

Illustration 1

Amritsar Cotton Ltd. issued ₹ 5 crores 10% debentures of ₹ 1,000 each at ₹ 940 per debenture.

The debentures are redeemable in five annual instalments of ₹ 200 each. It is decided to write off discount in proportion to the amount of debentures money usage over the various years.

- (i) Pass appropriate journal entries in year 1 and 2.

- (ii) Prepare a statement for write off discount over the five year period.
 (iii) Assume that the redemption is out of capital.

**Anuritar Cotton Ltd,
Journal Entries**

| | Particulars | | Debit Amount ₹ | Credit Amount ₹ |
|----------------|--|--|--------------------------|------------------------|
| Year I | | | | |
| (i) | Bank Account Dr. Discount on Issue of Debentures Dr. To 10% Debentures Account (Being issue of 50,000, 10% Debentures of ₹ 1,000 each @ ₹ 940) | | 4,70,00,000 30,00,000 | 5,00,00,000 |
| (ii) | 10% Debentures Account Dr. Debenture Interest Account Dr. To Debentureholders Account (Being interest payable) | | 1,00,00,000 50,00,000 | 1,50,00,000 |
| (iii) | Debentureholders Account Dr. To Bank Account (Being payment of interest) | | 1,50,00,000 | 1,50,00,000 |
| (iv) | Profit and Loss Account Dr. To Debenture Interest Account To Discount on Issue of Debentures (Being transfer of debenture interest and discount on issue of debentures to statement of profit and loss) | | 60,00,000 | 50,00,000 10,00,000 |
| Year II | | | | |
| (i) | 10% Debentures Account Dr. Debenture Interest Account Dr. To Debentureholders Account | | 1,00,00,000 40,00,000 | 1,40,00,000 |
| (ii) | Debentureholders Account Dr. To Bank Account | | 1,40,00,000 | 1,40,00,000 |
| (iii) | Profit and Loss Account Dr. To Debenture Interest Account To Discount on Issue of Debentures | | 48,00,000 | 40,00,000 8,00,000 |

STATEMENT SHOWING DISCOUNT WRITTEN OFF

$$\text{Total Discount } 5,00,00,000 \times \frac{60}{1,000} = ₹ 30,00,000$$

Proportion of Fund Utilised

I Year 5,00,00,000; II Year 4,00,00,000; III Year 3,00,00,000; IV Year 2,00,00,000;
 V Year 1,00,00,000.

Ratio 5: 4: 3: 2: 1

Redemption of Debentures

Discount to be Written off

₹

| | | | |
|------------|---------------------------------|---|------------------|
| I Year : | $\frac{5}{15} \times 30,00,000$ | = | 10,00,000 |
| II Year : | $\frac{4}{15} \times 30,00,000$ | = | 8,00,000 |
| III Year : | $\frac{3}{15} \times 30,00,000$ | = | 6,00,000 |
| IV Year : | $\frac{2}{15} \times 30,00,000$ | = | 4,00,000 |
| V Year : | $\frac{1}{15} \times 30,00,000$ | = | 2,00,000 |
| Total | | = | <u>30,00,000</u> |

1. Profit and Loss Account will be used for charges in the Profit and Loss Statement
2. Surplus Account may be used for appropriations in the Balance Sheet

of the Companies Act which deals with issue of shares at discount.

Illustration 8 (Conversion Before Redemption Date)

On 1 April 2011, Anju Limited issued 2,000—12% Debentures of ₹ 500 each at ₹ 475 each to be redeemed on 1 April 2014. Debentureholders had an option to convert their holding into 13% Preference Shares of ₹ 100 each at a premium of ₹ 25 per share. On 31 March 2012 one year's interest had accrued on these debentures and remained unpaid. A holder of 100 Debentures notified his intention to convert his holding into 13% preference shares. Journalise the above transactions and draw the balance sheet as at 31 March 2012 showing the relevant items.

Solution

Number of 13% Preference Shares to be issued by Anju Ltd.

| | |
|---|---------------|
| Nominal value of 100, 12% Debentures (500×100) | ₹ 50,000 |
| Less : Discount allowed on 100, 12% Debenture (100 ×25) | 2,500 |
| Proceeds of 100 Debentures | <u>47,500</u> |
| Issue Price of 13% Preference Shares | |
| Face or Nominal Value | 100 |
| Add : Premium | 25 |
| Issue Price | <u>125</u> |
| Number of 13% Preference Shares to be exchanged for (without violating Section 79) : $47,500 \div 125 = 380$ i.e., 380×100 | 38,000 |
| Securities Premium : 380×25 | 9,500 |
| | <u>47,500</u> |

Journal Entries

| | | | ₹ | ₹ |
|----------|---|-----|----------|-----------|
| 2011 | | | | |
| 1. April | Bank Account | Dr. | 9,50,000 | 50,000 |
| (i) | Discount on Issue of Debentures Account To 12% Debentures Account (Allotment of 2,000—12% debentures at ₹ 475 each, face value ₹ 500) | Dr. | 50,000 | 10,00,000 |
| 2012 | | | | |
| Mar 31 | Debenture Interest Account | Dr. | 1,20,000 | 1,20,000 |
| (ii) | To Accrued Interest on Debentures Account (Outstanding interest on debentures) | | | |
| (iii) | 12% Debentures Account | Dr. | 50,000 | 38,000 |
| | To 13% Preference Share Capital Account | | | 9,500 |
| | To Securities Premium Account | | | 2,500 |
| | To Discount on Issue of Debentures Account (Allotment of 380—13% Preference Shares exchanged for 100—12% Debentures) | | | |
| (iv) | Profit and Loss Account | Dr. | 1,20,000 | 1,20,000 |
| | To Debenture Interest Account (Transfer of debenture interest to profit and loss statment) | | | |

