

Debentures

Questions for Practice

Short Answer Questions

1. What is meant by a Debenture?
2. What does a Bearer Debenture mean?
3. State the meaning of 'Debentures issued as a collateral security'.
4. What is meant by 'Issue of debentures for consideration other than cash'?
5. What is meant by Issue of debenture at discount and redeemable at premium?
6. What is 'Capital Reserve'?
7. What is meant by a 'Irredeemable Debenture'?
8. What is a 'Convertible Debenture'?
9. What is meant by 'Mortgaged Debentures'?
10. What is discount on issue of debentures?
11. What is meant by 'Premium on Redemption of Debentures'?
12. How debentures are different from shares? Give two points.
13. Name the head under which 'discount on issue of debentures' appears in the balance sheet of a company.
14. What is meant by redemption of debentures?
15. Can the company purchase its own debentures?
16. What is meant by redemption of debentures by conversion?
17. How would you deal with 'Premium on Redemption of Debentures'?
18. What is meant by 'Redemption out of Capital'?
19. What is meant by redemption of debentures by 'Purchase in the Open Market'?
20. Under which head is the 'Debenture Redemption Reserve' shown in the balance sheet.

Long Answer Questions

1. Explain the different types of debentures?
2. Distinguish between a debenture and a share. Why debenture is known as loan capital? Explain.
3. Describe the meaning of 'Debenture Issued as Collateral Securities'. What accounting treatment is given to the issue of debentures in the books of accounts?
4. How is 'Discount on Issue of Debentures' treated in the books of accounts? How will you deal with the 'discount in issue of debentures' when the debentures are to be redeemed in installments?
5. Explain the different terms for the issue of debentures with reference to their redemption.
6. Differentiate between redemption of debentures out of capital and out of profits.
7. Explain the guidelines of SEBI for creating Debenture Redemption Reserve.
8. Describe the steps for creating Sinking Fund for redemption of debentures.
9. Can a company purchase its own debentures in the open market? Explain.
10. What is meant by conversion of debentures? Describe the method of such a conversion.

Numerical Questions

1. G.Ltd. issued 75,00,000, 6% debentures of Rs 50 each at par payable Rs 15 on application and Rs 35 on allotment, redeemable at par after 7 years from the date of issue of debentures. Record necessary entries in the books of Company.
2. Y.Ltd. issued 2,000, 6% debentures of Rs 100 each payable as follows: Rs 25 on application; Rs 50 on allotment and Rs 25 on first and final call.

3. A.Ltd. issued 10,000, 10% debentures of Rs 100 each at a premium of 5% payable as follows:
Rs 10 on Application;Rs 20 along with premium on allotment and balance on first and final call.Record necessary Journal Entries.
4. A. Ltd. issued 90,00,000, 9% debenture of Rs 50 each at a discount of 8%, redeemable at par any time after 9 years
Record necessary entries in the books of A. Ltd.
5. A.Ltd. issued 4,000, 9% debentures of Rs 100 each on the following terms:
Rs 20 on Application;
Rs 20 on Allotment;
Rs 30 on First call; and Rs
30 on Final call.
The public applied for 4,800 debentures. Applications for 3,600 debentures were accepted in full. Applications for 800 Debentures were allotted 400 debentures and applications for 400 Debentures were rejected.
6. T. Ltd. offered 2,00,000, 8% debenture of Rs 500 each on June 30, 2014 at a premium of 10% payable as Rs 200 on application (including premium) and balance on allotment, redeemable at par after 8 years But application are received for 3,00,000 debentures and the allotment is made on pro-rata basis. All the money due on application and allotment is received. Record necessary entries regarding issue of debentures.
7. X.Ltd. invites application for the issue of 10,000, 14% debentures of Rs 100 each payable as to Rs 20 on application, Rs 60 on allotment and the balance on call.The company receives applications for 13,500 debentures, out of which applications for 8,000 debentures are allotted in full, applications for 5000 debentures were allotted 40% of received application, and the remaining applications were rejected.The surplus money on partially allotted applications is utilised towards allotment.All the sums due are duly received.
8. B.Ltd. purchased assets of the book value of Rs 4,00,000 and took over the liability of Rs 50,000 from Mohan Bros. It was agreed that the purchase consideration, settled at Rs,3,80,000, be paid by issuing debentures of Rs 100 each. What Journal entries will be made in the following three cases, if debentures are issued: (a) at par; (b) at discount; (c) at premium of 10%? It was agreed that any fraction of debentures be paid in cash.(Note: Goodwill Rs 30,000)
9. X.Ltd. purchased a Machinery from Y Ltd. at an agreed purchase consideration of Rs 4,40,000 to be satisfied by the issue of 12% debentures of Rs 100 each at a premium of Rs 10 per debenture. Journalise the transactions.
10. X.Ltd. issued 15,000, 10% debentures of Rs 100 each. Give journal entries and present it in the balance sheet in each of the following cases:
(i) The debentures are issued at a premium of 10%;
(ii) The debentures are issued at a discount of 5%;
(iii)The debentures are issued as a collateral security to bank against a loan of Rs 12,00,000; and (iv) The debentures are issued to a supplier of machinery costing Rs 13,50,000.
11. Journalise the following:
(i) A debenture issued at Rs 95, repayable at Rs 100;
(ii) A debenture issued at Rs 95, repayable at Rs 105; and
(iii) A debenture issued at Rs 100, repayable at Rs 105;
The face value of debenture in each of the above cases is Rs 100.

