

## Issue and Redemption of Debentures

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**1. Assertion (A) :** Irredeemable debentures are also known as perpetual debentures.

**Reason (R) :** The company does not give any undertaking for the repayment of money borrowed by issuing such debentures. They are repayable on the winding up of the company or on the expiry of a long period. (2024)

**Choose the correct option from the following :**

(A) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

(B) Both Assertion (A) and Reason (R) are correct, but Reason (R) is not the correct explanation of Assertion (A).

(C) Assertion (A) is incorrect, but Reason (R) is correct.

(D) Assertion (A) is correct, but Reason (R) is incorrect.

**Ans.** (A) Both Assertion (A) and Reason (R) are correct and Reason (R) is the correct explanation of Assertion (A).

**2. Analysis of Financial Statements is useful and significant to different users. Which of the following users is particularly interested in the firm's ability to meet their claims over a very short period of time? (2024)**

(A) Labour Unions

(B) Trade Payables

(C) Top Management

(D) Finance Manager

**Ans.** (B) Trade Payables

**3. \_\_\_\_\_ ratios are calculated to determine the ability of the business to service its debt in the long run. (2024)**

(A) Liquidity

(B) Turnover

(C) Solvency

(D) Profitability

**Ans.** (C) Solvency

4. On 1<sup>st</sup> April, 2022, Zubian Ltd. issued ₹ 10,00,000, 7% Debentures of ₹ 100 each at a premium of 6%, redeemable at a premium of 4% after five years. The company had a balance of ₹ 30,000 in Securities Premium Account. (2024)

(a) Pass necessary journal entries for issue of debentures and for writing off 'Loss on Issue of Debentures' utilising Securities Premium Account at the end of the first year itself.

Ans. Books of Zubian Ltd.

**JOURNAL**

Date	Particulars	L.F	Dr. Amount (₹)	Cr. Amount (₹)
2022 Apr 1	(i) Bank A/c <span style="float: right;">Dr.</span> To Debenture Application & Allotment A/c (Application money received on 10,000, 7% Debentures)		10,60,000	10,60,000
Apr 1	(ii) Debenture Application & Allotment A/c <span style="float: right;">Dr.</span> Loss on issue of Issue of Debentures A/c <span style="float: right;">Dr.</span> To 7% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (Debentures issued at 6% premium, redeemable at 4% premium on redemption)		10,60,000  40,000	10,00,000 60,000 40,000
2023 Mar 31	(iii) Securities Premium A/c <span style="float: right;">Dr.</span> To Loss on Issue of Debentures A/c (Loss on issue of debentures written off)		40,000	40,000

(b) Prepare 'Loss on Issue of Debentures Account' for the year ended 31<sup>st</sup> March, 2023.

Ans.

Dr		<b>Loss on Issue of Debentures A/c</b>		Cr	
Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
1.4.22	To Premium on Redemption of Debentures A/c	40,000	31.3.23	By Securities Premium A/c	40,000
		40,000			40,000

## Previous Years' CBSE Board Questions

### 2.1 Meaning of Debentures

VSA (1 mark)

1. Give the meaning of 'Debenture'. (NCERT, Delhi 2014)

### 2.4 Issue of Debentures

VSA (1 mark)

2. Excess of issue price of a debenture over its face value is called \_\_\_\_\_. (2020)
3. Garvit Ltd. Invited applications for issuing 3,000, 11% Debentures of ₹100 each at a discount of 6%. The full amount was payable on application. Applications were received for 3,600 debentures. Application for 600 debentures were rejected and the application money was refunded. Debentures were allotted to the remaining applicants. Pass the necessary journal entries for the above transaction in the books of Garvit Ltd. (2019)
4. X Ltd. invited applications for issuing 1000, 9% debentures of ₹ 100 each at a discount of 6%. Application for 1,200 debentures were received, Pro-rata allotment was made to all the applicants.  
Pass necessary Journal Entries for the issue of debentures assuming that the whole amount was payable with application. (Delhi 2017) (Ev)

SA II (3/4 marks)

5. Sinco Ltd. purchased assets of the book value of ₹1,98,000 from Dixon Ltd. It was agreed that the purchase consideration be paid by issuing 10% debentures of ₹100 each.  
Record the necessary journal entries in the books of Sinco Ltd. Assuming that the debentures have been issued:  
(i) At a discount of 10%  
(ii) At a premium of 10%. (2023)
6. Amay Ltd. invited applications for issuing 10,000, 8% debentures of ₹100 each. The amount was payable as follows:  
₹30 on application and ₹70 on allotment. The public applied for 12,000 debentures. Applications for 8,000 debentures were accepted in full; applications for 3,000 debentures were allotted 2,000 debentures and the remaining applications were rejected. All money was duly received.  
Pass the necessary journal entries in the books of the company for the above transactions. (Term-II, 2021-22)
7. Zed Ltd. issued 2,00,000, 8% debentures of ₹100 each at a discount of 6% redeemable at a premium of 10% after 5 years. The amount was payable as follows:

