CHAPTER 7

ACCOUNTING FOR SHARE CAPITAL

(Share and Share Capital : Nature and types)

"A Company is an artificial person created by law, having separate entity with a perpetual succession and a common seal."

Definition given ***by Prof. Haney***

Characteristics (Features) of a company

1. The certificate of incorporation of a company is issued by registrar of companies as per procedure/guidelines given in the Companies Act, 2013. The law considers a company as an artificial legal person.
2. A Company is a separate legal entity from its owner (shareholders).
3. A company has perpetual existence, not affected by the death, lunancy or insolvency of its shareholders. It can be wounded up only by the law (Court or registrar of company.)
4. Every company has it own common seal, which act as the official signature of the company.
5. The shares of a company is transferable subject to certain conditions (e.g. some conditions for private company.)
6. The company is managed by the 'Board of Directors', the directors are representative of the shareholders (owners). So, management and ownership are separate in company organization.
7. The liability of a shareholder is limited upto the nominal price of shares subscribed by one.

Types of Companies

(i) *Private Company* – Section 2 (68) of the Companies Act, 2013 defines "A private Company means a company which has a minimum paid up capital of Rs. 100,000 and which by its Articles of Association –

(a) restricts the right to transfer its shares;

(b) limits the number of its members to 200 excluding its part or present employee members;

(c) Prohibits any invitation to public to subscribe for any of its securities.

(ii) *Public Company* – According to section 2 (71) of the Companies Act, 2013 a public company means a company which is not a private company and has a minimum paid up capital of ₹ 500,000 or higher capital as may be prescribed a private company which is a subsidiary of a company not being a private company shall be deemed a public company.

(iii) *One Person Company* – Section 2 (62) of the Companies Act, 2013 states one person company is a company which has only one person as a member.

Rule 3 of the Companies (In Corporation) Rules, 2014 provides that (i) only on Indian citizen resident in India can form one person company (ii) Its paid up capital is not more than 50 lakhs; (iii) Its Average annual turnover should not exceed Rs. 2 crores; (iv) It cannot carry out Non banking financial Investment activities.

Class / Types of Shares : There are two classes of shares

1. **Preference shares :** The shares which get preferential right in respect of :

   (a) Right of dividend

   (b) Repayment of capital on winding up of the company.

2. **Equity shares :** The shares which are not preference shares are called equity shares and do not get preference in above respect.

Distinction between Equity Share and Preference Share

Basic	*Equity Share*	*Preference Share*
1. Refund of Capital	On Winding up, the equity share capital is paid after the preference share capital is paid or equity shareholder received residual amount.	On winding up, the preference Share capital is paid before the Equity share capital is paid or preference shareholder have preference to get refund of capital over Equity share-holders.
2. Right of Dividend	Dividend is paid on Equity shares after payment of dividend on preference shares.	Dividend is paid on preference share before payment of dividend on Equity shares.

3. Right of Dividend	No fixed rate of dividend. It is decided by board of directors every year and vary periodically.	Fixed rate of dividend prescribed on the face of preference shares e.g. 9% Preference same in this case rate of dividend is 9%.
4. Right to Vote	Equity shareholder have the right to vote in meeting of shareholders and they elect director for managing the company.	In normal course of business, preference shareholders do not enjoy the right to vote in the meetings of shareholders. But they have it only in special circumstances.
5. Redemption	Equity share are not redeemable, however, a company may buy back its equity shares as condition prescribed in section 68 of the Companies Act, 2013	Preference share are always redeemable, now a company cannot issue irredeemable preference shares.

Types OR Classes of Preference Shares

(a) With Reference to Dividend :

(i) **Cumulative Preference shares :** Cumulative preference shares are these preference shares, the holders of which are entitled to receive arrears of dividend before any dividend is paid on equity shares.

(ii) **Non-cumulative Preference shares :** Non-cumulative preference shares are those preference share, the holders of which do not have the right to receive arrear of divided. If no dividend is declared in any year due to any reason. Such shareholders get nothing, nor they can claim unpaid dividend in any subsequent years.

(b) With Reference to Participation

(i) ***Participating preference shares :*** such shares, in addition to the fixed preference dividend, carry a right to participate in the surplus profit, if any, after providing dividend at a stipulated rate to equity shareholders.

(ii) ***Non-Participating preference shares*** : Such shares get only a fixed rate of dividend every year and do not have a right to participate in the surplus profit.

(c) With Reference to Convertibility

(i) **Convertible preference shares :** are those preference shares which have the right/option to be converted into equity shares.

(ii) **Non-convertible preference shares :** are those preference shares which do not have the right/option to be converted into Equity shares.

(d) With Reference to Redemption

(i) ***Redeemable preference shares :*** are those preference shares the amount of which can be redeemed by the company at the time specified for their repayment or earlier.

(ii) ***Irredeemable preference shares :*** are those preference shares the amount of which cannot be refunded by the company unless the company is wound up. Now a company cannot issue irredeemable preference shares.

Some Important Terms used in Accounting for Share Capital

Note 1 : Minimum Subscription (Section 39) – It is the minimum amount stated in the prospectus that must be subscribed by the public before an allotment of any security is made.

Prospectus : It is an invitation to public for subscription of shares or debentures.

Capital : means amount invested in the business for the purpose of earning revenue. In case of company money is contributed by public and people who contributed money are called **shareholders.**

Share Capital : Capital raised by issue of shares is called share capital.

Authorised Capital : Also called as Nominal or registered capital. It is the maximum amount of capital a company can issue. It is stated in Memorandum of Association.

Issued Capital : This is part of authorized capital which is offered to public for subscription. It cannot exceed authorized capital.

Called Up Capital : It is the amount of nominal value of shares that has been called up by the company for payment by the subscriber towards the share.

Paid Up Capital : It is part of called up capital that the members of company or shareholders have paid.

Reserve Capital : It is part of increased capital and/or portion of uncalled share capital of an unlimited company which can be called only in case of winding up of the company.

Capital Reserve : It is capital profit not available for distribution as dividend. It is represented in balance sheet of company as Reserves and Surplus under the heading Shareholder’s Funds.

Disclosure of Share Capital in Company’s Balance Sheet.

Illustration : S T L Global Ltd. was formed with a nominal Share Capital of ₹ 40,00,000 divided into 4,00,000 shares of ₹ 10 each. The Company offers 1,30,000 shares to the public payable ₹ 3 per share on Application, ₹ 3 per share on Allotment and the balance on First and Final Call. Applications were received for 1,20,000 shares. All money payable on allotment was duly received, except on 200 shares held by Y. First and Final Call was not made by the Company.

How would you show the relevant items in the Balance Sheet of STL Global Ltd.?

Solution 1

Balance Sheet (Extract) of S T L Global Ltd. (Relevant Part only)
As at ______________

Particulars	*Notes No.*	*(₹)*
Equity and Liabilities		
Shareholder's Funds :		
(a) Share Capital	(1)	7,14,000
Assets		
Current Assets :		
Cash and Cash Equivalents (cash at Bank)		7,14,000

Particulars	*Details*	*(₹)*
(1) Share Capital		
Authorised Capital :		
4,00,000 shares of ₹ 10 each		40,00,000
Issued Capital :		
1,30,3000 shares of ₹ 10 each		13,00,000
Subscribed but not Fully Paid Capital:		
1,20,000 shares of ₹ 10 each ₹ 6 per share called-up	7,20,000	
Less : Calls in Arrears (200 shares × ₹ 3)	6,000	
		7,14,000

Illustration 2. On 1st April, 2012, Janta Ltd. was formed with an authorized capital of ₹50,00,000 divided into 1,00,000 equity shares of ₹50 each. The company issued prospectus inviting application for 90,000 Shares. The issue price was payable as under:

On Applicant : ₹ 15

On Allotment : ₹ 20

On call : Balance amount

The issue was fully subscribed and the company allotted shares to all he applicants. The company did not make the call during the year.

Show the following :

(a) Share capital in the Balance Sheet of the company as per revised schedule - VI, Part-I of the companies Act, 1956.

(b) Also prepare Notes to Account's for the same.

Solution :

Balance Sheet of Janta Ltd.

As at......................... (As per schedule iii)

Particulars	*Note No.*	*Amount Current Years*	*Amount Previous years*
Equity & Liabilities			
1. Shareholder's funds			
(a) Share Capital	1.	31,50,000	

Notes to Accounts

Particulars	(₹)
1. Share Capital	
Authorised Capital	
1,00,000 equity shares of ₹ 50 each	50,00,000
Issued Capital	
90,000 equity shares of ₹ 50 each	45,00,000
Subscribed Capital	
Subscribed but not fully paid	
90,000 shares of ₹ 50 each ₹ 35 called up ₹	31,50,000

Issue of Shares

Shares can be issued in two ways

1. for cash
2. for consideration other than cash

Terms of Issue of Shares

Shares can be issued in two ways.

1. Issue of shares at Par
2. Issue of shares at Premium

Issue of shares against Lump sum payment : When whole amount due on shares is payable in one instalment. The journal entries will be as follow:

Illustration 3 : Vaibhav Ltd. issued 1,00,000 shares of ₹ 10 each at per. The whole amount was payable with application. Pass the necessary journal entries in the books of company.

Solution

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
	Bank A/c Dr. To Share Application and allotment A/c (Being the application money received on 1,00,000 shares at ₹ 10 per share)		10,00,000	 10,00,000
	Share Application and Allotment A/c Dr. To Share Capital A/c (Being the share allotted and transfer of application money on 1,00,000 shares to share capital account)		10,00,000	 10,00,000

Shares Payable in Instalments

1. First instalment paid along with application is called as applications money.
2. Second instalment paid on allotment is called as allotment money.
3. Subsequent instalment paid are called as call money calls can be more than one and called First call, second call or as the case may be

Issue of Shares for Cash at Par : This means shares are issued at face value Journal entries.

For Application money	Bank Account Dr. To Share Application A/c	(No. of Application X Application amount per share)
On acceptance of Applications	Share Application A/c Dr. To Share Capital A/c	(No. of Share allotted X application amount called on cash)

For allotment money due	Share Allotment A/c Dr. To Share Allotment A/c	(No. of Shares allotted X amount called on allotment for each share
On receipt of allotment money	Bank Account Dr. To Share Allotment A/c	(No. of allotment share X Amount received on allotment for each share) or actual amount received)
For call money due	Share Call A/c Dr. To share Capital A/c	(No. of shares allotted X amount called on each call share)
On receipt of Calls money	Bank A/c To share Call A/c	(No. of application allotted X Amount received on each share)

Illustration 4 : X Ltd. invited application for 10,000 shares of the value of ₹ 10 each. The amount is payable as ₹ 2 on application and ₹ 5 on allotment and balance on First and Final Call. The whole of the above issue was applied and cash duly received. Give Journal entries for the above transaction.

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
	Bank A/c Dr. To Share Application A/c (Being the application money received on 10,000 shares at ₹ 2 per share)		20,000	20,000
	Share Application A/cv Dr. To Share Capital A/c (Being the transfer of application money on 10,000 shares to share capital account).		20,000	20,000
	Share Allotment A/c Dr. To Share Capital A/c (Being the amount due on 10,000 shares at ₹ 5 per share)		50,000	50,000
	Bank A/c Dr. To Share Allotment A/c (Being the receipt of ₹ 5 on 10,000 shares)		50,000	50,000
	Share first & final call A/c Dr. To Share Capital A/c (Being the amount due on 10,000 shares at ₹ 3 per share)		30,000	30,000
	Bank A/c Dr. To share first & final call A/c (Being the receipt of ₹ 3 on 10,000 shares)		30,000	30,000

Note : *For each entry narration is compulsory*

Issues of Shares At Premium : It is issue of share at more than face value.

This premium can be utilized for : (Section 52)

1. Issue of fully paid bonus shares to the shareholders.
2. Write off preliminary expenses of the company.
3. Writing off securities issue expenses commission paid discount on issue of securities.
4. For providing the premium payable on redemption of Redeemable preference shares or debentures of the company.
5. For Buy back of its own shares as per Section 68.

