

Illustration 1.

A Ltd. issued 5,000; 9% Debentures of ₹ 100 each at par and also raised a loan of ₹ 80,000 from bank, collaterally secured by ₹ 1,00,000; 9% Debentures. How will be the Debentures shown in the Balance Sheet of the company when the company has passed Journal entry for issue of Debentures as collateral security in the books?

Solution:**A Ltd.**

AN EXTRACT OF BALANCE SHEET *as at ...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long-term Borrowings	1	5,80,000

Note to Accounts

1. Long-term Borrowings		₹
5,000; 9% Debentures of ₹ 100 each		5,00,000
Loan from Bank		80,000
1,000; 9% Debentures of ₹ 100 each issued as Collateral Security	1,00,000	
Less: Debentures Suspense A/c	1,00,000	...
		5,80,000

Illustration 2.

On 1st April, 2022, Welfare Ltd. took over assets of ₹ 4,50,000 and liabilities of ₹ 60,000 of Himalyan Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% Debentures of ₹ 100 each at 10% premium. On the same date it issued another 3,000, 8% Debentures of ₹ 100 each at a discount of 10%, redeemable at a premium of 5% after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment of debentures.

You are required to pass Journal entries in the books of Welfare Ltd. to record the above transactions.

Solution:**JOURNAL OF WELFARE LTD.**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 April 1	Sundry Assets A/c ...Dr. Goodwill A/c (Balancing Figure) ...Dr. To Himalyan Ltd. To Sundry Liabilities A/c (Assets and liabilities of Himalyan Ltd. taken over for a net consideration of ₹ 4,40,000)		4,50,000 50,000	4,40,000 60,000
	Himalyan Ltd. ...Dr. To 8% Debentures A/c To Securities Premium A/c (4,000; 8% Debentures of ₹ 100 each issued at a premium of 10%)		4,40,000	4,00,000 40,000

2023 March 31	Bank A/c To Debentures Application A/c (Application money received for 3,000, 8% Debentures)	...Dr.	90,000	90,000
	Debentures Application A/c To 8% Debentures A/c (3,000; 8% Debentures allotted)	...Dr.	90,000	90,000
	Debentures Allotment A/c Loss on Issue of Debentures A/c To 8% Debentures A/c To Premium on Redemption of Debentures A/c (Allotment money due on 3,000; 8% Debentures at 10% Discount and redeemable at 5% premium)	...Dr. ...Dr.	1,80,000 45,000	2,10,000 15,000
	Bank A/c To Debentures Allotment A/c (Allotment money received)	...Dr.	1,80,000	1,80,000
	Securities Premium A/c Statement of Profit & Loss (Finance Cost) To Loss on Issue of Debentures A/c (Loss on Issue of Debentures written off)	...Dr. ...Dr.	40,000 5,000	45,000

Illustration 3.

Lemon Tree Ltd. purchased a piece of land from JSS Ltd. and paid the consideration as follows:

- (i) Issued a cheque for ₹ 10,00,000;
- (ii) Issued a Bill of Exchange for 3 months for ₹ 5,00,000;
- (iii) Issued 5,000; 9% Debentures of ₹ 100 each at par redeemable at 10% premium after 5 years.

Pass the Journal entries.

Solution:

JOURNAL OF LEMON TREE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Land A/c To JSS Ltd. (Land purchased)	...Dr.	20,00,000	20,00,000
	JSS Ltd. Loss on Issue of Debentures A/c To Bank A/c To Bills Payable A/c To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Purchase consideration paid)	...Dr. ...Dr.	20,00,000 50,000	10,00,000 5,00,000 5,00,000 50,000
	Statement of Profit & Loss (Finance Cost) To Loss on Issue of Debentures A/c (Loss on issue of debentures written off)	...Dr.	50,000	50,000

Illustration 4.

'Good Blankets Ltd.' are the manufacturers of woollen blankets. The company, to meet the requirements of funds for starting its new factory, issued 50,000 equity shares of ₹ 10 each at par and 2,000; 8% Debentures of ₹ 100 each to the vendors of machinery purchased for ₹ 7,00,000.

Pass necessary Journal entries for the above transactions in the books of the company.

