

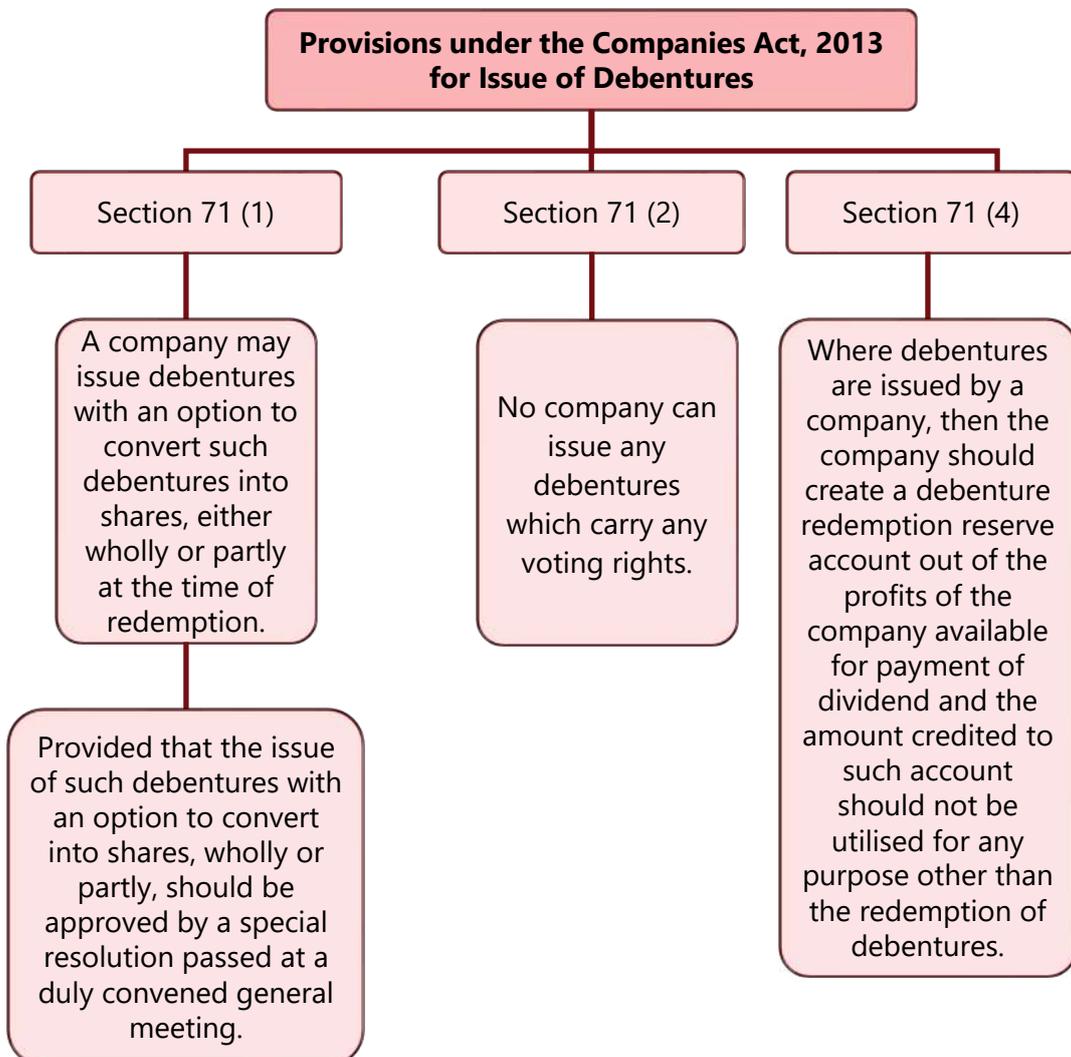
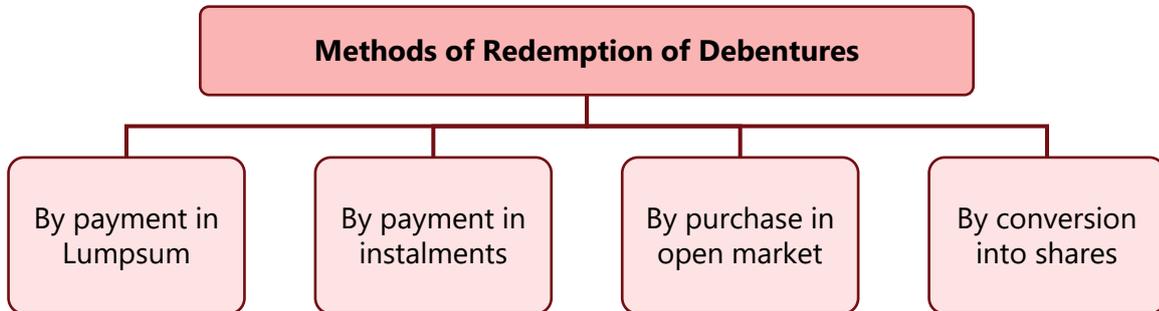
## UNIT – 6: REDEMPTION OF DEBENTURES

