

Redemption of Debentures

Solution 1

DRR Account

Date	Particulars	₹	Date	Particulars	₹
			01.04.21	By Balance b/d	1,25,000
31.03.22	To General Reserve A/c	3,75,000	01.04.21	By Profit and loss A/c (37,50,000*10%)-1,25,000	2,50,000
		3,75,000			3,75,000

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

Date	Particulars	₹	Date	Particulars	₹
01.04.21	To Balance b/d	5,62,500	31.03.22	By Bank A/c	5,62,500
		5,62,500			5,62,500

Bank A/c

Date	Particulars	₹	Date	Particulars	₹
31.03.22	To Balance b/d	37,50,000	31.03.22	By Debentureholders A/c (37,50,000*110%)	41,25,000
31.03.22	To Interest on DRR investment (5,62,500*10%)	56,250	31.03.22	By Balance c/d	2,43,750
31.03.22	To DRR investment A/c	5,62,500			
		43,68,750			43,68,750

Solution 2

6% Debentures Account

Date	Particulars	₹	Date	Particulars	₹
28.02.22	To Debenture holders A/c	25,00,000	01.01.22	By Balance b/d	25,00,000
		25,00,000			25,00,000

Premium on Redemption of Debentures Account

Date	Particulars	₹	Date	Particulars	₹
28.02.22	To Debenture holders A/c	25,000	28.02.22	By P&L A/c	25,000
		25,000			25,000

Debenture Redemption Reserve Investment A/c

Date	Particulars	₹	Date	Particulars	₹
01.01.22	To Balance b/d	3,75,000	28.02.22	By Bank A/c	3,75,000
		3,75,000			3,75,000

Debenture Interest Account

Date	Particulars	₹	Date	Particulars	₹
28.02.22	To Bank A/c (25,00,000*6%*2/12)	25,000	28.02.22	By Profit & Loss A/c	25,000
		25,000			25,000

Debenture Redemption Reserve Account

Date	Particulars	₹	Date	Particulars	₹
			01.01.22	By Balance b/d	1,50,000
28.02.22	To General Reserve A/c	2,50,000	01.01.22	By Profit and loss A/c (25,00,000*10%)-1,50,000	1,00,000
		2,50,000			2,50,000

Debenture holders A/c

Date	Particulars	₹	Date	Particulars	₹
28.02.22	To Bank A/c	25,25,000	28.02.22	By 6% Debentures	25,00,000
			28.02.22	By Premium on redemption of debentures	25,000
		25,25,000			25,25,000

Bank A/c

Date	Particulars	₹	Date	Particulars	₹
01.01.22	To Balance b/d	30,00,000	28.02.22	By Debentureholders A/c	25,25,000
28.02.22	To Interest on DRR investment (3,75,000*4%*2/12)	2,500	28.02.22	By Interest on Debentures A/c	25,000
28.02.22	To DRR investment A/c	3,75,000	28.02.22	By Balance c/d	8,27,500
		33,77,500			33,77,500

Solution 3

Journal Entries

Date	Particulars	Dr.	Cr.
1.05.2021	Bank A/c	Dr.	80,00,000
	To Debenture Application and Allotment A/c (Application money received on 80,000 debentures @ ₹100 each)		80,00,000
1.06.2021	Debenture Application and allotment A/c	Dr.	80,00,000
	Underwriters' A/c	Dr.	20,00,000
	To 15% Debentures A/c (Allotment of 80,000 debentures to applicants and 20,000 debentures to underwriters)		1,00,00,000
1.06.2021	Underwriting Commission	Dr.	2,00,000
	To Underwriters' A/c (Commission payable to underwriters @ 2% on ₹1,00,00,000)		2,00,000
1.06.2021	Bank A/c	Dr.	18,00,000
	To Underwriters' A/c (Amount received from underwriters in settlement)		18,00,000
1.06.2021	Debenture Redemption Investment A/c	Dr.	6,00,000
	To Bank account (Being investments made for redemption purpose 1,00,000*100*15%*40%)		6,00,000
30.09.2021	Debenture Interest A/c	Dr.	5,00,000
	To Bank A/c (Interest paid on debentures for 4 months @ 15% on ₹1,00,00,000)		5,00,000

