dr.
To Debentureholder A/c

At premium

100 — 100

12% Deb Dr - FV
Loss ← Prem on Red. of Deb Dr - Premium 20
To Debholder - Total 120

Debentureholder Dr
To Bank A/c

3. Transfer of Premium on Red. of Debentures [assuming that it was not provided at the time of issue]

→ P&L A/c Dr.
To prem. on Red. of Deb A/c.

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Balance Sheet

ESC -	200,000	Cash	100,000
Surplus -	100,000	Other Assets	250,000
12% Deb	50,000		

P&L Dr 5000
To DRR 5000

DRR - 5000

DRR Dr
To Gen Res A/c

Free Res - Dividend ✓

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4. Transfer of DRR to Gen. Reserve.

- DRR A/c Dr.
  To Gen. Res. A/c

⟶ Which companies to Create DRR & DRRI ?

	DRR	DRRI
1. All India financial institutions, regulated by RBI (AIFI)	✗	✗
2. Banking companies	✗	✗
3. Other financial institutions within the meaning of section 2[72] of Co. Act 2013	✗	✗
4. Listed company (other than above 3)		
- NBFC ✓	✗	✓
- Housing finance corp. ✓	✗	✓
- Other Listed co.	✗	✓
5. Unlisted co.		
- NBFC	✗	✗
- HFC	✗	✗
- Other unlisted co. ✓	✓	✓

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DRR ✓ DRRI ✓

ILLUSTRATION 1

The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2021: 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, 2021.

On February 28, 2022, the investments were realised at par and the debentures were paid off at 101 together with accrued interest.

100+1

Write up the concerned ledger accounts (~~excluding~~ incuding bank transactions). Ignore taxation.

WN 1 DRR $= \frac{10}{100} \times [10,000 \times 100]$

$= ₹\,100,000$

1/1 — 28th Feb — 28/2

Inv − $150,000 \times \frac{4}{100} \times \frac{2}{12} = 1000$

Int on Deb · $10,00,000 \times \frac{6}{100} \times \frac{2}{12}$

$= 10,000$

For your understanding

JOURNAL

Date	Particulars	Dr	Cr
2022 Jan 1	P&L A/c Dr.	50,000	
	To DRR		50,000
Feb 28	Bank A/c Dr	1000	
	To Int on DRRI A/c		1000
	$[150,000 \times \frac{4}{100} \times \frac{2}{12}]$		
Feb 28	Bank A/c Dr	150,000	
	To DRRI		150,000

Exp

Feb 28 — Int on Deb A/c Dr. 10,000
~~To Debentureholder A/c~~ 10,000
[10,000 x 100 x $\frac{6}{100}$ x $\frac{2}{12}$]

Feb 28 — ~~Deb holder Dr.~~ 10,000
To Bank A/c 10,000

Feb 28 — 6% Deb A/c Dr 10,00,000
(10,000 x 1) Prem on Red. of Deb A/c 10,000
To Debentureholder 10,10,000

Feb 28 — Deb holder A/c Dr 10,10,000
To Bank A/c 10,10,000

Feb 28 — DRR A/c Dr 100,000
To Gen Res A/c 100,000

Feb 28 — P&L A/c Dr. 20,000
To Int on Deb 10,000
To prem on Red 10,000
} Loss

Feb 28 — [Int on DRRI Dr 1000
To P&L A/c 1000

ILLUSTRATION 2

The following balances appeared in the books of Paradise Ltd (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 1-4-2021:

DRR ✓

DRRI ✓

(i) *12 % Debentures ₹ 7,50,000* FV ✓

(ii) *Balance of DRR ₹ 25,000* +50,000 = 75000

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

Int

Annual contribution to the DRR was made on 31st March every year. On 31-3-2022, 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, 2022:

(1) *Debentures Account*

(2) *DRR Account*

(3) *DRR Investment Account*

(4) *Bank Account*

(5) *Debenture Holders Account.*

1)

12% Deb A/c

Dr | | | | | Cr.

Date	Part	₹	Date	Part	₹
31/3/22	To Deb hold	750000	1/4/21	by bal b/d	750000

12% Deb Dr. 750000
Prem on Red Dr 75000
To Deb hol 825000

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P&L Dr
To DRR

2. DRR A/c

Date	Part	₹	Date	Part	₹
			1/4/21	by bal b/d	25000
31/3/22	To Gen Res	75000		by P&L A/c	50000

3. DRRI A/c

Date	Part	₹	Date	Part	₹
1/4/21	To bal b/d	112500	31/3/21	by Bank	112500

4. Deb Holder A/c

Cr

Date	Part	₹	Date	Part	₹
			31/3/22	by 12% Deb	750000
31/3/22	To Bank	825000		by prem	75000

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5. Bank A/c

Date	Part	₹	Date	Part	₹
	To bal b/d	750,000	31/3/21	by Deb hol.	825000
31/3/22	To Int on DRRI (112500 x 10%)	11250			
				by bal c/d	48750
	To DRRI	112500			

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→ Conversion of Deb into Equity shares:

* In case of partly convertibe Deb, DRR shall be created in respect of Non-convertible portion of Deb.

→ No DRR or DRRI for convertible portion.

Journal → % Deb. A/c Dr.
To Debentureholder.

→ Debentureholder Dr.
To Eq. sh. cap A/c - Eq. sh
To Sec. prem A/c

100 Deb
20% - Eq. sh → DRR x DRRI x
80% Cash

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100 — 20 Deb. → $\frac{₹2100}{20}$ = 105

— 80 Deb × 105.

ILLUSTRATION 3

XYZ Ltd. has issued 1,000, 12% convertible debentures ₹100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 20,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of ₹ 20,000 debenture holders.

