Chapter 7

Debentures

Solution 1

Amount of "Debenture" capital utilized in various years

Year Ended	*Rs.*	*Equivalent Annual Amount Rs.*
31st Dec., 1993	1,00,000 for 9 months	75,000
31st Dec., 1994	1,00,000 for 3 months	

Year ended	*Rs.*	*Equivalent annual amount Rs.*
	80,000 for 9 months	85,000
31st Dec., 1995	80,000 for 3 months	
	60,000 for 9 months	65,000
31st Dec., 1996	60,000 for 3 months	
	40,000 for 9 months	45,000
31st Dec., 1997	40,000 for 3 months	
	20,000 for 9 months	25,000
31st Dec., 1998	20,000 for 3 months	5,000

The account of discount on issue of shares will be charged to the Profit & Loss Account in the ratio of effective utilization of funds, i.e., respectively, 15: 17: 13: 9: 5: 1.

The amount to be write-off in various years, therefore is:

1993	1,500	1996	900
1994	1,700	1997	500
1995	1,300	1998	100

Solution 2

(First Method):

Balance Sheet of Z Ltd. as at.....

Liabilities *Secured Loan:*	*Amount* *Rs.*	*Assets*	*Account* *Rs.*
Bank overdraft (Secured by the issue of 600, 5% Debentures of Rs.100 each as collateral security)	50,000		

Balance Sheet of Z Ltd. as at....(An Extract)

Liabilities	*Amount* *Rs.*	*Assets*	*Amount* *Rs.*
Secured Loan: 600, 5% Debentures of Rs.100 each (Issued as Collateral Security, as per contra)	60,000	Miscellaneous Expenses Debentures Suspense A/c, as per contra	60,000
Bank Overdraft (Secured by the issue of 600, 5% Debentures of Rs.100 each as collateral security)	50,000		

Solution 3

Journal entries in The Books of ABC Co. Ltd.

			Dr. *Rs.*	*Cr.* *Rs.*
(i)	Bank A/c	Dr.	95,000	
	Discount on issue of debentures A/c	Dr.	5,000	
	Loss on issue of debentures A/c	Dr.	2,000	
	To 11% Debentures A/c			1,00,000
	To Premium on redemption of debentures A/c			2,000
	(Issue of Rs. 1,00,000 11% debentures at a discount of 5% but redeemable at a premium of 2%)			
(ii)	Bank A/c	Dr.	95,000	
	Discount on issue of debentures A/c	Dr.	5,000	
	To 11% Debentures A/c			1,00,000
	(Issue of Rs. 1,00,000 11% debentures at a discount of 5% and redeemable at discount of 2%)			

Comments

***Company Accounts* –** Issue of debentures: The performance of the candidates in this 'part of the question, was not satisfactory. Very few candidates passed the correct journal entries for issue of debentures. Some of the candidates gave entries for redemption, without considering the redeemable value at the time of issue of debentures.

Solution 4

ABC Co. Ltd.
Journal Entries

		Dr. (*Rs.*)	*Cr.* (*Rs.*)
Bank A/c	Dr.	95,000	
Discount on issue of debentures A/c	Dr.	5,000	
Loss on issue of debentures A/c	Dr.	2,000	
To 11% Debentures A/c			1,00,000
To Premium on Redemption of debentures A/c (Issue of Rs. 1,00,000 11% debentures at a discount of 5% but redeemable at a premium of 2%)		2,000	

Solution 5

Journal

1.	(i)	Issue:			
		Bank A/c	Dr.	5,00,000	
		To 14 % mortgage Debenture			5,00,000
		(being Debenture Issue)			
	(ii)	Redeemed			
		14 % Mortgage debenture	Dr.	5,00,000	
		To Bank			5,00,000
		(being debenture Redeemed)			
		Secured Loans:			
		14 % Mortgage Debenture		5,00,000	
2.	(i)	Issue:			
		Bank A/c	Dr.	6,65,000	
		Discount on Issue A/c	Dr.	85,000	
		To 15 % Secured Debentures			7,00,000
		(being Debenture Issued)			
	(ii)	Redemption:			
		15% secured Debenture	Dr.	7,00,000	
		To Bank			7,00,000
		(being Debentures Redeemed)			