31.10.2021	15% Debentures A/c	Dr.	60,00,000	
	To Equity share Capital A/c			10,00,000
	To Securities Premium A/c (Conversion of 60% of debentures into shares of ₹60 each with a face value of ₹10)			50,00,000
31.03.2022	Debenture Interest A/c	Dr.	3,75,000	
	To Bank A/c (Interest paid on debentures for the half year)			3,75,000
31.03.2022	Profit & loss A/c	Dr.	2,00,000	
	To underwriting commission (Being underwriting comm. charged to P&L A/c)			2,00,000
31.03.2022	Profit & Loss A/c	Dr.	8,75,000	
	To Debenture Interest (being interest on debenture 5,00,000 + 3,75,000 charged to profit & loss A/c at the year end)			8,75,000

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

On ₹ 40,00,000 for 6 month @ 15%p.a.	3,00,000
On ₹ 60,00,000 for 1 month @15% p.a	75,000
Total	3,75,000

Solution 4**Journal Entries**

Date	Particulars	Dr.	Cr.
1.05.2020	Bank A/c	Dr.	2,50,00,000
	To Debenture Application and Allotment A/c (Application money received on 2,50,000 debentures @ ₹100 each)		2,50,00,000
1.06.2020	Debenture Application and allotment A/c	Dr.	2,50,00,000
	Underwriters' A/c	Dr.	50,00,000
	To 8% Debentures A/c (Allotment of 2,50,000 debentures to applicants and 50,000 debentures to underwriters)		3,00,00,000
1.06.2020	Underwriting Commission	Dr.	3,00,000
	To Underwriters' A/c (Commission payable to underwriters @ 1% on ₹3,00,00,000)		3,00,000
1.06.2020	Bank A/c	Dr.	47,00,000
	To Underwriters' A/c (Amount received from underwriters in settlement)		47,00,000
1.06.2020	Debenture Redemption Investment A/c	Dr.	18,00,000
	To Bank account		18,00,000
	(Being investments made for redemption purpose $3,00,000 \times 100 \times 15\% \times 40\%$)		
30.09.2020	Debenture Interest A/c	Dr.	8,00,000
	To Bank A/c (Interest paid on debentures for 4 months @ 8% on ₹3,00,00,000)		8,00,000
30.11.2020	8% Debentures A/c	Dr.	1,80,00,000
	To Equity share Capital A/c		30,00,000
	To Securities Premium A/c		1,50,00,000

	(Conversion of 60% of debentures into shares of ₹60 each with a face value of ₹10)			
31.03.2021	Debenture Interest A/c	Dr.	7,20,000	
	To Bank A/c (Interest paid on debentures for the half year)			7,20,000
31.03.2021	Profit & loss A/c	Dr.	3,00,000	
	To underwriting commission (Being underwriting comm. charged to P&L A/c)			3,00,000
31.03.2021	Profit & Loss A/c	Dr.	15,20,000	
	To Debenture Interest (being interest on debenture 8,00,000 + 7,20,000 charged to profit & loss A/c at the year end)			15,20,000

Working notes:**Calculation of Debenture Interest for the half year ended 31st March, 2021**

On ₹ 1,20,00,000 for 6 month @ 8%p.a.	4,80,000
On ₹ 1,80,00,000 for 2 month @8% p.a	2,40,000
Total	7,20,000

Solution 5**Calculation of number of equity shares to be allotted**

	Number of debentures
Total number of debentures	25,000
Less: Debenture holders not opted for conversion	(5,000)
Debenture holders opted for conversion	20,000
Option for conversion	20%
Number of debentures to be converted (20% of 20,000)	4,000
Redemption value of 4,000 debentures at a premium of 5% [4,000 x (100+5)]	₹ 4,20,000
Equity shares of ₹ 10 each issued on conversion [₹ 4,20,000/ ₹ 20]	21,000 Shares

Solution 6**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 to debenture holders on redemption [₹7,35,000/ ₹15]	49,000 Shares
Amount to be paid into cash [42,00,000 (40,000 x ₹105) – 7,35,000] on redemption	34,65,000