### LEARNING OUTCOMES

**After studying this unit, you will be able to:**

- ◆ Understand about the redemption of debentures;
- ◆ Understand the requirement of creation of a Debenture Redemption Reserve and creation of Debenture Redemption Fund (i.e. making investments for purpose of redemption of debentures);
- ◆ Understand various methods of redemption of debentures;
- ◆ Understand the accounting treatment of redemption of debentures;
- ◆ Solve problems based on redemption of debentures.

**UNIT OVERVIEW**





## 6.1 INTRODUCTION

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

Under Section 71 (1) of the Companies Act, 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption.

Provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, should be approved by a special resolution passed at a duly convened general meeting.

Section 71 (2) further provides that no company can issue any debentures which carry any voting rights.

Section 71 (4) provides that where debentures are issued by a company, the company should create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account should not be utilized by the company for any purpose other than the redemption of debentures.

### 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.

**Note:** Issue of debentures has already been discussed in detail in unit 3 of Chapter 11.



## 6.2 REDEMPTION OF DEBENTURES

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

Redeemable debentures may be **redeemed**:

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

A company may also purchase its debentures, as and when convenient, in the open market. When the debentures are quoted at a discount on the Stock Exchange, it may be profitable for the company to purchase and cancel them.



## 6.3 DEBENTURE REDEMPTION RESERVE

A company issuing debentures may be required to create a debenture redemption reserve account out of the profits available for distribution of dividend and amounts credited to such account cannot be utilised by the company for any other purpose 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.

An appropriate amount is transferred from profits every year to Debenture Redemption Reserve and its investment is termed as Debenture Redemption Reserve Investment (or Debenture Redemption Fund). In the last year or at the time of redemption of debentures, Debenture Redemption Reserve Investments are encashed and the amount so obtained is used for the redemption of debentures.

### 6.3.1 Requirement to create Debenture Redemption Reserve

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

- (1) Where a company issues debentures under this section, it should create a debenture redemption reserve account out of its profits which are available for distribution of dividend every year until such debentures are redeemed.
- (2) The amounts credited to the debenture redemption reserve should not be utilised by the company for any purpose except for the purpose aforesaid.

- (3) The company should pay interest and redeem the debentures in accordance with the terms and conditions of their issue.
- (4) Where a company fails to redeem the debentures on the date of maturity or fails to pay the interest on debentures when they fall due, the Tribunal may, on the application of any or all the holders of debentures or debenture trustee and, after hearing the parties concerned, direct, by order, the company to redeem the debentures forthwith by the payment of principal and interest due thereon.