On application - ₹50 per debenture and

On allotment - balance

Record the necessary journal entries for the issue of debentures in the books of Zed Ltd. (2020) (AI)

### 2.5 Over Subscription

LA I (5/6 marks)

8. (a) BGP Ltd. invited applications for issuing 15,000, 11% debentures of ₹100 each at a premium of ₹50 per debenture. The full amount was payable on application. Applications were received for 25,000 debentures. Applications for 5,000 debentures were rejected and the application money was refunded. Debentures were allotted to the remaining applicants on pro-rata basis.  
Pass the necessary journal entries for the above transactions in the books of BGP Ltd.  
(b) Agam Ltd. issued 40,000, 9% debentures of ₹100 each on April 1, 2018 at a discount of 10%, redeemable at a premium of 10%.  
Assuming that the interest was paid half yearly on September 30 and March 31 and the tax deducted at source was 10%, give journal entries relating to debenture interest for the half year ended March 31, 2019. (2020)

### 2.6 Issue of Debentures for Consideration other than Cash

SA II (3/4 marks)

9. X Ltd. purchased assets of ₹18,00,000 and took over liabilities of ₹6,00,000 of Y Ltd. For a purchase consideration of ₹10,00,000. The payment to Y Ltd. Was made by issue of 9% debentures of ₹100 each at ₹125.  
Calculate the number of 9% debentures issued in favour of Y Ltd. and pass the necessary journal entries for the above transactions in the books of X Ltd. (Term-II, 2021-22)
10. (i) Anand Ltd. purchased machinery worth ₹3,15,000 from Mahima Ltd. The payment was made by issue of 10% debentures of ₹ 100 each issued at a discount of 10%.  
Pass the necessary journal entries for purchase of machinery and issue of debentures in the books of Anand Ltd.  
(ii) Manas Ltd. issued 10,000, 7% debentures of ₹100 each at a premium of 10% redeemable at a premium of 10% after 6 years.  
Pass the necessary journal entries in the books of Manas Ltd. regarding issue of debentures. (2021 C)



11. (i) Vayee Ltd. purchased the following assets of E.X. Ltd.:

Land and Building of ₹60,00,000 at ₹84,00,000; Plant and Machinery of ₹40,00,000 at ₹36,00,000. The purchase consideration was ₹1,10,00,000. Payment was made by accepting a Bill of Exchange in favour of E.X. Ltd. of ₹20,00,000 and remaining by issue of 8% debentures of ₹100 each at a premium of 20%.

Record the necessary journal entries for the above transactions in the books of Vayee Ltd. (2020)

12. 'Sangam woollen Ltd., Ludhiana are the manufacturers and exporters of woollen garments. The company decided to distribute free of cost woollen garments to 100 villages of Lahaul and Spiti District of Himachal Pradesh. The company also decided to employ 50 young persons from these villages in its newly established factory. The company issued 40,000 equity shares of ₹ 10 each and 1,000, 9% debentures of ₹ 100 each to the vendors for purchase of machinery of ₹ 5,00,000.
- Pass necessary journal Entries. Also identify any one value that the company wants to communicate to the society. (Delhi 2015) (Ev)

## 2.7 Issue of Debentures as a Collateral Security

VSA (1 mark)

13. For recording the issue of debentures as a collateral security by a journal entry \_\_\_\_\_ account is debited. (2020) (R)
14. Give the meaning of 'Debentures issued as Collateral Security'. (NCERT, 2018)

## 2.8 Terms of Issue of Debentures

MCQ

15. Elite Ltd. issued 20,000, 9% Debentures of ₹100 each at a discount of 10% redeemable at a premium. On the issue of these debentures, "Loss on issue of debentures account" was debited with ₹4,00,000. The premium on redemption of debentures is:
- (a) ₹4,00,000 (b) ₹2,00,000  
(c) ₹6,00,000 (d) ₹10,00,000 (2023)

SA II (3/4 marks)

16. KTR Ltd., issued 365, 9% Debentures of ₹ 1,000 each on 4-3-2016. Pass necessary Journal entries for the issue of debentures in the following situations :
- (a) When debentures were issued at par redeemable at a premium of 10%.
- (b) When debentures were issued at 6% discount redeemable at 5% premium. (Delhi 2016) (An)

17. On 2.3.2016, L and B Ltd. issued 635, 9% debentures of 500 each in the following situations:

- (a) When Debentures were issued at 5% discount, redeemable at 10% premium.
- (b) When Debentures were issued at 12% premium, redeemable at 6% premium. (AI 2016) (An)

LA I (5/6 marks)

