

ISSUE OF DEBENTURES

Solution 1

Books of Amol Limited

S.No.	Particulars	L.F.	Debit	Credit
1	Bank A/c Dr.		20,00,00,000	
	To Debenture Application A/c			20,00,00,000
	(Being Debenture application money received)			
2	Debenture Application A/c Dr.		20,00,00,000	
	To 9% Debentures A/c			20,00,00,000
	(Being Application money transferred to 9% debentures account)			

Solution 2

Books of Atul Limited

S.No.	Particulars	L.F.	Debit	Credit
1	Bank A/c Dr.		30,00,00,000	
	To Debenture Application A/c			30,00,00,000
	(Being Debenture application money received)			
2	Debenture Application A/c Dr.		30,00,00,000	
	To 8% Debentures A/c			30,00,00,000
	(Being Application money transferred to 8% debentures account)			
3	Debenture Allotment A/c Dr.		60,00,00,000	
	Discount on issue of debentures A/c Dr.		10,00,00,000	
	To 8% Debentures A/c			70,00,00,000
(Being allotment money due)				
4	Bank A/c Dr.		60,00,00,000	
	To Debenture Allotment A/c			60,00,00,000
	(Being allotment money received)			

Solution 3

Books of Koinal Chemicals Ltd.

S.No.	Particulars	L.F.	Debit	Credit
1	Bank A/c Dr.		3,00,00,000	
	To Debenture Application A/c			3,00,00,000
	(Being Debenture application money received)			
2	Debenture Application A/c Dr.		3,00,00,000	
	To 10% Debentures A/c			2,25,00,000
	To Securities Premium			75,00,000
(Being Application money transferred to 10% debentures & Securities premium A/c)				
3	Debenture Allotment A/c Dr.		5,25,00,000	
	To 10% Debentures A/c			5,25,00,000
	(Being allotment money due)			
4	Bank A/c Dr.		5,25,00,000	
	To Debenture Allotment A/c			5,25,00,000
	(Being allotment money received)			

Solution 4**Books of Modern Equipments Limited**

S.No.	Particulars	L.F.	Debit	Credit
1	Bank A/c Dr.		1,20,00,000	
	To Debenture Application A/c (Being Debenture application money received)			1,20,00,000
2	Debenture Application A/c Dr.		1,20,00,000	
	To 12% Debentures A/c (Being Application money transferred to 12% debentures A/c)			1,20,00,000
3	Debenture Allotment A/c Dr.		2,80,00,000	
	Loss on issue of Debentures A/c Dr.		40,00,000	
	To 12% Debentures A/c			2,80,00,000
	To Premium on Redemption of Debentures A/c (Being allotment money due)			40,00,000
4	Bank A/c Dr.		2,80,00,000	
	To Debenture Allotment A/c (Being allotment money received)			2,80,00,000

Solution 5**Books of Agrotech Limited**

S.No.	Particulars	L.F.	Debit (in Lakhs)	Credit (in Lakhs)
1	Bank A/c Dr.		7,500	
	To Debenture Application A/c (Being Debenture application money received)			7,500
2	Debenture Application A/c Dr.		7,500	
	To 9% Debentures A/c (Being Application money transferred to 9% debentures A/c)			7,500
3	Debenture Allotment A/c Dr.		6,600	
	Loss on issue of Debentures A/c Dr.		1,650	
	To 9% Debentures A/c			7,500
	To Premium on Redemption of Debentures A/c (Being allotment money due)			750
4	Bank A/c Dr.		6,600	
	To Debenture Allotment A/c (Being allotment money received)			6,600

Working Notes:

Loss on issue of debentures

= (Amount of discount on issue + Premium payable on redemption) x No. of Debentures

= (6% of ₹100 + 5% of ₹100) x 150 lakh = (₹ 6 + ₹ 5) x 150 lakh = ₹ 1,650 lakh

Solution 6**Books of Mukesh Limited**

S.No.	Particulars	L.F.	Debit	Credit
1	Bank A/c Dr.		1,05,00,000	
	To Debenture Application A/c			1,05,00,000

