



INDIAN SCHOOL AL WADI AL KABIR

Class: XII	Department: Commerce
Worksheet No: 12	Topic: ISSUE OF DEBENTURES

Question 1.

Vishwas Ltd. issued 2,000; 9% Debentures of Rs.100 each payable as follows: Rs.25 on application; Rs.25 on allotment and Rs.50 on first and final call. Applications were received for all the debentures along with the application money and allotment was made. The call money was also received on the due date. Pass necessary Journal entries in the books of the company.

Solution:

Books of Vishwas Ltd.
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c To 9% Debenture Application A/c (Being application money received for 2,000 debentures at ₹25 each)	Dr.	50,000	50,000
	9% Debenture Application A/c To 9% Debenture A/c (Being debenture application money transferred to 9% Debentures A/c)	Dr.	50,000	50,000
	9% Debenture Allotment A/c To 9% Debenture A/c (Being debenture allotment money due on 2,000 Debentures at ₹25 each)	Dr.	50,000	50,000
	Bank A/c To 9% Debenture Allotment A/c (Being debenture allotment money received)	Dr.	50,000	50,000
	9% Debenture First and Final Call A/c To 9% Debenture A/c (Being debenture first and final call money due on 2,000 debentures at ₹50 each)	Dr.	1,00,000	1,00,000
	Bank A/c To 9% Debenture First and Final Call A/c (Being debenture first and final call received)	Dr.	1,00,000	1,00,000

Question 2.

A Ltd. Issued 2,000; 9% Debentures of Rs.100 each on the following terms: Rs.20 on application; Rs.20 on allotment; Rs.30 on first call; Rs.30 on final call. The public applied for 2,400 debentures. Application for 1,800 debentures were accepted in full. Applications for 400 debentures were allotted 200 debentures and application for 200 debentures were rejected. Pass necessary Journal entries.

Solution:

**Books of A Ltd.
Journal Entries**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To 9% Debenture Application A/c (Being application money received for 2,400 debentures at Rs.20 each)	Dr.	48,000	48,000
	9% Debenture Application A/c To 9% Debenture A/c To 9% Debenture Allotment A/c To Bank A/c (Being debenture application money transferred to 9% debentures A/c for 2,000 debenture, adjusted to debenture allotment account for 200 debentures and money refunded for 200 debentures)	Dr.	48,000	40,000 4,000 4,000
	9% Debenture Allotment A/c To 9% Debenture A/c (Being debenture allotment money due on 2,000 debentures at Rs.20 each)	Dr.	40,000	40,000
	Bank A/c To 9% Debenture Allotment A/c (Being debenture allotment money received)	Dr.	36,000	36,000
	Debenture First Call A/c To 9% Debenture A/c (Being debenture first call money due on 2,000 9% debentures at Rs.30 each)	Dr.	60,000	60,000
	Bank A/c To Debenture First Call A/c (Being debenture first call received)	Dr.	60,000	60,000
	Debenture Final Call A/c To 9% Debenture A/c (Being debenture Final call money due on 2,000 9% debentures at Rs.30 each)	Dr.	60,000	60,000
	Bank A/c To Debenture Final Call A/c (Being debenture first call received on 2,000 9% debenture at Rs.30 each)	Dr.	60,000	60,000

Question 3.

Vijay Laxmi Ltd. invited applications for issuing 10,000; 12% Debentures of Rs.100 each at a premium of Rs.70 per debenture. The full amount was payable on application. Applications were received for 13,500 debentures. Applications for 3,500 debentures were rejected and application money was refunded. Debentures were allotted to the remaining applications. Pass necessary Journal entries in the books of Vijay Laxmi Ltd. for the above transactions.

Solution:

**Books of Vijay Laxmi Ltd.
Journal Entries**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To Debenture Application and Allotment A/c (Being application money received on 13,500 12% debenture)	Dr.	22,95,000	22,95,000
	Debenture Application and Allotment A/c To 12% Debenture A/c To Securities Premium Reserve A/c To Bank A/c (Being 10,000; 12% debenture issued at a premium of Rs.70 and excess money refunded)	Dr.	22,95,000	10,00,000 7,00,000 5,95,000

Question 4.

Alka Ltd. issued 5,000, 10% Debentures of Rs.1,000 each at a discount of 10% redeemable at a premium of 5% after 5 years. According to the terms of issue Rs.500 was payable on application and the balance amount on allotment of debentures. Record necessary entries regarding issue of 10% Debentures.