Balance Sheet

Secured Loans:				
15% Secured Debenture			7,00,000	

3.	(i)	Issue:			
		Bank A/c	Dr	10,50,000	
		To 12 % Debentures			10,00,000
		To Secured Premium			50,000
		(being Debenture Issued)			
	(ii)	Redeemed			
		12 % Debenture	Dr.	10,00,000	
		To Bank			10,00,000
		(being Debenture Redeemed)			
4.	(i)	Issue			
		Bank	Dr.	4,00,000	
		To 13% Debentures			4,00,000
		(being Debentures Issued)			
		Loss on Issue	Dr.	20,000	
		To Premium on Redeem			20,000
		(being Loss on Issue recognized)			
	(ii)	Redeem			
		13% Debenture	Dr.	4,00,000	
		Premium on redeem	Dr.	20,000	
		To Bank			4,20,000
		(being Debentures Redeemed)			

Balance Sheet

12 % Debenture	4,00,000
(secured by Fixed Assets)	

5.	(i)	Issue			
		Bank:	Dr.	4,75,000	
		Discount on Issue	Dr.	25,000	
		To 14% Debenture			5,00,000
		(being Debenture Issued)			
		Loss on Issue	Dr.	50,000	
		To Premium on redemption			50,000
	(being u/issue recognized)				
	(ii)	Redeem			
		14% Debenture	Dr.	5,00,000	
		Premium on Redemption	Dr.	50,000	
		To Bank			5,50,000
	(being Debenture redeemed)				

Solution 7

(a)

Debenture Redemption Fund Account

1998		Rs.	1998		Rs.
Dec.31	To 13.5% Deb. in XX Ltd. (Loss on sale of investment)	50,000	Jan. 1	By Balance b/d	45,00,000
	To General Reserve (transfer)	49,73,000	Dec.31	By 13.5% Deb. in XX Ltd.	2,70,000
				By Own Deb. A/c (Int. on own Deb.)	2,53,000
		50,23,000			50,23,000

11% Debenture Account

1998		Rs.	1998		Rs.
Dec.31	To Own Debentures A/c	24,00,000	Jan.1	By Balance b/d	50,00,000
	To Bank	26,00,000			
		50,00,000			50,00,000

(b) Own Debentures Account

		Nominal Rs.	Interest Rs.	Cost Rs.			Nominal Rs.	Interest Rs.	Cost Rs.
1998						1998			
Jan. 1	To Balance b/d	20,00,000	—	18,50,000	June30	By Debenture Int. A/c		1,32,000	
Feb.1	To Bank	2,00,000	1,833	1,94,167					
June1	To Bank	2,00,000	9,167	1,98,000	Dec.31	By Debenture Int. A/c		1,32,000	
Dec.31	To Capital Res. (profit on cancellation)			1,57,833		By 11% Deb-24,00,000 enture Account,			
	Fund		2,53,000			By Deb. Redemp. Cancellation			24,00,000
		24,00,000	2,64,000	24,00,000			24,00,000	2,64,000	24,00,000

Working Note

13.5% Debenture in XX Ltd.

		Interest Rs.	Account Rs.			Interest Rs.	Account Rs.
1998				1998			
Jan. 1	To Balance b/d (20,00,000)		19,50,000	June 30	By Bank	1,35,000	
Dec.31	To Debenture Redemp. Fund	2,70,000		Dec.31	By Bank	1,35,000	
					By Bank		19,00,000
					By Debenture Redemp. Fund loss on sale)		50,000
		2,70,000	19,50,000			2,70,000	19,50,000

Solution 8

6% Mortgage Debentures Account

Dr.					Cr.
1999		Rs.	1999		Rs.
Feb.28	To Debenture-holders A/c	10,00,000	Jan. 1	By Balance b/d	10,00,000

Premium on Redemption of Debentures Account

1999		Rs.	1999		Rs.
Feb.28	To Debenture-holders A/c	10,000	Feb.28	By Sinking Fund A/c	10,000

Debentures Redemption Fund Investment Account

1999		Rs.	1999		Rs.
Jan. 1	To Balance b/d	10,70,000	Feb.28	By Bank Rs.5,28,000 Govt. Loan @ Rs.90	4,75,200
				By Bank Rs.5,60,000 Govt. Paper @ Rs.87	4,87,200
				By Sinking Find (Loss)	1,07,600
		10,70,000			10,70,000