### 6.3.2 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.

### 6.3.3 Adequacy of Debenture Redemption Reserve (DRR)

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, the company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year (*refer para 6.4 below*), in accordance with the conditions given below—

the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend; the limits with respect to adequacy of DRR and investment or deposits, as the case may be, shall be as under:

S. No	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
1	All India Financial Institutions (AIFIs) regulated by Reserve Bank of India <b>and Banking Companies for both public</b> as well as <b>privately placed debentures</b>	<b>No DRR</b> is required
2	<b>Other Financial Institutions (FIs)</b> within the meaning of clause (72) of section 2 of the Companies Act, 2013	<b>DRR</b> will be <b>as applicable to NBFCs</b> registered with RBI ( <b>as per (3) below</b> )
3	<b>For listed companies</b> (other than AIFIs and Banking Companies as specified in Sr. No. 1 above):	

4	a.	All <b>listed NBFCs</b> (registered with RBI under section 45-IA of the RBI Act,) and <b>listed HFCs</b> (Housing Finance Companies registered with National Housing Bank) <b>for both public</b> as well as <b>privately placed debentures</b>	<b>No DRR</b> is required
	b.	<b>Other listed companies for both public</b> as well as <b>privately placed debentures</b>	<b>No DRR</b> is required
	<b>For unlisted companies</b> (other than AIFs and Banking Companies as specified in Sr. No. 1 above		
	a.	All <b>unlisted NBFCs</b> (registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997) and <b>unlisted HFCs</b> (Housing Finance Companies registered with National Housing Bank) <b>for privately placed debentures</b>	<b>No DRR</b> is required
	b.	<b>Other unlisted companies</b>	<b>DRR</b> shall be <b>10% of the value of the outstanding debentures</b> issued

### 6.3.4 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:

- (a) in deposits with any scheduled bank, free from charge or lien;
- (b) in unencumbered securities of the Central Government or of any State Government;
- (c) in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;

- (d) in unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

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

Provided that the amount remaining deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

In case of partly convertible debentures, DRR shall be created in respect of non-convertible portion of debenture issue.

The amount credited to DRR shall not be utilised by the company except for the purpose of redemption of debentures.

Note: It should be noted that appropriation to DRR can be made any time before redemption and Investments in specified securities as mentioned above can be done before 30th April for the debentures maturing that year, however, for the sake of simplicity and ease, it is advisable to make the appropriation and investment immediately after the debentures are allotted assuming that the company has sufficient amount of profits (issued if allotment date is not given in the question). Also, in some cases, the date of allotment could be missing, in such cases the appropriation and investments should be done on the first day of that year for which ledgers accounts are to be drafted.

### 6.3.5 Journal Entries

The necessary journal entries passed in the books of a company are given below:

1. After allotment of debentures
  - (a) For setting aside the fixed amount of profit for redemption
 

Profit and Loss A/c	Dr.
To Debenture Redemption Reserve A/c	
  - (b) For investing the amount set aside for redemption
 

Debenture Redemption Reserve Investment A/c	Dr.
To Bank A/c	
  - (c) For receipt of interest on Debenture Redemption Reserve Investments
 

Bank A/c	Dr.
To Interest on Debenture Redemption Reserve Investment A/c	

(d) For transfer of interest on Debenture Redemption Reserve Investments (DRRI)

Interest on Debenture Redemption Reserve Investment A/c      Dr.

To Profit and loss A/c\*

*\* Considering the fact that interest is received each year through cash/bank account and it is not re-invested. In the illustrations given in the chapter, the same has been considered and hence interest on DRR investment is not credited to DRR A/c but taken to P&L A/c.*

2. At the time of redemption of debentures

(a) For encashment of Debenture Redemption Reserve Investments

Bank A/c      Dr.

To Debenture Redemption Reserve Investment A/c

(b) For amount due to debentureholders on redemption

Debentures A/c      Dr.

To Debentureholders A/c

(c) For payment to debentureholders

Debentureholders A/c      Dr.

To Bank A/c

(d) After redemption of debentures, DRR should be transferred to general reserve

DRR A/c      Dr.

To General Reserve



## 6.4 METHODS OF REDEMPTION OF DEBENTURES

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

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

### 6.4.1 By payment in lumpsum

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

### 6.4.2 By payment in Instalments

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

### 6.4.3 Purchase of Debentures in Open Market

Debentures sometimes are purchased in open market. This is not covered in the chapter as it has been specifically excluded from the syllabus at Foundation level.

