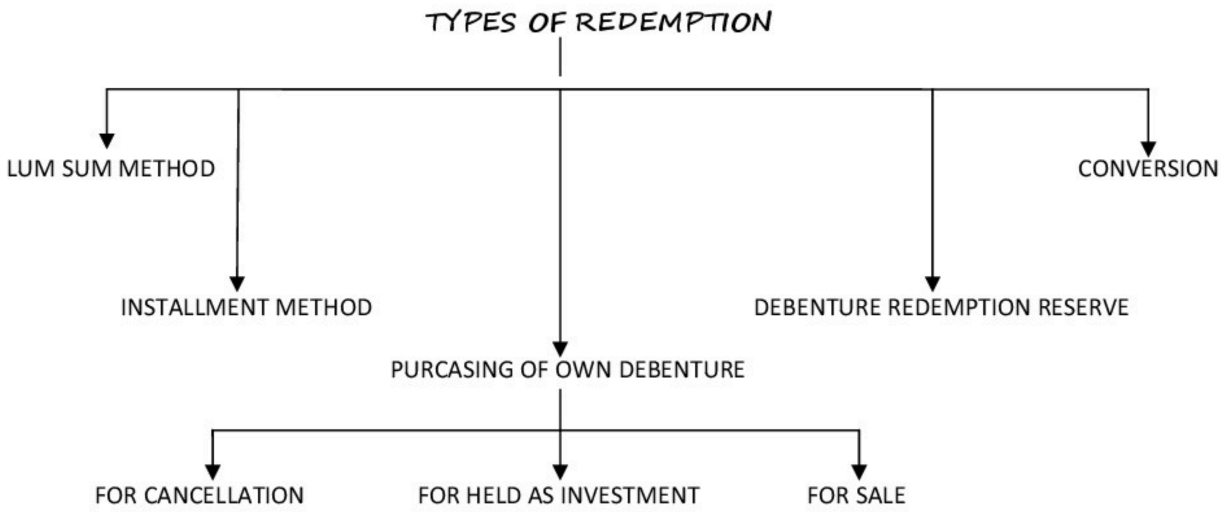
REDEMPTION OF DEBENTURE



1. **LUM SUM METHOD & INSTALLMENT METHOD**
   All the debentures may be redeemed in one lot at the end of a specified period of time or even before the expiry of the specified period of time by serving a notice to debenture-holders

   1. Debenture A/C Dr. (Face Value)
      Premium On Redemption A/c Dr. (Premium Amount)
      To Debenture holder A/c (Total Amount)

   2. Debenture holder A/c Dr.
      To Bank A/c

2. **PURCASING OF OWN DEBENTURE (Immediate cancellation):**
   The company may cancel the debentures immediately after their purchase in the open market.

   1. Own Debenture A/c Dr (Ex. Interest Purchase Amount)
      Debenture Interest* A/c Dr. (Interest Amount)
      To Bank A/c (Total Amount)

   2. % Debenture A/c Dr. (Face Value)
      To Own Debenture A/c (Ex. Interest Purchase Amount)
      To Profit on Cancellation (Balancing Figure)

   3. Profit on Cancellation
      To Capital Reserve

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4. Debenture Interest** A/c Dr.

 To Bank A/c

* No of Debenture x Face Value x Rate x $\frac{\text{No. of month}}{12}$ (from Interest due date to Purchase date)
Purchase

** Interest is to be calculate only on **Remaining Debenture** not on all because we already Debited Interest on cancellation (entry no 1)

3. **PURCASING OF OWN DEBENTURE (Cancellation after holding them for some time as Investment):**
   The company may hold the debentures purchased in the open market for some time as investments in 'Own Debentures'. It is done when the company wants to keep open its option of reselling the debentures. But after some time, it may decide to cancel the debentures held. After cancellation, the debentures stand redeemed and cannot be resold.

