

REDEMPTION OF DEBENTURES (Revised) (Including latest amendments)

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

Section 71 of Companies Act, 2013

- (1) A company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption
- (2) **No company shall issue any debentures carrying any voting rights.**
- (3) Where debentures are issued by a company under this section, the company shall create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account shall not be utilised by the company for any purpose other than the redemption of debentures.
- (4) A company shall pay interest and redeem the debentures in accordance with the terms and conditions of their issue.
- (5) Where a company fails to redeem the debentures on the date of their maturity or fails to pay interest on the debentures when they fall due, the Tribunal may, on the application of any or all of the debenture-holders, or debenture trustee and, after hearing the parties concerned, direct, by order, the company to redeem the debentures forthwith by the payment of principal and interest due thereon.

Rule 18 of Companies Share capital and Debentures) Rules, 2014

- (1) The company shall not issue secured debentures, unless it complies with the following conditions, namely:—
 - (a) An issue of secured debentures may be made, provided the date of its redemption **shall not exceed ten years from the date of issue :**
Provided that the following classes of companies may issue secured debentures for a period exceeding ten years but **not exceeding thirty years,**
 - (i) Companies engaged in setting up of infrastructure projects;
 - (ii) 'Infrastructure Finance Companies' as defined in clause (viiia) of sub-direction (1) of direction 2 of Non-Banking Financial (Non-deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;
 - (iii) 'Infrastructure Debt Fund Non-Banking Financial Companies' as defined in clause (b) of direction 3 of Infrastructure Debt Fund Non-Banking Financial Companies (Reserve Bank) Directions, 2011;
 - (iv) Companies permitted by a Ministry or Department of the Central Government or by Reserve Bank of India or by the National Housing Bank or by any other statutory authority to issue debentures for a period exceeding ten years.

- (b) Such an issue of debentures shall be secured by the creation of a charge on the properties or assets of the company or its subsidiaries or its holding company or its associates companies, having a value which is sufficient for the due repayment of the amount of debentures and interest thereon.
 - (c) the company shall appoint a debenture trustee before the issue of prospectus or letter of offer for subscription of its debentures and not later than sixty days after the allotment of the debentures, execute a debenture trust deed to protect the interest of the debenture holders; and
- (2) As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, The company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, (refer para 3.4 below) in accordance with the conditions given below:-
- (a) Debenture Redemption Reserve shall be created out of profits of the company available for payment of dividend;
 - (b) the limits with respect to adequacy of Debenture Redemption Reserve and Investment or deposits, as the case may be, shall be as under;-
 - (i) Debenture Redemption Reserve is not required for debentures issued by All India Financial Institutions regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures;
 - (ii) For other Financial Institutions within the meaning of clause (72) of section 2 of the Companies Act, 2013, Debenture Redemption Reserve shall be as applicable to Non Banking Finance Companies registered with Reserve Bank of India.
 - (iii) For listed companies (other than All India financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in the following cases -
 - (A) in case of public issue of debentures
 - A for NBFCs registered with Reserve Bank of India under section 45-1A of the RBI Act, and for Housing Finance Companies registered with National Housing Bank;
 - B for other listed companies;
 - (B) in case of privately placed debentures, for companies specified in sub-items A and B,
 - (iv) for unlisted companies, (other than All India financial Institutions and Banking Companies as specified in sub-clause (i)) -
 - (A) for NBFCs registered with RBI under section 45-1A of the Reserve Bank of India Act, 1934 and for Housing Finance Companies registered with National Housing Bank, Debenture Redemption Reserve is not required in case of privately placed debentures.
 - (B) **for other unlisted companies, the adequacy of Debenture Redemption Reserve shall be ten percent, of the value of the outstanding debentures;**

- (v) In case a company is covered in item (A) or item (B) of sub clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued invest or deposit, as the case may be, **a sum which shall not be less than fifteen per cent.** of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods.

Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen per cent, of the amount of the debentures maturing during the 31st day of March of that year,

- (vi) for the purpose of sub clause (v), the methods of deposits or investments, as the case may be, are as follows: -

(A) in deposits with any scheduled bank, free from any charge or lien;

(B) in unencumbered securities of the Central Government or any State Government;

(C) in unencumbered securities mentioned in sub-clause (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882;

(D) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882:

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

- (c) **in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule,**
- (d) the amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures.

METHODS OF REDEMPTION OF DEBENTURES

Redemption of debentures must be done according to the terms of issue of debentures and any deviation therefrom will be treated as a default by the company.

Redemption by paying off the debt on account of debentures issued can be done in one of the three methods viz:

BY PAYMENT IN LUMP SUM

Under payment in lumpsum method, at maturity or at the expiry of a specified period of debenture the payment of entire debenture is made in one lot or even before the expiry of the specified period.

BY PAYMENT IN INSTALMENTS

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

PURCHASE OF DEBENTURES IN OPEN MARKET

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

Suppose a company has issued 8% debentures for Rs. 10,00,000, interest being payable on 31st March and 30th September every year. The company purchases Rs. 50,000 debentures at Rs. 96 on 1st August 2021. This means that the company will have to pay Rs. 48,000 as principal plus Rs. 1,333 as interest for 4 months.

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

It should be noted that even though Rs. 50,000 debentures have been purchased for Rs. 48,000 there is no profit. On purchase of the debentures, profit does not arise; only on sale and in this case on cancellation of debentures, profit could arise.

These debentures may be cancelled on same date. The journal entries to be passed will be the following:

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

Journal Entries

Own Debentures A/c	Dr.
Interest A/c	Dr.
To Bank A/c	

Debentures A/c	Dr.
To Own Debentures A/c	
To Profit on cancellation A/c	

Basic provisions

If a charge has been created on any asset or the entire assets of the company,

- the nature of the charge
- the asset (s) charged

are described therein.

- Since the charge is not valid unless registered with the Registrar, his certificate registering the charge is printed on the bond.
- It is also customary to create a trusteeship in favour of one or more persons in the case of mortgage debentures. The trustees of debenture holders have all powers of a mortgage of a property and can act in whatever manner they think necessary to safeguard the interest of debenture holders.

As per Rule 18(2) of the Companies (Share Capital and Debentures) Rules, 2014, the company shall appoint debenture trustees as required under sub-section (5) of section 71 of the Companies Act 2013, after complying with certain conditions mentioned in that rule.

REQUIREMENT TO CREATE DEBENTURE REDEMPTION RESERVE

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

(1) Where a company issues debentures under this section, it should create a debenture redemption reserve account out of its profits which are available for distribution of dividend every year until such debentures are redeemed.

(2) The amounts credited to the debenture redemption reserve should not be utilised by the company for any purpose except for the purpose aforesaid.

BALANCE IN DEBENTURE REDEMPTION RESERVE (DRR)

When the company decides to establish the Debenture Redemption Reserve Account, the amount indicated by the Debenture Redemption Reserves tables is credited to the Debenture Redemption Reserve account and debited to profit and loss account. That shows the intention of the company to set aside sum of money to build up a fund for redeeming debentures. Immediately, the company should also purchase outside investments. The entry for the purpose naturally will be to debit Debenture Redemption Reserve Investments and credit Bank.

If the debentures are purchased within the interest period, the price would be inclusive of interest provided these are purchased "Cum-interest"; but if purchased "Ex-interest", the interest to the date of purchase would be payable to the seller additionally. In order to adjust the effect thereof the amount of interest accrued till the date of purchase, if paid, is debited to the Interest Account against which the interest for the whole period will be credited. As a result, the balance in the account would be left equal to the interest for the period for which the debentures were held by the company.