Journal Entries for accounting of securities premium, the securities premium may be collected by the company with application money / Allotment money / First call/Final Call depend upon the terms of issue of shares. If questions is silent regarding the securities premium amount due, it is assumed that securities premium money is due with the allotment money. Following are the various situation of securities premium received with application, allotment and call.

1. For Application money	Bank Account Dr. To Share Application A/c	(No. of Application X Application amount per share)
On acceptance of Applications	Share Application A/c Dr. To Share Capital A/c To Securities Premium A/c	(No. of Share allotted X application amount called on cash) (Amount of Securities Premium Received if any)
2. For allotment money due	Share Allotment A/c Dr. To Share Allotment A/c To Securities Premium A/c	(No. of Shares allotted X amount called on allotment for each share (Securities Premium due)
On receipt of allotment money	Bank Account Dr. To Share Allotment A/c	(No. of allotment share x Amount received on allotment for each share) or actual amount received)
3. For call money due	Share Call A/c Dr. To share Capital A/c To Securities Premium A/c	(No. of shares allotted x amount called on each call share) (Securities Premium due)
On receipt of Cells money	Bank A/c To share Call A/c	(No. of application allotted x Amount received on each share)

Illustration 5 : V Ltd. Issued 20,000 Equity shares of ₹ 10 each at a premium of ₹ 3 payable as follows:

On Application ₹ 4

On Allotment ₹ 5 (including Securities Premium Reserve)

On First Cell ₹ 2

On Final Call ₹ 2

All shares were duly subscribed and all money duly received. Pass necessary Journal Entries.

Solution :

In the Book of X Ltd.

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
	Bank A/c Dr. To Equity Share Application A/c (Being the application money received on 20,000 Equity Shares at ₹ 4 per Equity Share)		80,000	 80,000
	Equity Share Application Account Dr. To Equity Share Capital Account (Being the transfer of application money on 20,000 Equity Shares to Equity Share capital account)		80,000	 80,000
	Equity Share Allotment Account Dr. To Equity share Capital Account To Securities Premium Reserve A/c (Being the amount due on 10,000 Equity Shares at ₹ 5 including Premium ₹ 3 Shares)		1,00,000	 40,000 60,000
	Bank A/c Dr. To Equity Share Allotment A/c (Being the receipt of ₹ 5 on 10,000 Equity Shares)		1,00,000	 1,00,000
	Equity Shares First Call A/c Dr. To Equity Share Capital Account (Being the amount due on 20,000 Equity Shares at ₹ 2 per Equity Share)		40,000	 40,000
	Bank A/c Dr. To Equity Share First call A/c (Being the receipt of ₹ 2 on 20,000 Equity Shares)		40,000	 40,000

	Equity Share Final call A/c Dr. To Equity Share Final call A/c (Being the receipt of ₹ 2 on 20,000 Equity Shares)			40,000	40,000
	Bank A/c Dr. To Equity Share First call A/c (Being the receipt of ₹ 2 on 20,000 Equity Shares)			40,000	40,000

Issue of shares at discount [Section 53] : A company cannot issue shares at discount other than sweat equity shares.

Shares Issue for Consideration Other than Cash

When a company purchases any fixed asset or business and makes the payment to the vendor in form of issue of shares in place of cash it is called the issue of shares for consideration other than cash.

Share can be issued at par, at premium.

Journal entries for issue of shares to vendors/consideration other than cash

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	On Purchases of asset : Sundry Asset Account Dr. To Vendor		Amount of purchase price	
	On purchases of business : **When purchases consideration is more than net asset** Sundry Asset Account Dr. Goodwill Account (B/F) To Sundry Liabilities To Vendor		consideration -Net Assets	Agreed Value Agreed value Purchase Consideration
	When purchases consideration is less than net asset Sundry Assets Account Dr. To Sundry Liabilities To Vendor To Capital Reserve A/c (B/F)		Agreed Value	Agreed Value Purchases Considera-tion Difference

	On Issue of Share (a) at Par Vendor Dr. To Share Capital (b) On Issue of share At Premium Vendor Dr. To Share Capital A/c To Securities premium Reserve A/c			

Note : *When name of vendor is given then we write the name of vendor*

Illustration 8 : Atlas Co. Ltd. Purchased a machine from HMT Co. for Rs 64,000. It was decided to pay L 10,000 in cash and balance will be paid by issue of shares of L 10 each,

Pass journal entries shares

(a) Issued at par

(b) Issued at premium of 20%

Solution :

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Machinery Account Dr.		64,000	
	To HMT Ltd.			54,000
	To Bank Account			10,000
	(Being the machine purchased and ₹ 10,000 paid cash and balance to be paid by issue of shares)			
	(a) When shares are issued at par			
	HMT Ltd. (Vendor) Dr.		54,000	
	To Share Capital			54,000
	(Being 5,400 shares of ₹ 10 each at pa to HMT Ltd.)			
	(b) When shares are issued at premium			
	HMT Ltd. (vendor) Dr.		54,000	
	To Share Capital Account			45,000
	To Security Premium Account			9,000
	(Being 4,500 shares of issued to vendor at a premium of ₹ 2 per share 54,000/10+2 = 4500)			

Illustration 7 : A company issued 15,000 fully paid up equity shares of ₹ 100 each for the purchases of the following assets and liabilities from Gupta Bros.

Plant - ₹ 3,50,000; Stock ₹ 4,50,00;

Land and Building ₹ 6,00,000; Sundry Creditors ₹ 1,00,000

Pass necessary Journal entries.

Solution:

Journal

Date	*Particulars*		*LF.*	*Debit (₹)*	*Credit (₹)*
	Plant A/c	Dr.		3,50,000	
	Land and Buildings A/c	Dr.		6,00,000	
	Stock Account	Dr.		4,50,000	
	Goodwill Account (b/f)	Dr.		2,00,000	
	To Sundry Creditors A/c				1,00,000
	To Gupta Bros.				15,00,000
	(Being the purchases of business)				
	Gupta Bros.	Dr.		15,00,000	
	To Equity Shares Capital Account				15,00,000
	(Being issue of 15,000 shares of ₹ 100 each as payment of business price)				

Note : *Calculation : Goodwill = Purchases consideration + Liabilities - assets = ₹ 15,00,000 + ₹ 1,00,000 = ₹ 14,00,000 ₹ 2,00,000.*

Illustration 8 : A company purchased a running business from Mahesh for a sum of ₹1,50,000 payable as ₹ 1,20,000 in fully paid equity shares of ₹10 each and balance in cash. The assets and liabilities consisted of the following

Plant and Machinery ₹40,000; Stock ₹50,000; Building ₹40,000; Cash ₹20,000 Sundry debtors ₹30,000; Sundry creditors ₹20,000

Pass necessary Journal entries.

Solution

Journal

Date	*Particulars*		*LF.*	*Debit (₹)*	*Credit (₹)*
	Plant and Machinery A/c	Dr.		40,000	
	Buildings A/c	Dr.		40,000	
	Sundry Debtors A/c	Dr.		30,000	

	Stock Account Dr.		50,000	
	Cash A/c Dr.		20,000	
	To Sundry Creditors A/c			20,000
	To Mahesh			1,50,000
	To Capital Reserve A/c			10,000
	(Being the purchases of business)			
	Mahesh Dr.		1,50,000	
	To Equity Shares Capital A/c			1,20,000
	To Bank A/c			30,000
	(Being the payment made to Mahesh in form of shares)			

Note : *Calculation; Net assets - liabilities = ₹ 1,800,000- ₹ 20,000 ₹ 1,60,000 Capital reserve = Net Asset - Purchase consideration = ₹ 1,60,000 - ₹ 1,50,000 = ₹ 10,000*

Illustration 9 : Pass necessary journal entries for the following transactions in the Books of Rajan Ltd.

(a) Rajan Ltd. purchased machinery of ₹ 7,20,000 from Kundan Ltd. The payment was made to Kundan Ltd. by issue of equity shares of ₹100 each at 20% Premium.

(b) Rajan Ltd. purchased a running business from Vikas Ltd. for a sum of ₹2,50,000 payable as ₹2,20,000 in fully paid equity shares of ₹10 each and balance by a bank draft. The assets and liabilities consisted of the following:

Plant & Machinery ₹ 90,000; Buildings ₹ 90,000;

Sundry Debtors ₹ 30,000; Stock ₹ 50,000; Cash ₹ 20,000;

Sundry Creditors ₹ 20,000

Solution

Rajan Ltd.

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
(a)	Machinery A/c Dr.		7,20,000	
	To Kundan Ltd.			7,20,000
	(Machinery purchased from Kundan)			
	Kundan Ltd. Dr.		7,20,000	
	To Equity share capital A/c			6,00,000

	To Securities premium A/c (6,000 Equity shares of ₹ 100 each issued as purchase consideration)			1,20,000
(b)	Plant & Machinery A/c	Dr.	90,000	
	Buildings A/c	Dr.	90,000	
	Sundry Debtors A/c	Dr.	30,0000	
	Stock A/c	Dr.	50,000	
	Cash A/c	Dr.	20,000	
	To Sundry Creditors A/c			20,000
	To Vikas Ltd.			2,50,000
	To Capital Reserve A/c			10,000
	(Business Purchased)			
	Vikas Ltd.	Dr.	2,50,000	
	To Equity Share Capital A/c			2,20,000
	To Bank A/c			30,000
	(Shares issued and draft given)			

Private Placement of Shares [Section 42]: This is an issue of shares to institutional investors or some selected group of persons subject to prior approval of existing shareholders.

There is no need of issuing formal prospectus and it is cost and time saving method of raising capital.

Under subscription : When the number of Share application received is less than the number of shares offered to public it is under subscription.

Over subscription : When the number of Share application received is more than the number of shares offered to public it is over subscription

1. Either reject the excess applications
2. Make pro-rata allotment
3. Partially refund amount and on other applications pro-rata allotment is made.

Calls in arrear : Any Amount which has been called or demanded by company from shareholders but not paid by the shareholder till the last date mentioned in call letter is called as call in arrear, Company can charge interest on this at rate mentioned in Article of Association or 10% p.a. as per Table F.

Calls in advance : Any amount paid in excess of what they has asked to pay is called as call in advance. Interest is paid on this at rate mentioned in Article of Association or 12% p.a. as per Table F.

Forfeiture of shares : If any shareholder fail to pay the amount on any call, his money is forfeited or withheld by company this is called forfeiture of shares.

Forfeiture of share refers to the cancellation or termination of membership of a share holder by taking away the shares and rights of membership.

Forfeiture of Shares Issued at par

Journal

Date	*Particulars*		*LF.* *Debit* (₹)	*Credit* (₹)
	Share Capital A/c	Dr.	Amount called -up	
	To Various Calls/calls in Arrear A/c			Unpaid Amt.
	To Forfeited Share A/c			Amount Received

Illustration 10 : Ram holding 10 shares of ₹10 each of which ₹2 on application ₹3 on allotment but could not pay ₹3 on first call. His shares were forfeited by the Directors. The Final call is not made as yet. Give Journal entries in the book of company.

Solution :

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Share Capital A/c (10 × 8) Dr.		80	
	To Share First Calls/calls in arrear A/c			30
	To Forfeited Share A/c			50
	(Being 10 Shares forfeited for nonpayment of first call money)			

Forfeiture of Shares Issued at Premium : (i) when the premium has been received; (ii) When the premium has not been received.

Case 1: ***When the premium has been received :*** In such cases premium received will not be forfeited and will not record anywhere in the forfeiture journal entry.

Journal

Date	Particulars		LF.	Debit (₹)	Credit (₹)
	Share Capital A/c	Dr.		Amount called	
	To Various Calls/calls in arrear A/c			(Excluding	Unpaid Amt.
	To Forfeited Share A/c			Premium)	Amt. received (Excluding Premium)

Illustration 11 : 1000 shares of ₹ 10 each issued at a premium of ₹ 2 per share are forfeited on which ₹ 8 (including premium) have been received. Final call of ₹ 4 has not been received. Pass necessary journal entry in the books of company.

