REDEMPTION OF DEBENTURES

In order to carry out redemption of debentures, a company can raise funds from the following three sources:

(1) Redemption out of capital
(2) Redemption out of divisible profits
(3) Redemption through conversion

REDEMPTION OUT OF CAPITAL

Where debentures are redeemed out of capital, no debenture redemption reserve is created out of the divisible profits of the company.

(1) **On debentures becoming due for redemption**

Debentures A/c --Dr.
Premium on redemption of debentures (if any) -Dr.
To Debentureholders A/c ---Cr.
To Capital Reserve A/c--Cr. (with the amount of discount on redemption, if any)

(3) **On payment to debentureholders**

Debentureholders A/c-Dr.
To Bank A/c ---Cr.

(2) **On writing off the premium on redemption**

Security premium A/c-Dr.
Surplus A/c ---Dr.
Any free reserve A/c --Dr.
To Premium on redemption of debentures A/c ---Cr

REDEMPTION OUT OF PROFITS

When debentures are redeemed out of profits, the company shall transfer adequate amount covering the principal (and interest accrued thereon) to Debenture Redemption Reserve.

(1) **On debentures becoming due for redemption**

Debentures A/c --Dr.
Premium on redemption of debentures (if any) -Dr.
To Debentureholders A/c-Cr.
To Capital Reserve A/c--Cr. (with the amount of discount, if any)

(3) **For the transfer of surplus or divisible profits to Debenture Redemption Reserve**

Surplus A/c ---Dr.
Any free revenue reserve A/c ---Dr.
To D.R.R. A/c --- Cr.

(2) **On writing off the premium on redemption**

Security premium A/c-Dr
Surplus A/c ----Dr.
Any other free revenue reserve A/c--Dr.
To Premium on redemption of debentures A/c--Cr.

(4) **On payment made to debentureholders:**

Debentureholders A/c --Dr.
To Bank A/c ---- Cr.

(5) **On transferring the balance in the D.R.R. A/c to General Reserve when the debentures are redeemed**

Debenture Redemption Reserve...

REDEMPTION THROUGH CONVERSION

If the debentures were originally issued at par or premium, only the nominal value of the debentures would be converted into new shares or debentures. However, if the debentures were originally issued at a discount, only the net amount of debentures received (after discount) at the time of issue would be converted into new shares or debentures.

Debentures A/c --Dr.
Discount on issue of shares (if allowed) --Dr.
To Share Capital A/c --Cr.
To Security premium A/c ---- Cr. (if new shares are issued at a premium)
To Discount on issue of debentures --Cr. (if the debentures to be redeemed were originally issued at a discount)

ACCOUNTING TREATMENT SINKING FUND CREATED TO REDEEM DEBENTURES

At the end of 1st year

(i) For setting aside the required amount for sinking fund

Surplus A/c --Dr.
To Sinking Fund A/c --Cr.

(ii) For investing the surplus appropriated or set aside

S.F. investment A/c --Dr.
To Bank A/c ---- Cr.

At the end of 2nd and every subsequent year (except the last year)

(i) For receiving interest on sinking fund investments made in the previous year

Bank A/c ---Dr.
To Interest on S.F. investment A/c --Cr.

(ii) For transferring interest to Sinking Fund A/c

Interest on S.F.I. A/c --Dr.
To S.Fund A/c ---- Cr.

(iii) For annual appropriation of profit

Surplus A/c --Dr.
To Sinking Fund A/c Cr.

(iv) For investing the appropriated profit plus interest received on Sinking Fund Investments

S.F. Investment A/c --Dr.
To Bank A/c ---- Cr.

P.T.O.

Q.E

the end of last year

For receiving interest on S.F. investments made in the previous year

Bank A/c --Dr.
To Interest on S.F.I. A/c ---Cr.

(ii) For transferring interest to Sinking Fund A/c

Interest on S.F.I. A/c-Dr.
To Sinking Fund A/c--Cr.

(iii) For annual appropriation of profit

Surplus A/c ---Dr.
To Sinking Fund A/c-Cr.

(iv) For sale or realization of Sinking Fund investments to provide for cash on redemption

Bank A/c ---Dr.
Sinking Fund A/c-Dr. (with loss on sale, if any)
To S.F. Investment A/c--Cr.
✻ To Sinking Fund A/c--Cr. (with profit on sale, if any)

(v) For amount payable on redemption

Debentures A/c --Dr.
Premium on redemption of debentures ---Dr. (if any)
To Debentureholders A/c ----Cr.

Q.F.

(vi) For payment to debentureholders

Debentureholders A/c -Dr.
To Bank A/c ---Cr.

(vii) For transferring the Sinking Fund balance to General Reserve A/c ✻

Sinking Fund A/c-Dr.
To General Reserve A/c-Cr.

✻ Profit on sale of investment included in Sinking Fund A/c must be transferred to Capital Reserve A/c.

ACCOUNTING TREATMENT FOR PURCHASE OF DEBENTURES FOR IMMEDIATE CANCELLATION -

Where no Sinking Fund exists

(i) For the purchase of debentures for immediate cancellation

Debentures A/c --Dr.
Loss on redemption of debentures A/c-Dr. (with loss, if any)
To Bank A/c ---Cr.
To Profit on redemption of debentures A/c--Cr. (with profit, if any)

(ii) For the transfer of profit on cancellation of debentures

Profit on redemption of debentures A/c--Dr.
To Capital Reserve A/c-

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For the transfer of loss on cancellation of debentures

Capital Reserve A/c - Dr. (if available)

Security Premium A/c - Dr. (if available)

To Loss on redemption of debentures A/c - Cr.