Debenture Interest Account

1999		Rs.	1999		Rs.
Feb.28	To Cash	10,000	Feb.28	By Profit & Loss A/c	10,000

Cash Account

1999		Rs.	1999		Rs.
Feb.	To Balance b/d	?	Feb.28	By Debenture-holders	10,10,000
	To Debentures Redemption Fund Investment A/c	9,62,400		By Deb. Interest A/c	10,000
				By Balance c/d	?

Sinking Fund for Redemption of Debentures Account

1999		Rs.	1999		Rs.
Feb.	To D.R.F. Investment Account (Loss)	1,07,600	Jan. 1	By Balance b/d	10,42,000
	To Premium on Redemption of Debentures A/c	10,000		By Profit & Loss (Appropriation) A/c	75,600
	To General Reserve	10,00,000			
		11,17,600			11,17,600

Solution 9

Sinking fund A/c

To Loss on sale of SFI	3,200	By Balance b/d	7,49,000
To Capital reserve	1,000	By Profit & Loss appr	28,400
To Liabilities red reserve	7,99,000	By interest on war Loan	19,800
To General reserve		By interest on own Deb.	5,000
		By Gain on cance	1,000

Own Deb

	FV	Intt	Amt		FV	Intt	Amt
To Bal b/d	1,00,000	—	99,000	By Debenture Interest	—	5,000	—
To SF		5,000		By Deb	1,00,000	—	99,000

3% War loan

	FV	*Intt*	*Amt*		*FV*	*Intt*	*Amt*
To Bal b/d	6,60,000	—	6,50,000	By SF Cash	—	19,800	—
To SF	—	19,800	—	By SF Cash	6,60,000	—	6,46,800
				By Loss			3,200

5% Debentures

31-12	To Won Deb	99,000	1-1	By Balance b/d	8,00,000
31-12	To gain on canc	1,000			
31-12	To Debentures redemption	7,00,000			

Debenture Redemption A/c

31-12	To Bank	7,00,000	31-12	By Debenture	7,00,000

Debenture Interest A/c

31-12	To interest payable	35,000		By Profit & Loss A/c	40,000
31-12	To Interest on own	5,000			

Deb-SFI

Solution 10

SINKING FUND A/c

		By Balance c/d	1,00,000
		By Profit/sale	2,250
		By Interest on UP Govt.	4,000
		By Interest on Utt Govt.	2,000
To Balance c/d	1,23,250	By Profit & Loss Appr.	15,000

UP Government Bonds

	FV	*Intt*	*Amt*		*FV*	*Intt*	*Amt*
To balance b/d	50,000	—	48,000	By SF Cash	25,000	—	26,250
To P& Sale		—	2,250	By SF Cash		4,000	
To SF	—	4,000	—	By Balance c/d	25,000	—	24,000

Uttranchal Government

	FV	*Intt*	*Amt*		*FV*	*Intt*	*Amt*
To balance b/d	30,000	—	32,000	By SF Cash	—	2,000	—
To SF cash	10,000	—	12,000	By Balance c/d	40,000	—	44,000
To S/F	—	2,000	—		—	—	—

Sinking Fund Cash

To balance b/d	20,000	By Uttranchal Govt. Bonds	12,000
To UP Govt. Bonds	26,250		
To Interest on UP govt. Bond	4,000		
To Interest on Utt Govt. Bond	2,000		
To Cash	15,000	By Balance c/d	55,250
	67,250		67,250

Solution 11

Sinking Fund A/c

		By Balance b/d	80,000
		By Profit on sale	10,000
To Balance c/d	1,15,000	By Profit & Loss Appr	35,000

Punjab Government Securities

	Nos/ FV	*Amount*		*Nos/FV*	*Amount*
To Balance b/d	30,000	25,000	By Balance c/d	30,000	25,000