INVESTMENT OF DEBENTURE REDEMPTION RESERVE (DRR) AMOUNT

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

- (a) All listed NBFCs
- (b) All listed HFCs
- (c) All other listed companies (other than AIFs, Banking Companies and Other FIs); and
- (d) All unlisted companies which are not NBFCs and HFCs

shall on or before the 30th day of April in each year, in respect of debentures issued, deposit or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March of next year, in any one or more of the following methods, namely:

Q.1. The following balances appeared in the books of a company (unlisted company other than AIFI, Banking company, NBFC and HFC) as on December 31, 2021: 6% Mortgage 10,000 debentures of ₹100 each; Debenture Redemption Reserve (for redemption of debentures) ₹50,000; Investments in deposits with a scheduled bank, free from any charge or lien ₹1,50,000 at interest 4% p.a. receivable on 31st December every year. Bank balance with the company is ₹9,00,000.

The Interest on debentures had been paid up to December 31, 2021.

On February 28, 2022, the investments were realised at par and the debentures were paid off at 101, together with accrued interest. Write up the concerned ledger accounts (excluding bank transactions). Ignore taxation.

Solution :

6% Mortgage Debentures Account

2020	Particulars	₹	2020	Particulars	₹
Feb.28	To Debenture holders A/c	10,00,000	Jan.1	By Balance b/d	10,00,000

Premium on Redemption of Debentures Account

2022		Rs.	2022		Rs.
Feb.28	To Debenture-holders A/c	10,000	Feb.28	By Profit and loss A/c	10,000

Debenture Redemption Reserve Account

2022	Particulars	₹	2022	Particulars	₹
Feb.28	To General Reserve	1,00,000	Jan.1	By Balance b/d	50,000
			Jan.1	By Profit & Loss (b/f)	50,000
		1,00,000			1,00,000

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

Debenture Redemption Reserve Investment Accounts

2022	Particulars	₹	2022	Particulars	₹
Jan.1	To Balance b/d	1,50,000	Feb.28	By Bank	1,50,000

Bank A/c

2022	Particulars	₹	2022	Particulars	₹
Jan.1	To Balance b/d	9,00,000	Feb.28	By Debenture- holders	10,10,000
Feb.28	To Interest on Debentures Redemption Investments (1,50,000 x 4% x 2/12)	1,000		By Deb. Interest A/c	10,000
	To Debentures Redemption Reserve investment A/c	1,50,000		By Balance c/d	31,000
		10,51,000			10,51,000

Debenture Interest Account

2022		₹	2022	Particulars	₹
Feb.28	To Bank A/c $(10,000 \times 100 \times 6\% \times 2/12)$	10,000	Feb.28	By Profit & Loss A/c	10,000

Q.2.

Sencom Limited (listed company) issued ₹1,50,000 5% Debentures on 30th September 2020 on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase debentures in the open market for cancellation thereof. The following purchases were made during the year ended 31st December, 2022 and the cancellation were made on the same date. On 31 December 2020, investments made for the purpose of redemption were ₹22,500.

1st March 2022 – ₹25,000 nominal value purchased for ₹24,725 ex-interest.

1st September 2022 – ₹ 20,000 nominal value purchased for ₹ 20,125 cum-interest.

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

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

Solution:

Sencom Limited
Debenture Account

2022	Particulars	₹	2022	Particulars	₹
Mar 1	To Own Debentures	24,725	Jan	By Balance b/d	1,50,000
Mar 1	To Profit on cancellation (25,000-24,725)	275	1		
Sep 1	To Own Debentures (Note 3)	19,708			
Sep 1	To Profit on cancellation (20,000–19,708)	292			
Dec 31	Balance c/d	1,05,000			
		1,50,000			1,50,000

Own Debenture (Investment) Account

Date	Particulars	Face Value ₹	Interest ₹	Cost ₹	Date	Particulars	Face Value ₹	Interest ₹	Cost ₹
2022					2022				
Mar.1	To Bank (W.N. 1)	25,000	521	24,725	Mar.1	By Debentures	25,000	-	24,725
Sep.1	To Bank (w.n.2&3)	20,000	417	19,708	Sep.1	By Debentures	20,000	-	19,708
					Dec.31	By P&L A/c		938	
		45,000	938	44,433			45,000	938	44,433

Working notes:

1. $25,000 \times 5\% \times 5/12 = 521$
2. $20,000 \times 5\% \times 5/12 = 417$
3. $20,125 - 417 = 19,708$

Q.3.