Balance Sheet of Anju Ltd.
As On 31 March 2012

| | Particulars | Note | ₹ |
|----|-------------------------------|------|------------|
| I | EQUITY AND LIABILITIES | | |
| | 1. Shareholders' Funds | 1 | 38,000 |
| | (a) Share Capital | 2 | (1,00,000) |
| | (b) Reserves and Surplus | | (82,000) |
| | Sub Total | | |
| | 2. Non-current Liabilities | 3 | 9,50,000 |
| | (a) Long term borrowing | | |
| | 3. Current Liabilities | 4 | 1,20,000 |
| | Other current liabilities | | 9,88,000 |
| | Total Equity and Liabilities | | |
| II | ASSETS | | |
| | 1 Current Assets | 5 | 9,50,000 |
| | (a) Cash and cash equivalents | 6 | 38,000 |
| | (b) Other Currents | | 9,88,000 |
| | Total Assets | | |

Notes to Balance Sheet

| | ₹ | ₹ |
|--|---|--------|
| 1. Share Capital | | |
| 13% Preference share captial | | |
| Issued, suscribed and fully paid | | 38,000 |
| 380 - 13% preference shares of ₹ 100 each | | |
| (Issued in lieu of Redemption of Debentures) | | |

2. **Reserves and Surplus**
 (a) **Security Premium Account**
 Less: Amount on Issue of Debentures
 (b) **Surplus Accrued Interest**
 Profit and Loss A/c (Dr.)
3. **Long-term borrowings**
 12% Debentures
 Less: Redeemed
4. **Other Current Liabilities**
 Accrued Interest
5. **Cash and Cash Equivalents**
 Cash at Bank (Issue of Debentures)
6. **Other Current Assets**
 Discount on Issue of Debentures
 Less : Security Premium Account

| | |
|---------|------------|
| 9,000 | |
| (9,000) | |
| | (1,20,000) |
| | (1,20,000) |
| | 10,00,000 |
| | 50,000 |
| | 9,50,000 |
| | 1,20,000 |
| | 9,50,000 |
| | 47,500 |
| | 9,500 |
| | 38,000 |

Illustration 14 (Redemption of Debentures)

Seawage Ltd. had ₹ 18,00,000 14% Debentures outstanding on 1 April 2011 redeemable on 31 March 2012. On 1 April 2011, the debenture redemption fund stood at ₹ 14,98,000 represented by own debentures of the face value of ₹ 2,00,000 purchased at an average price of ₹ 99 per debenture and 10% stock acquired at par for ₹ 13,00,000. The annual instalment of transfer to the fund was ₹ 1,42,000. On 31 March 2012, investments were sold for ₹ 12,93,600 and the debentures were redeemed.

Show 14% Debentures Account, Debentures Redemption Fund Account and Debenture Redemption Fund Investments Account for the year and 31 March 2012.

Solution

Seawage Ltd.
14% Debentures Account

| 2012 Mar. 31 | | ₹ | 2011 April 1 | | ₹ |
|-----------------|--|------------------|-----------------|-------------|------------------|
| | Debenture Redemption Fund Investments (Own Debentures) Account | 1,98,000 | | Balance b/d | 18,00,000 |
| | Capital Reserve A/c | 2,000 | | | |
| | Debentureholders Account | 16,00,000 | | | |
| | | <u>18,00,000</u> | | | <u>18,00,000</u> |

Debenture Redemption Fund Account

| 2012 Mar. 31 | | ₹ | 2011 April 1 | | ₹ |
|-----------------|---|------------------|-----------------|------------------------------------|------------------|
| | Debenture Redemption Fund Investments Account (loss on sales) | 6,400 | | Balance b/d | 14,98,000 |
| | General Reserve Account | 17,91,600 | 2012 Mar.31 | Bank Account (Interest) | 1,30,000 |
| | | <u>17,98,000</u> | | Interest on own Debentures Account | 28,000 |
| | | | | Surplus Account | 1,42,000 |
| | | | | | <u>17,98,000</u> |

Debenture Redemption Fund Investments Account

| 2011 April. 1 | | ₹ | 2012 Mar. 31 | | ₹ |
|------------------|------------------------------|------------------|-----------------|--|------------------|
| | Balance b/d : Own Debentures | 1,98,000 | | 14% Debentures A/c (Own Debentures) | 1,98,000 |
| | 10% Stock | 13,00,000 | | Bank Account (Sale) | 12,93,600 |
| | | | | Debenture Redemption Fund Account (Loss on sale) | 6,400 |
| | | <u>14,98,000</u> | | | <u>14,98,000</u> |

Redemption of Debentures

Calculation of Interest on Debenture Redemption Fund Investments Interest on Own Debentures

On ₹ 2,00,000 @ 14% for one year : $\frac{2,00,000 \times 14}{100} = ₹ 28,000$

Interest on 10% Stock

On ₹ 13,00,000 @ 10% for one year : $\frac{13,00,000 \times 10 \times 1}{100} = ₹ 1,30,000$
₹ 1,58,000

TUTORIAL NOTE

Annual contribution to Debenture Redemption Fund could be increased by ₹ 8,400 so that the amount transferred to general reserve could be equal to the nominal value of the debentures redeemed.

CUM-INTEREST AND EX-INTEREST QUOTATIONS