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	(Being Debenture application money received)			
2	Debenture Application A/c	Dr.	1,05,00,000	
	Loss on issue of Debentures A/c	Dr.	10,00,000	
	To 8% Debentures A/c			1,00,00,000
	To Securities Premium A/c			5,00,000
	To Premium on Redemption of Debentures A/c			10,00,000
	(Being Application money transferred to 8% debentures A/c)			

Solution 7

Books of Santa Limited

S.No.	Particulars	L.F.	Debit	Credit
1	Bank A/c	Dr.	4,00,00,000	
	To Debenture Application A/c			4,00,00,000
	(Being Debenture application money received)			
2	Debenture Application A/c	Dr.	4,00,00,000	
	To 10% Debentures A/c			4,00,00,000
	(Being Application money transferred to 10% debentures A/c)			
3	Debenture Allotment A/c	Dr.	7,00,00,000	
	To 10% Debentures A/c			6,00,00,000
	To Securities Premium A/c			1,00,00,000
	(Being allotment money including premium due)			
4	Bank A/c	Dr.	7,00,00,000	
	To Debenture Allotment A/c			7,00,00,000
	(Being allotment money received)			

Solution 8

Books of Kapil Limited

Date	Particulars	L.F.	Debit	Credit
01.03.21	Bank A/c	Dr.	55,00,000	
	To Debenture Application A/c			55,00,000
	(Being Debenture application money received)			
09.03.21	Debenture Application A/c	Dr.	55,00,000	
	To 12% Debentures A/c			50,00,000
	To Securities Premium			5,00,000
	(Being Application money transferred to 12% debentures & Securities premium A/c)			

Solution 9

Books of Pihu Limited

S.No.	Particulars	L.F.	Debit	Credit
1	Bank A/c	Dr.	20,00,00,000	
	To Debenture Application A/c			20,00,00,000
	(Being Debenture application money received)			

2	Debenture Application A/c	Dr.	20,00,00,000	
	To 9% Debentures A/c			20,00,00,000
	(Being Application money transferred to 9% debentures account)			
3	Debenture Allotment A/c	Dr.	25,00,00,000	
	Discount on issue of debentures A/c	Dr.	5,00,00,000	
	To 9% Debentures A/c			30,00,00,000
	(Being allotment money due)			
4	Bank A/c	Dr.	25,00,00,000	
	To Debenture Allotment A/c			25,00,00,000
	(Being allotment money received)			

Solution 10

Books of A Limited

Date	Particulars	L.F.	Debit	Credit
1 st April	Bank A/c	Dr.	3,85,00,000	
	To Debenture Application A/c			3,85,00,000
	(Being Debenture application money received)			
7 th April	Debenture Application A/c	Dr.	3,85,00,000	
	To 12% Debentures A/c			3,50,00,000
	To Bank A/c			35,00,000
	(Being Application money transferred to 12% debentures account & excess money refunded)			

Solution 11

Books of X Limited

Date	Particulars	L.F.	Debit	Credit
31.05.23	Bank A/c	Dr.	1,08,00,000	
	To Debenture Application A/c			1,08,00,000
	(Being Debenture application money received for 1,20,000 debentures @ ₹90 each)			
09.06.23	Debenture Application A/c	Dr.	18,00,000	
	To Bank A/c			18,00,000
	(Being Excess application money refunded)			
09.06.23	Debenture Application A/c	Dr.	90,00,000	
	Discount on Issue of Debentures A/c	Dr.	10,00,000	
	To 12% Debentures A/c			1,00,00,000
	(Being Application money transferred to 12% debentures account)			

Bank A/c

Date	Particulars	Amount	Date	Particulars	Amount
31.05.23	To Debentures Appl. A/c	1,08,00,000	09.06.23	By Debentures Appl. A/c	18,00,000
			09.06.23	By Balance c/d	90,00,000
		1,08,00,000			1,08,00,000

12% Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
09.06.23	To Balance c/d	1,00,00,000	09.06.23	By Debentures Appl. A/c	90,00,000