Haryana Government Securities

	FV	*Amount*		*FV*	*Amount*
To Balance b/d	50,000	45,000	By SF Cash	50,000	55,000
To Profit/Sale	—	10,000			

Delhi Government Securities

	FV	*Amount*		*FV*	*Amount*
To SF Cash	2,000	4,000	By balance c/d	2,000	4,000

Solution 12

12% Own Debentures Account

	Interest Rs.	*Account Rs.*		*Interest Rs.*	*Account Rs.*
1997			1997		
Oct. 1 To Bank(Rs.1,50,000)	13,500	1,47,000	Dec.31 By Deb. Int. A/c	18,000	

	To Profit & Loss A/c	4,500			By Balance c/d	1,47,000	
		18,000	**1,47,000**			**18,000**	**1,47,000**
1998				1998			
Jan.1	To Balance b/d		1,47,000	Aprl.1	By Deb. Int. A/c	3,000	
Jan. 1	To Bank		1,04,000		By 12% Deb. A/c		1,00,000
Apl. 1	To Profit & Loss A/c	3,000			By Profit & Loss A/c		4,000
June30	To Profit & Loss A/c	9,000	10,500	June30	By Bank	9,000	1,57,500
Oct. 1	To Bank (Rs.2,00,000)	18,000	2,12,000	Dec.31	By Deb. Int. A/c		24,000
Dec.31	To Profit & Loss A/c	6,000			By 12% Deb. Int. A/c (cancelled)		2,00,000
				By P & L A/c		12,000	
		36,000	**4,73,500**			**36,000**	**4,73,500**

Note: It has been assumed that all transactions are ex-interest. The amount of such interest has been calculated from the previous 1st January to the date of transaction since the interest is payable annually.

Debenture Interest Account

1996		Rs.	1996		Rs.
Dec.31	To Bank A/c	1,20,000	Dec.31	By Profit & Loss A/c	1,20,000
1997			1997		
Dec.31	To Bank A/c	1,02,000	Dec.31	By Profit & Loss A/c	1,20,000
	To Interest on Own Debenture A/c	18,000			
		1,20,000			1,20,000
1998			1998		
Apl. 1	To Int. on Own Deb. A/c	3,000	Dec.31	By Profit & Loss A/c	1,11,000
Dec.31	To Int. on Own Deb. A/c	24,000			
	To Bank A/c (on Rs.7,00,000)	84,000			
		1,11,000			1,11,000

Profit & Loss (Extracts)

		Rs.			*Rs.*
1996	To Deb. Interest A/c	1,20,000	1997	By Int. on Own Deb. A/c (18,000 - 13,500)	4,500
1997	To Deb. Interest A/c	1,20,000			
1998	To Debenture Int. A/c	1,11,000	1998	By Own Deb. A/c (Profit on cancellation)	10,500
	To Own Debentures A/c Loss on cancellation (4,000 + 12,000)	16,000	1998	By Interest on Own Deb. A/c (36,000 - 18,000)	18,000
	To Premium on Redemption of Debentures on Rs.7,00,000 @ 5%	35,000			

Premium on Redemption of Debentures A/c

1998			1998		
Dec.31	To Bank	35,000	Dec.31	By Profit & Loss A/c	35,000

12% Debentures Account

1996		Rs.	1996		Rs.
Dec.31	To Balance c/d	10,00,000	Jan.1	By Bank	10,00,000
1997			1997		
Dec.31	To Balance c/d	10,00,000	Jan. 1	By Balance b/d	10,00,000
1998			1998		
Apl. 1	To Own Deb. A/c	1,00,000	Jan. 1	By Balance b/d	10,00,000
Dec.31	To Own Deb. A/c	2,00,000			
	To Bank	7,00,000			
		10,00,000			10,00,000

Working Notes

(i) Interest paid on purchase of own debentures

Date	*Nominal Amount*	*Period*	*Rate*	*Interest*
1997 Oct. 1	Rs. 1,50,000	9 months	12%	13,500
1998 Oct. 1	Rs. 2,00,000	9 months	12%	18,000

(ii) Interest Credited to Interest on Own Debenture A/c

1997 Dec.31	Rs. 1,50,000	12 months	12%	18,000
1999 April 1	Rs. 1,00,000	3 months	12%	3,000
1999 June30	Rs. 1,50,000	6 months	12%	9,000
1999 Dec.31	Rs. 2,00,000	12 months	12%	24,000

(iii) Profit/Loss on cancellation/sales is different between cost or nominal value and sales price.

