

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	...
		<u>5,80,000</u>

Illustration 2.

On 1st April, 2025, 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. (₹)
2025 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

2026 March 31	Bank A/c ...Dr.	90,000	90,000
	To Debentures Application A/c (Application money received for 3,000, 8% Debentures)		
	Debentures Application A/c ...Dr.	90,000	90,000
	To 8% Debentures A/c (3,000; 8% Debentures allotted)		
	Debentures Allotment A/c ...Dr.	1,80,000	2,10,000
Loss on Issue of Debentures A/c ...Dr.	45,000	15,000	
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)			
Bank A/c ...Dr.	1,80,000	1,80,000	
To Debentures Allotment A/c (Allotment money received)			
Securities Premium A/c ...Dr.	40,000		
Statement of Profit & Loss (Finance Cost) ...Dr.	5,000	45,000	
To Loss on Issue of Debentures A/c (Loss on Issue of Debentures written off)			

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 ...Dr.		20,00,000	
	To JSS Ltd. (Land purchased)			20,00,000
	JSS Ltd. ...Dr.		20,00,000	
	Loss on Issue of Debentures A/c ...Dr.		50,000	
	To Bank A/c			10,00,000
	To Bills Payable A/c			5,00,000
	To 9% Debentures A/c			5,00,000
	To Premium on Redemption of Debentures A/c (Purchase consideration paid)			50,000
	Statement of Profit & Loss (Finance Cost) ...Dr.		50,000	
	To Loss on Issue of Debentures A/c (Loss on issue of debentures written off)			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, 2026 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. (₹)
2026 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, 2026, 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
	Machinery A/c ...Dr. To Vendor's A/c (Machinery purchased)		2,18,500	2,18,500
(c)	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
	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
(d)	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, 2025, 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:

- (i) Pass Journal entries in the first year of debenture issue (including entries for debenture interest.)
- (ii) Prepare 15% Debentures Account for the year ending 31st March, 2026.

Solution:

JOURNAL OF ROMI LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2025 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
2026 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	₹
2026			2025		
March 31	To Balance <i>c/d</i>	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
			2026		
			April 1	By Balance <i>b/d</i>	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.
- Number of Debentures Issued = $\frac{₹ 7,20,000}{₹ 90} = 8,000$ Debentures

Nominal Value of Debentures Issued = 8,000 Debentures × ₹ 100 = ₹ 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. 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	22,95,000
	Debentures Application and Allotment A/c ...Dr. To 12% Debentures A/c (10,000 × ₹ 100) To Securities Premium A/c (10,000 × ₹ 70) To Bank A/c (3,500 × ₹ 170) (Application money adjusted and surplus refunded on allotment)		22,95,000	10,00,000 7,00,000 5,95,000

Illustration 13.

Quality Constructions Ltd. issued 10,000, 8% Debentures of ₹ 100 each at par for subscription payable ₹ 40 on application, ₹ 30 on allotment and balance as first and final call. Debentures issued were applied and allotment was made. First and Final Call is yet to be made.

You are required to pass the necessary Journal entries.

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application A/c (Application money received on 10,000, 8% Debentures @ ₹ 40 per debenture)		4,00,000	4,00,000
	Debentures Application A/c ...Dr. To 8% Debentures A/c (Debentures allotted)		4,00,000	4,00,000
	Debentures Allotment A/c ...Dr. To 8% Debentures A/c (Allotment money due on debentures @ ₹ 30 per debenture)		3,00,000	3,00,000
	Bank A/c ...Dr. To Debentures Allotment A/c (Allotment money received on 10,000, 8% Debentures @ ₹ 30 per debenture)		3,00,000	3,00,000

Illustration 14 (Issue of Debentures at Premium, Issue Price Payable in Instalments).

Lemon Tree Ltd. issued 5,000; 9% Debentures of ₹ 100 each at a premium of 20% payable:

On Application — ₹ 50, On Allotment — Balance Amount.

Applications were received for the debentures issued and also the amount due on allotment.

Pass the Journal entries for the above.

Solution:

JOURNAL OF LEMON TREE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (5,000 × ₹ 50) ...Dr.		2,50,000	
	To Debentures Application A/c (Debentures application money received)			2,50,000
	Debentures Application A/c ...Dr.		2,50,000	
	To 9% Debentures A/c (5,000; 9% Debentures allotted)			2,50,000
	Debentures Allotment A/c ...Dr.		3,50,000	
	To 9% Debentures A/c To Securities Premium A/c (Allotment money along with premium due)			2,50,000 1,00,000
	Bank A/c ...Dr.		3,50,000	
	To Debentures Allotment A/c (Allotment money received)			3,50,000

Illustration 15 (Issue of Debentures to Vendors at Premium).

Exe Ltd. took over assets of ₹ 7,00,000 and liabilities of ₹ 60,000 of Wye Ltd. for the purchase consideration of ₹ 6,60,000. Exe Ltd. paid the purchase consideration by issuing 9% Debentures of ₹ 100 each at 10% premium. Pass Journal entries in the books of Exe Ltd.