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			09.06.23	By Discount on Issue of Debentures A/c	10,00,000
		1,00,00,000			1,00,00,000

Debentures Application A/c

Date	Particulars	Amount	Date	Particulars	Amount
09.06.23	To Bank A/c	18,00,000	31.05.23	By Bank A/c	1,08,00,000
09.06.23	To 12% Debentures	90,00,000			
		1,08,00,000			1,08,00,000

Discount on Issue of Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
09.06.23	To 12% Debentures	10,00,000	09.06.23	By Balance c/d	10,00,000
		10,00,000			10,00,000

Solution 12

Method 1

Books of X Limited

Date	Particulars	L.F.	Debit	Credit
	Bank A/c Dr.		1,00,00,000	
	To Bank Loan A/c			1,00,00,000
-	(Being a loan of ₹ 1,00,00,000 taken from bank by issuing debentures of ₹ 1,50,00,000 as collateral security)			

Balance Sheet of X Ltd.

	Particulars	Note No.	₹
I.	Equity and Liabilities		
	(1) Non-Current Liabilities		
	a) Long-term Borrowings	1	1,00,00,000
	Total		1,00,00,000
II.	Assets		
	(1) Current Assets		
	a) Cash and Cash equivalents		1,00,00,000
	Total		1,00,00,000

Notes to Accounts:

1.	Long Term Borrowings	
	Secured Loan	
	IDBI Loan	1,00,00,000
	(Collaterally secured by issue of ₹ 1,50,00,000 14% First Mortgage Debentures)	
		1,00,00,000

Method 2

Books of X Limited

Date	Particulars	L.F.	Debit	Credit
	Bank A/c Dr.		1,00,00,000	
	To Bank Loan A/c			1,00,00,000
-	(Being a loan of ₹ 1,00,00,000 taken from bank by issuing debentures of ₹ 1,50,00,000 as collateral security)			

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	Debentures Suspense A/c	Dr.		1,50,00,000	
	To 14% First Mortgage Debentures A/c				1,50,00,000
	(Being the issue of ₹ 1,50,00,000 debentures collaterally as per Board's Resolution No...dated)				

Balance Sheet of X Ltd.

	Particulars	Note No.	₹
I.	Equity and Liabilities		
	(1) Non-Current Liabilities		
	a) Long-term Borrowings	1	2,50,00,000
	Total		2,50,00,000
II.	Assets		
	(1) Non-Current Assets		
	a) Other Non Current Assets	2	1,50,00,000
	(2) Current Assets		
	a) Cash and Cash equivalents		1,00,00,000
	Total		2,50,00,000

Notes to Accounts:

1.	Long Term Borrowings	
	Secured Loan	
	IDBI Loan	1,00,00,000
	14% First Mortgage Debentures	1,50,00,000
		2,50,00,000
2.	Other Non Current Assets	
	Debenture Suspense Account	1,50,00,000
	(issue of ₹ 15,00,000 14% First Debentures as collateral security as per contra)	

Solution 13

Total amount of discount comes to ₹ 6,00,000 (₹6 X 1,00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1 st	1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
2 nd	1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
3 rd	1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
4 th	1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
5 th	1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000

Solution 14

Total amount of discount comes to ₹ 60,000 (0.60 X 1,00,000). The amount of discount to be written-off in each year is calculated as under:

Year end	Debentures outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
2021	10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2022	10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2023	10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2024	10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000
2025	10,00,000	1/5	1/5th of ₹ 60,000 = ₹ 12,000

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			60,000
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Solution 15

Books of X Limited

S.No.	Particulars	L.F.	Debit	Credit
1	Bank A/c Dr.		9,50,000	
	Loss on issue of Debentures A/c Dr.		1,50,000	
	To 12% Debentures A/c			10,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(Being allotment of 10,000 12% debentures of ₹ 100 each at a discount of 5% & redeemable at a premium of 10% after 5 years)			

Total Loss on issue of Debentures = Discount on Issue + Premium on Redemption
= 50,000 + 1,00,000
= 1,50,000

This total loss of 1,50,000 has to be written off over a period of 5 years. Therefore every year $1/5^{\text{th}}$ of 1,50,000 = 30,000 have to be written off.