18. Pass necessary journal entries for the issue of debentures in the following cases:
- (i) Issued 5,000 debentures, 9% debentures of ₹100 each at a discount of 10% redeemable at a premium of 5% after 5 years.
- (ii) Issued 30,000 debentures, 12% debentures of ₹100 each at a premium of 5% redeemable at par after 5 years.
- (iii) Issued 8,750 debentures, 12% debentures of ₹100 each at par, redeemable at par after 5 years. (2023)
19. Pass journal entries relating to issue of debentures for the following transactions:
- (a) Issued 8,000, 10% debentures of ₹100 each at a discount of 10%, redeemable at 5% premium.
- (b) Issued 4,000, 12% debentures of ₹100 each at 10% premium, redeemable at 6% premium.
- (c) Issued ₹1,00,000, 9% debentures of ₹100 each at par redeemable at par.
- (d) Issued ₹5,00,000, 9% debentures of ₹100 each at 10% premium redeemable at par.
- (e) Issued 6,000, 9% debentures of ₹100 each at a discount of 10% redeemable at par. (Term-II, 2021-22)

## 2.9 Interest on Debentures

SA II (3/4 marks)

20. On 1-4-2015, PVR Ltd. issued 750, 11% debentures of ₹ 1,000 each at discount of 5%, redeemable at a premium of 10% after three years. Interest on debentures is payable on 30<sup>th</sup> September and 31<sup>st</sup> March. PVR Ltd. closes its books on 31<sup>st</sup> March every year. The rate of tax deducted at source is 10%. Pass necessary Journal Entries for the issue of debentures and payment of interest for the year ended 31<sup>st</sup> March, 2016. (Delhi 2017) (Ap)
21. BG. Ltd. issued 2,000, 12% debentures of ₹ 100 each on 1<sup>st</sup> April 2012. The issue was fully subscribed. According to the terms of issue, interest on the debentures is payable half-yearly on 30<sup>th</sup> September and 31<sup>st</sup> March and the tax deducted at source is 10%. Pass necessary journal entries related to the debenture interest for the half-yearly ending 31<sup>st</sup> March, 2013 and transfer of interest on debentures of the year to the statement of Profit and Loss. (Delhi 2014)

22. Tata Ltd. issued 5,000, 10% debentures of ₹ 100 each on 1st April, 2012. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half-yearly on 30th September and 31st March and the tax deducted at source is 10%. Pass the necessary journal entries related to the debenture interest for the half-yearly ending on 31st March, 2013 and transfer of interest on debentures of Statement of Profit and Loss. (AI 2014) (EV)

## 2.10 Writing off Discount/Loss on Issue of Debentures

VSA (1 mark)

23. Give any one purpose for which the amount received as 'Securities Premium' may be utilised.

(Delhi 2014)

## CBSE Sample Questions

### 2.3 Types of Debentures

MCQ

1. While issuing \_\_\_\_\_ type of Debentures, company doesn't give any undertaking for the repayment of money borrowed by issuing such debentures.
- Zero Coupon Rate Debentures
  - Non-Convertible Debentures
  - Secured Debentures
  - Non-Redeemable Debentures
- (2022-23)

### 2.5 Over Subscription

SA II (3/4 marks)

2. On April 1, 2019 Z Ltd. issued, 10,000, 8% Debentures of ₹100 each at premium of 5%, to be redeemable at a premium of 10%, after 5 years. The entire amount was payable on application. The issue was oversubscribed to the extent of 10,000 debentures and the allotment was made proportionately to all the applicants. The securities premium amount has not been utilized for any other purpose during the year. Give journal entries for the issue of debentures and writing off loss on issue of debentures.

(2020-21) (U)

### 2.6 Issue of Debentures for Consideration Other than Cash

SA II (3/4 marks)

3. Anthony Ltd. issued 20,000, 9% Debentures of ₹ 100 each at 10% discount to Mithoo Ltd. from whom assets of ₹ 23,50,000 and liabilities of ₹ 6,00,000 were taken over. Pass entries in the books of Anthony Ltd. if these debentures were to be redeemed at 5% premium. (2022-23)
4. Vedesh Ltd. purchased a running business of Vibhu Enterprises for a sum of ₹ 12,00,000. Vedesh Ltd. paid ₹ 60,000 by drawing a promissory note in favour of Vibhu Enterprises., ₹ 1,90,000 through bank draft and balance by issue of 8% debentures of ₹ 100

each at a discount of 5%. The assets and liabilities of Vibhu Enterprises consisted of Fixed Assets valued at ₹ 17,30,000 and Trade Payables at ₹ 3,20,000. You are required to pass necessary journal entries in the books of Vedesh Ltd. (Term-II, 2021-22)

LA I (5/6 marks)

5. Neeraj Ltd. took over business of Ajay enterprises on 1-04-2020. The details of the agreement regarding the assets and liabilities to be taken over are:

Particulars	Book Value (₹)	Agreed Value (₹)
Building	20,00,000	35,00,000
Plant and Machinery	12,00,000	8,00,000
Stock	4,00,000	4,00,000
Trade receivables	5,00,000	4,00,000
Creditors	2,00,000	3,00,000
Outstanding Expenses	50,000	1,00,000

It was decided to pay for purchase consideration as ₹ 7, 00,000 through Cheque and balance by issue of 2,00,000, 9% Debentures of ₹ 20 each at a premium of 25%. Journalise. (2020-21) (Ap)