Solution :

Journal

Date	Particulars		LF.	Debit (₹)	Credit (₹)
	Share Capital A/c (1000 × 10)	Dr.		10,000	
	To Various Calls/calls in arrear A/c				4,000
	To Forfeited Share A/c (1000 × 6)				6,000
	(Being 1000 Shares forfeited for non-payment of Final call money)				

The premium has not been received : In such case security premium reserve is debited with the amount for premium not receive.

Accounting Treatment

Journal

Date	Particulars		LF.	Debit (₹)	Credit (₹)
	Share Capital A/c	Dr.		Amount called	
	Securities Premium Reserve A/c	Dr.			
	To Various Calls/calls in arrear A/c			Premium not	Unpaid Amt.
	To Forfeited Share A/c			received	(including Premium Net Amt. Recd.

Illustration 12 : 1000 Shares of ₹ 10 each issued at a premium of ₹ 2 per share are forfeited on which only application money of ₹ 4 has been received and ₹ 8 (including premium) has not been received. Pass necessary entries.

Solution :

Journal

Date	*Particulars*		*LF.*	*Debit* (₹)	*Credit* (₹)
	Share Capital A/c	Dr.		10,000	
	Securities Premium Reserve A/c	Dr.		2,000	
	To Various Calls/calls in arrear A/c				8,000
	To Forfeited Share A/c				4,000
	(Being 1,000 shares forfeited for non payment of allotment and calls money)				

Reissue of forfeited shares : forfeited shares can be issued to some investor. This is called as reissue of shares These can be issued at par, premium or discount but discount cannot exceed the forfeited amount received on the reissued shares.

Journal

Date	*Particulars*		*LF.*	*Debit* (₹)	*Credit* (₹)
	When shares Reissued at par				
	Bank A/c	Dr.			
	To Share Capital A/c				
	When shares Reissued at Premium				
	Bank A/c	Dr.			
	To Share Capital A/c				
	To Securities Premium Reserve A/c				
	When shares Reissued at Discount				
	Bank A/c	Dr.			
	Forfeited Shares A/c	Dr.			
	To Share Capital A/c				
	After reissue of share, the balance related to reissued shares in forfeiture account (Profit on Reissue of shares) transferred to capital reserve A/c				
	Forfeited shares A/c	Dr.			
	To Capital Reserve A/c				

Illustration 13 : A Ltd. Forfeited 200 shares of ₹ 10 each fully called up held by X for non payment of allotment money of ₹ 3 per share and First & Final call of ₹ 4 per share. He paid the application money of ₹ 3 per share. These shares were reissued to Y for ₹ 8 per shares pass necessary journal entries.

Solution :

Journal

Date	Particulars		LF.	Debit (₹)	Credit (₹)
	Share Capital A/c	Dr.		2,000	
	To share Allotment Account (200×3)				600
	To Shares First & Final Call Account (200×4)				800
	To Shares Forfeited Account (200×3)				600
	(Being 200 shares forfeited held by X)				
	Bank Account (200×8)	Dr.		1,600	
	Forfeited Shares Account (200×2)	Dr.		400	
	To Share Capital Account (200×10)				2,000
	(Being re-issued of forfeited shares to Y)				
	Forfeited Shares Account	Dr.		200	
	To Capital Reserve Account				200
	(Being the transfer of profit on reissue to Capital Reserve)				

Forfeiture of Shares originally issued at premium and reissued at a discount

Illustration 14 : A Ltd. Forfeited 100 shares of ₹ 100 each issued at a premium of 50% to be paid at time allotment on which first call of ₹ 30 per equity share was not received, final call of ₹ 20 is yet to be made. These shares were reissued at ₹ 70 per share at ₹ 80 paid up. pass necessary journal entries.

Solution :

Journal

Date	Particulars		LF.	Debit (₹)	Credit (₹)
	Share Capital A/c (100×80)	Dr.		8,000	
	To Shares First call A/c (100×30)				3,000
	To Shares Forfeited A/c (100×50)				5,000
	(Being 100 shares forfeited for non-payment of first call money)				
	Bank A/c (100×70)	Dr.		7,000	
	Forfeited Shares A/c (100×10)	Dr.		1,000	
	To Shares Capital Account (100×80)				8,000

	(Being re-issued of 100 forfeited shares at ₹ 70 per share at ₹ 80 Paid up)			
	Forfeited Shares Account (40×100) ₹ To Capital Reserve Account (Being the transfer of profit on re-issue to Capital Reserve)		4,000	 4,000

Pro-Rata-Allotment When there is oversubscription of shares either the excess amount is refunded or proportions shares are allotted. **Allotment of proportionate shares as Pro-rata Allotment.**

Illustration 15 : AB Ltd. invited applications for 1,00,000 Equity Shares ₹ 10 each payable as ₹ 2 application, ₹ 3 on Allotment and the balance on first and final call. Application were received for 3,00,000 shares and shares were allotted on prorata basis. The excess application money was to be adjusted against allotment only. Ram, a shareholder who has applied for 3,000 shares failed to pay the call money and his shares were forfeited and re-issued at ₹8 per share as fully paid. Pass necessary journal entries in the books of company.

Solution :

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr. To Equity Share Application A/c (Being the application money received on 3,00,00 Equity Shares at ₹ 2 per Equity Shares)		6,00,000	 6,00,000
	Equity Share Application Account Dr. To Equity Share Capital Account To Equity Share Allotment Account To Bank A/c (Being the transfer of application money into share capital and allotment and balance refunded)		6,00,000	 2,00,000 3,00,000 1,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Being the amount due on 100,000 Equity Shares at ₹ 3 Share)		3,00,000	 3,00,000

	Equity Share First & Final call A/c Dr.		5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being the amount due on 1,00,000 Equity Shares at ₹ 5 per Equity Share)			
	Bank A/c Dr.		4,95,000	
	To Equity Share First & Final call A/c			4,95,000
	(Being the receipt of ₹ 5 on 99,000 Equity Shares)			
	Equity Share Capital A/c Dr.		10,000	
	To Equity Share First & Final A/c			5,000
	To Forfeited Shares A/c			5,000
	(Being 1000 Shares forfeited due to non payment of first and final all money)			
	Bank A/c (1000×8) Dr.		8,000	
	Forfeited Shares A/c (1000×2) Dr		2,000	
	To Equity Share Capital A/c (1000×10)			10,000
	(Being the Reissue of 1000 Equity Shares at ₹ 8 per share as fully paid up)			
	Forfeited Shares A/c Dr.		3,000	
	To Capital Reserve A/c			3,000
	(Being the transfer of profit on reissue to Capital Reserve)			

Note : *there is no bank account on allotment as all due money is already received*

When Cash Book Entries are asked in the question, all cash transactions are to be recorded in Cash Book, other non-cash transaction should be entered in the Journal.

Illustration 16 : If in Illustration 15 the company prepare cash and journal for the above transaction then the book and journal entries will be made as follow:

Solution :

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
	Equity Share Application A/c Dr.		5,00,000	
	To Equity Share Capital A/c			2,00,000
	To Equity Share Allotment A/c			3,00,000

	(Being the transfer of application money into share capital and allotment and balance refunded)			
	Equity Share Allotment A/c Dr.		3,00,000	
	To Equity Share Capital A/c			3,00,000
	(Being the amount due on 100,000 Equity Shares at ₹ 3 Share)			
	Equity Share First & Final Call A/c Dr.		5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being the amount due on 1,00,000 Equity Shares at ₹ 5 per Equity Share)			
	Equity Share Capital A/c Dr.		10,000	
	To Equity Share First & Final A/c			5,000
	To Forfeited Shares A/c			5,000
	(Being 1000 Shares forfeited to non payment of first and final call money)			
	Forfeited Shares A/c (1000×2) Dr.		2,000	
	To Equity Share Capital A/c (1000×10)			2,000
	(Being the Reissue of 1000 Equity Shares at ₹ 8 per share as fully paid up)			
	Forfeited Shares A/c Dr.		3,000	
	To Capital Reserve A/c			3,000
	(Being the transfer of profit on reissue to Capital Reserve)			

Dr. **Cash Book (Bank Column only)** **Cr.**

Particulars	₹	***Particulars***	₹
To Equity Share Application A/c	6,00,000	By Equity Share Application A/c	1,00,000
To Equity Share First & Final Calls A/c	4,95,000	By Balance C/d	10,03,000
To Equity Share Capital A/c	8,000		
	11,03,000		**11,03,000**

Illustration 17 : AB Ltd. invited applications for issuing 75,000 equity of ₹100 each a premium of ₹30 per share. The amount was payable as follows:

On Application & Allotment – ₹ 85 per share (including premium)

On First and Final call the balance Amount

Applications for 1,27,500 shares were received. Applications for 27,500 shares were rejected and shares were allotted on pro-rata basis to the remaining applicants.

Excess money received on application and allotment was adjusted towards sums due on first and final call. The calls were made. A shareholder, who applied for 1,000 shares, failed to pay the first and final call money. His shares were forfeited. All the forfeited shares were reissued at ₹150 per share fully paid up.

Pass necessary journal entries for the above transactions in the books of AB Ltd.

Solution :

AB Ltd.
Journal

Date	*Particulars*		*LF.*	*Debit (₹)*	*Credit (₹)*
	Bank A/c	Dr.		1,08,37,000	
	To Equity shares Application and allotment A/c				1,08,37,500
	(Application received from 1,27,500 shares)				
	Equity Shares Application and Allotment A/c	Dr.		1,08,37,500	
	To Equity Share Capital A/c				41,25,000
	To Securities Premium A/c				22,50,000
	To Equity Shares first and final call A/c				21,25,000
	To Bank A/c				23,37,500
	(Shares allotted & Refund of 27500 Shares Application money				
	Equity Shares First and final call A/c	Dr.		33,75,000	
	To Equity Share Capital A/c				33,75,000
	(First final call amount due on 75000 shares @ ₹ 45				
	Bank A/c	Dr.		12,37,500	
	To Equity shares first & final call A/c				12,37,500
	(Call money received Except 750 Shares)				
	Equity Shares capital A/c	Dr.		75,000	
	To Equity shares first and final call A/c				12,500
	To forfeited shares A/c				62,500
	(750 Shares forfeited)				
	Bank A/c	Dr.		1,12,500	
	To Equity Share Capital A/c				75,000
	To Securities Premium A/c				37,500
	(750 equity shares issued @ ₹ 150 per share)				
	Forfeited shares A/c	Dr.		62,500	
	To Capital Reserve A/c				62,500
	Forfeited amount transferred to capital reserve)				

Question 1 :– Fill in the missing figures.

Journal

Date	*Particulars*		*LF.*	*Debit* (₹)	*Credit* (₹)
	Machinery A/c	Dr.		3,00,000	
	Furniture A/c	Dr.		100,000	
	Debtors A/c	Dr.		50,000	
	Goodwill A/c	Dr.		....	
	To Sending Creditors A/c				2,00,000
	To Lakshika				....
	(Being Assets and liabilities acquired)				
	Lakshika	Dr.		3,00,000	
	To Equity Share Capital A/c				....
	To Securities premium A/c				....
	(Being Equity shares of Rs. 10 each issued at ₹ 5 per share)				

Question 2:– Fill in the missing figures in the following Journal entries:–

Journal

Date	*Particulars*		*LF.*	*Debit* (₹)	*Credit* (₹)
	Building A/c	Dr.		800,000	
	Bill Receivable A/c	Dr.		2,00,000	
	To Bills Payables A/c				1,00,000
	To Sunding Creditors A/c				3,00,000
	To Anannya Ltd.				5,00,000
	To Capital Reserve A/c				....
	(Being assets and liabilities acquired)				
	Anannya Ltd.	Dr.		....	
	To Bank A/c				....
	(Being Part payment made)				
	Anannya Ltd.	Dr.		4,40,000	
	To Equity share capital A/c				....
	To Securities premium Resource A/c				....
	(Being Equity shares of ₹10 each issued at 10% premium)				

Question 3:– Fill in the missing figures in the following Journal entries:–

Journal

Date	Particulars		LF.	Debit (₹)	Credit (₹)
	Equity share capital A/c	Dr.		67,500	
	To Equity share Allotment A/c				....
	To Equity share first all A/c				....
	To share forfeited A/c				....
	(Being 900 Equity shares forfeited for non-payment of Allotment and I call money of ₹30 and ₹20 per share respectively.				
	Bank A/c	Dr.		....	
	To Equity share capital A/c				67,500
	To Securities premium A/c				....
	(Being 900 shares were re-issued @ ₹90 share, ₹75 paid up)				
	Share forfeited A/c	Dr.		....	
	To capital Reserve A/c				....
	(Being the profit on re-issue of shares transferred)				

Question 4:– Fill in the missing figures:–

Journal

Date	Particulars		LF.	Debit (₹)	Credit (₹)
	Equity share capital A/c	Dr.		....	
	Securities Premium Reserve A/c	Dr.		....	
	To Equity share Allotment A/c				1600
	To Equity share I call A/c				....
	To Equity share final Call A/c				600
	To Share forfeited A/c				....
	(Being 200 shares of ₹10 each forfeited for non-payment of allotment money of ₹8 per share (including ₹5 premium) first call of ₹2 and final call of ₹3 per share)				
	Bank A/c	Dr.		....	
	Share forfeited A/c	Dr.		....	
	To Equity share capital A/c				....
	(Being 125 shares were re-issued @ ₹9 per share as fully paid-up)				
	Share forfeited A/c	Dr.		....	
	To Capital Reserve A/c				....
	(Being-profit an re-issue of 125 shares transferred)				

CHAPTER 8

ACCOUNTING FOR DEBENTURES

Debenture : It is a document issued by a company under its common seal acknowledging the debt and it also contains the terms of repayment of debt and payment of interest at a specified rate.