Solution:

Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c (5,000 × 500) To Debenture Application A/c (Being application money received for 5,000 debentures)	Dr.	25,00,000	25,00,000
	Debenture Application A/c To 10% Debenture A/c (Being transferred application money to debentures A/c)	Dr.	25,00,000	25,00,000
	Debenture Allotment A/c (5,000 × 400) Discount on issue of Debentures A/c (5,000 × 100) Loss on issue of Debentures A/c (5,000 × 50) To 10% Debenture A/c (5,000 × 500) To Premium on Redemption of Debentures (5,000 × 50) (Being allotment due on 5,000 debentures at a discounted of ₹100 per debentures and redeemable at premium of 5%)	Dr. Dr. Dr.	20,00,000 5,00,000 2,50,000	25,00,000 2,50,000
	Bank A/c To Debenture Allotment A/c (Being allotment money received)	Dr.	20,00,000	20,00,000

Question 5.

Wye Ltd. purchased an established business for Rs.2,00,000 payable as Rs.65,000 by cheque and the balance by an issue of 9% Debentures of Rs.100 each at a discount of 10%. Give Journal entries in the books of Wye Ltd.

Solution:Books of Wye Ltd.
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Sundry Assets A/c To vendor A/c (Being business purchased)	Dr.	2,00,000	2,00,000
	Vendor A/c To Bank A/c (Being amount paid to vendor in cash)	Dr.	65,000	65,000
	Vendor A/c Discount on Issue of Debentures A/c To 9% Debenture A/c (Being issued 1,500 debentures at 10% discount)	Dr. Dr.	1,35,000 15,000	1,50,000

Working Notes :

$$\text{No. of debentures to be issued} = \frac{\text{purchase Consideration}}{\text{Issue Price}} = \frac{1,35,000}{90} = 1,500 \text{ debentures}$$

Question 6.

Lotus Ltd. took over assets of Rs.2,50,000 and liabilities of Rs.30,000 of Goneby Company for the purchase consideration of Rs.3,30,000. Lotus Ltd. paid the purchase consideration by issuing debentures of Rs.100 each at 10% premium. Give Journal entries in the books of the Lotus Ltd.

Solution:

Books of Lotus Ltd.
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Assets A/c Goodwill A/c (balancing figure) To Sundry Liabilities A/c To Goneby Company A/c (Being business purchased of goneby company)	Dr. Dr.	2,50,000 1,10,000	30,000 3,30,000
	Goneby Company A/c To Debenture A/c To Securities Premium A/c (Being issued 3,000 debenture at 10% premium)	Dr.	3,30,000	3,00,000 30,000

Working Notes :

$$\text{No. of debentures to be issued} = \frac{\text{purchase Consideration}}{\text{Issue Price}} = \frac{3,30,000}{100 + 10} = \frac{3,30,000}{110} = 3,000 \text{ debentures}$$

Question 7.

Romi Ltd. acquired assets of Rs.20 lakhs and took over creditors of Rs.2 lakhs from Kapil Enterprises. Romi Ltd. issued 8% Debentures of Rs.100 each at a premium of 25% as purchase consideration.

Record necessary Journal entries in the books of Romi Ltd.

Solution:

Books of Romi Ltd.
Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Assets A/c To Creditors A/c To Kapil Enterprises (Being assets purchased and creditors took over from kapil enterprises)	Dr.	20,00,000	2,00,000 18,00,000
	Kapil Enterprises A/c To 8% Debenture A/c To Securities Premium A/c (Being issued 14,400 8% debentures of Rs.100 each at a premium of 25% to kapil enterprises)	Dr.	18,00,000	14,40,000 3,60,000

Working Notes :

$$\text{No. of debentures to be issued} = \frac{\text{purchase Consideration}}{\text{Issue Price}} = \frac{18,00,000}{100 + 25} = \frac{18,00,000}{125} = 14,400 \text{ debentures}$$

Question 8.

Best Barcode Ltd. took a loan of Rs.5,00,000 from a bank giving Rs.6,00,000; 9% Debentures as collateral security. Pass Journal entries regarding issue of debentures, if any, and show this loan in the Balance Sheet of the company.

Solution:**FIRST METHOD:**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c To Loan A/c (Being loan taken against issuing 9% Debentures as collateral Security)	Dr.	5,00,000	5,00,000

Alternative Method:

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c To Loan A/c (Being loan taken against issuing 9% Debentures as collateral Security)	Dr.	5,00,000	5,00,000
	Debenture Suspense A/c To 9% Debentures A/c (Being issued 9% Debentures of ₹6,00,000 as collateral security)	Dr.	6,00,000	6,00,000

**Best Barcode Ltd.
Balance Sheet**

Particulars	Note No.	₹
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non - Current Liabilities		
a. Long - Term Borrowings	1	5,00,000
3. Current Liabilities		
Total		5,00,000
II. Assets		
1. Non - Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	2	5,00,000
Total		5,00,000

