

CHAPTER-11 , unit 6

## Redemption of Debentures

↳ 3 hours



# Redemption of Deb.

↓  
Repayment  
|



## 1. Debenture Redemption Reserve (DRR)

For understanding,

### Balance Sheet

P&L - 100,000	Bank 100,000
Dividend - 60,000	60,000 ↓
↓ P&L A/c Dr. To Dividend pay.	Dividend Payable To Bank

→ Transferred to Reserves.

P&L 10,000 ↓  
To Reserve 10,000

→ DRR is created out of profits available for Distribution of Dividend.

Surplus/  
Accumulated Profits  
₹100,000

→ DRR  
₹10,000

Now, ₹10,000 will not be distributed as Dividend

Balance Sheet

P&L - <del>100,000</del>	90,000	Bank	100,000
↳ DRR	10,000		

→ DRR cannot be used for any other purpose.

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P&L A/c Dr.  
To DRR A/c.

→ Minimum 10% of the Face value of o/s Deb.

## 2. Deb. Redemption Reserve Investment (DRRI)

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

Journal

DRRI Dr.  
To Bank A/c

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

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

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

→ Date of allotment ✓

→ If no date of allotment - 1st day of the year.

.....> Which companies to Create DRR & DRRI ?

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

— At the time of Redemption :

1. Sale of DRRI

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

2. Amt due for Redemption

At par

12:1. Deb A/c Dr.  
 To Deb holder A/c

At premium

12:1. Deb A/c Dr - FV  
 Prem. on Red of Deb. - Prem. Loss  
 To Deb holder A/c  
 Total

Deb holder Dr.  
 To Bank A/c

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

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

## 4. Transfer of DRR to General Reserve.

DRR Dr.

To Gen. Res A/c.

### ILLUSTRATION 1

— DRR | DRR1

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 (including bank transactions). Ignore taxation.

WN:

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

Already Created

Add. DRR

(50,000)  
50,000

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2022  
Jan 1

P&L A/c Dr. 50,000  
To DRR 500,000

Feb 28 Bank A/c Dr. 1000  
 To Int on DRRR A/c 1000  
 [  $150,000 \times \frac{4}{100} \times \frac{2}{12}$  ]

Feb 28 Bank A/c Dr. 150,000  
 To DRRR A/c 150,000

Feb 28 Int on Deb. A/c Dr. 10,000  
 To Deb. Holder A/c 10,000  
 [  $10,00,000 \times \frac{6}{100} \times \frac{2}{12}$  ]

Feb 28 Deb. Holder Dr. 10,000  
 To Bank 10,000

Feb 28 6% Deb A/c Dr. 10,00,000  
 Prem. on Red. of Deb Dr. 10,000  
 To Deb Holder 10,10,000

Feb 28 Deb Holder Dr. 10,10,000  
 To Bank A/c 10,10,000

Feb 28 DRR To Gen. Res. 100,000  
 100,000

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

Feb 28

Gnt on DRR Dr 1000  
To p&L A/c 1000

\* **ILLUSTRATION 2**

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

- (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.

∴ → DRR ✓  
ORRI ✓

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.

12:1. Deb Dr 750,000  
Prem on Red Dr 75,000  
To DH 825,000

1) 12:1. Deb A/c

Date	Part	₹	Date	Part	₹
31/3/22	To Deb Hol.	750,000	1/4/21	By bal b/d	750,000
		<u>750,000</u>			<u>750,000</u>

2) DRR A/c

Date	Part	₹	Date	Part	₹
31/3/21	To Gen. Res.	<u>75000</u>	1/4/21	By bal b/d	25000
			1/4/21	by P&L A/c	<u>50,000</u>

3) DRRI A/c

Date	Part	₹	Date	Part	₹
1/4/21	To bal b/d	<u>112500</u>	31/3/22	By Bank	<u>112500</u>

4) Bank A/c

Date	Part	₹	Date	Part	₹
31/3/22	To bal b/d	750,000	31/3/22	By Deb. Hol.	825,000
31/3/22	To Int on DRRI (112500 x 10%)	11,250		by bal c/d	48,750
31/3/22	To DRRI	<u>11,250</u>			<u>          </u>

## 5) Deb Holder A/c

Date	Part	₹	Date	Part	₹
31/3/22	To Bank	825000	31/3/22	By 12:1 Deb	7500,00
		<u>      </u>		by prem. on Red	75000
					<u>      </u>

WN - DRR required =  $750,000 \times \frac{10}{100}$

= 75000  
 (-) already existing (25000)  
50,000

## → Conversion of Deb into Equity Shares

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

→ No ORR or ORRI for convertible portion.

Journal

1.	% Deb Dr.	
	To Deb. Holder	
2.	Deb Holder Dr.	
	To Eq. sh Cap	
	To Sec. prem A/c	

→ Convertible portion.

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**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.