Section 2 (30) of Companies Act, 2013 defines debenture as "Debenture includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the company's assets or not."

Debentures are generally freely transferable by the debenture holder. Debenture holders have no rights to vote in the company's general meetings of shareholders. The interest paid to them is a charge against profit in the company's financial statements.

TYPES OF DEBENTURES

Convertibility point of view : There are two types of debentures :

Convertible debentures, which can be converted into equity shares of the issuing company after a predetermined period of time.

These may be **Partly Convertible Debentures (PCD) :** A part of these instruments are converted into Equity shares in the future at notice of the issuer. The issuer decides the ratio for conversion. This is normally decided at the time of subscription.

Fully convertible Debentures (FCD) : These are fully convertible into Equity shares at the issuer's notice. The ratio of conversion is decided by the issuer. Upon conversion the investors enjoy the same status as ordinary shareholders of the company.

Non-convertible Debentures, which are simply regular debentures, cannot be converted into equity shares. These are debentures without the convertibility feature, these usually carry higher interest rates than their convertible counterparts.

On basis of **Security,** debentures are classified into:

Secured Debentures : These instruments are secured by a charge on the fixed assets of the issuer company. So if issuer fails to pay of either the principal or interest amount, its assets can be sold to repay the liability towards debenture holders.

Unsecured Debentures : These instrument are unsecured in the sense that if the issuer defaults on payment of the interest or principal amount, the investor is treated like other unsecured creditors of the company.

From **Redemption** point of view

Redeemable Debentures : Redeemable debentures are those which are redeemed or paid off after the termination of fixed term. The amount paid off includes the principal amount and the current year's interest. The company always has the option of either to redeem a specific number of debentures each year or redeem all the debentures at specified date.

Irredeemable or Perpetual Debentures : Irredeemable debentures are those debentures which do not have any fixed date of redemption. They are redeemed either in the event of winding up or at a very remote period of time. Irredeemable or perpetual debenture holders can never force the company to redeem their debentures.

Distinguish between a Share and Debenture

Basis	*Share*	*Debenture*
Ownership	Shareholders are the owners of company	Debenture holders are the lenders of company
Form of return	Dividend	Interest
Security	Not secured	Secured by a charge on assets
Voting right	Equity shareholders have the voting right	No voting right in normal course of business
Risk	More risk as compared to Debentures	Risk Free due to secured Debentures

Issue of Debentures

Debentures can be issued in following ways :

1. for cash
2. for consideration other than cash
3. As collateral security

Terms of Issue

Debentures can be issued in following ways:

1. Issue of Debentures at Par
2. Issue of Debenture at Premium
3. Issue of Debentures at Discount.

Debenture Payable in Installments

1. First instalment paid along with application is called as application money.
2. Second instalment paid on allotment is called as allotment money.
3. Subsequent instalments paid are called as call money calls can be more than one and called First call, second call or as the case may be.

Issue of Debentures for Cash

(a) When Debentures amount received in lump sum with the application

On receipt of application money	Bank A/c To Debenture Application and Allotment A/c	Dr.	With the application money received
On acceptance of application money	Debenture Application and Allotment A/c To X% Debentures A/c To Bank A/c	Dr.	With Amount of application money on allotted debentures, and Excess amount refunded.

(b) When Debentures amount received in installments.

In this case accounting entries will be same as at the time of issue of shares in instalments with small change in the name of term like-the share capital word replaced with the X% Debentures A/c, and Share word replaced with Debentures e.g. Equity share capital into 8% Debentures, Equity share application into Debentures Application and follows on.

AT Par : means debentures are issued at face value.

Illustration 1 : Raj Ltd. Issued 2,000 12% Debentures of ₹100 each at par payable ₹25 Application, ₹50 on Allotment and the balance on first and final call. In all 3,000 application were received.

Allotment was made to 2,000 applicant other were rejected. Give Journal entries.

Solution :

In the Books of X Ltd.

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr.		75,000	
	To Debentures Application A/c			75,000
	(Being the application money received on 3,000 Debentures at ₹25 per Debentures)			
	Debentures Application Account Dr.		75,000	
	To 12% Debentures Account			50,000
	To Bank A/c			25,000
	(Being the transfer of application money on 2,000 Debentures to 12% Debentures A/c)			
	Debentures Allotment Account Dr.		1,00,000	
	To 12% Debentures Account			1,00,000
	(Being the amount due on 2,000 Debentures at ₹ 50 per Debentures			
	Bank A/c Dr.		1,00,000	
	To Debentures Allotment A/c			1,00,000
	(Being the receipt of ₹50 on 2,000 Debentures)			
	Debentures First & Final Call A/c Dr.		50,000	
	To 12% Debentures Account			50,000
	(Being the amount due on 2,000 Debentures at ₹25 per Debentures)			
	Bank A/c Dr.		50,000	
	To Debentures First & Final call A/c			50,000
	(Being the receipt of ₹25 on 2,000 Debentures)			

Issue of Debentures at premium : It is issue of Debenture at more than its face value.

Note : Premium is presumed to be demanded on Allotment unless specified and **Credited to Securities Premium Reserve Account**

Illustration 2 : Z Ltd. Invited application for 5,000, 8% Debentures of ₹100 each at a premium of 2%, ₹40 were payable on Application and balance on allotment. Applications were received for 4,800 shares and accepted in full. All money duly received. Journalise the transactions.

Solution :

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr.		1,92,000	
	To Debenture Application A/c			1,92,000
	(Being the application money received on 4800 debentures @ ₹40 per debenture)			
	Debentures Application A/c Dr.		1,92,000	
	To Debenture A/c			1,92,000
	(Being the transfer of application money to 8% debentures account)			
	Debenture Allotment A/c Dr.		2,97,600	
	To 8% Debenture A/c			2,88,000
	To Security Premium Reserve A/c			9600
	(Being the allotment money due on 4,800 debentures @ ₹60 and premium of ₹2 share)			
	Bank A/c Dr.		2,97,600	
	To Debenture Allotment A/c			2,97,600
	(Being the application money received)			

Oversubscription of debentures : In such case excess application are rejected or partial or Pro-rata allotment is done or combination of both is carried on.

Illustration 3 : Ganga Ltd. issued 2,000 12% debentures of ₹100 each at a premium of 10% payable ₹25 on application; ₹40 (including premium) payable on allotment and balance on First and Final Call. In all 3,500 application were received 500 application were rejected and allotment was made to applicants to 3,000 debentures on Pro-rata basis. The excess money was adjusted on allotment. Give journal entries.

Solution :

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr.		87,500	
	To 12% Debentures Application A/c			87,500
	(Being the application money received on 3,500 debentures @ ₹25 per debenture)			
	12% Debenture Application A/c Dr.		87,500	
	To 12% Debentures A/c			50,000
	To Bank Account			12,500

To Debentures Allotment A/c (Being the transfer of application money to Debenture A/c and refund made on rejected Application)			25,000
12% Debenture Allotment A/c Dr. To 12% Debenture Account To Security Premium A/c (Being the allotment money due on 2,000 debentures @ ₹30 and premium of ₹10)		80,000	 60,000 20,000
Bank A/c Dr. To 12% Debenture Allotment A/c (Being the Allotment money received ₹80,000 - ₹25,000)		55,000	 55,000
12% Debenture First & Final Call A/c Dr. To 12% Debenture Account (Being the call money due on, 2000 debentures @ ₹45)		90,000	 90,000
Bank A/c Dr. To 12% Debenture First & Call A/c (Being the call money received)		90,000	 90,000

Issue of Debentures for Consideration other than cash

When Debentures are issued for purchases of asset

When Debentures Issued for purchases Asset at par	Sundry Asset A/c Dr. To Vendor Vendor Dr. To Debenture Account	With the purchases consideration
When Debentures are issued for purchases of asset at premium	Sundry Assets A/c Dr. To Vendor Vendor Dr. To Debenture A/c To Security Premium Reserve A/c	With the purchases Consideration No. of debentures par value No. of debentures x premium
When business is Purchased	When Purchase consideration is equal to net value of assets Sundry Assets A/c Dr. To Sundry Liabilities A/c To Vendor When Purchases consideration more than net value of assets Sundry Asset Account Dr.	 Value of asset Value of liabilities Purchases consideration Value of asset

	Goodwill Account Dr. To Sundry Liabilities A/c To Vendor	Excess of purchase value (B/F) Value of liabilities Purchases consideration
	When Purchase consideration is less than net value of asset Sundry Assets Account Dr. To Sundry Liabilities A/c To Capital Reserve To Vendor	Value of asset Value of liabilities Difference (B/F) Purchases consideration

Illustration 4 : A company purchased assets of book value of ₹99,000 from Girish. It was agreed that Purchase consideration be paid by issuing 11% Debentures of ₹100 each. Assume Debentures have been issued (i) at par (ii) at a premium of 10% Give journal entries in the books of company.

Solution

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
(i)	Sundry Assets A/c Dr. To Girish (Assets Purchased from Girish)		99,000	 99,000
	Debentures are issued at par			
(ii)	Girish Dr. To 11% Debentures A/c (For the issue of debenture at par)		99,000	 99,000
	Debentures are issued at premium :			
(iii)	Girish Dr. To 11% Debentures A/c To Security Premium Reserve A/c (For issue of 900 Debentures of ₹100 each at 9,000 10% premium)		99,000	 99,000 9,000

When Purchases consideration is more than net value of assets

Illustration 5 : A Company issued debentures of ₹100 each at par for the purchases of the following assets and liabilities from Gupta Bros. at purchase consideration of ₹ 5,00,000

Plant–	₹ 3,50,000	Stock	₹ 4,50,000
Land and Building	₹ 6,00,000	Sundry Creditors	₹ 1,00,000

pass necessary Journal entries.

Solution :

Journal

Date	Particulars		LF.	Debit (₹)	Credit (₹)
(i)	Plant A/c	Dr.		3,50,000	
	Land and Building A/c	Dr.		6,00,000	
	Stock A/c	Dr.		4,50,000	
	Good will A/c	Dr.		2,00,000	
	To Sundry Creditors A/c				1,00,000
	To Gupta Bros.				15,00,000
	(Being the purchase of business)				
	Gupta Bros	Dr.		15,00,000	
	To Debenture A/c				15,00,000
	(Being issue of 15,000 shares of ₹ 100 each as payment of business price)				

Calculation : Goodwill = Purchases consideration + liabilities – assets = ₹15,00,000 + ₹1,00,000 – ₹14,00,000 = ₹2,00,000

When Purchases consideration is less than net value of assets

Illustration 6 : Zee Ltd. Took over the following assets and liabilities of business of Usha Ltd. Assets : Machinery-₹1,00,000, Furniture ₹1,80,000 Stock ₹20,000 Liabilities-Creditors ₹80,000

The purchases price was agreed at ₹1,08,000. This is to settle by issue of 12% Debentures at premium of 20% pass necessary Journal entries.