Solution 13

In the Books of Progressive Ltd.
Debenture Stock Account

1995		Rs.	1995		Rs.
Sept. 30	To Debenture Redemption A/c	1,20,000	Jan. 1	By Balance b/d	10,00,000
Dec. 31	To Balance c/d	8,80,000			
		10,00,000			10,00,000
1996		Rs.	1996		Rs.
May 31	To Debenture				

		Redemption A/c	75,000	Jan 1	By	Balance b/d	8,80,000
Dec. 31	To	Debenture					
		Redemption A/c	25,000				
	To	Balance c/d	7,80,000				
			8,80,000				8,80,000
1997			Rs.	1997			Rs.
July 31	To	Debenture		Jan. 1	By	Balance b/d	7,80,000
		Redemption A/c	1,15,000				
Dec. 31	To	Balance c/d	6,65,000				
			7,80,000				7,80,000

Debenture Redemption Account

1995			Rs.	1995			Rs.
Sept. 30	To	Bank A/c (Rs. 1,20,000 × .98 — Rs. 1,800)	1,15,800	Sept. 30	By	Debenture Stock A/c	75,000
	To	Capital Reserve A/c (Profit on cancellation)	4,200				
			1,20,000				1,20,000
1996			Rs.	1996			Rs.
May 31	To	Bank A/c (Rs. 75,000 x .95)	71,250	May 31	By	Debenture Stock A/c	75,000
				Dec. 31	By	Debenture Stock A/c	25,000
	To	Capital Reserve A/c (Profit on cancellation)	3,750				
Dec. 31	To	Bank A/c (Shortfall = Rs. 1,00,000 - Rs. 75,000)	25,000				
			1,00,000				1,00,000
1997			Rs.	1997			Rs.
July 31	To	Bank A/c (Rs.1,15,000 ×.92 - Rs.575)	1,05,225	July 31	By	Debenture Stock A/c	1,15,000
	To	Capital Reserve A/c (Profit on cancellation)	9,775				
			1,15,000				1,15,000

Debenture Interest Account

			Rs.				Rs.
1995			Rs.	1995			Rs.
June 30	To	Bank A/c	30,000	Dec. 31	By	Profit and Loss A/c	58,200
Sept. 30	To	Bank A/c	1,800				
Dec. 31	To	Bank A/c	26,400				
			58,200				58,200
1996			Rs.	1996			Rs.
May 31	To	Bank A/c	1,875	Dec. 31	By	Profit and Loss A/c	50,175
June 31	To	Bank A/c	24,150				
Dec. 31	To	Bank A/c	24,150				
			50,175				50,175
1997			Rs.	1997			Rs.
June 30	To	Bank A/c	23,400	Dec. 31	By	Profit and Loss A/c	43,925
July 31	To	Bank A/c	575				
Dec. 31	To	Bank A/c	19,950				
			43,925				43,925

Working Note

Interest paid on Debentures @ 6% per annum:

Date	*Amount of Debentures Rs.*	*Period*	*Interest Rs.*
1995			
June 30	10,00,000	6 months	30,000
Sept. 30	1,20,000	3 months	1,800
Dec. 31	8,80,000	6 months	26,400
1996			
May 31	75,000	5 months	1,875
June 30	8,05,000	6 months	24,150
Dec. 31	8,05,000	6 months	24,150
1997			
June 30	7,80,000	6 months	26,400
July 31	1,15,000	1 month	575
Dec. 31	6,65,000	6 months	19,950

Notes: (1) It has been assumed that debentures are purchased for immediate cancellation.

(2) The purchase of 30th September, 1995 and 31st July, 1997 have been taken on cum-interest basis.

Comments

The overall performance was unsatisfactory. The common errors made by the candidates were wrong computation of the amount of interest on debentures and profit on redemption of debentures. Few candidates could not pass required journal entries.