#### ILLUSTRATION 1

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

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

##### Debentures Redemption Reserve Investment Account

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

**Debenture Interest Account**

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

**Bank A/c**

2022			₹	2022			₹
Jan 01	To	Balance b/d	9,00,000	Feb. 28	By	Debenture-holders (10,000 x 101)	10,10,000
Feb 28	To	Interest on Debentures Redemption Investments (1,50,000 x 4% x 2/12)	1,000				
	To	Debentures Redemption Reserve investment A/c	1,50,000		By	Debenture Interest A/c	10,000
			10,51,000		By	Balance c/d	31,000
							10,51,000

**Debenture Redemption Reserve Account**

2022			₹	2022			₹
Feb 28	To	General Reserve-note	1,00,000	Jan.1	By	Balance b/d	50,000
			_____	Jan.1	By	Profit & Loss (b/f)	<u>50,000</u>
			1,00,000				1,00,000

**Note**

Amount to be transferred to DRR before the redemption = ₹ 1,00,000 [i.e. 10% of (10,000 X 100)].

**ILLUSTRATION 2**

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

- (i) 12 % Debentures ₹ 7,50,000
- (ii) Balance of DRR ₹ 25,000

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

Annual contribution to the DRR was made on 31st March every year. On 31-3-2022, balance at bank was ₹ 7,50,000 before receipt of interest. The investment were realised at par for redemption of debentures at a premium of 10% on the above date.

You are required to prepare the following accounts for the year ended 31st March, 2022:

- (1) Debentures Account
- (2) DRR Account
- (3) DRR Investment Account
- (4) Bank Account
- (5) Debenture Holders Account.

### SOLUTION

#### 1. 12% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
31 <sup>st</sup> March, 2022	To Debenture holders A/c	7,50,000	1 <sup>st</sup> April, 2021	By Balance b/d	7,50,000
		7,50,000			7,50,000

#### 2. DRR Account

Date	Particulars	₹	Date	Particulars	₹
31 <sup>st</sup> March, 2022	To General reserve A/c (Refer Note)	75,000	1 <sup>st</sup> April, 2021	By Balance b/d	25,000
		75,000	1 <sup>st</sup> April, 2021	By Profit and loss A/c (Refer Note)	50,000
					75,000

#### 3. 10% Secured Bonds of Govt. (DRR Investment) A/c

		₹			₹
1 <sup>st</sup> April, 2021	To Balance b/d	1,12,500	31 <sup>st</sup> March, 2022	By Bank A/c	1,12,500
		1,12,500			1,12,500

#### 4. Bank A/c

		₹			₹
31 <sup>st</sup> March, 2022	To Balance b/d	7,50,000	31 <sup>st</sup> March, 2022	By Debenture holders A/c	8,25,000
	To Interest on DRR Investment (1,12,500 x 10%)	11,250			

	To DRR Investment A/c	1,12,500		By Balance c/d	48,750
		8,73,750			8,73,750

### 5. Debenture holders A/c

		₹			₹
31 <sup>st</sup> March, 2022	To Bank A/c	8,25,000	31 <sup>st</sup> March, 2022	By 12% Debentures	7,50,000
				By Premium on redemption of debentures (7,50,000 X 10%)	75,000
		8,25,000			8,25,000

#### Note –

Calculation of DRR before redemption = 10% of ₹ 7,50,000 = 75,000

Available balance = ₹ 25,000

DRR required = 75,000 – 25,000 = ₹ 50,000.

### ILLUSTRATION 3

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

### SOLUTION

	Number of debentures
Debenture holders opted for conversion (20,000 /100)	<u>200</u>
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40
Redemption value of 40 debentures at a premium of 5% [40 x (100+5)]	₹ 4,200
Equity shares of ₹ 10 each issued on conversion [₹ 4,200/ ₹ 20]	210 shares

<b>Calculation of cash to be paid :</b>	₹
Number of debentures	200
Less: number of debentures to be converted into equity shares	<u>(40)</u>
	<u>160</u>

Redemption value of 160 debentures (160 × ₹ 105) ie. ₹ 16,800.