### 2.7 Issue of Debentures as a Collateral Security

SA II (3/4 marks)

6. Youth Ltd. took a loan of ₹ 15,00,000 from State Bank of India against the security of tangible assets. In addition to principal security, it issued 10,000 11% debentures of ₹ 100 each as collateral security. Pass necessary journal entries for the above transactions, if the company decided to record the issue of 11% debentures as collateral security and show the presentation in the Balance Sheet of Youth Ltd. (Term-II, 2021-22)

## 2.8 Terms of Issue of Debentures

LA I (5/6 marks)

7. Yogadatra Ltd. (pharmaceutical company) appointed marketing expert, Mr. Kartikay as the CEO of the company, with a target to penetrate their roots in the rural regions. Mr. kartikay discussed the ways and means to achieve target of the company with financial, production and marketing departmental heads and asked the finance manager to prepare the budget. After reviewing the suggestions given by all the departmental heads, the finance manager proposed requirement of an additional fund of ₹52,50,000. Yogadatra Ltd. is a zero-debt company. To avail the benefits of financial leverage, the finance manager proposed to include debt in the capital structure. After deliberations, on April 1, 2020, the board of directors had decided to issue 6% Debentures of ₹ 100 each to the public at a premium of 5%, redeemable after 5 years at ₹ 110 per share.
- You are required to answer the following questions:
- Calculate the number of debentures to be issued to raise additional funds.
  - Pass Journal entry for the allotment of debentures.
  - Pass Journal entry to write off loss on issue of debentures.

- Calculate the amount of annual fixed obligation associated with debentures.
- Prepare Loss on Issue of Debentures Account.  
(Term-II, 2021-22) **EV**

## 2.10 Writing off Discount/Loss on Issue of Debentures

MCQ

8. Savitri Ltd. issued 50,000, 8% Debentures of ₹ 100 each at a certain rate of premium and to be redeemed at 10% premium. At the time of writing off loss on issue of debentures, Statement of Profit and Loss was debited with ₹ 2,00,000. At what rate of premium, these debentures were issued?  
(a) 10% (b) 16% (c) 6% (d) 4%  
(2022-23)
9. Durga Ltd. issued 80,000, 10% Debentures of ₹ 100 each at certain rate of discount and were to be redeemed at 20% premium. Existing balance of securities premium before issuing of these debentures was ₹ 25,00,000 and after writing off loss on issue of debentures, the balance in securities premium was ₹ 5,00,000. At what rate of discount, these debentures were issued?  
(a) 10% (b) 5% (c) 25% (d) 15%  
(2022-23)

## Detailed SOLUTIONS

### Previous Years' CBSE Board Questions

- Debenture is an instrument acknowledging a debt that the company has taken, issued by a company under a common seal.
- Excess of issue price over face value of debentures is called premium on issue of debentures.

### Related Theory

- ☞ Sometimes, company purchases the debentures at more than the redeemable value due to the following reasons:
- To maintain the solvency ratio
  - To utilise the surplus money or funds which are lying idle with the company.

### 3. Journal of Garvit Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c To Debenture Application and Allotment A/c (Being application money received on 3,600 debentures)	Dr.	3,38,400	3,38,400
(ii)	Debenture Application and Allotment A/c Discount/Loss on issue of Debentures A/c To 11% Debentures A/c To Bank A/c (Being application money adjusted)	Dr. Dr.	3,38,400 18,000	3,00,000 56,400

4.

## Journal Entries

Date	Particular	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c (1200 × 94) To 9% debenture Application & Allotment A/c (Being Application money received on 1,200 debentures)	Dr.	1,12,800	1,12,800
(ii)	9% debenture Application & allotment A/c Discount on issue of debenture A/c To 9% Debenture A/c To Bank A/c (Being application money transferred to debenture A/c)	Dr. Dr.	1,12,800 6,000	1,00,000 18,800

Commonly Made Mistake 

- ❏ The banking companies are exempted from creating DRR as per Rule 18(7) of companies (share capital and debentures) rules 2014.

5.

## Journal entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i) (a)	Sundry Assets A/ To Dixon's Ltd. A/c (For assets purchased from Dixon Ltd.)	Dr.	1,78,200	1,78,200
(i) (b)	Dixon Ltd. A/c Discount on Issue of Debentures A/C To 10% Debentures A/c (Allotment of debentures to Dixon Ltd. As purchase consideration)	Dr. Dr.	1,78,200 19,800	1,98,000
(ii) (a)	Sundry Assets A/c To Dixon's Ltd. A/c (For assets purchased from Dixon Ltd.)	Dr.	2,17,800	2,17,800
(ii) (b)	Dixon Ltd. A/c To 10% Debentures A/c To Securities Premium Reserve A/c (Allotment of 1980 Debentures of ₹100 each at a premium of 10% as purchase consideration)	Dr.	2,17,000	1,98,000 19,800

6.