Solution 7**Journal Entries in Books of BEE Co. Ltd**

	Particulars	Dr.	Cr.
1	Bank A/c	Dr.	75,000

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	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)			
2	Equity shareholders A/c	Dr.	75,000	
	To Equity share capital A/c			50,000
	To Securities Premium A/c			25,000
	(Share application money on 5,000 shares @ ₹10 per share transferred to share capital account, and ₹5 per share to securities premium account)			
3	Securities Premium A/c	Dr.	25,000	
	Profit & loss A/c	Dr.	25,000	
	To Bonus to Shareholders A/c			50,000
	(Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 vide General Body's resolution dated...)			
4	Bonus to Shareholder A/c	Dr.	50,000	
	To equity share capital A/c			50,000
	(Issue of bonus share in the ratio of 1 for 5 vide Board's resolution)			
5	Profit & Loss A/c	Dr.	12,000	
	To Debenture Redemption Reserve A/c			12,000
	(DRR created 1,20,000 * 10%)			
6	Debenture Redemption Reserve Investment A/c	Dr.	18,000	
	To Bank A/c			18,000
	(DRRI made 1,20,000 * 15%)			
7	12% Debentures A/c	Dr.	1,20,000	
	Premium payable on redemption a/c	Dr.	3,600	
	To Debenture holders A/c			1,23,600
	(Amount payable to debentures holders)			
8	Profit & Loss A/c	Dr.	3,600	
	To Premium payable on redemption A/c			3,600
	(Premium payable on redemption charged to profit & loss A/c)			
9	Bank A/c	Dr.	18,000	
	To Debenture Redemption Reserve Investment A/c			18,000
	(Being investment sold)			
10	Debenture Redemption Reserve A/c	Dr.	12,000	
	To General Reserve			12,000
	(DRR transferred to general reserve)			
11	Debenture holders A/c	Dr.	1,23,600	
	To Bank A/c			1,23,600
	(Amount paid to debenture holders on redemption)			

Solution 8

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

- By payment in lump sum at the end of a specified period of time;
- By payment in annual installments;
- By purchasing its own debentures in the open market.
- By conversion into shares in full or in part depending on the terms of issue.

Solution 9

Date	Particulars	₹	₹
30/4/22	Debenture Redemption Reserve Investment (DRRI) A/c	Dr.	11,25,000
	To Bank A/c (75,00,000 x 15%)		11,25,000

	(Being Debenture to be redeemed invested)		
31/3/23	Bank A/c Dr.	12,07,500	
	To Debenture Redemption Reserve Investment A/c		11,25,000
	To Interest on DRRI A/c (W.N.1)		82,500
	(11,25,000 x 8% x 11/12)		
	(Being amount of Investment matured)		
	9% Debentures A/c (75,000 x 100) Dr.	75,00,000	
	Premium payable on Redemption A/c Dr.	7,50,000	
	To Debentures Holder A/c		82,50,000
	(Being Redemption amount Due)		
	Debentures Holders A/c Dr.	82,50,000	
	To Bank A/c		82,50,000
	(Being amount paid to Debenture Holders)		
	Debenture Redemption Reserves (DRR) A/c Dr.	7,50,000	
	To General Reserve A/c		7,50,000
	(Being Debenture Redemption Reserve account transferred to General Reserve Account)		
	Interest on DRRI A/c Dr.	82,500	
	To Profit & Loss A/c		82,500
	(Being Interest transferred to Profit and Loss account)		
	Profit & Loss A/c Dr.	7,50,000	
	To Premium Payable on Redemption A/c		7,50,000
	(Being premium payable on redemption of Debentures charged to Profit and Loss account)		

Note:

1. The following set of journal entries may be combined with any other entry or may be presented as separate entries:

Interest on Debentures A/c	Dr.	6,75,000	
To Debenture Holders A/c			6,75,000
(Being Interest due to Debenture Holders)			
Debenture Holders A/c	Dr.	6,75,000	
To Bank A/c			6,75,000
(Being interest on debentures paid to debenture holders)			
P&L A/c	Dr.	6,75,000	
To Interest on debentures A/c			6,75,000
(Interest on debentures charged to Profit & Loss A/c)			

2. Interest Received on DRRI = $(11,25,000 \times 8\% \times 11/12) = ₹ 82,500$