Solution:**In the Books of Good Blankets Ltd.****JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c ...Dr. To Vendor's A/c (Purchase of machinery from the Vendor)		7,00,000	7,00,000
	Vendor's A/c ...Dr. To Equity Share Capital A/c To 8% Debentures A/c (Issue of 50,000 Equity Shares of ₹ 10 each and 2,000; 8% Debentures of ₹ 100 each at par to the Vendor of Machinery)		7,00,000	5,00,000 2,00,000

Illustration 5 (*Issue of Debentures at Par and Redeemable at Premium—Issue Price Payable in Instalments*).

Adarsh Cosmetics Ltd. issued 5,000; 9% Debentures of ₹ 100 each on 1st April, 2023 redeemable at a premium of 8% after 10 years. According to the terms of prospectus ₹ 40 is payable on application and balance on allotment of debentures.

Pass the necessary entries regarding issue of debentures.

Solution:**JOURNAL OF ADARSH COSMETICS LTD.**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2023 April 1	Bank A/c ...Dr. To Debentures Application A/c (Application money received for 5,000 debentures @ ₹ 40 per debenture)		2,00,000	2,00,000
April 1	Debentures Application A/c ...Dr. To 9% Debentures A/c (Application money transferred to 9% Debentures Account)		2,00,000	2,00,000
April 1	Debentures Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Allotment of 9% Debentures at par and redeemable at 8% premium)		3,00,000 40,000	3,00,000 40,000
	Bank A/c ...Dr. To Debentures Allotment A/c (Allotment money received)		3,00,000	3,00,000

Illustration 6.

KTR Ltd., issued 365, 9% Debentures of ₹ 1,000 each on 4th March, 2016. Pass necessary Journal entries for the issue of debentures in the following situations:

- (i) When debentures were issued at par, redeemable at a premium of 10%.
- (ii) When debentures were issued at 6% discount, redeemable at 5% premium. (Delhi 2016)

Solution: (i)**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016				
March 4	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Application and allotment money received on 365; 9% Debentures @ ₹ 1,000 each)		3,65,000	3,65,000
March 4	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (365; 9% Debentures allotted and premium payable on redemption @ 10% provided)		3,65,000 36,500	3,65,000 36,500

(ii)**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016				
March 4	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Application and allotment money received on 365; 9% Debentures @ ₹ 1,000 per debenture less 6% Discount)		3,43,100	3,43,100
March 4	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (365; 9% Debentures allotted at 6% Discount and premium payable on redemption of debentures @ 5% provided)		3,43,100 40,150	3,65,000 18,250

Illustration 7.

During the year ended 31st March, 2023, Anderson Ltd. issued 12% Debentures of ₹ 100 each, as per the details given below:

- (a) 900 Debentures issued as collateral security to a bank against a loan of ₹ 60,000.
- (b) The underwriters were to be paid a commission of ₹ 48,000. 25% of the amount was paid to them in cash and the balance was paid by the issue of Debentures at a discount of 10% to be redeemed at par.
- (c) A machine was purchased for ₹ 2,18,500. The vendor was paid by the issue of Debentures at a premium of 15% to be redeemed at par.

- (d) 5,000 Debentures were issued to the public at 5% premium, to be redeemed at a premium of 5%.

The company wrote off all capital losses arising from the issue of Debentures at the end of the year from its capital profits and if need be from its revenue profits.

You are required to Journalise the above transactions in the books of Anderson Ltd.

Solution:

In the Books of Anderson Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Bank A/c ...Dr. To Bank Loan A/c (Bank loan raised)		60,000	60,000
	Debentures Suspense A/c ...Dr. To 12% Debentures A/c (900, 12% Debentures issued as Collateral Security)		90,000	90,000
(b)	Underwriting Commission A/c ...Dr. To Underwriters' A/c (Commission due to underwriters)		48,000	48,000
	Underwriters' A/c ...Dr. Discount on Issue of Debentures A/c ...Dr. To Bank A/c To 12% Debentures A/c (Cash paid and 400; 12% Debentures of ₹ 100 each issued at a discount of 10%)		48,000 4,000	12,000 40,000
(c)	Machinery A/c ...Dr. To Vendor's A/c (Machinery purchased)		2,18,500	2,18,500
	Vendor's A/c ...Dr. To 12% Debentures A/c (1,900 × ₹ 100) To Securities Premium A/c (1,900 × ₹ 15) (1,900; 12% Debentures issued to Vendor at 15% premium)		2,18,500	1,90,000 28,500
(d)	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Application money received for 5,000 debentures of ₹ 100 each at a premium of 5%)		5,25,000	5,25,000
	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 12% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (5,000; 12% Debentures of ₹ 100 each issued at 5% premium and redeemable at 5% premium)		5,25,000 25,000	5,00,000 25,000 25,000
	Securities Premium A/c ...Dr. Statement of Profit & Loss (Finance Cost) ...Dr. To Underwriting Commission A/c To Discount on Issue of Debentures A/c To Loss on Issue of Debentures A/c (Capital losses written off)		53,500 23,500	48,000 4,000 25,000

