

## Redemption of Debentures

### 2 Marks Questions

1. Pass necessary journal entries for the redemption of debentures in the following case in the books of Jain Ltd. Purchased for immediate cancellation 930, 12% debentures of Rs 1,000 each at Rs 975 each. (All India 2009)  
Ans.

#### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Own Debentures A/c <span style="float: right;">Dr</span> To Bank A/c (Being own debentures purchased)		9,06,750	9,06,750
	12% Debentures A/c <span style="float: right;">Dr</span> To Own Debentures A/c To Profit on Cancellation of Own Debentures' A/c (Being cancellation of own debentures)		9,30,000	9,06,750 23,250
	Profit on Cancellation of own Debentures A/c <span style="float: right;">Dr</span> To Capital Reserve A/c (Being profit on cancellation transferred to capital reserve account)		23,250	23,250

2. Pass necessary journal entries for the following transactions Purchased 3000, 9% own debentures of Rs 100 each at Rs 97 each for immediate cancellation.(Delhi 2008)

Ans.

#### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Own Debentures A/c <span style="float: right;">Dr</span> To Bank A/c (Being own debentures purchased)		2,91,000	2,91,000
	9% Debentures A/c <span style="float: right;">Dr</span> To Own Debentures A/c To Profit on Cancellation of Debentures A/c (Being cancellation of own debentures)		3,00,000	2,91,000 9,000
	Profit on Cancellation of Debentures A/c <span style="float: right;">Dr</span> To Capital Reserve A/c (Being profit on cancellation transferred to capital reserve account)		9,000	9,000

3. Pass necessary journal entries in the books of Rachana Ltd for the following transactions Purchased 800, 9% own debentures of Rs 100 each for Rs 95 per debenture for redemption. (All India 2008)

Ans.

### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Own Debentures A/c To Bank A/c (Being own debentures purchased)	Dr	76,000	76,000
	9% Debentures A/c To Own Debentures A/c To Profit on Cancellation of Own Debentures A/c (Being cancellation of debentures)	Dr	80,000	76,000 4,000
	Profit on Cancellation of Own Debentures A/c To Capital Reserve A/c (Being profit on cancellation transferred to capital reserve account)	Dr	4,000	4,000

### 3 Marks Questions

4. Maharana Ltd main business is manufacturing of tyres. The company is very particular about the observation of the provisions of the Companies Act and SEBI guidelines. On 1st April, 2010 the company issued Rs 18,00,000, 8% debentures of Rs 100 each. The debentures were redeemable at a premium of 5%. On 31st March, 2013, all the debentures were redeemed. Since, the manufacturing of tyres results in air pollution, the company had installed a plant for its effective control. Pass necessary journal entries for the redemption of debentures. Also, identify the value observed by Maharana Ltd. It is assumed that the company has adequate balance in Debenture Redemption Reserve Account. (Compartment 2014)

Ans.

**JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2012 Mar 31	Surplus i.e. Balance in Statement of Profit and Loss To Debenture Redemption Reserve A/c (Being the amount equal to 25% of the debentures transferred to DRR)	Dr	4,50,000	4,50,000
Apr 30	Debenture Redemption Investment A/c To Bank A/c (Being the amount equal to 15% of value of debentures to be redeemed invested)	Dr	2,70,000	2,70,000
2013 Mar 31	Bank A/c To Debenture Redemption Investment A/c (Being the investment encashed)	Dr	2,70,000	2,70,000
2013 Mar 31	8% Debentures A/c Premium on Redemption of Debentures A/c To Debentureholders' A/c (Being debentures made due for redemption at a premium of 5%)	Dr Dr	18,00,000 90,000	18,90,000
	Debentureholders' A/c To Bank A/c (Being final payment made to debenture holders)	Dr	18,90,000	18,90,000
	Debenture Redemption Reserve (DRR) A/c To General Reserve A/c (Being the transfer of balance of DRR to general reserve)	Dr	9,00,000	9,00,000

*Value observed by Maharana Ltd*

Respect for statutory provisions by following the guidelines laid down by Companies Act and SEBI.

**5. Manish Ltd issued Rs 38,00,000, 8% debentures of 1100 each on 1st April, 2007. The terms of issue stated that the debentures were to be redeemed at a premium of 5% on 30th June, 2009. The company decided to transfer out of profits Rs 5,00,000 to debenture redemption reserve on 31st March, 2008 and Rs 4,50,000 on 31st March, 2009. Pass necessary journal entries regarding the issue and redemption of debentures, without providing for either the interest or loss on issue of debentures. (AH India 2011)**



Ans.

**JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2007 Apr 1	Bank A/c To Debenture Application A/c (Being application money received)	Dr	38,00,000	38,00,000
	Debenture Application A/c Loss on Issue of Debentures A/c To 8% Debentures A/c To Premium on Redemption of Debentures A/c (Being debentures issued at par and redeemable at 5% premium)	Dr Dr	38,00,000 1,90,000	38,00,000 1,90,000
2008 Mar 31	Surplus i.e. Balance in Statement of Profit and Loss To Debentures Redemption Reserve A/c (Being reserve created out of profit)	Dr	5,00,000	5,00,000
2009 Mar 31	Surplus i.e. Balance in Statement of Profit and Loss To Debenture Redemption Reserve A/c (Being reserve created out of profit)	Dr	4,50,000	4,50,000
2009 Apr 30	Debenture Redemption Investment A/c To Bank A/c (Being the amount placed in fixed deposit equal to 15% of the nominal value of debentures)	Dr	5,70,000	5,70,000
Jun 30	Bank A/c To Debenture Redemption Investment A/c (Being the debenture redemption investment encashed on redemption of debentures)	Dr	5,70,000	5,70,000
Jun 30	8% Debentures A/c Premium on Redemption of Debentures A/c To Debentureholders' A/c (Being debentures due for redemption)	Dr Dr	38,00,000 1,90,000	39,90,000
	Debentureholders' A/c To Bank A/c (Being amount paid to debentureholders)	Dr	39,90,000	39,90,000
	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve account)	Dr	9,50,000	9,50,000

6. On 1st April, 2005 Rohim Ltd had made an issue of 3,000, 6% debentures of Rs 100 each. The company during the year 2006-07 purchased for cancellation 600 of

these debentures. The company paid Rs 95 per debenture for 500 Debentures and Rs 98 per debenture for the rest. The expenses on purchase amounted to Rs 400. Pass journal entries in the books of the company for the period 2006-07. (All India 2008)

Ans.

### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Own Debentures A/c <span style="float: right;">Dr</span> To Bank A/c (Being own debentures purchased)		57,700	57,700
	6% Debentures A/c <span style="float: right;">Dr</span> To Own Debentures A/c To Profit on Cancellation of Own Debentures A/c (Being cancellation of Own debentures)		60,000	57,700 2,300
	Profit on Cancellation of Own Debentures A/c <span style="float: right;">Dr</span> To Capital Reserve A/c (Being profit on cancellation transferred to capital reserve account)		2,300	2,300

### 4 Marks Questions

7. Sarvottam Ltd decided to redeem its 1,250, 12% debentures of Rs 100 each. It purchased 850 debentures from the open market at Rs 96 per debenture. The remaining debentures were redeemed out of profit. The company has already made a provision for debenture redemption reserve in its books. Pass necessary journal entries in the books of the company for the above transactions. (All India 2012)

Ans.

### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Own Debentures A/c <span style="float: right;">Dr</span> To Bank A/c (Being 850, own debentures purchased)		81,600	81,600
	12% Debentures A/c <span style="float: right;">Dr</span> To Own Debentures A/c To Profit on Cancellation of Own Debentures A/c (Being cancellation of own debentures)		85,000	81,600 3,400
	12% Debentures A/c <span style="float: right;">Dr</span> To Debentureholders' A/c (Being debentures due for redemption)		40,000	40,000
	Debentureholders' A/c <span style="float: right;">Dr</span> To Bank A/c (Being amount paid to debentureholders')		40,000	40,000

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Profit on Cancellation of Own Debentures A/c To Capital Reserve A/c (Being profit on cancellation transferred to capital reserve account)	Dr	3,400	3,400

8. Pass the necessary journal entries for the issue and redemption of debentures in the following cases:

(i) 15,000, 9% debentures of Rs 250 each issued at 5% premium, repayable at 15% premium.

(ii) 2,00,000, 12% debentures of Rs 10 each issued at 8% premium, repayable at par. (All India 2011)

Ans.

#### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
(i)	<b>At the Time of Issue</b>			
	Bank A/c (15,000 × 262.5) To Debenture Application and Allotment A/c (Being application money received)	Dr	39,37,500	39,37,500
	Debenture Application and Allotment A/c Loss on Issue of Debentures A/c To 9% Debentures A/c (15,000 × 250) To Securities Premium Reserve A/c (15,000 × 12.50) To Premium on Redemption of Debentures A/c (15,000 × 37.50) (Being debentures issued at 5% premium and redeemable at 15% premium)	Dr Dr	39,37,500 5,62,500	37,50,000 1,87,500 5,62,500
	<b>Before Redemption of Debentures Begins</b>			
	Surplus i.e. Balance in Statement of Profit and Loss To Debenture Redemption Reserve A/c (Being the amount transferred to DRR before redemption of debentures)	Dr	9,37,500	9,37,500
	Debenture Redemption Investment A/c To Bank A/c (Being the investment made in government securities as required under Section 71(4) of the Companies Act, 2013)	Dr	5,62,500	5,62,500
	Bank A/c To Debenture Redemption Investment A/c (Being the investment in government securities encashed upon redemption of debentures)	Dr	5,62,500	5,62,500
	<b>At the Time of Redemption</b>			
	9% Debentures A/c Premium on Redemption of Debentures A/c (15,000 × 37.5) To Debentureholders' A/c (Being debentures due for redemption)	Dr Dr	37,50,000 5,62,500	43,12,500



Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Debentureholders' A/c <span style="float: right;">Dr</span> To Bank A/c (Being amount paid to debentureholders)		43,12,500	43,12,500
	Debenture Redemption Reserve A/c <span style="float: right;">Dr</span> To General Reserve A/c (Being the amount in DRR account transferred to general reserve after redemption)		9,37,500	9,37,500
(ii)	<b>At the Time of Issue</b>			
	Bank A/c (2,00,000 × 10.8) <span style="float: right;">Dr</span> To Debenture Application and Allotment A/c (Being application money received)		21,60,000	21,60,000
	Debenture Application and Allotment A/c <span style="float: right;">Dr</span> To 12% Debentures A/c (2,00,000 × 10) To Securities Premium A/c (2,00,000 × 0.80) (Being debentures issued at 8% premium)		21,60,000	20,00,000 1,60,000
	<b>Before Redemption of Debentures Begins</b>			
	Surplus, i.e. Balance in Statement of Profit and Loss <span style="float: right;">Dr</span> To Debenture Redemption Reserve A/c (Being the amount transferred to DRR before redemption of debentures)		5,00,000	5,00,000
	Debenture Redemption Investment A/c <span style="float: right;">Dr</span> To Bank A/c (Being the amount invested in government securities as required under Section 71(4) of the Companies Act, 2013)		3,00,000	3,00,000
	Bank A/c <span style="float: right;">Dr</span> To Debenture Redemption Investment A/c (Being the securities encashed)		3,00,000	3,00,000
	<b>At the Time of Redemption</b>			
	12% Debentures A/c <span style="float: right;">Dr</span> To Debentureholders' A/c (Being debentures due for redemption)		20,00,000	20,00,000
	Debentureholders A/c <span style="float: right;">Dr</span> To Bank A/c (Being amount paid to debentureholders)		20,00,000	20,00,000
	Debenture Redemption Reserve A/c <span style="float: right;">Dr</span> To General Reserve A/c (Being the amount in DRR account transferred to general reserve after redemption)		5,00,000	5,00,000



9.X Ltd has Rs 8,00,000, 9% debentures due to be redeemed out of profits on 1st October, 2009 at a premium of 5%. The company had a debenture redemption reserve of Rs 4,14,000. Pass necessary journal entries at the time of redemption. (Delhi 2010; Modified)  
Ans.

### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Surplus i.e. Balance in Statement of Profit and Loss To Debenture Redemption Reserve A/c (Being the required amount transferred to DRR)	Dr	3,86,000	3,86,000
	Debenture Redemption Investment A/c To Bank A/c (Being the investment equal to 15% of the value of debentures to be redeemed invested)	Dr	1,20,000	1,20,000
	Bank A/c To Debenture Redemption Investment A/c (Being the debenture redemption investment encashed)	Dr	1,20,000	1,20,000
	9% Debentures A/c Premium on Redemption of Debentures A/c To Debentureholders' A/c (Being debentures due for redemption)	Dr Dr	8,00,000 40,000	8,40,000
	Debentureholders' A/c To Bank A/c (Being amount paid to debentureholders)	Dr	8,40,000	8,40,000
	Debenture Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve account)	Dr	8,00,000	8,00,000

10.F Ltd issued Rs 1,00,000, 15% debentures of Rs 100 each at a premium of 5%, redeemable at a premium of 10% at the end of 4 years. The board of directors decided to transfer the minimum required amount to debenture redemption reserve account at the time of redemption. Pass journal entries at the time of redemption of debentures. (All India 2010; Modified)  
Ans.

### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Surplus i.e. Balance in Statement of Profit and Loss To Debenture Redemption Reserve A/c (Being debentures redemption reserve created)	Dr	25,000	25,000





Date	Particulars	L F	Amt (Dr)	Amt (Cr)
	Debtore Redemption Investment A/c To Bank A/c (Being the investment equal to 15% of the value of debenture to be redeemed invested)	Dr	15,000	15,000
	Bank A/c To Debtore Redemption Investment A/c (Being the debenture redemption investment encashed)	Dr	15,000	15,000
	15% Debentures A/c Premium on Redemption of Debentures A/c To Debentureholders' A/c (Being debentures due for redemption)	Dr Dr	1,00,000 10,000	1,10,000
	Debentureholders' A/c To Bank A/c (Being amount paid to debentureholders)	Dr	1,10,000	1,10,000
	Debtore Redemption Reserve A/c To General Reserve A/c (Being debenture redemption reserve transferred to general reserve account)	Dr	25,000	25,000

11. On 1st January, 2009, Tanisha Ltd purchased 5,000, 15% own debentures of Rs 100 each for immediate cancellation Rs 98, the brokerage being 1%. Pass the necessary journal entries. (Delhi 2010 c)

Ans.

#### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Own Debentures A/c (98.98 × 5,000) To Bank A/c (Being 5000 own debentures purchased ₹ 98 and 1% brokerage paid)	Dr	4,94,900	4,94,900
	15% Debentures A/c To Own Debentures A/c To Profit on Cancellation of Own Debentures A/c (Being cancellation of own debentures)	Dr	5,00,000	4,94,900 5,100
	Profit on Cancellation of Debentures A/c To Capital Reserve A/c (Being profit on cancellation transferred to capital reserve account)	Dr	5,100	5,100

12. On 1st January, 2009, NK Ltd purchased for immediate cancellation Rs 50,000 of its 15% debentures @ 97, the expenses being Rs 1,000. Pass the necessary



journal entries. (Delhi 2010 c)

Ans.

**JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Own Debentures A/c <span style="float: right;">Dr</span>		49,500	
	To Bank A/c			49,500
	(Being own debentures purchased ₹ 97 and expenses paid)			
	15% Debentures A/c <span style="float: right;">Dr</span>		50,000	
	To Own Debentures A/c			49,500
	To Profit on Cancellation of Own Debentures A/c			500
	(Being cancellation of own debentures)			
	Profit on Cancellation of Own Debentures A/c <span style="float: right;">Dr</span>		500	
	To Capital Reserve A/c			500
	(Being profit on cancellation transferred to capital reserve account)			

13. Mona Ltd has issued 20,000, 9% debentures of Rs 100 each of which half the amount is due for redemption on 31st March, 2008. The company has in its debenture redemption reserve account a balance of Rs 5,00,000. Record the necessary journal entries at the time of redemption of debentures. (Delhi 2009; Modified)

Ans.

### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2007 Mar 31	Debenture Redemption Investment A/c To Bank A/c (Being amount invested in specified securities equal to 15% of amount of debentures to be redeemed)	Dr	1,50,000	1,50,000
2008 Mar 31	9% Debentures A/c To Debentureholders' A/c (Being debentures due for redemption)	Dr	10,00,000	10,00,000
	Bank A/c To Debenture Redemption Investment A/c (Being investment realised)	Dr	1,50,000	1,50,000
	Debentureholders' A/c To Bank A/c (Being amount paid to debentureholders)	Dr	10,00,000	10,00,000

**NOTE** Company has balance in DRR equivalent to 25% of value of debentures.

14. Anupama Ltd had issued 10,000, 9% debentures of Rs 100 each which were due for redemption on 31st March, 2008. The company has in its debenture redemption reserve account a balance of Rs 2,50,000. Record the necessary journal entries at the time of redemption of debentures. (All India 2009)

Ans.

**JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2007 Mar 31	Debenture Redemption Investment A/c To Bank A/c (Being amount invested in specified securities equal to 15% of amount of debentures to be redeemed)	Dr	1,50,000	1,50,000
2008 Mar 31	9% Debentures A/c To Debentureholders' A/c (Being debentures due for redemption)	Dr	10,00,000	10,00,000
	Bank A/c To Debenture Redemption Investment A/c (Being investment realised)	Dr	1,50,000	1,50,000
	Debentureholders' A/c To Bank A/c (Being amount paid to debentureholders)	Dr	10,00,000	10,00,000

**6 Marks Questions**

15. Pass necessary journal entries for the issue and redemption of debentures in the following cases 20,000, 12% debentures of Rs 50 each were issued and to be redeemed as follows

- (i) Issued at par and redeemed at a premium of 10%.
- (ii) Issued at a premium of 10% and redeemable at a premium of 20%.
- (iii) Issued at par and 50% of the redemption to be made in cash, and the balance to be redeemed at a premium of 20% through the issue of fresh debentures. (All India 2011)

Ans.

**JOURNAL**

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
(i)	<b>At the Time of Issue</b>			
	Bank A/c (20,000 × 50) To Debenture Application A/c (Being Application money received)	Dr	10,00,000	10,00,000
	Debenture Application A/c Loss on Issue of Debentures A/c	Dr	10,00,000	
	To 12% Debentures A/c (20,000 × 50) To Premium on Redemption of Debentures A/c (20,000 × 5) (Being application money transferred to 12% debentures account)	Dr	1,00,000	10,00,000 1,00,000

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
(ii)	<b>At the Time of Redemption</b>			
	12% Debentures A/c (20,000 × 50) Dr		10,00,000	
	Premium on Redemption of Debentures A/c (20,000 × 5) Dr		1,00,000	
	To Debentureholders' A/c			11,00,000
	(Being debentures due for redemption)			
Debentureholders' A/c Dr		11,00,000		
To Bank A/c			11,00,000	
(Being amount paid to debentureholders)				
<b>At the Time of Issue</b>				
Bank A/c (20,000 × 55) Dr		11,00,000		
To Debenture Application A/c			11,00,000	
(Being application money received)				
Debenture Application A/c Dr		11,00,000		
Loss on Issue of Debentures A/c Dr		2,00,000		
To 12% Debentures A/c (20,000 × 50)			10,00,000	
To Securities Premium A/c (20,000 × 5)			1,00,000	
To Premium on Redemption of Debentures A/c (20,000 × 10)			2,00,000	
(Being debentures issued at 10% premium and redeemable at 20% premium)				
<b>At the Time of Redemption</b>				
12% Debentures A/c (20,000 × 50) Dr		10,00,000		
Premium on Redemption of Debentures A/c (20,000 × 10) Dr		2,00,000		
To Debentureholders' A/c			12,00,000	
(Being debentures due for redemption)				
Debentureholders' A/c Dr		12,00,000		
To Bank A/c			12,00,000	
(Being amount paid to debentureholders)				
<b>At the Time of Issue</b>				
Bank A/c (20,000 × 50) Dr		10,00,000		
To Debenture Application A/c			10,00,000	
(Being application money received)				
Debenture Application A/c Dr		10,00,000		
Loss on Issue of Debentures A/c Dr		1,00,000		
To 12% Debentures A/c			10,00,000	
To Premium on Redemption of Debentures A/c			1,00,000	
(Being debentures issued at par and 50% redeemable to 20% premium)				
<b>At the Time of Redemption</b>				
12% Debentures A/c Dr		10,00,000		
Premium on Redemption of Debentures A/c Dr		1,00,000		
To Debentureholders' A/c			11,00,000	
(Being debentures due for redemption)				



Date	Particulars	LF	Amt (Dr)	Amt (Cr)
	Debentureholders' A/c	Dr	11,00,000	
	To Cash A/c			5,00,000
	To New Debentures A/c			6,00,000
	(Being payment paid in cash and issue of new debentures)			

16. On 1st January, 2007 a public limited company issued 15,000, 10% debentures of Rs 100 each at par which were repayable at a premium of 15% on 31st December, 2011. On the date of maturity, the company decided to redeem the above mentioned 10% debentures as per the term of issue, out of profits. Surplus i.e. Balance in Statement of Profit and Loss shows a credit balance of Rs 20,00,000 on this date. The offer was accepted by all the debenture holders and all the debentures were redeemed. Pass the necessary journal entries in the books of the company only for the redemption of debentures. (All India 2011; Modified)

Ans.

#### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2011 Apr 30	Surplus i.e. Balance in Statement of Profit and Loss	Dr	15,00,000	
	To Debenture Redemption Reserve A/c			15,00,000
	(Being sufficient reserve created out of profit)			
Apr 30	Debenture Redemption Investment A/c	Dr	2,25,000	
	To Bank A/c			2,25,000
	(Being amount equal to 15% of the value of debentures to be redeemed invested)			
Dec 31	Bank A/c	Dr	2,25,000	
	To Debenture Redemption Investment A/c			2,25,000
	(Being the investment encashed)			
	10% Debentures A/c (15,000 × 100)	Dr	15,00,000	
	Premium on Redemption of Debentures A/c (15,000 × 15)	Dr	2,25,000	
	To Debentureholders' A/c			17,25,000
	(Being debentures due for redemption at 15% premium)			
	Debentureholders' A/c	Dr	17,25,000	
	To Bank A/c			17,25,000
	(Being amount paid to debentureholders)			
	Debenture Redemption Reserve A/c	Dr	15,00,000	
	To General Reserve A/c			15,00,000
	(Being debenture redemption reserve transferred to general reserve account)			

**NOTE** Debentures are redeemed out of profits, therefore, DRR is created for the full face value of debentures.

17. Suresh Ltd on 1st April, 2006 acquired assets of the value of Rs 6,00,000 and liabilities worth Rs 70,000 from P & Co at an agreed value of Rs 5,50,000. Suresh





Ltd issued 12% debentures of Rs 100 each at a premium of 10% in full satisfaction of purchase consideration. The debentures were redeemable 3 years later at a premium of 5%. Pass entries to record the above including redemption of debentures. (Delhi; All India 2010; Modified)

Ans.

### JOURNAL

Date	Particulars	LF	Amt (Dr)	Amt (Cr)
2006				
Apr 1	Sundry Assets A/c <span style="float: right;">Dr</span>		6,00,000	
	Goodwill A/c (Balancing Figure) <span style="float: right;">Dr</span>		20,000	
	To Sundry Liabilities A/c			70,000
	To P & Co.			5,50,000
	(Being business purchased)			
	P & Co <span style="float: right;">Dr</span>		5,50,000	
	Loss on Issue of Debentures A/c <span style="float: right;">Dr</span>		25,000	
	To 12% Debentures A/c (5,000 × 100)			5,00,000
	To Securities Premium Reserve A/c (5,000 × 10)			50,000
	To Premium on Redemption of Debentures A/c (5,000 × 5)			25,000
	(Being debentures issued to P & Co in consideration)			
2009				
Mar 31	Surplus i.e. Balance in Statement of Profit and Loss <span style="float: right;">Dr</span>		1,25,000	
	To Debenture Redemption Reserve A/c			1,25,000
	(Being debenture redemption reserve created out of profit)			
	Debenture Redemption Investment A/c <span style="float: right;">Dr</span>		82,500	
	To Bank A/c			82,500
	(Being the investment made of amount equal to 15% of value of debentures to be redeemed)			
	Bank A/c <span style="float: right;">Dr</span>		82,500	
	To Debenture Redemption Investment A/c			82,500
	(Being the investment encashed)			
	12% Debentures A/c <span style="float: right;">Dr</span>		5,00,000	
	Premium on Redemption of Debentures A/c <span style="float: right;">Dr</span>		25,000	
	To Debentureholders' (P & Co) A/c			5,25,000
	(Being debentures due for redemption)			
Apr 1	Debentureholders' A/c <span style="float: right;">Dr</span>		5,25,000	
	To Bank A/c			5,25,000
	(Being amount paid to debentureholders)			
	Debenture Redemption Reserve A/c <span style="float: right;">Dr</span>		1,25,000	
	To General Reserve A/c			1,25,000
	(Being debenture redemption reserve transferred to general reserve account)			

**Working Note**

$$\begin{aligned}
 \text{Number of Debentures Issued} &= \frac{\text{Amount Due to P \& Co}}{\text{Issue Price Per Debenture}} \\
 &= \frac{5,50,000}{110} \\
 &= 5,000 \text{ debentures.}
 \end{aligned}$$