The Summarized Balance Sheet of BEE Co. Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) as on 31st March, 2021 is as under:

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

Notes to Accounts

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

At the Annual General Meeting, it was resolved:

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

(b) To issue one bonus share for every five shares held.

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

Give the necessary journal entries and the company's Balance Sheet after these transactions are completed.

Solution:

Journal of BEE Co. Ltd.

		Dr. (₹)	Cr. (₹)
Profit and Loss A/c To Debenture Redemption Reserve (for DRR created 10% x 1,20,000)	Dr.	12,000	12,000
Debenture Redemption Reserve Investment A/c To Bank A/c (Being DRR investment created 15% x 1,20,000)	Dr.	18,000	18,000
Bank A/c To Equity Shareholders A/c (Application money received on 5,000 shares @ ₹15 per share to be issued as rights shares in the ratio of 1:4)	Dr.	75,000	75,000
Equity Shareholders A/c To Equity Share Capital A/c To Securities Premium A/c (Share application money on 5,000 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹5 per share to Securities Premium Account vide Board's Resolution dated....)	Dr.	75,000	50,000 25,000
Securities Premium A/c Profit & Loss A/c To Bonus to Shareholders A/c (Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)	Dr. Dr.	25,000 25,000	50,000
Bonus to Shareholders A/c To Equity Share Capital A/c (Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated....)	Dr.	50,000	50,000

12% Debentures A/c Premium Payable on Redemption A/c @ 3% To Debenture holder's A/c (Amount payable to debentures holders)	Dr. Dr.	1,20,000 3,600	1,23,600
Bank A/c To Debenture Redemption Reserve Investment A/c (for DRR investment realised)	Dr.	18,000	18,000
Debenture holders A/c To Bank A/c (Amount paid to debenture holders on redemption)	Dr.	1,23,600	1,23,600
Profit and loss A/c To Premium Payable on Redemption A/c (Premium payable on redemption of debentures charged to Profit & Loss A/c)	Dr.	3,600	3,600
Debenture Redemption Reserve A/c To General Reserve (for DRR transferred to general reserve)	Dr.	12,000	12,000

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

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

Notes to Accounts

			₹
1. Share Capital			
	30,000 shares of ₹10 each fully paid (5,000 shares of ₹10 each, fully paid issued as bonus shares out of securities premium and P&L Account)		3,00,000
2. Reserve and Surplus			
	Profit & Loss Account	1,20,000	
	Less: Premium on redemption of debenture	(3,600)	
	Less: Utilisation for issue of bonus shares	(25,000)	
	Less: DRR created	(12,000)	
		79,400	
	General Reserve	<u>12,000</u>	91,400
3. Tangible assets			
	Freehold property		1,15,000
4. Cash and bank balances			
	Cash at bank (2,00,000 + 75,000 – 1,23,600 - 18,000 +18,000)	1,51,400	
	Cash in hand	<u>30,000</u>	1,81,400

Q.4.