Solution 14

Sencom Limited
Debenture Account

1998		Rs.	1998		Rs.
Dec.31	To Balance c/d	1,50,000	Jan. 1	By Balance b/d	1,50,000
1999			1999		
Mar.31	To Own Debenture A/c	45,000	Jan. 1	By Balance b/d	1,50,000
	To Balance c/d	1,05,000			
		1,50,000			1,50,000
			April.1	By Balance b/d	1,05,000

Own Debenture Investment Account

		Nominal Cost	*Interest*	*Cost*			*Nominal Cost*	*Interest*	*Cost*
1998		Rs.	Rs.	Rs.	1998	Rs.	Rs.	Rs.	
Mar. 1	To Bank	25,000	521	24,725	Mar.31	By Debenture Interest A/c	__	625	__
Sep. 1	To Bank	20,000	417	19,708	Sep.30	By Debenture Interest A/c	__	1,125	__
Dec.31	To P & L A/c		1,375			Dec.31By Debenture Interest A/c	__	563	__
	To Balance b/d	45,000	—	44,433					
		45,000	2,313	44,433			45,000	2,313	44,433
1999					1999				
Jan. 1	To Balance b/d	45,000	563	44,433	Mar. 1	By Debenture Interest A/c	—	1,125	-
Mar.31	To Capital Reserve (Profit on cancellation)	—	—	567		By 5% Deb. A/c	45,000	—	45,000
	To P & L A/c	—	562						
		45,000	1,125	45,000			45,000	1,125	45,000

Debenture Interest Account

1998		Rs.	1998		Rs.
Mar.31	To Bank(on Rs.1,25,000 for 6 months)	3,125	Jan.	By Accrued Interest (on Rs.1,50,000 @ 5% for 3 months)	1,875
	To Interest on own Debentures	625	Dec.31	By P & L A/c	7,500
Sep.31	To Bank (on Rs.1,05,000 @ 5% for 3 months)	2,625			
	To Interest on own Debentures	1,125			
Dec.31	To Interest accrued (on Rs.1,05,000 for 3 months)	1,312			

		Rs.			Rs.
	To Interest on own debentures (on Rs.45,000 for 3 months)	563			
		9,375			9,375
1999		Rs.	1999		Rs.
Mar.31	To Bank (on Rs.1,05,000 for 6 months)	2,625	Jan.1	By Interest Accrued	1,312
	To Interest on own debentures (on Rs.45,000 for 3 months)	563	Mar.31	By P & L A/c	1,876
		3,188			3,788

Solution 15

6% Debentures Account

1st Half Year

Dr.			*Rs.*	*Rs.*			*Cr.* *Rs.*
Mar.1	To	Bank-Debentures Purchased	4,850		Jan. 1	By Balance b/d	50,000
	To	Profit & Loss on cancellation of debenture A/c	150	5,000			
June30	To	Balance c/d		45,000			
				50,000			**50,000**

Profit & Loss on Cancellation of Debentures

	Rs.		*Rs.*
June 30 To Capital Reserve (transfer)	150	Mar. 1 By Debenture A/c	150

Debenture Interest Account

		Rs.			Rs.
Mar. 1	To Bank-Interest for 2 months on Rs.5,000 Debentures	50	June30	By Profit & Loss A/c	1,400
June 30	To Debenture-holders (Interest) A/c	1,350			
		1,400			1,400

Debenture-holders (Interest) A/c

		Rs.			*Rs.*
June30	To Cash	1,350	June30	By Debenture interest Account (Interest on Rs.45,000 @ 6% upto 30th June)	1,350

2nd Half Year

6% Debentures Account

		Rs.	*Rs.*		*Rs.*
Aug. 1	To Bank-Debenture Purchased		9,975	July 1 By Balance b/d	45,000
	To P & L A/c on Cancellation		25		

Dec.15	To Bank-Deb. Purchased	2,462.50				
	To Profit & Loss on Cancellation of Debentures	37.50	2,500			
Dec.31	To Balance c/d		32,500			
			42,000			42,000

Profit & Loss on Cancellation of Debentures A/c

		Rs.			*Rs.*
Dec.31	To Capital Reserve Transfer	62.50	Aug.1	By Debenture A/c	25.00
			Dec.15	By Debenture A/c	37.50
		62.50			62.50