Solution :

Journal

Date	Particulars		LF.	Debit (₹)	Credit (₹)
	Machine A/c	Dr.		1,00,000	
	Furniture A/c	Dr.		1,80,000	
	Stock A/c	Dr.		20,000	
	To Creditors A/c				80,000
	To Capital Reserve A/c (B/F)				1,12,000
	To Usha Co. Ltd.				1,08,000
	(Being the purchases of business)				
	Usha Co. Ltd.			1,08,000	
	To 12% Debenture A/c				90,000
	To Security Premium A/c				18,000
	(Being issue of 900 debentures of ₹100 each at premium of 20%				

Calculations Net assets = Total assets-liabilities = ₹3,00,000 – ₹80,000 = ₹2,20,000 Capital reserve = Net assets – Purchases consideration = ₹2,20,000 – ₹1,08,000 = ₹1,12,000

Illustration 7 : Kirloskar Multimedia Ltd. Purchased machinery costing ₹16,72,000. It was agreed that the purchase consideration be paid by issuing 13% Debentures of ₹100 each. Assume debentures are issued (i) at par, (ii) at a premium of 10% and (iii) at a discount of 5%. Give necessary journal entries.

Journal

Date	*Particulars*		*LF.*	*Debit* (₹)	*Credit* (₹)
	Machinery A/c	Dr.		16,72,000	
	To Vendor				16,72,000
	(Machinery purchased from vendor)				
(i)	Vendor	Dr.		16,72,000	
	To 13% Debentures				16,72,000
	(16,720 13% debentures of ₹100 each issued at par)				
(ii)	Vendor	Dr.		16,72,000	
	To 13% Debentures				15,20,000
	To Securities Premium Reserve A/c				1,52,000
	(15,200 13% debentures of ₹1,00 each issued at a premium of 10%)				
(iii)	Vendor	Dr.		16,72,000	
	Discount on issue of debentures A/c	Dr.		88,000	
	To 13% debentures A/c				17,60,000
	(17,600 13% debentures of ₹100 each issued at a discount of 5%)				

(ISSUE OF DEBENTURES AS COLLATERAL SECURITY)

Collateral Security : Collateral security means security provided to lender in addition to the principal security. It is a subsidiary or secondary security. Whenever a company takes loan from bank or from any financial institution it may issue its debentures as secondary security which is in addition to the principal security. Such an issue of debentures is known as 'issue of debentures as collateral security'. The lender will have a right over such debentures only when company fails to pay the loan amount and the principal security is exhausted. In case the need to exercise the right does not arise debentures will be returned back to the company. No interest is paid on the debentures issued as collateral security because company pays interest on loan.

In the accounting books of the company issue of debentures as collateral security can be credited in two ways :

(i) **First method :** No Journal entry to be made in the books of accounts of the company for debentures issued as collateral security. A note of this fact is given in this case.

(ii) **Second method :** Entry to be made in the books of accounts of the company.

A journal entry is made on the issue of debentures as a collateral security, Debentures Suspense Account is debited because no cash is received for such issue.

Following journal entry will be made

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Debenture Suspense A/c Dr. To % Debentures A/c (Being the issue of Debentures of ₹... each issued as collateral security)			

Illustration 8 : X Ltd. Had ₹12,00,000, 11% Debentures outstanding on 1st April, 2012. During the year, it took a loan of ₹4 Lakh from Canara Bank for which company deposited debentures of ₹ Lakh as collateral security.

Pass journal entries and show how these transactions will appear in Balance Sheet of the company.

FIRST METHOD. NO ENTRY IS PASSED FOR DEBENTURES

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
2012 1st April	Bank A/c Dr. To Canara Bank's loan A/c (Loan taken from bank against collateral security of debentures worth ₹5 Lakhs)		4,00,000	4,00,000

Balance Sheet of X Ltd.
As at 1st April, 2012

Particulars	*Notes No.*	(₹)
Equity and Liabilities		
3. Non-Current Liabilities		
(a) Long-Term Borrowings	1	16,00,000

Notes to Balance Sheet

	(₹)
Note No. 1	
Long-Term Borrowings :	
11% Debentures	12,00,000
Bank Loan (Against collateral security of debentures ₹5,00,000	4,00,000
	16,00,000

Second method. Entry for issue of debentures is passed.

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr.		4,00,000	
	To Canara Bank's loan A/c			4,00,000
	(Loan taken from bank)			
	Debentures Suspense A/c Dr.		5,00,000	
	To 11% Debentures A/c			5,00,000
	(Issue of ₹5,00,000 Debentures issued as collateral Securities)			

Presentation of debenture and Bank loan will remain same as explained in Balance Sheet under 1st methods, however, presentation of information in note will differ.

Balance Sheet of X Ltd.
As at 31st March, 2012 (ASSUMED)

Particulars	*Notes No.*	(₹)
1. Equity and Liabilities		
3. Non-Current Liabilities		
(a) Long-term Borrowings	1	16,00,000

IInd method

Notes to Balance Sheet

	(₹)	(₹)
Note No. 1		
Other Long-term Borrowings :		
11% Debentures (12,00,000 + 5,00,000)	17,00,000	
Less : Debentures Suspense A/c	5,00,000	12,00,000
Bank Loan (Against collateral security of debentures ₹5,00,000)		4,00,000
		16,00,000

Illustration 9 : On 1st April, 2012 A Ltd. took a loan of ₹5,00,000 from the State Bank of India for which the company issued 8% Debentures of ₹6,00,000 as collateral security. Record the issue of debentures in the books of the Co. and also show how the debentures and bank loan will appear in the Balance Sheet of the company.

Solution :

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr.		5,00,000	
	To Bank's loan A/c			5,00,000
	(Loan taken from bank)			
	Debentures Suspense A/c Dr.		6,00,000	
	To 8% Debentures A/c			6,00,000
	(Issue of ₹6,00,000 debenture as collateral Securities)			

Balance Sheet of A Ltd.

As at 1st April, 2012

Particulars	*Notes No.*	*Figure as at the end of current accounting period*	*Figure as at the end of previous accounting period*
1. Equity and Liabilities			
(1) Shareholder's Funds			
(2) Share Application Money Pending Allotment			
(3) Non-Current Liabilities	1	5,00,000	
Total		**5,00,000**	

	(₹)	(₹)
Note No. 1		
Other Long-term Borrowings :		
8% Debentures	6,00,000	
Less : Debentures Suspense A/c	(6,00,000)	Nil
Bank Loan		5,00,000
		5,00,000

Illustration 10 : ABC Ltd had ₹15,00,000, 10% Debentures outstanding as on April, 2012. On 1st Sept. 2012 Company took a loan of ₹5,00,000 from the Punjab National Bank for which the company placed with the bank, 10% Debentures for ₹7,00,000 as collateral Security. Pass journal entries, if any. Also show how the debentures and Bank Loan will appear in the company's Balance Sheet as on 31st March, 2013.

Journal of ABC Ltd.

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
2012	Bank A/c Dr.		5,00,000	
1st Sept	To Bank Loan A/c			5,00,000
	(Loan taken from bank of 5,00,0000)			
	Debentures Suspense A/c Dr.		7,00,000	
	To 10% Debentures A/c			7,00,000
	(Issue of Debentures as Collateral Security)			

Balance Sheet of ABC Ltd.

As at 31 march 2013 (₹ in '000)

Particulars	*Notes No.*	*2012-13*	*2011-12*
1. EQUITY AND LIABILITIES			
(1) Shareholder's Funds			
(2) Non-Current Labilities			
Long-term Borrowing	1	2,000	1,500
(3) Current Liabilities			

Notes to Accounts :

Note 1.

Particulars		*As on 31.03.2012 (₹)*	*As on 31.03.2012 (₹)*
Long Term Borrowing			
(i) 10% Debentures	22,00,000		
Less : Debentures Suspense A/c	(7,00,000)	15,00,000	15,00,000
(ii) Bank Loan		5,00,000	–
Total		**20,00,000**	**15,00,000**

Various cases for the issue of debentures from Redemption point of view.

Case No.	*Condition issue*	*Condition of redemption*
1.	Issued at par	Redemption at par
2.	Issued at premium	Redemption at par
3.	Issued at par	Redemption at premium
4.	Issued at premium	Redemption at premium
5.	Issued at Discount	Redemption at par
6.	Issued at Discount	Redemption at premium

1. When Debentures are issued at par and redeemable at par

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
	Bank A/c Dr. To % Debenture Application and Allotment A/c (Being the application money received			
	Debenture Application and Allotment A/c Dr. To % Debenture A/c (Being the transfer of application money to % Debenture A/c			

Illustration 11 : Larson and Turbo Ltd. Issued 50,000 8% debentures of ₹100 each payable on. Application at par and redeemable at par any time after 7 years from the date of the issue. Record necessary entries for the issue of debentures in the book of Company.

Solution :

In the books of Larson & Toubro Ltd.

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
	Bank A/c Dr.		50,00,000	
	To % Debenture Application and Allotment A/c			50,00,000
	(Being the application money received)			
	Debenture Application and Allotment A/c Dr.		50,00,000	
	To 8% Debentures A/c			50,00,000
	(Being the transfer of application money to debenture account)			

2. When Debentures are issued at Premium redeemable at par

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
	Bank A/c Dr.			
	To % Debentures Application and Allotment A/c			
	(Being the application money received)			
	Debenture Application and Allotment A/c Dr.			
	To % Debenture A/c			
	To Securities Premium Reserve A/c			
	(Being the debenture issued at premium and redeemable at par)			

Illustration 12 : Green Ltd. Issued ₹80,000, 9% Debenture at a premium of 5% redeemable at par Give the necessary Journal entry

Solution :

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
	Bank A/c Dr.		84,000	
	To 9% Debentures Application and Allotment A/c			84,000
	(Being the application money received)			

	9% Debenture Application and Allotment A/c Dr.		84,000	
	To 9% Debenture A/c			80,000
	To Securities Premium Reserve A/c			4,000
	(Being the debenture issued at premium and redeemable at par)			

3. When Debentures are issued at par redeemable at premium

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr.			
	To % Debentures Application & Allotment A/c			
	(Being the application money received)			
	% Debenture Application & Allotment A/c Dr.			
	Loss on issue of Debenture A/c Dr.			
	To % Debenture Account			
	To Premium on Redemption of Debentures A/c			
	(Being the debentures issued at par and redeemable at premium)			

Illustration 13 : White Ltd. Issued ₹60,000 Debenture at par and redeemable at 10% premium. Give the necessary Journal entry.

Solution :

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr.		60,000	
	To % Debenture Application and Allotment A/c			60,000
	(Being the application money received)			
	%Debenture Application and Allotment A/c Dr.		60,000	
	Loss on issue of Debenture A/c Dr.		6,000	
	To % Debenture A/c			60,000
	To Premium on Redemption of Debentures A/c			6,000
	(Being the debenture issued at par and redeemable at premium)			

4. When Debentures are issued at Premium redeemable at premium

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr.			
	To % Debenture Application & Allotment A/c			
	(Being the application money receive)			
	% Debenture Application & Allotment A/c Dr.			
	Loss on issue of Debenture A/c			
	To % Debenture A/c			
	To Securities Premium Reserve A/c			
	To Premium on Redemption of Debenture A/c			
	(Being the debenture issued at premium and redeemable at premium)			

Illustration 14 : Gives Journal Entry assuming the face value of 10% debentures at ₹ 100 issued at ₹ 105 and repayable at ₹ 110.

