Compound Financial Instrument

Question:
Spsmiter Pvt. Ltd. issued 15,000, 8% convertible debentures of Rs. 100 (FV Rs. 100) per debenture at par on 1st April 2011. The debentures are redeemable at a premium of 15 % as on 31st March, 2018 or these may be converted into Equity shares at the option of the debenture holders. In the market, the interest rate for equivalent debentures would be 11%.

You are required to separate equity and debt portion as on 01.04.2011.

Ans:

Statement showing the computation of Equity and Debt component of convertible debenture
As on 1st April, 2011

P.V. of principle amount repayable after 7 years [15,000×100×1.15×0.48(discount factor 11% for 7 years)]	8,28,000
P.V. of Interest amount [15,00,000×8%×4.71(Annuity factor 11% for 7 years)]	5,65,200
Value of Debt Components	13,93,200
Value of Equity Component (Bal. fig.)	1,06,800
Proceeds of issue	**15,00,000**