Options



1. Deb holders opted for conversion	200 Debentures
2. No. of Debentures to be converted (200 x 20%)	40 Debentures
3. Redemption value of 40 Deb. (40 x 105)	4200
4. Value of equity share	₹ 20
5. No. of eq. shares to be issued ( $\frac{4200}{20}$ )	210 eq. shares
6. Cash paid to remaining 160 deb. (160 x 105)	₹ 16800

PQ-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. 17500

1. Debenture holders opted for conversion (20,000 - 2500)	17500 Deb.
2. No. of Deb to converted (17500 x 20%)	3500 Deb.
3. Redemption value (3500 x 105)	₹ 367500
4. Value of equity share	₹ 15
5. No. of equity shares to be issued (367500 / 15)	24500 Deb.

## RTP-Sep 24

A company had issued 40,000, 12% debentures of ₹ 100 each on 1<sup>st</sup> April, 2020. The debentures were due for redemption on 1<sup>st</sup> March, 2024. The terms of issue of debentures provided that they were redeemable at a premium of 5%. The company offered an option to the debenture holders to convert redeemable value of 20% of their holding into equity shares (nominal value ₹ 10) at a predetermined price of ₹ 15 per share and the payment in cash for remaining debentures. 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.

$$35000 \times 20\% = 7000 \text{ Deb}$$

$$\frac{735000}{15} = 49000 \text{ eq. Sh.}$$

Eq. Sh.  
No. of Eq. Sh.

$$\text{Cash} = [40,000 - 7000] \times 105 = ₹ 3465000$$

28000 × 105      5000 × 105

PQ-2

DRR x  
DRRI ✓

Libra Limited (a listed company) recently made a public issue in respect of which the following information is available:

- (a) No. of partly convertible debentures issued- 2,00,000; face value and issue price- ₹ 100 per debenture.
- (b) Convertible portion per debenture- 60%, date of conversion- 31.10.21 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).

<u>Journal</u>		₹ in Lakh	
1.5.21	Bank A/c Dr. (200,000 x 100) To Deb App & All A/c	200	200
1.6.21	Deb App & All Dr. To 15% Deb	200	200
1.6.21	DRRI Dr. To Bank A/c [ 200 Lac x $\frac{40}{100}$ x 15% ] Non-conv. Deb.	12	12

30.9.21 Int on Deb Dr 10  
 To Deb holder 10  
 [  $200lac \times \frac{15}{100} \times \frac{4}{12}$  ]

30.9.21 Deb holder Dr 10  
 To Bank 10

31.10.21 15% Deb Dr 120  
 To Deb holder A/c 120

Deb holder Dr 120  
 (200,000 x 10) To eq. sh cap 20  
 (200,000 x 50) To sec prem A/c 100

31.3.22 Deb Int Dr 7.5  
 To Deb holder A/c 7.5

31.3.22 Deb holder 7.5  
 To Bank A/c 7.5

31.3.22 Statement of P&L Dr 17.5  
 To Deb Int 17.5

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

Redemption value (120,000 × 100) = 1,20,00,000

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

WN2 Deb Interest

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

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

750,000

# CA Foundation - Accounts

✓  
✓  
— ORR, ORR ✓

## 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>		5,55,000
<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>		5,55,000

## Notes to Accounts

		₹
<b>1. Share Capital</b>		
<b>Authorised share capital</b>		
30,000 shares of ₹ 10 each fully paid		3,00,000
<b>Issued and subscribed share capital</b>		
20,000 shares of ₹ 10 each fully paid		2,00,000
<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	30,000	2,30,000

At the Annual General Meeting, it was resolved:

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

(b) To issue one bonus share for every five shares held. —  $\left[ \frac{20,000 + 5,000}{5} \times 10 = 5,000 \right]$  WN

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

Give the necessary journal entries for these transactions.

Right Issue FV  $\frac{20,000}{4} = 5,000$  ✓  
 $\frac{20,000 + 5,000}{5} \times 10 = 5,000$  ✓  
 ₹ 5,000

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1. Bank A/c Dr. (5000 x 15) 75000

(5000 x 10) To Eq. Sh. Cap 50,000  
 (5000 x 5) To Sec. Prem. A/c 25,000

2. a. Sec. Prem. A/c Dr. 25,000  
 P&L A/c Dr. 25,000  
 To Bonus to Shareholder 50,000

b. Bonus to Sh. Dr. 50,000  
 To Eq. Sh. Cap 50,000

- 3.
- a. P&L A/c Dr. 12000  
To DRR A/c 12000
- b. DRR Dr. 18000  
To Bank A/c 18000
- c. Bank A/c Dr. 18000  
To DRR 18000
- d. 12% Deb Or 120000  
Prem on Red Or 3600  
To Deb holder 123600
- e. Deb hold. Dr 123600  
To Bank 123600
- f. DRR Dr 12000  
To Gen Res. 12000
- g. P&L Dr 3600  
To prem on Red. 3600
-

PQ-3- H.W

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

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

## CA Foundation - Accounts

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.

Unit over :)

CA Hardik Manchanda