Loss on Issue of Debentures A/c

Date	Particulars	Amount	Date	Particulars	Amount
1 st Year	To 12% Debentures	50,000	1 st Year	By P&L A/c	30,000
	To Premium on Redemption	1,00,000		By Balance c/d	1,20,000
		1,50,000			1,50,000
2 nd Year	To Balance b/d	1,20,000	2 nd Year	By P&L A/c	30,000
				By Balance c/d	90,000
		1,20,000			1,20,000
3 rd Year	To Balance b/d	90,000	3 rd Year	By P&L A/c	30,000
				By Balance c/d	60,000
		90,000			90,000
4 th Year	To Balance b/d	60,000	4 th Year	By P&L A/c	30,000
				By Balance c/d	30,000
		60,000			60,000
5 th Year	To Balance b/d	30,000	5 th Year	By P&L A/c	30,000
		30,000			30,000

Solution 16

Books of Company

S.No.	Particulars	L.F.	Debit	Credit
01.01.20	Bank A/c Dr.		1,80,000	
	Loss on issue of Debentures A/c Dr.		30,000	
	To 12% Debentures A/c			2,00,000
	To Premium on Redemption of Debentures A/c			10,000
	(Allotment of ₹ 2,00,000 12% debentures at discount of 10% & redeemable at a premium of 5% after 5 years)			

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30.06.20	Debenture Interest A/c	Dr.	12,000	
	To Debenture holders A/c			10,800
	To Tax Deducted at Source A/c			1,200
	(For interest payable)			
30.06.20	Debenture holders A/c	Dr.	10,800	
	Tax Deducted at Source A/c	Dr.	1,200	
	To Bank A/c			12,000
	(For payment of interest and TDS)			
31.12.20	Debenture Interest A/c	Dr.	12,000	
	To Debenture holders A/c			10,800
	To Tax Deducted at Source A/c			1,200
	(For interest payable)			
31.12.20	Debenture holders A/c	Dr.	10,800	
	Tax Deducted at Source A/c	Dr.	1,200	
	To Bank A/c			12,000
	(For payment of interest and TDS)			
31.12.20	Profit & Loss A/c	Dr.	24,000	
	To Interest on Debentures A/c			24,000
	(Being interest on debentures transferred to P&L A/c)			
31.12.20	Profit & Loss A/c	Dr.	6,000	
	To Loss on Issue of Debentures A/c			6,000
	(Being proportionate debenture discount and premium on redemption written off, i.e., 30,000 x 1/5)			

Solution 17

Journal Entries

Date	Particulars		Dr. ₹	Cr. ₹
1-1-2020	Bank A/c	Dr.	18,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	3,00,000	
	To 10% Debentures A/c			20,00,000
	To Premium on Redemption of Debentures A/c			1,00,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2020	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
30-6-2020	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and TDS)			
31-12-2020	Debenture Interest A/c	Dr.	1,00,000	
	To Debenture holders A/c			90,000
	To Tax Deducted at Source A/c			10,000
	(For interest payable)			
31-12-2020	Debenture holders A/c	Dr.	90,000	
	Tax Deducted at Source A/c	Dr.	10,000	
	To Bank A/c			1,00,000
	(For payment of interest and tax)			

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31-12-2020	Profit and Loss A/c	Dr.	2,00,000	
	To Debenture Interest A/c			2,00,000
	(For transfer of debenture interest to profit and loss account at the end of the year)			
31-12-2020	Profit and Loss A/c	Dr.	60,000	
	To Discount/Loss on issue of debenture A/c			60,000
	(For proportionate debenture discount and premium on redemption written off, i.e., 3,00,000 x 1/5)			