The summarised Balance Sheet of Convertible Limited (unlisted company other than AIFI, Banking company, NBFC and HFC) , as on 31st March, 2021, stood as follows:

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

Notes to Accounts

			Rs.
1.	Share Capital 5,00,000 shares of Rs. 10 each fully paid		50,00,000
2.	Reserve and Surplus General Reserve Profit & Loss Account Debenture redemption reserve	90,00,000 10,00,000 <u>10,00,000</u>	1,10,00,000
3.	Long term borrowings 13.5% convertible Debentures (1,00,000 debentures of Rs. 100 each) Other loans		1,00,00,000 <u>65,00,000</u> <u>1,65,00,000</u>
4.	Non-current investments Debenture redemption reserve		15,00,000

The debentures are due for redemption on 1st July, 2021. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holdings into equity shares at a predetermined price of ₹15.75 per share and the payment in cash.

Assuming that:

- (i) except for 100 debenture holders holding totally 25,000 debentures, the rest of them exercised the option for maximum conversion.
- (ii) the investments were realised at par on sale; and
- (iii) all the transactions are put through, without any lag, on 1st July, 2021.

Redraft the balance sheet of the company as on 1st July, 2021 after giving effect to the redemption. Show your calculations in respect of the number of equity shares to be allotted and the necessary cash payment.

MCQs

1. Which of the following statements is true?

- (a) A debenture holder is an owner of the company.
- (b) A debenture holder can get his money back only on the liquidation of the company.
- (c) A debenture issued at a discount can be redeemed at a premium.

2. Which of the following statements is false?

- (a) Debentures can be redeemed by payment in lump sum at the end of a specified period.
- (b) Debentures cannot be redeemed during the life time of the company.
- (c) Debentures can be redeemed by payments in annual instalments.

3. For debentures issued by unlisted companies (other than AIFs, Banking companies, NBFCs and HFCs), Debentures Redemption reserve will be considered adequate if it is:

- (a) 25% of the value of debentures issued through public issue.
- (b) 10% of the value of debentures issued through public issue.
- (c) 0% of the value of debentures issued through public issue.

4. At the time of cancellation of own debentures, the account credited will be

- (a) Debentures account.
- (b) Own debentures account.
- (c) Bank account.

5. A company has issued 6% debentures for Rs. 10,00,000, interest being payable on 31st March and 30th September. The company purchases Rs. 10,000 debentures at Rs. 96 (ex-interest) on 1st August 2021. These debentures were cancelled on same date. The amount of Profit/loss on cancellation of debentures will be

- (a) Profit of Rs. 600.
- (b) Profit of Rs. 400.
- (c) Loss of Rs. 400

ANSWERS: 1. (c) 2. (b) 3. (b) 4. (b) 5. (b)

Question 1

What is meant by redemption of debentures? Explain.

Answer:

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

Redeemable debentures may be **redeemed**:

- after a **fixed number** of years; or
- any time after a **certain number of years** has elapsed since their issue; or
- on giving a **specified notice**; or
- by **annual drawing**.

For details, refer para 2 of the chapter.

Question 2

Write short note on Debenture Redemption Reserve.

Answer:

A company issuing debentures may be required to create a debenture redemption reserve account out of the profits available for distribution of dividend and amounts credited to such account cannot be utilised by the company except for redemption of debentures. Such an arrangement would ensure that the company will have sufficient liquid funds for the redemption of debentures at the time they fall due for payment. For details, refer para 3.1.

PRACTICE PROBLEMS

Problem 1

A company had issued 20,000, 13% debentures of ₹100 each on 1st April, 2021. The debentures are due for redemption on 1st July, 2022. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (Nominal value ₹10) at a price of ₹15 per share. Debenture holders holding 2,500 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders exercising the option to the maximum.

Problem 2

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

- (a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹100 per debenture.
- (b) Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.
- (c) Date of closure of subscription lists- 01.05.2021, date of allotment – 01.06.2021, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹60 (Face Value ₹ 10).
- (d) Underwriting Commission- 2%.
- (e) No. of debentures applied for- 1,50,000.
- (f) Interest payable on debentures half-yearly on 30th September and 31st March.

Write relevant journal entries for all transactions arising out of the above during the year ended 31st March, 2022 (including cash and bank entries).