12. A.Ltd. issued 50,00,000, 8% debentures of Rs 100 at a discount of 6% on April 01, 2009, redeemable at premium of 4% by draw of lots as under: 20,00,000 debentures on March, 2011 10,00,000 debentures on March, 2013 20,00,000 debentures on March, 2014. Compute the amount of discount to be written-off in each year till debentures are paid. Also prepare discount/loss on issue of debenture account.
13. A company issued debentures of the face value of Rs,5,00,000 at a discount of 6% on January 01, 2011. These debentures are redeemable by annual drawings of Rs,1,00,000 made on December 31 each year. The directors decided to write-off discount based on the debentures outstanding each year. Calculate the amount of discount to be written-off each year. Give journal entries also.
14. B.Ltd. issued debentures at 94% for Rs 4,00,000 on April 01, 2011 repayable by five equal drawings of Rs 80,000 each. The company prepares its final accounts on March 31 every year. Indicate the amount of discount to be written-off every accounting year assuming that the company decides to write-off the debentures discount during the life of debentures. (Amount to be written-off: 2011 Rs 6,000; 2012 Rs 6,800; 2013 Rs 5,200; 2014 Rs 3,600; 2015 Rs 2,000; 2016 Rs 400).
15. B. Ltd. issued 1,000, 12% debentures of Rs 100 each on April 01, 2014 at a discount of 5% redeemable at a premium of 10%. Give journal entries relating to the issue of debentures and debentures interest for the period ending March 31, 2015 assuming that interest is paid half-yearly on September 30 and March 31 and tax deducted at source is 10%.
16. On January 01, 2012, X. Ltd. issues 5,000, 8% debentures of Rs 100 each repayable at par at the end of three years It has been decided to set up a cumulative sinking fund for the purpose of their redemption. The investments are expected to realize 4% net. The Sinking Fund Table shows that Rs 0.320348 amounts to one rupee @4% per annum in three years On December 31, 2014 the balance at Bank was Rs 2,42,360 and the investments realised Rs 3,25,000. The debentures were paid off. Give journal entries and show ledger account. (Answer: Loss on sale of Investment Rs 2,246)
17. On April 01, 2011 a company issued 15% debentures of Rs 10,00,000 at par. The debentures were redeemable at par after three years from the date of Issue. A sinking fund was set up to raise funds for redemption of debentures. The amount for the purpose was invested in 6% Government securities of Rs 100 each available at par. The sinking fund table shows that if investments earn 6% per annum, to get Re.1 at the end of 3 years, one has to invest Rs 0.31411 every year together with interest that will be earned. On March 31, 2014, all the Government securities were sold at a total loss of Rs 6,000 and the debentures were redeemed at par. Prepare Debentures Account Sinking Fund Account, Sinking Fund Investment Account and Interest on Sinking Fund Investment Company closes its books of accounts every year on March 31.
18. On April 01, 2013 the following balances appeared in the books of Z. Ltd.:
- Rs 6% Debentures 1,00,000
 Debentures Redemption Reserve Fund 80,000
 D.R. Reserve Fund Investments 80,000
- The investments consisted of 4% Government securities of the face value of Rs 90,000. The annual instalment was Rs 16,400. On March 31, 2014, the balance at Bank was Rs 26,000 (after receipt of interest on D.R. Reserve Fund Investment). Investments were realised at 92% and the debentures were redeemed. The interest for the year had already been paid. Show the ledger accounts affecting redemption.

19. The following balances appeared in the books of A.Ltd. on April 01, 2014

	Rs
12% Debentures	4,00,000
Debentures Redemption Fund	3,60,000
Debentures Redemption Fund Investment	3,60,000
Securities Premium	30,000
Bank Balance	1,00,000

On April 01, 2014, the company redeemed all the debentures at 105 per cent out of funds raised by selling all the investments at Rs 3,48,000. Prepare the necessary ledger accounts.

20. What entries for the redemption of debentures will be done when : (a) debentures are redeemed by annual drawings out of profits; (b) debentures are redeemed by drawing a lot out of capital; and (c) debentures are redeemed by purchasing them in the open market when sinking fund for the redemption of debentures is not maintained – (i) when out of profit, and (ii) when out of capital?

21. A. Ltd. Company issued Rs,5,00,000 debentures at a discount of 5% repayable at par by annual drawings of Rs 1,00,000. Make the necessary ledger accounts in the books of the company for the first year.

22. A.Ltd. purchased its own debentures of the face value of Rs 2,00,000 from the open market for immediate cancellation at Rs 92. Record the journal entries.

23. X.Ltd. redeemed 1,000, 12% debentures of Rs 50 each by converting them into 15% New Debentures of Rs 100 each. Journalise.