105

200

100

200 × 20% = 40 × 105 = $\frac{4200}{20}$ = 210

160 × 105 = 16800

Option

A

a) 20% into eq. shares
b) 80% in Cash
] 200 Debentures

B.

800 Deb. [→ 100% in Cash

1. Deb Holders opted for Conversion	200 Debentures
2. No. of Deb. to be converted [200×20%]	40 Debentures
3. Redemption value of 40 Deb [40 × 105]	₹4200
4. Value of Equity Share	₹20
5. No. of Eq. Shares to be Issued $\left[\frac{4200}{20}\right]$	210 eq. shares
6. Cash paid for remaining 160 Debentures [160 × 105]	₹16800

PQ-1

105

A company had issued 20,000, 13% debentures of ₹ 100 each on 1st April, 2021. The debentures are due for redemption on 1st July, 2022. 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.

Cash 105

20,000 − 2500 = 17500

1. Deb.holders opted for conversion [20,000 − 2500]	17500
2. No. of Debentures to be converted [17500 x 20%]	3500 Deb
3. Redemption value [3500 x 105]	₹367500
4. No. of eq. shares to be issued $\left[\frac{367500}{15}\right]$	24500 eq shares

Cash [14000 x 105] ₹1470000

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Imp

PQ-2

DRR ×
DRRI ✓

Libra Limited (a listed company) 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- ₹ 100 per debenture.

(b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.

6m = $\boxed{31.10.21}$

(c) Date of closure of subscription lists- $\boxed{1.5.2021}$, date of allotment- 1.6.2021, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).

(d) No. of debentures applied for- 2,00,000.

(e) 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, 2022 (including cash and bank entries).

JOURNAL

1.5.2021	Bank Dr (200,000 x 100)	2,0000.000	
	To Deb App & All		200,00,000
1.6.2021	Deb App & All Dr	20000.000	
	To 15% Deb A/c		200,00,000
1.6.2021	DRRI Dr	1200.000	
	To Bank		1200.000

$\left[2{,}00{,}00{,}000 \times \frac{40}{100} \times 15\% \right]$

∴ Non conv

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30.9.21	Int on Deb Dr	10,00,000	
	To Deb holder		10,00,000
	$\left[200,00,000 \times \frac{15}{100} \times \frac{4}{12}\right]$		
30.9.21	Deb holder Dr	10,00,000	
	To Bank		10,00,000
31.10.21	15% Deb Dr	1,20,00,000	
	[200,000 x 10] To Eq. sh cap		20,00,000
	(200,000 x 50) To Sec. Prem A/c		100,00,000
31.3.22	Deb Int Dr	750,000	
	To Debholder A/c		750,000
31.3.22	Deb hold Dr	750000	
	To Bank		750,000
31.3.22	Statement of P&L Dr	1750,000	
	To Deb Int		1750,000

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WN1 Deb to be converted (200,000 × 60%) 120,000

Total Red. value (120,000 × 100) ₹ 1,20,00,000

No. of eq. sh. $\left[\frac{1,20,00,000}{60} \right]$ = 200,000 eq. sh.

WN2 Deb Int

1/10/21 – 31/10/21 $200,00,000 \times \frac{15}{100} \times \frac{1}{12}$ = ₹ 250,000

1/11/21 – 31/3/22 $80,00,000 \times \frac{15}{100} \times \frac{5}{12}$ 500,000

750,000

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MTP- June 24 DRR DRRI

Face Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides thefollowing information as at 31 March, 2023:

	Particulars	₹	₹
Shareholder's fund		60,000/4 =	15000
(a)	Authorized Share Capital		
	90,000 equity shares of ₹10 each fully paid up		9,00,000
	Issued, Subscribed & Paid up		
	60,000 equity shares of ₹ 10 each fully paid up +15000 = 75000		6,00,000
(b)	Reserve and Surplus		
	Profit & Loss Account	3,24,000	
	Debenture redemption reserve	36,000	3,60,000
Non-current liabilities			
(a)	Long term borrowings		
	12% Debentures x 10% =	36000	3,60,000
Current Liabilities			
(a)	Trade Payable		3,45,000
	Total		16,65,000
Non-current Assets			
(a)	Property, Plant and Equipment	3,45,000	
(b)	Non-current Investments (DRR Investment)	54,000	3,99,000
Current Assets			
(a)	Inventories	4,05,000	
(b)	Trade Receivables	2,25,000	
(c)	Cash in Hand	90,000	
(d)	Cash at Bank	5,46,000	12,66,000
	31.3.23 Total		16,65,000

At the AGM on 01.04.2023, it was resolved: Right issue

(a) To give existing equity 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. 75000/5 = 15000 x 10 = 150,000

(c) To repay the debentures at a premium of 3%

Give the necessary journal entries for these transactions. **(10 Marks)**

1. Reserves
a. CRR ✗
b. SPR
c. Free Res
Gen Res P&L

Journal

1. Bank Dr (15000 x 15) 225000
(15000 x 10) To eq. sh cap 150,000
(15000 x 5) To Sec prem A/c 75000

2. a. Sec. Prem A/c Dr 75000
P&L A/c Dr. 75000
To Bonus to Sh. 150,000

b. Bonus to Sh Dr 150,000
To eq. sh cap A/c 150,000

3. a. Bank A/c Dr. 54000
To DRRI 54000

b. 12% Deb Dr 360,000
Prem on Red. Dr 10800 ✓
To Debhold. 370800

c. Debhold. Dr. 370800
To Bank 370800

d. DRR Dr. 36000
To Gen Res 36000

e. P&L A/c Dr 10800
To prem on Red 10800

Chapter over :)

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