#### ILLUSTRATION 4

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

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

## Notes to Accounts

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

At the Annual General Meeting, it was resolved:

- To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- To issue one bonus share for every five shares held.
- To repay the debentures at a premium of 3%. The DRR Investments realised at par as per existing Book value.

Give the necessary journal entries for these transactions.

**SOLUTION****Journal of BEE Co. Ltd.**

		Dr. ₹	Cr. ₹
Bank A/c	Dr.	75,000	
To Equity Shareholders A/c			75,000
(Application money received on 5,000 shares @ ₹ 15 per share to be issued as rights shares in the ratio of 1:4)			

Equity Share 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
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 (for DRR Investment created 15% x 1,20,000)	Dr.	18,000	
			18,000
12% Debentures A/c Premium Payable on Redemption A/c @ 3% To Debenture holders A/c (Amount payable to debentures holders)	Dr. Dr.	1,20,000 3,600	
			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
Bank A/c	Dr.	18,000	

To Debenture Redemption Reserve Investment (for DRR Investment realised)		18,000
Debenture holders A/c	Dr.	1,23,600
To Bank A/c (Amount paid to debenture holders on redemption)		1,23,600

\* In the absence of details of the term of debentures (redemption period), the entire redemption premium was charged to profit & loss A/c of the year.

## SUMMARY

- Debentures may create a charge against some or all the assets of the company.
- Charge may be fixed or floating, depends upon the condition of issue.
- Debentures may be redeemed after a fixed number of years or after a certain period has elapsed.
- For redemption of debentures, certain companies are required to create Debenture Redemption Reserve.
- Methods of redemption: lumpsum payment and payment in instalments.

## TEST YOUR KNOWLEDGE

### True and False

1. Amounts credited to the debenture redemption reserve may be utilised by the company for any purpose.
2. All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures need not create any Debenture Redemption Reserve (DRR).
3. Under payment in instalments method, the payment of entire debenture is made in one lot.
4. At redemption of debentures, DRR should be transferred to general reserve.

### Multiple Choice Questions

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) 5% of the value of debentures issued through public issue.
4. A company has issued 6% debentures for ₹ 10,00,000, interest being payable on 31st March and 30th September. The company redeems ₹ 10,000 debentures at ₹96 (ex-interest) on 1st August 2021. The amount of Profit/loss on cancellation of debentures will be
- (a) Profit of ₹600.
- (b) Profit of ₹400.
- (c) Loss of ₹400

### Theoretical Questions

1. What is meant by redemption of debentures? Explain.
2. Write short note on Debenture Redemption Reserve.

### Practical Questions

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

2. *Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:*
- (a) *No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹ 100 per debenture.*
  - (b) *Convertible portion per debenture- 60%, date of conversion- on expiry of 6 months from the date of closing of issue.*
  - (c) *Date of closure of subscription lists- 1.5.2021, date of allotment- 1.6.2021, rate of interest on debenture- 15% payable from the date of allotment, value of equity share for the purpose of conversion- ₹ 60 (Face Value ₹ 10).*
  - (d) *No. of debentures applied for- 2,00,000.*
  - (e) *Interest payable on debentures half-yearly on 30th September and 31st March.*

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

3. *Case Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31<sup>st</sup> March, 2022:*

<b>Particulars</b>	<b>₹</b>
<b>Shareholder's Funds</b>	
(a) <i>Share Capital</i>	
<i>Authorized share capital:</i>	
<i>45,000 equity shares of ₹ 10 each fully paid</i>	4,50,000
<i>Issued and subscribed share capital:</i>	
<i>30,000 equity shares of ₹ 10 each fully paid</i>	3,00,000
(b) <i>Reserves and Surplus</i>	
<i>Profit &amp; Loss Account</i>	1,62,000
<i>Debenture Redemption Reserve</i>	18,000
<b>Non-current liabilities</b>	
(a) <i>Long term borrowings</i>	
<i>12% Debentures</i>	1,80,000
<b>Current Liabilities</b>	
(a) <i>Trade payables</i>	1,72,500

<b>Non-current assets</b>	
(a) Property, Plant and Equipment (Freehold property)	1,72,500
(b) Non-current Investment: DRR Investment	27,000
<b>Current assets</b>	
(a) Inventories	2,02,500
(b) Trade receivables	1,12,500
(c) Cash and bank balances:	
Cash at bank	2,73,000
Cash in hand	45,000

At the Annual General Meeting on 1.4.2022, it was resolved:

- (a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.
- (b) To issue one bonus share for every five shares held.
- (c) To repay the debentures at a premium of 3%. The DRR Investments realised at par as per existing Book value.