1. Own Debenture A/c Dr (Ex. Interest Purchase Amount)
   Interest on Own Debenture * A/c Dr. (Interest Amount)
   To Bank A/c (Total Amount)

2. Debenture Interest** A/c Dr. (for full 6month/12month)
   To Bank A/c (Payment to outsider)
   To Interest on Own Debenture A/c (full Interest on own deb full 6month/12month)

3. % Debenture A/c Dr. (Face Value)
   To Own Debenture A/c (Ex. Interest Purchase Amount)
   To Profit on Cancellation (Balancing Figure)

4. Interest on **Own** Debenture A/c Dr (Net Amount)
   To Profit & Loss A/c

5. Profit & Loss A/c Dr. (Net Amount)
   To Debenture Interest A/c

Note :-
1) Student be Careful Interest on Debenture and Interest on **Own** Debenture is not same
When company purchase and immediate cancel than in entry no 1 we use Debenture Interest/ Interest on Deb. But when we held as **Investment** than we have to pass Interest on **own** deb entry
2) If Interest Due Date and Year Ending Date is not same than we have to pass Interest Accrued Entry for opening as well as closing for Such Accrued Interest

4. PURCASING OF OWN DEBENTURE (Resale):-

Other Entries Remains same as held for investment but when the company sale Debentures than we have to pass one more entry

Bank A/c Dr.
To Own Debenture A/c
To Interest on Own Debenture A/c
To Profit & Loss A/c

5. DEBENTURE REDEMPTION RESERVE (SINKING FUND)

Child Parent eg. as discuss in classes

At the end of the first year

1. For creating Debenture Redemption Reserve:

Profit and loss a/c Dr.
To Debenture Redemption Reserve a/c

2. The amount appropriated is invested:

Debenture Redemption Reserve investment a/c Dr.
To Bank A/c

At the end of all subsequent years:

1. When Interest on debenture redemption fund is received:

Bank Dr.
To Interest on Debenture Redemption Reserve investment a/c

2. For the transfer of interest on debenture redemption fund investments:

Interest on Debenture Redemption Reserve investment Dr.
To Debenture Redemption Reserve a/c

3. When the annual installment is appropriated out of profits:

Profit and loss appropriation a/c Dr.
To Debenture Redemption Reserve a/c

4. When the annual amount appropriated plus the interest received is invested in securities:

Debenture Redemption Reserve investment a/c Dr.
To Bank A/c

At the end of last year

All above 3 entry (from entry no 1 to 3) remain same..

Additional Entries

1. **When Debenture Redemption Reserve investments are sold**

Bank A/c Dr.
To Debenture Redemption Reserve investment a/c

2. **For the transfer of Profit/Loss on realization of Debenture Redemption Reserve investment**

In case of **Profit**

Debenture Redemption Reserve investment a/c Dr.
To Debenture Redemption Reserve a/c

In case of **Loss**

Debenture Redemption Reserve a/c Dr.
To Debenture Redemption Reserve investment a/c

3. **When debentures are redeemed**

Debentures account Dr.
To Debenture-holders a/c

Debenture-holders a/c Dr.
To Bank a/c

Additional Notes:-

1. Debenture Redemption Reserve is also Known as Sinking fund and Debenture Redemption Reserve investment as Sinking fund Investment

2. The balance of Debenture Redemption Reserve transfer to General Reserve at the End but minimum amount transfer must be at least equal to nominal value of debenture (except own debenture) if balance of D.R.R. is less than nominal value than we have to transfer difference amount from P&L

3. Profit or loss on sale of investments is transferred to D.R.R. After the redemption of all debentures, balance left in sinking fund is transferred to general reserve but the portion of the profit on sale of sinking fund investment is preferably transferred to capital reserve.

4. **Non-Cumulative Debentures Sinking Fund**- Those sinking funds in which the interest income on sinking fund investment do not accumulate in the sinking fund but are transferred to Profit and Loss account

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