Solution :

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr.		105	
	To % Debenture Application and Allotment A/c			105
	(Being the application money received)			
	% Debenture Application and Allotment A/c Dr.		105	
	Loss on Issue of Debentures A/c Dr.		10	
	To % Debenture A/c			100
	To Securities Premium Reserve A/c			5
	To Premium on Redemption of Debenture A/c			10
	(Being the debenture issued at 5% Premium and redeemable at 10% premium			

5. When Debentures are issued at Discount but Redeemable at Par

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr. To % Debenture Application & Allotment A/c (Being the application money received.)			
	% Debenture Application & Allotment A/c Dr. Discount on Issue of Debenture A/c Dr. To % Debenture A/c (Being debentured issued at discount but redeemable at part)			

6. When Debentures are issued at Discount and Redeemable at premium

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c Dr. To % Debenture Application & Allotment A/c (Being the application money received)			
	% Debenture Application & Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. Loss on Issue of Debentures A/c Dr. To % Debenture A/c To Premium on Redemption of Debentures A/c (Being the debentures issued at discount and redeemable at premium)			

Illustration 15 : Claris Life Sciences Ltd. issued 5,000 14% Debentures of ₹100 each at a discount of 10%. Pass the necessary journal entries in the books of the company for the issue of debentures when debentures were to be:

(i) Redeemed at par.

(ii) Redeemed at a premium of 5%.

Journal

Date	*Particulars*		*LF.*	*Debit* (₹)	*Credit* (₹)
	Bank A/c	Dr.		4,50,000	
	To Debenture Application and Allotment				4,50,000
	(Application money received on 5,000 debentures @ ₹90 each)				
(i)	Debenture Application and Allotment	Dr.		4,50,000	
	Discount on issue of debentures	Dr.		50,000	
	To 14% Debentures				5,00,000
	(5,000 14% Debentures of ₹100 each issues at a discount of 10%)				
(ii)	Debenture Application and Allotment	Dr.		4,50,000	
	Loss on issue of debenture A/c	Dr.		75,000	
	To 14% Debentures				5,00,000
	To Premium on redemption of Debentures				25,000
	(5,000, 14% debentures of ₹100 each issues at a discount of 10% but redeemable at a premium of 5%)				

INTEREST ON DEBENTURES

Interest on Debentures is calculated at a fixed rate on its face value and is usually payable half yearly & is paid even company is suffering from loss because it is charge on profit.

Income Tax is deducted from interest before payment to debenture holders. It is called T.D.S. (Tax deducted at source).

JOURNAL ENTRIES

(1) When interest is Due

Debenture's Interest A/c	Dr.	(Gross Interest)
To Debenture holder a/c		(Net interest)
To Income Tax Payable A/c		(Income Tax deducted)

(2) When interest is paid

Debenture holder A/c	Dr.	(With interest)
To Bank A/c		

(3)	On payment of Income Tax to Government		
	Income Tax Payable A/c	Dr.	(Amount of Income)
	To Bank A/c		Tax deducted at source)
(4)	On transfer of Interest on debenture to Statement of Profit and Loss A/c		
	Statement of Profit & Loss	Dr.	
	To Debenture Interest A/c		(Amount of Interest)

Illustration 16 : ABC Company Ltd., had 6% debentures of ₹1,00,000 on 1st January 2009 on which interest is paid on 3th June and 31st December. Pass necessary journal entries for the payment of interest for the year 2009, 10% tax is deducted at source from interest and remitted immediately. Books are closed on 31st December.

Solution :

ABC Ltd.

Journal

Date	*Particulars*		*LF.*	*Debit* (₹)	*Credit* (₹)
2009					
June	Interest On Debenture A/c	Dr.		3,000	
30	To Debenture holder A/c				2,700
	To Income Tax Payable A/c				300
	(half yearly debenture interest due and tax deducted at source)				
June	Debenture holder A/c	Dr.		2,700	
30	Income Tax Payable A/c	Dr.		3,00	
	To Bank				3,000
	(Interest & Tax paid)				
Dec.	Interest on Debenture A/c	Dr.		3,000	
31	To Debenture holder A/c				2,700
	To Income Tax Payable				300
	(half yearly debenture interest due and tax deducted at source)				
Dec.	Debenture holders A/c	Dr.		2,700	
31	Income Tax Payable A/c	Dr.		300	2,700
	To Bank A/c				3,000
	(Being Interest & Tax paid)				

Dec. 31	Statement of Profit and Loss Dr. To Interest on Debenture A/c (Debenture Interest (3000+3000) Transferred to Statement of Profit and loss)		6,000	6,000

Illustration 17 : B.G. Ltd. issued 2,000, 12% debentures of ₹100 each on 1st April 2012. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half yearly on 30th September and 31st March and tax deducted at source is 10%.

Pass necessary journal entries related to the debenture interest for the half-yearly ending 31st March, 2013 and transfer of interest on debentures of the year to the Statement of Profit & Loss.

Solution :

Books of B.G. Ltd.

Dr. **Journal** Cr.

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
2013 March 31	Interest on Debentures A/c Dr. To Debentureholder's A/c To Income Tax Payable A/c /TDS from Debenture interest A/c (Half yearly interest due on debentures and tax deducted at source)		12,000	10,800 1,200
March 31	Debentureholder's A/c Dr. To Bank A/c (Payment of Interest)		10,800	10,800
March 31	Income Tax Payable / TDS from Debentures Interest A/c Dr. To Bank A/c (TDS deposited with income tax authorities)		1,200	1,200
March 31	Statement of Profit & Loss Dr. To Interest on Debentures A/c (Interest transferred to Statement of P/L)		24,000	24,000

Question 1: Fill in the missing figures in the following entries:–

Journal

Date	*Particulars*		*LF.*	*Debit* (₹)	*Credit* (₹)
	Case 1				
	Bank A/c	Dr.		....	
	To Debenture Application & Allotment A/c				....
	(Being application money received)				
	Debentures Application & Allotment A/c	Dr.		40,000	
	Loss on issue of Debentures A/c	Dr.		....	
	To 10% Debentures A/c				....
	To Premium on Redemption A/c				....
	(Being issue of 400, 10% debentures of ₹100 each at par and redeemable at premium of 10%)				
	Case 2				
	Bank A/c	Dr.		....	
	To Debenture Application & Allotment A/c				....
	(Being Application money received)				
	Debenture application & Allotment A/c	Dr.		....	
	Loss an issue of Debentures A/c	Dr.		....	
	To 12% Debentures A/c				....
	To Premium on Redemption of Debentures A/c				....
	(Being 200, 12% Debentures issued at ₹90 repayable at ₹110)				
	Case 3				
	Bank A/c	Dr.		....	
	To Debenture Application & Allotment A/c				....
	(Being Application money received)				
	Debenture Application & allotment A/c	Dr.		....	
	Loss on issue of Debentures A/c	Dr.		....	

	To 10% Debentures A/c			....
	To Securities premium Resource A/c			....
	To Premium on Redemption of Debentures A/c			....
	(Being 100, 10% Debentures issued at ₹105 repayable ₹110)			

CHAPTER 9

COMPANY ACCOUNTS – REDEMPTION OF DEBENTURE

Meaning : Redemption of debentures means repayment of the due amount of debentures to the debenture holders. It may be at par or at premium.

Time of Redemption

(a) *At maturity :* When repayment is made at the date of maturity of debentures which is determined at the time of issue of debentures.

(b) *Before maturity :* If articles of association and terms of issue mentioned in prospectus allows, then a company can redeem its debentures before maturity date.

Redemption Methods

(1) **Redemption in Lump-sum :** When redemption is made at the expiry of a specific period, as per the terms of issue.

(2) **Redemption by draw of lots :** In this method a certain proportion of debentures are redeem each, year, the debenture for which repayment is to be made is selected by draw of lots.

(3) **Redemption by purchases in open market :** If articles of association of a company authorize, it may purchases its own debentures from open market *i.e.* stock exchange

Advantages of this Method

(1) When market price of own debentures is low than the redeemable value is less then the amount payable on maturity.

(2) Decrease the amount of interest payable to outsiders.

(3) If term of issue is provided that debentures are to be redeemed at premium then such premium can be reduced.

Sometimes company can purchases the debentures at more than the redeemable value due to the following reasons:

1. To maintain the solvency ratio.
2. To utilize the surplus money or funds which are lying idle with the company.
3. When rate of interest on debentures is more than the current market rate of interest on debentures in the industry.

Sources of Redemption of Debentures

1. Proceeds from fresh issue of Share Capital or Debentureholder.
2. From accumulated profit.
3. Proceeds from sale of fixed assets.
4. A company may purchases its own debentures out of its surplus funds.

Two terms which are used in the redemption of debentures :

1. **Redemption out of capital :** When a company has not used its reserve or accumulated profit for redemption of its debentures, it is called redemption out of capital, So company using this method have not transferred its profit to DRR A/c. But as per SEBI guidelines it is necessary for a company to transfer 50% amount of nominal value of debentures to be redeemed in DRR A/c before redemption of debentures commence.
2. **Redemption out of profit :**Redemption out of profit means that adequate amount of profits are transferred to DRR A/c from Statement of Profit & Loss before the redemption of debenture commences. This reduces the amount available for dividends to shareholders.

Debenture Redemption Reserve (DRR) : Section 71 (4) of the companies Act, 2013 requires the company to create DRR out of the profits available for dividend and the amount created in DRR shall not be utilized for any purpose except redemption.

Rule 18 (7) of Companies (share capital and Debentures) Rules, 2014 requires the following companies to create DRR of an amount equal to 25% of the value of Debentures:–

(i) NBFCs registered with RBI

(ii) Financial institutions other than all India Financial Institutions regulated by RBI.

(iii) Housing finance companies registered with National Housing Bank. DRR is required for publicly three classes of companies, not for privately placed.

(iv) Any other company (whether listed or unlisted), DRR to be created for both public and private placed debenture.

As per rule 18 (7) (c), every company required to create / Maintain DRR shall invest or deposit before 30th April specified. Securities a sum which shall not be less than 15% of the amount of debentures, maturing for payment during the year ending 31st March of the next year.

Exemption to create DRR:–

(i) All India Financial Institutions regulated by RBI.

(ii) Banking Companies.

Redemption Methods : (1) Redemption in Lump-sum

(A) Redemption at Par

Illustration 1 : X Ltd. Redeemed its 10,000 10% Debentures of ₹10 each at par on 31st March 2015.

X Ltd.

Date	*Particulars*		*LF.*	*Debit* (₹)	*Credit* (₹)
2014	Debenture Redemption Investment A/c	Dr.		15,000	
Apr.30	To Bank A/c				15,000
	(Being Investment mode in specified securities)				
2015	Balance in Statement of Profit & Loss A/c	Dr.		25,000	
31st March	To Debenture Redemption Reserve A/c				25,000
	(Being transfer of profit to Debenture Red. Reserve)				
	Bank A/c	Dr.		15,000	
	To Debenture Redemption investment A/c				15,000
	(Investment being encashed)				
31st	10% Debenture A/c	Dr.		1,00,000	
March	To Debentureholder A/c				1,00,000
	(Being the amount due to Debentureholders)				
31st	Debenture holder A/c	Dr.		1,00,000	
March	To Bank A/c				1,00,000
	(Being the amount paid to Debentureholders)				

31st March	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR A/c closed by transfer to General Reserve A/c after redemption of all Debentures)		25,000	25,000

(B) Redemption at Premium

Illustration 2 : Z Ltd. Redeemed its 1,00,000 10% Debentures of ₹10 each at 5% premium on 31 March 2015.

Z Ltd.

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
2014 Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being Investment made)		1,50,000	1,50,000
2015 31st March	Balance in Statement of Profit & Loss A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profit to Debenture Redemption Reserve)		2,50,000	2,50,000
2015 Mar.31	Bank A/c Dr. To Deb. Redemption Investment A/c (Being investment encashed)		1,50,000	1,50,000
31st March	10% Debenture A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders A/c (Being the amount due to Debenturesholders)		10,00,000 50,000	10,50,000
31st March	Debentureholders A/c Dr. To Bank A/c (Being the amount paid to Debentureholders)		10,50,000	10,50,000
31st March	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR A/c closed by transfer to General Reserve A/c after redemption of all Debentures)		2,50,000	2,50,000

Illustration 3 : Rajesh Export Ltd. has 2,000, 9% Debentures of ₹100 each due on redemption on 31st march 2015. Debentures redemption reserve has a balance of

₹30,000 on that date. Record the necessary journal entries at the time of redemption of debentures.