Solution 18

In the books of Y Company Ltd. Journal Entries

Date	Particulars	Dr.	Cr.
		₹	₹
(i)	Fixed Assets A/c Dr.	13,00,000	
	To Vendor A/c		13,00,000
	(Being the purchase of fixed assets from vendor)		
	Vendor A/c Dr.	13,00,000	
	Discount on Issue of Debentures A/c Dr.	2,00,000	
	To 12% Debentures A/c		15,00,000
	(Being the issue of debentures of ₹ 15,00,000 to vendor to satisfy his claim)		
(ii)	Bank A/c Dr.	27,00,000	
	To Debentures Application A/c		27,00,000
	(Being the application money received on 5,000 debentures @ ₹ 540 each)		
	Debentures Application A/c Dr.	27,00,000	
	Discount on issue of Debentures A/c Dr.	3,00,000	
	To 12% Debentures A/c		30,00,000
	(Being the issue of 5,000 12% Debentures @ 90% as per Board's Resolution No....dated....)		
(iii)	Bank A/c Dr.	14,00,000	
	To Bank Loan A/c (See Note)		14,00,000
	(Being a loan of ₹14,00,000 taken from bank by issuing debentures of ₹15,00,000 as collateral security)		

Note: In the Balance Sheet the fact that the debentures being issued as collateral security and outstanding are shown under the respective liability.

Solution 19

Journal Entries

Date	Particular	L.F	Dr.	Cr.
2020	Sundry Assets A/c Dr.		4,50,000	
April	Goodwill A/c (Bal. fig) Dr.		50,000	
	To Himalayan Ltd. A/c			4,40,000
	To Sundry Liabilities A/c			60,000
	(Being Assets and liabilities taken over for a net consideration of ₹ 4,40,000)			
	Himalayan Ltd. A/c Dr.		4,40,000	
	To 8% Debentures A/c			4,00,000
	To Securities Premium A/c			40,000

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	(Being 4000; 8% Debenture of ₹ 100 each issued at a premium of 10%)			
	Bank A/c Dr.		90,000	
	To Debenture Application A/c			90,000
	(Being the application money received for 3000, 8% Debenture)			
	Debenture Application A/c Dr.		90,000	
	To 8% Debenture A/c			90,000
	(Being 3000; 8% Debenture allotted)			
	Debentures allotment A/c Dr.		1,80,000	
	Loss on issue of debenture A/c Dr.		45,000	
	To 8% Debentures A/c			2,10,000
	To Premium on redemption of debentures A/c			15,000
	(Being allotment money due on 3000; 8% Debentures at 10% discount and redeemable at 5% premium)			
	Bank A/c Dr.		1,80,000	
	To Debentures Allotment A/c			1,80,000
	(Being the allotment money received)			
2021	Profit and Loss A/c Dr.		45,000	
Mar,31	To Loss on issue of Debenture A/c			45,000
	(Being the Loss on issue of debenture written off)			

Solution 20

Books of Avantika Ltd.

Journal

Particulars		Debit Amt.	Credit Amt.
Machinery A/c Dr.		9,90,000	
To Avneet Ltd.			9,90,000
(Machinery purchased)			
Case(i) When debentures are issued at par:			
Avneet Ltd.		9,90,000	
To 10% Debentures A/c			9,90,000
(10% Debentures issued to Avneet Ltd.)			
Case(ii) When debentures are issued at 20% discount:			
Avneet Ltd.		9,90,000	
Discount on Issue of Debentures A/c		2,47,500	
To 10% Debentures A/c			12,37,500
(10% Debentures issued to Avneet Ltd. at 20% discount)			
Case(iii) When debentures are issued at 20% premium:			
Avneet Ltd. Dr.		9,90,000	
To 10% Debentures A/c			8,25,000
To Securities Premium A/c			1,65,000
(10% Debentures issued to Avneet Ltd. at 20% premium)			

Workings:

(a) Number of debentures issued in case of 20% discount:

	(₹)
Face value	100

Less: Discount 20%	20
Value at which issued	80
$\text{₹ } 9,90,000 / 80 = 12,375 \text{ Debentures}$	

(b) Number of debentures issued in case of 20% premium:

	(₹)
Face value	100
Add: Premium 20%	20
Value at which issued	120
$\text{₹ } 9,90,000 / 120 = 8,250 \text{ Debentures}$	