Illustration 8.

On 1st April, 2022, Romi Ltd. issued ₹ 10,00,000, 15% Debentures of ₹ 100 each at 8% discount payable:

₹ 40 on application, and

The balance on allotment.

These debentures were to be redeemed at a premium of 5% after five years. All the debentures were subscribed by the public.

Interest on these debentures was to be paid half-yearly which was duly paid by the company.

You are required to:

- Pass Journal entries in the first year of debenture issue (including entries for debenture interest.)
- Prepare 15% Debentures Account for the year ending 31st March, 2023.

Solution:**JOURNAL OF ROMI LTD.**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2022 April 1	Bank A/c ...Dr. To Debentures Application A/c (Application money received for 10,000, 15% Debentures @ ₹ 40 per debenture)		4,00,000	4,00,000
	Debentures Application A/c ...Dr. To 15% Debentures A/c (10,000, 15% Debentures allotted)		4,00,000	4,00,000
	Debentures Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 15% Debentures A/c To Premium on Redemption of Debentures A/c (Allotment money due on 10,000, 15% Debentures issued at 8% discount and redeemable at 5% premium)		5,20,000 1,30,000	6,00,000 50,000
	Bank A/c ...Dr. To Debentures Allotment A/c (Allotment money received)		5,20,000	5,20,000
Sept. 30	Debentures' Interest A/c ...Dr. To Debentureholders' A/c (Interest payable @ 15% p.a. on debentures for 6 months)		75,000	75,000
	Debentureholders' A/c ...Dr. To Bank A/c (Interest paid to debentureholders)		75,000	75,000
2023 March 31	Debentures' Interest A/c ...Dr. To Debentureholders' A/c (Interest payable @ 15% p.a. for 6 months)		75,000	75,000
	Debentureholders' A/c ...Dr. To Bank A/c (Interest paid to debentureholders)		75,000	75,000
	Statement of Profit & Loss (Finance Cost) ...Dr. To Loss on Issue of Debentures A/c (Loss on Issue of Debentures written off)		1,30,000	1,30,000

Dr.			15% DEBENTURES ACCOUNT			Cr.		
Date	Particulars	₹	Date	Particulars	₹			
2023			2022					
March 31	To Balance c/d	10,00,000	April 1	By Debentures Application A/c	4,00,000			
				By Debentures Allotment A/c	5,20,000			
				By Loss on Issue of Debentures A/c	80,000			
		10,00,000			10,00,000			
			2023					
			April 1	By Balance b/d	10,00,000			

Illustration 9.

Pilot Pens Ltd. issued 50,000, 6% Debentures of ₹ 100 each at a discount of 20%. It had balance in Securities Premium of ₹ 6,00,000 and ₹ 1,00,000 in Surplus, *i.e.*, Balance in Statement of Profit & Loss. Profit for the year before writing off balance of Discount on Issue of Debentures is ₹ 2,00,000.

Show the Notes to Accounts writing off the Discount on Issue of Debentures.

Solution:

Note to Accounts

Particulars	₹	₹
1. Reserves and Surplus		
Securities Premium		
Opening Balance	6,00,000	
Less: Discount on Issue of Debentures written off	6,00,000	...
Surplus, <i>i.e.</i>, Balance in Statement of Profit & Loss		
Opening Balance	1,00,000	
Add: Profit for the year before writing off Discount on Issue of Debentures	2,00,000	
	3,00,000	
Less: Balance Discount on Issue of Debentures	4,00,000	(1,00,000)
		(1,00,000)

Note: Balance amount of Discount on Issue of Debentures (₹ 4,00,000) is written off from Statement of Profit & Loss. Hence, the balance in Surplus, *i.e.*, Balance in Statement of Profit & Loss shows negative balance of ₹ 1,00,000.