Rajesh Export Ltd.

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
2014 31st March	Balance in Statement of Profit & Loss A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profit to Debenture Redemption Reserve)		20,000	20,000
2014 Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being Investment in specified securities made)		30,000	30,000
31st March	10% Debentures A/c Dr. To Debentureholders A/c (Being the amount due to Debentureholders)		2,00,000	2,00,000
31st March	Debenturesholders A/c Dr. To Bank A/c (Being the amount paid to Debenturesholders)		2,00,000	2,00,000
2015 Mar.31	Bank A/c Dr. To Deb. Redemption Investment A/c (Being Investment encashed)		30,000	30,000
31st March	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR A/c closed by transfer to General Reserve A/c after redemption of all Debentures)		50,000	50,000

Illustration 4 : Rahul Ltd. has 50,000 9% Debentures of ₹50 each due on redemption on 31st March 2015. Debentures redemption reserve has a balance of ₹5,00,000 on that date. Record the necessary journal entries at the time of redemption of debentures.

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
2014 31st March	Balance in Statement of Profit & Loss A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profit to Debenture Redemption Reserve)		1,25,000	1,25,000
2014 Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being Investment in specified securities made)		75,000	75,000

31st March	10% Debentures A/c Dr. To Debentureholders A/c (Being the amount due to Debentureholders)		25,00,000	25,00,000
31st March	Debentureholders A/c Dr. To Bank A/c (Being the amount paid to Debentureholder)		25,00,000	6,25,000
2015 31st Mar.	Bank A/c Dr. To Deb. Redemption Investment A/c (Being Investment encashed)		75,000	75,000
31st March	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being DRR A/c Closed by transfer to General Reserve A/c after redemption of all debentures		6,25,000	6,25,000

Illustration 5 : HDFC Bank Ltd. has outstanding 10,000, 9% Debentures of ₹50 each due on redemption on 31st March 2015. Record the necessary journal entries at the time of redemption of debentures.

Rajesh Export Ltd.

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
2015				
31st March	10% Debentures A/c Dr. To Debentureholders A/c (Being the amount due to Debentureholders)		5,00,000	5,00,000
31st March	Debentureholder A/c Dr. To Bank A/c (Being the amount paid to Debentureholders)		5,00,000	5,00,000

Note : The Banking Companies are exempted from creating DRR as per Rule 18 (7) of companies (share capital and debentures) Rules, 2014

Illustration 6 : ICICI Bank Ltd., a Banking company has outstanding 10 lac, 9% Debentures of ₹5 each due for redemption on 30st Sept. 2015. Record the necessary entries at the time of redemption of debentures.

Solution :

Journal of AN Power Ltd.

(₹ *in Lac*)

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
2015 30th Sept.	9% Debentures A/c Dr. To Debentureholders A/c (Being the amount due to Debentureholders on redemption		50	50
30th Sept.	Debentureholders A/c Dr. To Bank A/c (Being the amount due to Debentureholders paid)		50	50

Note : As per SEBI Guideline, Banking companies are exempted from creating Debenture Redemption Reserve.

Illustration 7 : Abha Ltd. has 5,000 10% Debentures of ₹20 each due for redemption on 30th Sept. 2015. Debenture Redemption Reserve has a balance of ₹20,000 on that date. Record the necessary entries at the time of redemption of debentures.

Journal in the Books of Abha Ltd.

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
2015 Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made).		15,000	15,000
2015 30th Sept.	Balance in Statement of Profit and Loss A/c Dr. To Debenture Redemption Reserve A/c (Being the required amount transferred to DRR)		5,000	5,000
2015	Bank A/c Dr. To Debenture Redemption Investment A/c (Being investment encashed)		15,000	15,000
30th Sept.	10% Debentures A/c Dr. To Debentureholder's A/c (Being the amount due to Debentureholders on redemption)		1,00,000	1,00,000
30th Sept.	Debentureholder's A/c Dr. To Bank A/c (Being the amount due to Debentureholders paid)		1,00,000	1,00,000

30th Sept	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being the DRR transfer to General Reserve)		25,000	25,000

Illustration 8 : Vivek Transport Ltd. has 5,000; 10% Debentures of ₹20 each due for redemption on 30th sept. 2015. Debenture Redemption Reserve has a Balance of ₹80,000 on that date. Record the necessary entries at the time of redemption of debentures.

Solution :

Journal in the Books of Vivek Transport Ltd.

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
2015 30 Apr.	Debenture Redemption Investment A/c Dr. To Bank A/c (Being investment made for debentures redemption)		15,000	15,000
30 Sep.	Balance in statement of Profit/loss A/c Dr. To Debenture Redemption Reserve A/c (Being Deb. Red. Reserve created upto 100% of amount of Debentures.		20,000	20,000
30 Sep.	Bank A/c Dr. To Debenture Red. Investment A/c (Being investment encashed)		15,000	15,000
30 Sep.	10% Debentures A/c Dr. To Debentures A/c (Being amount due to Debentures holders on Red.)		1,00,000	1,00,000
30 Sep.	Debentures holders A/c Dr. To Bank A/c (Being amount paid to Debentures holders		1,00,000	1,00,000
30 Sep.	Debentures Red. Reserve A/c Dr. To General Reserve A/c (Being Deb. Red. Res. Amount transferred is Gen. Reserve)		1,00,000	1,00,000

Illustration 9 : Rahul Ltd. redeemed ₹ 25,00,000; 12% Debentures at a premium of 5% out of profit on 30th Sept., 2015. Pass the necessary journal entries for the redemption of debentures.

Solution :

Journal in the Books of Rahul Ltd.

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
2015	Debenture Redemption investment A/c Dr.		3,75,000	
	To Bank A/c			3,75,000
	(Being investment made equal to 15% of the debentures be redeemed in current financial year)			
30 Sep.	Bank A/c Dr.		3,75,000	
	To Debenture Redemption investment A/c		3,75,000	
	(Being Deb. Red. Investment encashed)			
30 Sep.	Balance in statement of Profit & loss A/c Dr.		25,00,000	
	To Debenture Red. Reserve A/c			25,00,000
	(Being amount equal to 100% of Debenture amount transferred to Deb. Red. Reserved A/c			
30 Sep.	12% Debentures A/c Dr.		25,00,000	
	Premium on Red. of Debentures A/c Dr.		1,25,000	
	To Debenture holders A/c			26,25,000
	(Being the amount due to Debentures holders)			
30 Sep.	Bank A/c Dr.		3,75,000	
	To Deb. Red. Investment A/c			3,75,000
	(Being Deb. Red. investment encashed)			
30 Sep.	Debenturesholders A/c Dr.		26,25000	
	To Bank A/c			26,25,000
	(Being payment made to Debentures holders)			
30 Sep.	Debentures Redemption Reserve A/c Dr.		25,00,000	
	To Gern. Reserve A/c			25,00,000
	(Being DRR transferred to General Reserve)			

Redemption method : 2 Draw of lots

Illustration 10 : S Ltd. redeemed its ₹10,000, 8% Debentures out of capital by drawing a lot on 30 Nov. 2015. Journalise.

Solution

Journal of S. Ltd.

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
2015 Apr.30	Debenture Redemption Investment A/c Dr. To Bank A/c (Being Investment in specified securities made)		1,500	 1,500
2015 30th Nov.	Balance in Statement of Profit & Loss A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profit to Debenture Redemption Reserve)		2,500	 2,500
	Bank A/c Dr. To Deb. Redemption Investment A/c (Being Investment encashed)		1,500	 1,500
30th Nov.	10% Debentures A/c Dr. To Debentureholders A/c (Being the amount due to Debentureholders)		10,000	 10,000
30th Nov.	Debentureholders A/c Dr. To Bank A/c (Being the amount paid to Debentureholders)		10,000	 10,000

Note : The DRR Balance will be transferred to General Reserve after all the debentures are redeemed.)

Illustration 12 : Y Ltd redeemed its ₹ 20,000, 9% debentures out of profit by drawing of lot on 30th Nov. 2015 Journalise.

Y Ltd.

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
2015 Apr.30	Deb. Redemption Investment A/c Dr. To Bank A/c (Being Investment made)		3,000	 3,000
2015 30th Nov.	Balance in Statement of Profit & Loss A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profit to Debenture Redemption Reserve)		5,000	 5,000

2015 Nov.30	Bank A/c Dr. To Deb. Redemption Investment A/c (Being Investment encashed)		3,000	3,000
30th Nov.	10% Debentures A/c Dr. To Debentureholders A/c (Being the amount due to Debentureholders)		20,000	20,000
30th Nov.	Debentureholders A/c Dr. To Bank A/c (Being the amount paid to Debentureholders)		20,000	20,000

Note : The DRR Balance will be transferred to General Reserve after all the debentures are redeemed.

Illustration 13 : Pass the necessary journal entries for the issue and redemption of Debentures in the following cases:

(*i*) 10,000, 10% debentures of ₹120 each issued at 5% premium, repayable at par.

(ii) 20,000, 9% Debentures of ₹200 each issued at 20% premium, repayable at 30% premium.

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
(i)	Bank A/c Dr. To Debenture Application and Allotment A/c (Being receipt of Application money		12,60,000	12,60,000
	Debenture Application and Allotment A/c Dr. To 10% Debentures A/c To Securities Premium A/c (Being Issue of 10% Debenture at premium redeemable at par)		12,60,000	12,00,000 60,000
At the time of redemption	10% Debenture A/c Dr. To Debentureholder A/c (Being amount due to debentureholder)		12,00,000	12,00,000
	Debentureholder A/c Dr. To Bank A/c (Being the amount paid to debentureholders		12,00,000	12,00,000
(ii)	Bank A/c Dr To Debenture Application And Allotment A/c (Being receipt of Application money)		48,00,000	48,00,000

	Debentures Application and Allotment A/c Dr.		48,00,000	
	Loss on Issue of Debentures A/c Dr.		12,00,000	
	To 9% Debenture A/c			40,00,000
	To Securities Premium Reserve A/c			8,00,000
	To Premium on Redemption of Debentures A/c			12,00,000
	(Being Issue of 9% Debenture at premium redeemable at premium)			
At the time of redemption	9% Debenture A/c Dr.		40,00,000	
	Premium on Redemption of Debenture A/c Dr.		12,00,000	
	To Debentureholder A/c			52,00,000
	(Being amount due to debentureholder)			
	Debentureholder A/c Dr.		52,00,000	
	To Bank A/c			52,00,000
	(Being the amount paid to Debentureholders)			

Note 1. It is assumed that company has invested 15% of redeemable amount an April 30 and incashed it as per Companies Act, 3013.

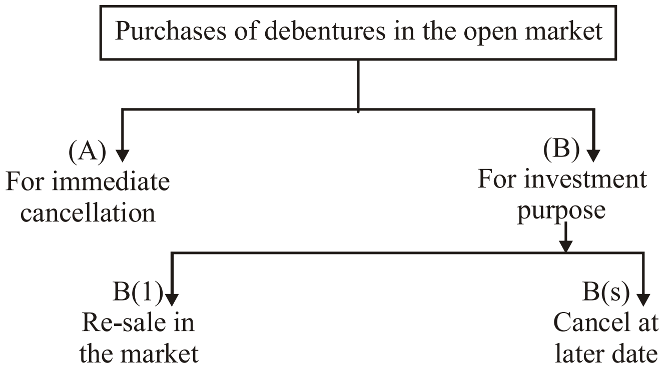
2. It is assumed that company has created debenture Redemption Reserve @25% of the redeemable debenture and transferred it to General Reserve after redemption of all the debentures.

Redemption Method 3 : Redemption of debentures by the purchase of own debentures in the open market. According to the Companies Act, a company can redeem its debentures in full or in part by purchasing its own debentures in the open market (Stock exchange) provided the company is authorised to do so by its Articles of Association.

Suitability of this Method

1. When interest rate on own debentures is higher than the market interest rate.
2. When own debentures are quoted at a discount in the open market, a company can earn profit on redemption as debentures are available at below its nominal value in the market, otherwise normal redemption may be at par or at premium.