## In the books of Amay Ltd.

## Journal Entries

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c To Debenture Application A/c (Application money received)	Dr.	3,60,000	3,60,000
(ii)	Debenture Application A/c To 8% Debenture A/c To Debenture Allotment A/c To Bank A/c (8% Debentures issued and money refunded)	Dr.	3,60,000	3,00,000 30,000 30,000
(iii)	Debenture Allotment A/c To 8% Debentures A/c (10,000 × 70) (Amount due to allotment)	Dr.	7,00,000	7,00,000
(iv)	Bank (7,00,000 - 30,000) A/c To Debenture Allotment A/c (Money received on allotment)	Dr.	6,70,000	6,70,000





Category	Shares Applied	Shares Allotted	Share Application Money (₹30)	Shares capital (₹30)	Excess	Refund
A	8,000	8,000	24,00,00	2,40,000	-	-
B	3,000	2,000	90,000	60,000	30,000	-
C	1,000	Nil	30,000	-	-	30,000
	<b>12,000</b>	<b>10,000</b>	<b>3,60,000</b>	<b>3,00,000</b>	<b>30,000</b>	<b>30,000</b>

7. In the books of Zed Ltd.  
Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Bank A/c To Debenture Application A/c (Being debenture application money received)	Dr.	1,00,00,000	1,00,00,000
(ii)	Debenture Application A/c Loss on Issue of debentures A/c To 8% Debentures A/c To Premium on Redemption A/c (Being debentures allotted and premium on redemption accounted for)	Dr. Dr.	1,00,00,000 20,00,000	1,00,00,000 20,00,000
(iii)	Debenture Allotment A/c Discount on Issue of Debenture A/c To 8% Debentures A/c (Being allotment due on debentures)	Dr. Dr.	88,00,000 12,00,000	1,00,00,000
(iv)	Bank A/c To Debenture Allotment A/c (Being allotment money received)	Dr.	88,00,000	88,00,000

8. (a) Books of BGP Ltd.  
Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Bank A/c To Debenture Application & Allotment A/c (Being application money received for 25,000 shares)	Dr.	37,50,000	37,50,000
(ii)	Debenture Application & Allotment A/c To 11% Debentures A/c (15,000 × 100) To Securities Premium Reserve A/c (15,000 × 50) To Bank A/c (Being Debenture application money adjusted and balance refunded)	Dr.	37,50,000	15,00,000 7,50,000 15,00,000

(b) In the books of Agam Ltd.  
Journal

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
2018 Apr.01	Bank A/c To Debenture Application and Allotment A/c (Received application money on 8,000 Debenture)	Dr.	36,00,000	36,00,000
2018 Apr.01	Debenture Application and Allotment A/c Discount on Issue of Debenture A/c Loss on Issue of Debenture A/c To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Application money transferred to Debentures A/c)	Dr. Dr. Dr.	36,00,000 4,00,000 4,00,000	40,00,000 4,00,000
Apr.01	Debentures Interest A/c To Debentureholders' A/c To TDS Payable A/c (Interest due)	Dr.	1,80,000	1,62,000 18,000



**Manas Ltd.,  
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr. To 7% Debenture Application and Allotment A/c (Debenture Application money received on 10,000 Debentures)		11,00,000	11,00,000
	7% Debenture Application and Allotment A/c Dr. Loss on issue of 10% Debentures A/c Dr. To 7% Debentures A/c To Premium on Redemption of Debentures A/c To Securities Premium Reserve A/c (Debentures Application money transferred to debentures A/c)		11,00,000 1,00,000	10,00,000 1,00,000 1,00,000

**11. In the books of Vayee Ltd.  
Journal**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
(i)	Land & Building A/c Dr. Plant & Machinery A/c Dr. To EX Ltd. A/c To Capital Reserve A/c (Bal. Fig.) (Being assets of EX Ltd. purchased)		84,00,000 36,00,000	1,10,00,000 10,00,000
(ii)	EX Ltd. A/c Dr. To Bills Payable A/c To 8% Debentures A/c (75,000 × 100) To Securities Premium Reserve A/c (75,000 × 20) (Being purchase consideration paid by accepting a bill and issuing 75,000 8% debentures of ₹100 each at 20% premium)		1,10,00,000	20,00,000 75,00,000 15,00,000

**Working Notes:**

Number of Debentures issued = (90,00,000/120) = 75,000 debentures

**12. (a) Books of Sangam Woollen Ltd.  
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Machinery A/c Dr. To Vendor's A/c (Being purchase of machinery)		5,00,000	5,00,000
(ii)	Vendor's A/c Dr. To Equity Share Capital A/c To 9% Debenture A/c (Being issue of equity shares and debentures at par to the vendor of machinery)		5,00,000	4,00,000 1,00,000

(b) Values which the company wants to communicate to the society : (Any one)

- (i) Fulfilling/Discharging of social responsibility.
- (ii) Generation of employment opportunities in rural areas.

13. For recording the issue of debentures as collateral security by a journal entry Debenture Suspense account is debited.