Debenture Interest Account

		Rs.			Rs.
Aug. 1	To Bank-Interest for one month on Rs.10,000	50.00	Dec.	By P & L Account	1,093.75
Dec.15	To Bank	68.75			
Dec.31	To Debenture holders	975.00			
		1,093.75			1,093.75

Debenture-holders (Interest) Account

		Rs.			*Rs.*
Dec.31	To Bank	975.00	Dec.31	By Debenture Interest for 6 months)	975.00

Solution 16

10% DEBENTURES A/C

30-9	To bank	95,500	1-1	By balance B/D	8,00,000
30-9	To gain on red.	4,500			
31-12	To Balance c/d	7,00,000	1998		
31-5	To Bank	57,000	1-1	By Balance b/d	7,00,000
31-5	To gain on red	3,000			
31-12	To debt Redemption	20,000			
31-12	To Balance c/d	6,20,000			
31-7	To Bank	86,400	1-1	By bal b/d	6,20,000
31-7	To Gain on red.	3,600			
31-12	To balance c/d	5,30,000			

DEB REDEMPTION A/C

31-12-98	To Bank	20,000	31-12	By Deb A/c	20,000

Debentures Interest A/c

1997			
30-6 To Interest payable	40,000		
30-9 To Bank	2,500		
31-12 To Interest payable	35,000	By Profit & Loss A/c	77,500
1998			
31-5 To Bank	2,500		
30-6 To Interest payable	32,000		
31-12 To interest payable	32,000	By Profit & Loss A/c	66,500
1999			
30-6 To Interest payable	32,000		
31-7 To Bank	750		
31-12 To Interest payable	26,500	By Profit & Loss A/c	59,250

Solution 19

1-3	To Bank	1,940	1-1	By Balance b/d	12,000
1-3	To Gain on Red	60			
1-8	To Bank	3,990			
1-8	To Gain on Red.	10			
15-12	To Bank	985			
15-12	To Gain on Red.	15			
31-12	To Balance C/d	5,000			

Gain on Red

			1-3	By Debentures	60
31-12	To Capital Reserve	85	1-8	By Debenture	10
				By Debenture	15

Debenture Interest A/c

1-3	To Bank	20			
30-6	To Interest payable	300			
1-8	To Bank	20			
15-12	To Bank	27.5			
31-12	To Interest payable	150		By Profit & Loss A/c	517.5

Solution 20

In the books of Alpha Ltd.
Journal Entries

Date	*Particulars*		*Dr. Amount Rs.*	*Amount Rs.*
1.5.08	Bank A/c	Dr.	1,50,00,000	
	To Debenture Application A/c			1,50,00,000
	To 15% Debentures A/c			2,00,00,000
	(Allotment of 1,50,000 debentures to applicants and 50,000 debentures to underwriters)			
	Underwriting Commission	Dr.	4,00,000	
	To Underwriters A/c			4,00,000
	(Commission payable to underwriters @ 2% on Rs. 2,00,00,000)			
	Bank A/c	Dr.	46,00,000	
	To Underwriters A/c			46,00,000
	(Amount received from underwriters in settlement of account)			
30.9.08	Debenture Interest A/c	Dr.	10,00,000	
	To Bank A/c			10,00,000
	(Interest paid on debentures for 4 months @ 15% on Rs. 2,00,00,000)			
30.10.08	15% Debentures A/c	Dr.	1,20,00,000	
	To Equity Share Capital A/c			20,00,000
	To Securities Premium A/c			1,00,00,0000
	(Conversion of 60% of debentures into shares of Rs. 60 each with a face value of Rs. 10)			
31.3.09	Debenture Interest A/c	Dr.	7,50,000	
	To Bank A/c			7,50,000
	(Interest paid on debentures for the half year)			

Working Note

Calculation of Debenture Interest for the half year ended 31st March, 2009

On Rs. 80,00,000 for 6 months @ 15%	=	Rs. 6,00,000
On Rs. 1,20,00,000 for 1 months @ 15%	=	Rs. 1,50,000
		Rs. 7,50,000