Debenture Redemption Reserve : Creation of Debenture Redemption Reserve (DRR) is necessary if debentures have been purchased for cancellation. Unless otherwise stated in question, it is assumed that the company has adequate balance in DRR before initiating the process of purchase of debentures for cancellation.



Accounting Treatment

(A) When Debentures are purchased from the open market for immediate cancellation :

(i) When own debentures are purchased : e.g. if a company purchase 1,000 of its own debentures of ₹50 each at ₹49 (including all purchase exp.) in the open market for immediate cancellation.

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
	Own debentures A/c Dr.		49,000	
	To Bank A/c			49,000
	(Being the purchase of 1000 own debentures @ 49 each)			

(ii) For cancellation of own debentures :

There may be three case – (a) when own debentures are purchased at nominal price – the entry passed is for cancellation :

X% Debentures Dr. (Nominal Face Value of Deb.)

To Own Debentures A/c{Purchase Cost}

(b) When own debentures are purchased at price below Nominal value of Debentures : the entry passed is for cancellation:

(i) X% Debentures A/c Dr. [Nominal/Face Value Debentures]

To Own Debentures A/c (Purchase cost of own Deb.)

To Profit on Cancellation of own Debentures A/c [Profit]

Hint : (Profit on cancellation is the Excess of nominal value over purchase cost of own debentures cancelled)

Profit on cancellation of own debentures is a capital profit and therefore, is transferred to capital Reserve (or it may be used to write off discount/Loss on issue of debentures) the entry is :

To writing off Capital losses.

(ii) Profit on cancellation of own debentures A/c or

To Capital Losses (if any) A/c

To Capital Reserve A/c

in above example the entries for cancellation of debentures will be :

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	X % Debentures A/c Dr.		50,000	
	To Own debentures A/c			49,000
	To Profit on cancellation of own debentures A/c			1,000
	(Cancellation of own debentures)			
	Profit on Cancellation of Own Debentures A/c Dr.		1,000	
	To Capital Reserve			1,000
	(Profit on conciliation of own Den. is transferred to capital Reserve)			

(C) When own debentures are purchased at a price above its face value. e.g. Debentures of the face value of ₹40,000 are purchased in the open market at ₹42,000, the entry will be

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Own Debentures A/c Dr.		42,000	
	To Bank A/c			42,000
	(Purchases of own debentures for ₹ 42000)			
	X% Debentures A/c Dr.		40,000	
	Loss on Redemption of Debentures A/c Dr.		2,000	
	To own Debentures A/c			42,000
	(Cancellation of own debentures)			

'Loss on Redemption of Debentures' is a capital loss and is therefore written off against capital profit or in the absence of capital profit is written off from statement of profit and loss.

(B) Purchase of own Debentures from open market for investment purpose : e.g. if a company purchase it 9% debentures of ₹50,000 at ₹49,000 as investment the entry will be:

Journal

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Investment in Own Debentures A/c Dr.		49,000	
	To Bank A/c			49,000
	(Being Purchases of own debentures as investment)			

It should be noted that in the above entry an account named "Investment in own debentures A/c" is debited with purchase cost instead of "own debentures A/c" because own debentures have been purchased as an assets. "Investment in own debenture" will appear on the assets side under Non-Current Investment or current investment depending upon the time of Cancellation/Redemption or resell time.

Advantages : Reasons for Purchase of own Debentures as Investment :

(i) Debentures are available in open market at a price below its nominal value.

(ii) These debentures can be resold at profit in the market OR can be cancelled if the market price of such debentures further goes down.

(iii) Interest payment on such debentures is saved which would otherwise be paid to debenture holders.

Resell these debenture in the market : the journal entries will be :

Bank A/c Dr.

(Net amount realised from own Deb.)

Loss on sale of own Debentures A/c*Dr. (Excess of cost over sale price)

To Investment in own Debentures A/c (cost of own debentures)

To Profit on sale of own Debentures A/c*(Excess of sale price over cost)

Note : *There will be one entries from two above Profit or Loss as the case. Loss or Profit on sale of own debentures will be transferred to Statement of profit and loss at the end of accounting year.

Profit on sale of own Debentures A/c Dr.

To Statement of Profit and Loss

B (II) On Cancellation of Debentures at a later date :

(a) X% Debentures A/c Dr.

Loss on cancellation of own Debentures A/c Dr..

To Investment in own Debentures A/c

To Profit on cancellation of own Debentures A/c

(b) Profit on cancellation of own Debentures A/c Dr.

To Capital Reserve A/c

Illustration 14: Raj Electrical Ltd. had ₹5,00,000; 10% Debentures of ₹100 each outstanding on 31st Jan 2015. On this date, company decided to purchase ₹50,000 worth debentures at ₹97 in the open market.

Give Journal entries if:

(i) Debentures are purchased for immediate cancellation.

(ii) Debentures are purchase as investment (A), and on 31st March 2015 sold for ₹52,000 or (B) if cancelled on 31st March, 2015 (treatment of interest is to be ignored).

Solution

I. Debentures Purchased for Cancellation

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
2015	Own Debentures A/c Dr.		48,500	
Jan.31	To Bank A/c (₹50,000 debentures Purchased at ₹97 per debentures for cancellation)			48,000
Jan.31	10% Debentures A/c Dr.		50,000	
	To Own Debentures A/c			48,500
	To Profit on Canciliation of Own Debentures A/c			1,500
	(Cancellation of own debenture)			

	Profit cancellation of Own Debentures A/c Dr.		1,500	
	To Capital Reserve A/c			1,500
	(Profit cancellation transferred to Capital Reserve)			

II. When Debentures are purchased as investment.

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
2015	Investment in Own Debentures A/c Dr.		48,500	
Jan.31	To Bank A/c			48,500
	(Purchase of 500 Debentures @ ₹97 each as investment)			

II. (A) If Debentures purchases as investment are sold for ₹52,000 on 31st March, 2014

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
2015	Bank A/c Dr.		52,000	
Mar.31	To Investment in Own Debenture A/c			48,500
	To Profit on sale of Own Debenture A/c			3,500
	(Sale of investment in own debentures)			
Mar.31	Profit on sale of Own Debentures A/c Dr.		3,500	
	To Statement of Profit & Loss A/c			3,5000
	(Profit on sale of own debentures transferred to statement of P/L			

II. (B) If debentures purchased as investment are cancelled.

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
2015	10% Debentures A/c Dr.		50,000	
Mar.31	To Investment in Own Debentures A/c			48,500
	To Profit on cancellation of Own Debentures A/c			1,500
	(Being own debentures concealed)			

Mar.31	Profit on cancellation of Own Deb. A/c Dr.		1500	
	To Capital reserve A/c			15000
	(Being Profit on cancelation transferred to capital reserve			

Treatment of Interest on own Debentures : When a company purchase it own debentures for investment and has not cancelled them upto the interest payment due date. The company will pay interest only to outside debentures holders and interest on own debentures held by the company is retained by the company entries will be:

(i) When interest becomes due on Debentures:

Debentures interest A/c Dr. (Total interest)

To Debentureholder's A/c (Int. for outsides)

To Int. on own Debentures A/c (Interest on Own Debentures)

(ii) On Payment of interest to outsider debentures holders:

Debentures holders A/c Dr.

To Bank A/c

(iii) Transfer of Int. to statement of P/L at the end of accounting year:

(a) Statement of Profit & Loss Dr. (Total Int. of accounting

To Debentures interest A/c year transferred)

Transfer of Interest on own debentures to statement of Profit & Loss

Interest on own debentures A/c Dr.

To Statement of Profit & Loss

Illustration 15 : If in illustration no. 14. Interest on debentures to be provided on 30th Sept. 31st March every year. Give the journal entries for int. on debentures on 31st March, 2015.

Solution

Journal

Date	*Particulars*	*LF.*	*Debit (₹)*	*Credit (₹)*
2014	Debenture Interest A/c Dr.		25,000	
Mar.31	To Debenturesholders A/c			22,500
	To Interest on own debentures A/c			2,500

	(Inst. on ₹4,50,000 debentures @ 10% p.a. for half year and on ₹50,000 own Deb.)			
Mar.31	Debenturesholders A/c Dr.		22,500	
	To Bank A/c			22,500
	(Interest paid on ₹4,50,000 debentures)			
Mar.31	Statement of Profit & Loss Dr.		50,000	
	To Debentures interest A/c			50,000
	(Interest of whole year transferred to statement of Profit & Loss)			
Mar.31	Interest on Own Debentures A/c Dr.		2,500	
	To Statement of Profit & Loss			2,500
	(Interest earned on own debentures transferred to Statement of Profit & Loss			

Questions: Filling the missing figures in the following journal entries

Journal Entries

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
2014	Debenture Redemption Investment A/c Dr.		....	
April, 30	To Bank A/c			....
	(Being Investment @ 15% of the redeemable debentures made as per Rule 18 (7)			
2015	Bank A/c Dr.		....	
March,31	To Debenture Redemption Investment A/c			....
	(Being Investment enchashed)			
”	Balance in Statement of P&L A/c Dr.		....	
	To Debenture Redemption Reserve A/c			....
	(Being profits transferred to DRR as per Rule 18 (7)			
”	8% Debentures A/c Dr.		6,00,000	
	Premium Redemption of Deb. A/c Dr.		....	
	To Debenture holders A/c			....
	(Being amount of 8% Debentures of ₹100 due redemption at 5% premium)			
”	Debenture holders A/c Dr.		....	
	To Bank A/c			....
	(Being Payment made)			

”	Debenture Redemption Resour A/c Dr.		....	
	To General Reserve A/c			....
	(Being amount of DRR transferred to General Reserve A/c)			

Question 2: Filling the missing figures

Journal Entries

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
	Case 1			
	Own Debentures A/c Dr.		....	
	To Bank A/c			....
	(Being 500 own debentures of ₹97 for immediate cancellation)			
	10% Debentures A/c Dr.		....	
	To own debentures A/c			....
	To Profit on Redemption of Deb. A/c			
	(Being own debentures cancelled)			
	............................A/c Dr.		....	
	To ....A/c			....
	(Being profit on redemption transferred to capital Reserve)			
	Case 2			
	....A/c Dr.		....	
	To Bank A/c			....
	(Being 200 own debenture of ₹100 each purchased at ₹96 plus 150 for brokerage)			
	8% Debentures A/c Dr.		....	
	To own Debentures A/c			....
	To ....A/c			....
	(Being own debentures cancelled)			
	Profit an Redemption of Deb. A/c Dr.		....	
	To ....A/c			....
	(Being profit an Redemption transferred)			

Question 3: Filling the missing information in following journal entries

Journal Entries

Date	*Particulars*	*LF.*	*Debit* (₹)	*Credit* (₹)
2012	Bank A/c Dr.		....	
Apr. 1	To Debenture Application and Allotment A/c			....
	(Being application money received)			
”	Debentures Application and Allotment A/c Dr.		....	
	Loss an issue of Debentures A/c Dr.		....	200,000
	To Premium on Redemption of Debentures A/c			....
	(Being Debentures issued at discount of 5% repayable at 10% premium)			
2014	Debenture Redemption Investment A/c Dr.		....	
Apr. 30	To Bank A/c			....
	(Being Investment @ 15% of Redeemable amount mode in specified securities			
2015	Bank A/c Dr.		....	
March 31	To Debentures Redemption Investment A/c			....
	(Being investment encashed)			
”	Balance in statement of P&L A/c Dr.		....	
	To Debenture Redemption Reserve A/c			....
	(Being profit transferred to DRR)			
	8% Debentures A/c Dr.		....	
	Premium Redemption of Deb. A/c Dr.		....	
	To Debenture holders A/c			....
	(Being Debentures due for redemption)			
	Debentureholders A/c Dr.		2,20,000	
	To Bank A/c			2,20,000
	(Being amount paid to Debentureholders)			
	Debenture Redemption Reserve A/c Dr.		....	
	To General Reserve A/c			....
	(Being Balance in DRR transferred to General Reserve)			