14. When a company takes a loan from bank or from other party, company may have to issue debentures as a secondary security in addition to the principal security.

15. (b) : ₹2,00,000

**16. Journal of KTR Ltd.**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
4.3.2016 Case (a)	Bank A/c Dr. To Debenture Application and Allotment A/c (Being Application Money Received)		3,65,000	3,65,000

4.3.2016 Case (b)	Debenture Application and Allotment A/c	Dr.	3,65,000	
	Loss on Issue of Debentures A/c To 9% Debenture A/c To Premium on Redemption of Debenture A/c (Being issued at par, redemption at premium)	Dr.	36,500	3,65,000 36,500
	Bank A/c	Dr.	3,43,100	3,43,100
	To Debenture Application and Allotment A/c (Being application money received)			
4.3.2016	Debenture Application and Allotment A/c	Dr.	3,43,100	
	Loss on Issue of Debenture A/c To 9% Debenture A/c To Premium on Redemption of Debenture A/c (Being issued at discount and redeemed at premium)	Dr.	40,150	3,65,000 18,250

### Concept Applied

- If in any question it is mentioned that redemption of debentures is out of profit, then the Debenture Redemption Reserve A/c should be created with the full face value (100%) of debentures.

### 17. Journal of L and B Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2.3.2016 Case (a)	Bank A/c	Dr.	3,01,625	
	To Debenture Application and Allotment A/c (Being Application Money Received)			3,01,625
	Debenture Application and Allotment A/c	Dr.	3,01,625	
	Loss on Issue of debentures A/c	Dr.	47,625	
	To 9% Debenture A/c To Premium on Redemption of Debenture A/c (Being debentures issued at discount redeemable at premium)			3,17,500 31,750
Case (b)	Bank A/c	Dr.	3,55,600	
	To Debenture Application and Allotment A/c (Being Application Money Received)			3,55,600
	Debenture Application and Allotment A/c	Dr.	3,55,600	
	Loss on Issue of Debenture A/c	Dr.	19,050	
	To 9% Debenture A/c To Premium on Redemption of Debenture A/c To Securities Premium Reserve A/c (Issue at premium Redemption at premium)			3,17,500 19,050 38,100

### 18. Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i) (a)	Bank A/c	Dr.	4,50,000	
	To 9% Debenture Application & Allotment A/c (Receipt of application money)			4,50,000
(i) (b)	9% Debenture Application & Allotment A/c	Dr.	4,50,000	
	Loss on Issue of Debentures A/c	Dr.	75,000	
	To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Allotment of debentures at a discount and redeemable at premium)			5,00,000 25,000
(ii) (a)	Bank A/c	Dr.	31,50,000	
	To 12% Debenture Application & Allotment A/c (Receipt of application money)			31,50,000
(ii) (b)	12% Debenture Application & Allotment A/c	Dr.	31,50,000	
	To 12% Debentures A/c To Securities Premium A/c (Allotment of debentures at a premium)			30,00,000 1,50,000

(iii) (a)	Bank A/c To 12 % Debenture Application & Allotment A/c (Receipt of application money)	Dr.		8,75,000	8,75,000
(iii) (b)	12 % Debenture Application & Allotment A/c To 12% Debentures A/c (Allotment of debentures)	Dr.		8,75,000	8,75,000

19. Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a) (i)	Bank A/c (8,000 × 90) To Debenture Application A/c (8,000 × 90) (Being the receipt of the application money on 8,000 debentures @ ₹ 90 per debenture)	Dr.	7,20,000	7,20,000
(ii)	Debenture Application A/c loss on issue of debenture A/c To 10% Debentures A/c (8,000 × 100) To Premium Payable on Redemption A/c (Being the transfer of application money on debentures allotted to the debentures account.)	Dr. Dr.	7,20,000 1,20,000	8,00,000 40,000
(b) (i)	Bank A/c (4,000 × 110) To Debenture Application A/c (Being the receipt of the application money on 4000 debentures @ ₹ 110 per debenture)	Dr.	4,40,000	4,40,000
(ii)	Debenture Application A/c loss on issue of debenture A/c To 12% Debentures A/c (4,000 × 100) To Premium Payable on Redemption A/c To Securities Premium Reserve A/c (Being the transfer of application money on debentures allotted to the debentures account.)	Dr. Dr.	4,40,000 64,000	4,00,000 24,000 40,000
(c)	Bank A/c To Debenture Application A/c (Being the receipt of the application money on 1000 debentures @ ₹ 100 per debenture)	Dr.	1,00,000	1,00,000
	Debenture Application A/c To 9% Debentures A/c (Being the transfer of application money on debentures allotted to the debentures account.)	Dr.	1,00,000	1,00,000
(d)	Bank A/c To Debenture Application A/c (Being the receipt of the application money on 5000 debentures @ ₹ 110 per debenture)	Dr.	5,50,000	5,50,000
	Debenture Application A/c To 9% Debentures A/c To Securities Premium Reserve A/c (Being the transfer of application money on debentures allotted to the debentures account.)	Dr.	5,50,000	5,00,000 50,000
(e)	Bank A/c (6,000 × 90) To Debenture Application A/c (Being the receipt of the application money on 6000 debentures @ ₹ 90 per debenture)	Dr.	5,40,000	5,40,000
	Debenture Application A/c Discount on issue of debenture A/c To 9% Debentures A/c (Being the transfer of application money on debentures allotted to the debentures account.)	Dr. Dr.	5,40,000 60,000	6,00,000