Problem 3

On 1st April, 2021, in JK Ltd.'s (unlisted company other than AIFI, Banking company, NBFC and HFC) ledger 9% debentures appeared with a opening balance of ₹50,00,000 divided into 50,000 fully paid debentures of ₹100 each issued at par.

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

On 31.05.2021, the company purchased 8,000 debentures of its own @ ₹98 (ex- interest) per debenture.

On same day it cancelled the debentures acquired.

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

SOLUTIONS TO PRACTICE PROBLEMS

Solution 1:**Calculation of number of equity shares to be allotted**

	Number of debentures
Total number of debentures	20,000
Less: Debenture holders not opted for conversion	(2,500)
Debenture holders opted for conversion	17,500
Option for conversion	20%
Number of debentures to be converted (20% of 17,500)	3,500
Redemption value of 3,500 debentures at a premium of 5% [3,500 x (100+5)]	₹3,67,500
Equity shares of ₹10 each issued on conversion [₹3,67,500/ ₹15]	24,500 shares

Solution 2:**Journal Entries in the books of Libra Ltd.****Journal Entries**

Date	Particulars		Amount Dr. ₹	Amount Cr. ₹
01.05.2021	Bank A/c To Debenture Application A/c (Application money received on 1,50,000 debentures @ ₹100 each)	Dr.	1,50,00,000	1,50,00,000
01.06.2021	Debenture Application A/c Underwriters A/c To 15% Debentures A/c (Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)	Dr. Dr.	1,50,00,000 50,00,000	2,00,00,000
	Underwriting Commission To Underwriters A/c (Commission payable to underwriters @ 2% on 2,00,00,000)	Dr.	4,00,000	4,00,000
	Bank A/c To Underwriters A/c (Amount received from underwriters in settlement of account)	Dr.	46,00,000	46,00,000
01.06.2021	Debenture Redemption Investment A/c To Bank A/c (200,000 X 100 X 15% X 40%) (Being Investments made for redemption purpose)	Dr.	12,00,000	12,00,000

30.09.2021	Debenture Interest A/c To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹2,00,00,000)	Dr.	10,00,000	10,00,000
31.10.2021	15% Debentures A/c To Equity Share Capital A/c To Securities Premium A/c (Conversion of 60% of debentures into shares of ₹ 60 each with a face value of ₹ 10)	Dr.	1,20,00,000	20,00,000 1,00,00,000
31.03.2022	Debenture Interest A/c To Bank A/c (Interest paid on debentures for the half year) (refer working note below)	Dr.	7,50,000	7,50,000

Working Note:Calculation of Debenture Interest for the half year ended 31st March, 2022

On ₹1,20,00,000 for 1 months @ 15%	= ₹1,50,000
On ₹80,00,000 for 6 months @ 15%	= ₹6,00,000
	₹7,50,000

Solution 3:**MK Ltd.'s Ledger****(i) Debentures Account**

Date	Particulars	₹	Date	Particulars	₹
31.05.21	To Own Debentures (8,000 X 98)	7,84,000	01.04.21	By Balance b/d	50,00,000
31.05.21	To Profit on cancellation	16,000			
31.03.22	To Balance c/d	42,00,000			
		50,00,000			50,00,000

(ii) Interest on Debentures Account

Date	Particulars	₹	Date	Particulars	₹
31.05.21	To Bank (Interest for 2 months on 8,000 debentures)	12,000	31.03.22	By Profit and Loss A/c (b.f.)	3,90,000
30.09.21	To Bank (Interest for 6 months on 42,000 debentures)	1,89,000			
31.03.22	To Bank (Interest for 6 months on 42,000 debentures)	1,89,000			
		3,90,000			3,90,000

(iii) Debentures Redemption Reserve A/c

Date	Particulars	Amount	Date	particulars	Amount
31.05.21	To General Reserve (8,000 x 100 x 10%)	80,000	1.4.21	By Profit & Loss A/c	5,00,000
31.3.22	To Balance c/d	4,20,000			
		5,00,000			5,00,000