Illustration 10 (Issue of Debentures to Vendors at Discount with Part Payment in Cash).

Blue Ltd. purchased from HCL Ltd., computers of ₹ 3,00,000 and software for ₹ 5,00,000 payable ₹ 80,000 by cheque and balance by issue of 7% Debentures of ₹ 100 each at a discount of 10%. The company has balance in Securities Premium of ₹ 40,000.

Pass the Journal entries in the books of Blue Ltd.

Solution:**JOURNAL OF BLUE LTD.**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Computers A/c ...Dr. Software A/c ...Dr. To HCL Ltd. (Computers and Software purchased from HCL Ltd.)		3,00,000 5,00,000	8,00,000
	HCL Ltd. ...Dr. Discount on Issue of Debentures A/c ...Dr. To Bank A/c To 7% Debentures A/c (Cheque for ₹ 80,000 and 8,000, 7% Debentures issued at discount of 10%)		8,00,000 80,000	80,000 8,00,000
	Securities Premium A/c ...Dr. Statement of Profit & Loss (Finance Cost) ...Dr. To Discount on Issue of Debentures A/c (Discount on Issue of Debentures written off)		40,000 40,000	80,000

Notes:

- Discount on Issue of Debentures is written off in the year debentures are allotted.
- It is written off from Securities Premium and Statement of Profit & Loss in that order.

$$3. \quad \text{Number of Debentures Issued} = \frac{\text{₹ } 7,20,000}{\text{₹ } 90} = 8,000 \text{ Debentures}$$

$$\text{Nominal Value of Debentures Issued} = 8,000 \text{ Debentures} \times \text{₹ } 100 = \text{₹ } 8,00,000.$$

Illustration 11.

Alok Ltd. issued 7,000, 10% Debentures of ₹ 500 each at a premium of ₹ 50 per debenture redeemable at a premium of 10% after 5 years. According to the terms of issue, ₹ 200 was payable on application and balance on allotment.

Record necessary Journal entries at the time of issue of 10% Debentures. (OD 2015 C)

Solution:**In the Books of Alok Ltd.****JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application A/c (Debentures application money received for 7,000; 10% Debentures @ ₹ 200 each)		14,00,000	14,00,000
	Debentures Application A/c ...Dr. To 10% Debentures A/c (Application money adjusted on allotment)		14,00,000	14,00,000
	Debentures Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 10% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (Amount due on 7,000; 10% Debentures of ₹ 500 each on allotment @ ₹ 350 per debenture including premium of ₹ 50 each and redeemable at 10% premium)		24,50,000 3,50,000	21,00,000 3,50,000 3,50,000
	Bank A/c ...Dr. To Debentures Allotment A/c (₹ 21,00,000 + ₹ 3,50,000) (Amount received against allotment)		24,50,000	24,50,000

Illustration 12.

Vijay Laxmi Ltd. invited applications for 10,000; 12% Debentures of ₹ 100 each at a premium of ₹ 70 per debenture. The full amount was payable on application.

Applications were received for 13,500 debentures. Applications for 3,500 debentures were rejected and application money was refunded. Debentures were allotted to the remaining applications.

Pass necessary Journal entries in the books of Vijay Laxmi Ltd. for the above transactions.

(Foreign 2012)

Solution:**In the Books of Vijay Laxmi Ltd.****JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (13,500 × ₹ 170) ...Dr.		22,95,000	
	To Debentures Application and Allotment A/c (Application money received on 13,500 debentures @ ₹ 170 per debenture including ₹ 70 per debenture as premium)			22,95,000
	Debentures Application and Allotment A/c ...Dr.		22,95,000	
	To 12% Debentures A/c (10,000 × ₹ 100)			10,00,000
	To Securities Premium A/c (10,000 × ₹ 70)			7,00,000
	To Bank A/c (3,500 × ₹ 170)			5,95,000
	(Application money adjusted and surplus refunded on allotment)			