20. Journal Entries in the Books of PVR Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015 1 <sup>st</sup> April	Bank A/c To Debenture Application A/c <i>(Being application received on 750 debenture at 5% discount)</i>	Dr.	7,12,500	7,12,500
2015 1 <sup>st</sup> April	Debenture Application A/c Discount on issue of debenture A/c Loss on issue of debenture A/c To 11% debenture A/c To Premium on Redemption of Debenture A/c <i>(Being issue of debentures at a discount and repayable at premium).</i>	Dr. Dr. Dr.	7,12,500 37,500 75,000	7,50,000 75,000
2015 30 <sup>th</sup> Sept.	Debenture interest A/c To Debentureholders' A/c To TDS payable A/c <i>(Interest due on 7,50,000 -11% debenture for 6 months and TDS deducted thereon @ 10%)</i>	Dr.	41,250	37,125 4,125
30 <sup>th</sup> Sept. 2015	Debentureholders' A/c To Bank A/c <i>(Payment of interest to debenture holders)</i>	Dr.	37,125	37,125
2015 30 <sup>th</sup> Sept.	TDS Payable A/c To Bank A/c <i>(TDS paid to Government)</i>	Dr.	4,125	4,125
2016 31 <sup>st</sup> March	Debenture interest A/c To Debentureholders' A/c To TDS Payable A/c <i>(Interest on 11% debentures for 6 months and TDS deducted thereon 10%)</i>	Dr.	41,250	37,125 4,125
2016 31 <sup>st</sup> March	Debentureholders' A/c To Bank A/c <i>(Payment of interest of debenture holders)</i>	Dr.	37,125	37,125
31 <sup>st</sup> March 2016	TDS Payable A/c To Bank A/c <i>(Payment of tax to the Government)</i>	Dr.	4,125	4,125

21. Books of BG Ltd.  
Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2013 March 31	Interest on Debentures A/c To Debentureholders' A/c To Income Tax Payable A/c TDS A/c <i>(Being Half Yearly Interest due on Debentures and Tax deducted at source)</i>	Dr.	12,000	10,800 1,200
March 31	Debentureholder's A/c To Bank A/c <i>(Being Payment of Interest on Debentures)</i>	Dr.	10,800	10,800
March 31	Income Tax Payable A/c / TDS A/c To Bank A/c <i>(Being TDS deposited with Income Tax authorities)</i>	Dr.	1,200	1,200
2012 Sept. 30	Interest on Debentures A/c To Debentureholders' A/c To Income Tax Payable A/c TDS A/c <i>(Being Half Yearly Interest due on Debentures and Tax deducted at source)</i>	Dr.	12,000	10,800 1,200
2012 Sept. 30	Debentureholder's A/c To Bank A/c <i>(Being Payment of Interest on Debentures)</i>	Dr.	10,800	10,800
2012 Sept. 30	Income Tax Payable A/c / TDS A/c To Bank A/c <i>(Being TDS deposited with Income Tax authorities)</i>	Dr.	1,200	1,200
March 31	Statement of Profit and Loss To Interest on Debentures A/c <i>(Being Interest transferred to statement of Profit and Loss)</i>	Dr.	24,000	24,000

**Commonly Made Mistake** 

- Income tax is deducted from interest before payment to debentures holders, not after payment of interest to debenture holders.

22.

**Books of Tata Ltd.  
Journal**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2013 March 31	Interest on Debentures A/c Dr. To Debentureholders' A/c To Income Tax Payable A/c / TDS A/c (Being Half Yearly Interest due on Debentures and Tax deducted at Source)		25,000	22,500 2,500
March 31	Debentureholders' A/c Dr. To Bank A/c (Being interest paid)		22,500	22,500
March 31	Income Tax Payable A/c / TDS A/c Dr. To Bank A/c (Being TDS deposited with Income Tax authorities)		2,500	2,500
2012 Sept. 30	Interest on Debentures A/c Dr. To Debentureholders' A/c To Income Tax Payable A/c / TDS A/c (Being Half Yearly Interest due on Debentures and Tax deducted at Source)		25,000	22,500 2,500
2012 Sept. 30	Debentureholders' A/c Dr. To Bank A/c (Being interest paid)		22,500	22,500
2012 Sept. 30	Income Tax Payable A/c / TDS A/c Dr. To Bank A/c (Being TDS deposited with Income Tax authorities)		2,500	2,500
March 31	Statement of Profit and Loss Dr. To Interest on Debentures A/c (Being Interest transferred)		50,000	50,000