(iv) Debentures Redemption Investments A/c

Date	Particulars	Amount	Date	particulars	Amount
1.4.21	To Bank A/c	7,50,000	31.5.21	By Bank A/c (8,000 x 100 x 15%)	1,20,000
			31.3.22	By Balance c/d	6,30,000
		7,50,000			7,50,000

Working Note:

31.05.2021	Acquired 8,000 Debentures @ 98 per debenture (ex-interest)	₹
	Purchase price of debenture (8,000 × ₹98)	= 7,84,000
31.05.2021	Interest for 2 months [₹ 8,00,000 × 9% × 2/12]	= 12,000
30.09.2021	Interest on other debentures ₹ 42,00,000 × 9% × ½	= 1,89,000

EXAMINATION QUESTIONS

Nov-2019 (New Course)

Question.6. (e)**(4 Marks)**

A company had issued 40,000, 12% debentures of ₹ 100 each on 1st April, 2016. The debentures are due for redemption on 1st March, 2020. The terms of issue of debentures provided that they were redeemable at a premium of 5% and also conferred option to the debenture holders to convert 20% of their holding into equity shares (nominal value ₹ 10) at a predetermined price of ₹ 15 per share and the payment in cash. 50 debentures holders holding totally 5,000 debentures did not exercise the option. Calculate the number of equity shares to be allotted to the debenture holders and the amount to be paid in cash on redemption.

Solution:**(i) Calculation of number of equity shares to be allotted**

	Number of debentures
Total number of debentures	40,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	35,000
Option for conversion	20%
Number of debentures to be converted (20% of 35,000)	7,000
Redemption value of 7,000 debentures at a premium of 5% [7,000 x (100+5)]	₹7,35,000
Equity shares of ₹10 each issued on conversion [₹7,35,000/ ₹15]	49,000 shares

(ii) Calculation of cash to be paid:

	₹
Total number of debentures	40,000
Less : number of debentures to be converted into equity shares	<u>(7,000)</u>
Balance	<u>33,000</u>
Redemption value of 33,000 debentures (33,000 × ₹105)	₹ 34,65,000

May-2018 (New Course)

Question 6. (c)**(5 Marks)**

Gurudev Limited purchases for immediate cancellation 6,000 of its own 12 % debentures of ₹ 100 each on 1st November, 2019. The dates of interest being 31st March, and 30th September. Pass necessary journal entries relating to the cancellation if:

- (i) Debentures are purchased at ₹ 98 ex-interest.
(ii) Debentures are purchased at ₹ 98 cum-interest.

Answer:**Case (i) Debentures are purchased ex-interest**

Date	Particulars		₹	₹
01.11.2019	Own Debentures A/c Debentures Interest A/c [6,000 x 100 x 12% x (1/12)] To Bank A/c (Purchase of 6,000 Debentures @ 98 ex interest for immediate cancellation)	Dr. Dr.	5,88,000 6,000	5,94,000
01.11.2019	12% Debenture A/c To Own Debentures A/c To Profit on cancellation of debentures a/c (Being profit on cancellation of 6,000 Debentures transferred to capital reserve account)	Dr.	6,00,000	5,88,000 12,000

Case (i) Debentures are purchased cum-interest

Date	Particulars		₹	₹
01.11.2019	Own Debenture A/c Debenture Interest Account A/c [6,000 x 100 x 12% x (1/12)] To Bank A/c (Being 6,000 debentures purchased @ ₹ 98 cum interest for immediate cancellation)	Dr. Dr.	5,82,000 6,000	5,88,000
01.11.2019	12% Debenture A/c To Own Debentures A/c To Profit on cancellation of debentures (Being profit on cancellation of 6,000 Debentures transferred to capital reserve account)	Dr.	6,00,000	5,82,000 18,000