NOTES TO ACCOUNTS

Note No.	Particulars	₹
1	Long - Term Borrowings Loan (Secured by issue of 9% Debentures of ₹6,00,000 as Collateral Security)	5,00,000
2	Cash and Cash Equivalents Cash at Bank	5,00,000

ALTERNATIVE METHOD

Posting in the Company's Balance sheet

Best Barcode Ltd. Balance Sheet

Particulars	Note No.	₹
I. Equity and Liabilities		
1. Shareholders' Funds		
2. Non - Current Liabilities		
a. Long - Term Borrowings	1	5,00,000
3. Current Liabilities		
Total		5,00,000
II. Assets		
1. Non - Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	2	5,00,000
Total		5,00,000

NOTES TO ACCOUNTS

Note No.	Particulars	₹
1	Long - Term Borrowings Secured: Loan (Secured by issue of 9% Debentures of ₹6,00,000 as Collateral Security) 9% Debenture(Issued as Collateral Security to Bank against loan) Less : Debenture Suspense Account	 5,00,000 6,00,000 - 5,00,000
2	Cash and Cash Equivalents Cash at Bank	 5,00,000

Question 9.

Footfall Ltd. issues 10,000 Debentures of Rs.100 each at a discount of 10% redeemable at a premium of 5% after the expiry of three years.

Pass Journal entries for the issue and redemption of these debentures after the expiry of three years.

Solution:

Books of Footfall Ltd. Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c To Debenture Application A/c (Being debentures application money received for 10,000 debentures at ₹90 each)	Dr.	9,00,000	9,00,000
	Debenture Application A/c Discount on Issue of Debentures A/c Loss On Issue of Debentures A/c To Debenture A/c To Premium on Redemption A/c (Being 10,000 debenture of ₹100 each issued at 10% discount with the term repayable at 5% redemption)	Dr. Dr. Dr.	9,00,000 1,00,000 50,000	10,00,000 50,000
	Debentures A/c Premium on Redemption A/c To Debenture holders' A/c (Being debenture due for redemption along with premium on redemption)	Dr. Dr.	10,00,000 50,000	10,50,000
	Debenture holders' A/c To Bank A/c (Being amount due for redemption paid to debenture holders)	Dr.	10,50,000	10,50,000

Question 10.

XYZ Ltd. issued 5,000, 10% Debentures of Rs.100 each on 1st April, 2015 at a discount of 10% redeemable at a premium of 10% after 4 years. Give Journal entries for the year ended 31st March, 2016 assuming that the interest was payable half yearly on 30th September and 31st March. Tax is to be deducted @ 10%.

Solution:

Books of XYZ Ltd.
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
2015 April 01	Bank A/c To Debenture Application A/c (Being application money received)	Dr.	4,50,000	4,50,000
April 01	Debenture Application A/c Loss On Issue of Debentures A/c To 10% Debenture A/c To premium on Redemption A/c (Being 5,000 debentures of ₹100 each issued at 10% discount with the term repayable at premium of 10%)	Dr. Dr.	4,50,000 1,00,000	5,00,000 50,000
2015 Sept. 30	Interest on Debentures A/c To Debenture holders' A/c To Income Tax Payable A/c (Being interest due on 10% debentures)	Dr.	25,000	22,500 2,500
Sept. 30	Debenture holders' A/c To Bank A/c (Being interest on debentures paid to debenture holders)	Dr.	22,500	22,500
Sept. 30	Income Tax Payable A/c To Bank A/c (Being payment of tax on interest on debentures)	Dr.	2,500	2,500
2016 March 31	Interest on debentures A/c To Debentures holders' A/c To Income Tax Payable A/c (Being interest due on 10% debentures)	Dr.	25,000	22,500 2,500

Question 11.

Bright Ltd. issued 5,000; 10% debentures of Rs.100 each on 1st April, 2015. The issue was fully subscribed. According to the terms of issue, interest on the debentures is payable half-yearly on 30th September and 31st March and the tax deducted at source is 10%.

Pass necessary Journal entries related to the debenture interest for the year ending 31st March, 2016 and transfer of interest on debentures of the year to the Statement of Profit and Loss.

Solution:

Journal
In the books of Bright Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
2016 Mar. 31	Debentures Interest A/c Dr. To Debenture Holder's A/c To Income Tax Payable A/c (Being debentures interest due)		25,000	22,500 2,500
	Debenture Holder's A/c Dr. Income Tax Payable A/c Dr. To Bank A/c (Being interest on debentures paid)		22,500 2,500	25,000
Mar. 31	Statement of Profit and Loss A/c Dr. To Debentures Interest A/c (Being interest transferred to profit and loss)		50,000	50,000