23. Writing off the preliminary expenses of the company.

**CBSE Sample Questions**

1. (d) : Non-Redeemable Debentures

(1)

2. **Journal of Z Ltd.**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2019 Apr-01	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received on 20,000 8% debentures)		21,00,000	21,00,000
Apr-01	Debenture Application and Allotment A/c Dr. Loss on Issue of Debentures A/c Dr. To 8% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c To Bank A/c (Being debentures allotted and the balance refunded)		21,00,000 1,00,000	10,00,000 50,000 1,00,000 10,50,000
2020 Mar-31	Securities Premium Reserve A/c Dr. Statement of Profit and Loss A/c Dr. To Loss on Issue of Debentures A/c (Being loss on Issue of Debentures written off)		50,000 50,000	1,00,000

(1 × 3)

3. **Books of Anthony Ltd.**  
**Journal Entries**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Assets A/c Dr. Goodwill A/c Dr. To Liabilities A/c To Mithoo Ltd. A/c (Business purchased of Mithoo Ltd. comprising of Assets and Liabilities)		23,50,000 50,000	6,00,000 18,00,000
(ii)	Mithoo Ltd. A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Debentures issued to Mithoo Ltd. at Discount, redeemable at Premium)		18,00,000 3,00,000	20,00,000 1,00,000

(3)

4. **In the Books of Vedesh Ltd.**  
**Journal**

Date	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
	Fixed Assets A/c Dr. To Trade Payables A/c To Vibhu Enterprises A/c To Capital Reserve A/c (Being assets purchased and liabilities taken over of Vibhu Enterprises)		17,30,000	3,20,000 12,00,000 2,10,000
	Vibhu Enterprises A/c Dr. Discount on Issue of Debentures A/c Dr. To Bills Payable A/c To Bank A/c To 8% Debentures A/c (Being issue of bank draft, acceptance of bill and issue of 8% debentures in settlement of purchase consideration)		12,00,000 50,000	60,000 1,90,000 10,00,000

**Working Note :**

Number of Debentures issued =  $9,50,000 / 95 = 10,000$

(1 + 2 = 3)

5. **Journal of Neeraj Ltd.**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Building A/c Dr. Plant & Machinery A/c Dr. Stock A/c Dr. Trade Receivables A/c Dr. Goodwill A/c Dr. To Creditors A/c To Outstanding Expenses A/c To Ajay Enterprises A/c (Being assets and liabilities of business taken over, recorded at agreed value)		35,00,000 8,00,000 4,00,000 4,00,000 10,00,000	3,00,000 1,00,000 57,00,000
(ii)	Ajay Enterprises A/c To Bank A/c To 9% Debentures A/c To Securities Premium Reserve A/c (Being purchase consideration paid to Ajay enterprises)		57,00,000	7,00,000 40,00,000 10,00,000

(1.5 × 2)



6.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c To Bank Loan A/c (Being Loan taken from State Bank of India)	Dr.	15,00,000	15,00,000
	Debenture Suspense A/c To 11% Debentures A/c (Being 11% debentures deposited as collateral security)	Dr.	10,00,000	10,00,000

(1 × 2)

## Balance sheet of Youth Ltd. (An extract)

Particulars		Note No.	Amount (₹)
1.	Equity and Liabilities		
	1. Non-current Liabilities		
	Long term borrowings	1	15,00,000

(1/2)

## Notes to Accounts:1

Date	Particulars	Note No.	Amount (₹)
1.	Long term borrowings		
	Secured Loan from State Bank of India		15,00,000
	10,000, 11% debentures of ₹ 100 each	10,00,000	
	Less: - Debenture Suspense	10,00,000	NIL
	(deposited as collateral security)		15,00,000

(1/2)

7. (i) Number of Debentures to be issued =  $52,50,000/105 = 50,000$ 

(ii)

In the Books of Yogadatra Ltd.

## Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 April 1	Debenture Application & Allotment A/c Loss on Issue of Debentures A/c To 6% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being allotment of debentures made)	Dr. Dr.	52,50,000 5,00,000	50,00,000 2,50,000 5,00,000

(iii)

## Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2021 March 31	Securities Premium Reserve A/c Statement of Profit & Loss A/c To Loss on Issue of Debentures A/c (Being Loss on Issue of Debentures A/c written off)	Dr. Dr.	2,50,000 2,50,000	5,00,000

(iv) Interest on 6% debentures =  $50,00,000 \times 6/100 = (\text{₹}) 3,00,000$ 

(v) Dr. Loss on Issue of Debentures A/c

Cr.

Date	Particulars	Amount (₹)	Date	Particulars	Amount (₹)
1.4.20	To Premium on Redemption of Debentures A/c	5,00,000	31.3.21	By Securities Premium Reserve A/c	2,50,000
				By Statement of Profit & Loss A/c	2,50,000
		5,00,000			5,00,000

(1 × 5)

8. (c) : 6%

(1)

9. (d) : 5%

(1)

