

ISSUE & REDEMPTION OF DEBENTURES Imp

Issue

Disc: w/o as mis expenditure
life

fixed redemption
spread over sum of digits
life (5-1/5p.a) 5:4:3:2:1

Premium: capital profit

w/o - capital exp

surplus - cap reserve
X sell premium

Redemption of debentures

- Debⁿ receive fund DRF
or sinking fund is maint
and @ time of redemption
investments are sold
(DRF investments)

(i) P.a appropriation:

P&L Appr
To DRF

(ii) Investing the appropⁿ

DRF inv/s finv
Int on above ★
To Bank.

(iii) Income on inv:

Bank
To int income.

+ transfer income.

cumulative: int inc ★
DRF To DRF

noncumulative: int inc
To P&L.

(keep track of int till due for
redemption)

(iv) Sale of inv

Bank (SP)
Loss
To DRF inv. (cost)
Profit

(v) Transfer P/L → "DRF"

P&L DRF
To DRF To P&L
(P) (L)

(6) Redemption due

% debⁿ
Premium
To debⁿ holders.

(7) Transfer premium → DRF

DRF
To premium

(8) Pay debⁿ holder

Debⁿ holder
To Bank.

(9) Transfer FV of debⁿ redeemed to GR

DRF FV
To GR FV.

(10) DRF bal. ★

surplus deficit

↓ ↓
cap reserve P&L Appr.

If no fund is maintained

• Debⁿ
Premium ★
To Debⁿ holders.

• Debⁿ holder
To Bank.

★ set off against sell premium
and bal - P&L

Formal
or Date Pay FV int cost

★ $Int on = FV \times cost$

• $FV = 100 p.u.$
• always cum int if not
mentioned.

• debentures = cr bal

• non cumulative = P&L A/c

• date for invst int = income
date for debⁿ int = payment
(Be very careful about date
and % int) make a
diagram.

31/12 (calon int) 31/3 30/9 31/12 (invst int)

if not mentioned then
assume same date.

• You have to pay int
on debⁿ till date of
redemption.

• Don't forget cl of int + oppⁿ
of int

• solve as per AS-13 invst
accounting.

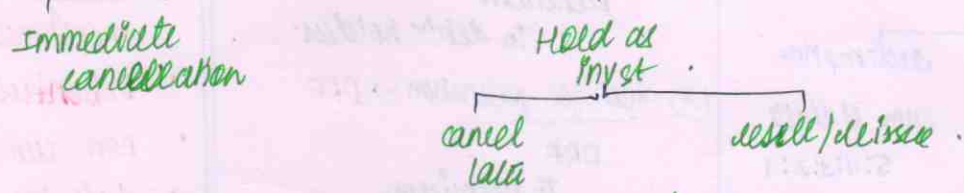
• Keep track of dates
(draw a order first)

• Int - odd date then
days wise x mths wise.

★ P/L as per AS-13 weighted
Avg bases (scale of inv) but
write a note if it is done
as per actual cost basis.

★ Be very careful on
OWN DEBENTURES (live debⁿ)

OWN debentures
 sometimes co may buy its own debentures from open market instead of investing (DRF invest). they are called as investment in own debentures.



(a) Immediate cancellation

1. Debt redemption
 int o/s
 To Bank
 2. % debn loss
 To debt redemption.
 Profit
 3. Transfer P&L
 No SF SF → SF (1+L)
- loss ↓ P&L Profit ↓ Cap reserve

Note: int to be paid on live debentures.
 from the date of cancellation onwards int is paid only on live debn = existing - cancelled

Debn int To Bank } live debn

Held as investment

Purchase Invest in own debn cost acc int.
 Int on own debn
 AS-1B. To Bank

Int: Debn int
 To int on own debn (own)
 To Bank.

cancel * % Debn
 (P&L) → loss on cancel
 To inv in own debn
 (cap reserve) Profit.

Reissue
 Bank loss
 To inv in own debn
 Profit

Int on own debn
 cumulative Non-cumulative
 Fund P&L
 no fund then to P&L

Calls in arrears (separate A/c - always)

- | | | |
|---|--|---|
| <p>True Person

 repay amt
 (x practical)</p> | <p>Keep redemption due

 prov for premium redemption
 + CIA CIA
 (practical)</p> | <p>assume recovery of CIA

 pay normally as redemption.</p> |
|---|--|---|