Give the necessary journal entries for these transactions.

## ANSWERS/ HINTS

### True and False

1. False: Amounts credited to the debenture redemption reserve should not be utilised by the company for any purpose except for the purpose other than for redemption of debentures.
2. True: All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures need not create any DRR.
3. False: under payment in instalments method, the payment of specified portion of debentures are made in instalments at specified intervals.
4. True: DRR is transferred to general reserve at the time of redemption of debentures.

### Multiple Choice Questions

1.	(c)	2.	(b)	3.	(b)	4.	(b)				
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## Theoretical Questions

1. 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 6.2 of the chapter.

2. 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 6.3.

## Practical Questions

1. **Calculation of number of equity shares to be allotted**

	<b>Number of debentures</b>
Total number of debentures	20,000
<i>Less:</i> Debenture holders not opted for conversion	<u>(2,500)</u>
Debenture holders opted for conversion	<u>17,500</u>
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

2.

## Journal Entries in the books of Libra Ltd.

## Journal Entries

<b>Date</b>	<b>Particulars</b>	<b>Amount ₹ Dr.</b>	<b>Amount ₹ Cr.</b>
1.5.2021	Bank A/c Dr. To Debenture Application A/c (Application money received on 2,00,000 debentures @ ₹ 100 each)	2,00,00,000	2,00,00,000
1.6.2021	Debenture Application A/c Dr. To 15% Debentures A/c (Allotment of 2,00,000 debentures to applicants)	2,00,00,000	2,00,00,000
1.6.2021	Debenture Redemption Investment A/ Dr. To Bank A/c (2,00,000 X 100 x 15% X 40%) (Being Investments made for redemption purpose)	12,00,000	12,00,000
30.9.2021	Debenture Interest A/c Dr. To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹ 2,00,00,000)	10,00,000	10,00,000
31.10.2021	15% Debentures A/c Dr. 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)	1,20,00,000	20,00,000 1,00,00,000
31.3.2022	Debenture Interest A/c Dr. To Bank A/c (Interest paid on debentures for the half year) (Refer working note)	7,50,000	7,50,000

**Working Note:**

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

On ₹ 80,00,000 for 6 months @ 15% = ₹ 6,00,000

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

₹7,50,000

**3. Journal Entries in the Books of Case Ltd.**

	Dr.₹	Cr.₹
Bank A/c To Equity Shareholders A/c (Application money received on 7,500 shares @ ₹ 15 per share to be issued as rights shares in the ratio of 1:4)	Dr. 1,12,500	1,12,500
Equity Shareholders A/c To Equity Share Capital A/c To Securities Premium A/c (Share application money on 7,500 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated...)	Dr. 1,12,500	75,000 37,500
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. 37,500 Dr. 37,500	75,000
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. 75,000	75,000
12% Debentures A/c Premium Payable on Redemption A/c (@ 3%) To Debenture holders A/c	Dr. 1,80,000 Dr. 5,400	1,85,400

(Amount payable to debentures holders)			
Profit and loss A/c	Dr.	5,400*	
To Premium Payable on Redemption A/c			5,400
(Premium payable on redemption of debentures charged to Profit & Loss A/c)			
Debenture Redemption Reserve A/c	Dr.	18,000	
To General Reserve			18,000
(For DRR transferred to general reserve)			
Bank A/c	Dr.	27,000	
To Debenture Redemption Reserve Investment			27,000
(for DRR Investment realised)			
Debenture holders A/c	Dr.	1,85,400	
To Bank A/c			1,85,400
(Amount paid to debenture holders on redemption)			

\* In the absence of details of the term of debentures (redemption period), the entire redemption premium was charged to profit & loss A/c of the year.