Solution:

JOURNAL OF EXE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c ...Dr.		7,00,000	
	Goodwill A/c (Balancing Figure) ...Dr.		20,000	
	To Sundry Liabilities A/c To Wye Ltd. (Purchase of Business of Wye Ltd.) (WN 2)			60,000 6,60,000
	Wye Ltd. ...Dr.		6,60,000	
	To 9% Debentures A/c To Securities Premium A/c (6,000; 9% Debentures of ₹ 100 each issued at 10% premium)			6,00,000 60,000

Working Notes:

1. Calculation of the number of Debentures:

Issue Price of a debenture = ₹ 110

For payment of ₹ 6,60,000 company has to issue

₹ 6,60,000/₹ 110 = 6,000 debentures of ₹ 100 each, i.e., ₹ 6,00,000.

2. Excess of purchase consideration over net assets (i.e., the difference between the agreed value of the assets taken over and the agreed amount of liabilities assumed) is debited to Goodwill Account.

Goodwill = Purchase Consideration – Net Assets (i.e., Sundry Assets – Sundry Liabilities)

= ₹ 6,60,000 – (₹ 7,00,000 – ₹ 60,000) = ₹ 20,000.

Illustration 16 (Payment of Issue Price of Debentures in Instalments).

Zed Ltd. issued 2,00,000, 8% Debentures of ₹ 100 each at a discount of 6% redeemable at a premium of 10% after 5 years. The amount was payable as follows:

On application—₹ 50 per debenture; and

On allotment—Balance.

Record the necessary Journal entries for the issue of debentures in the books of Zed Ltd.

(CBSE 2020)

Solution:

JOURNAL OF ZED LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		1,00,00,000	
	To Debentures Application A/c			1,00,00,000
	(Application money received on 2,00,000; 8% Debentures)			
	Debentures Application A/c ...Dr.		1,00,00,000	
	To 8% Debentures A/c			1,00,00,000
	(Amount received on application transferred to Debentures A/c)			
	Debentures Allotment A/c ...Dr.		88,00,000	
	Discount on Issue of Debentures A/c ...Dr.		12,00,000	
	Loss on Issue of Debentures A/c ...Dr.		20,00,000	
	To 8% Debentures A/c			1,00,00,000
	To Premium on Redemption of Debentures A/c			20,00,000
	(Allotment of 8% Debentures at a discount, redeemable at a premium)			
	Or			
	Debentures Allotment A/c ...Dr.		88,00,000	
	Loss on Issue of Debentures A/c (₹ 12,00,000 + ₹ 20,00,000) ...Dr.		32,00,000	
	To 8% Debentures A/c			1,00,00,000
	To Premium on Redemption of Debentures A/c			20,00,000
	(Allotment of 8% Debentures at a discount, redeemable at a premium)			
	Bank A/c ...Dr.		88,00,000	
	To Debentures Allotment A/c			88,00,000
	(Amount due on allotment received)			

Illustration 17.

Pass Journal entries for issue of debentures in each of the following transactions:

- (i) Star Ltd. issued 30,000; 10% Debentures of ₹ 100 each at a discount of 5% to be repaid at par at the end of 5 years.
- (ii) Green Ltd. issued 10% Debentures of ₹ 100 each for the total nominal (face) value of ₹ 40,00,000 at a premium of 5% to be redeemed at par at the end of 5 years.
- (iii) Moon Ltd. issued ₹ 50,00,000; 10% Debentures of ₹ 100 each at par but redeemable at the end of 10 years at 105%.
- (iv) Strong Ltd. issued ₹ 60,00,000; 10% Debentures of ₹ 100 each at a discount of 5% repayable at a premium of 10% at the end of 5 years.
- (v) Smart Ltd. issued ₹ 70,00,000; 9% Debentures of ₹ 100 each at a premium of 5% redeemable at 110% at the end of 10 years.

Solution:

(i) JOURNAL OF STAR LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Debentures application money received)		28,50,000	28,50,000
	Debentures Application and Allotment A/c ...Dr.		28,50,000	
	Discount on Issue of Debentures A/c ...Dr. To 10% Debentures A/c (30,000; 10% Debentures of ₹ 100 each issued at a discount of 5%)		1,50,000	30,00,000

(ii) JOURNAL OF GREEN LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Debentures application money received)		42,00,000	42,00,000
	Debentures Application and Allotment A/c ...Dr.		42,00,000	
	To 10% Debentures A/c To Securities Premium A/c (40,000; 10% Debentures of ₹ 100 each issued at a premium of 5%)			40,00,000 2,00,000

(iii)

JOURNAL OF MOON LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Debentures application money received)		50,00,000	50,00,000
	Debentures Application and Allotment A/c ...Dr.		50,00,000	
	Loss on Issue of Debentures A/c ...Dr. To 10% Debentures A/c To Premium on Redemption of Debentures A/c (50,000; 10% Debentures of ₹ 100 each issued at par redeemable at 105%)		2,50,000	50,00,000 2,50,000

(iv)

JOURNAL OF STRONG LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Debentures application money received)		57,00,000	57,00,000
	Debentures application and Allotment A/c ...Dr.		57,00,000	
	Loss on Issue of Debentures A/c ...Dr. To 10% Debentures A/c To Premium on Redemption of Debentures A/c (60,000; 10% Debentures of ₹ 100 each issued at a discount of 5% and repayable at a premium of 10%)		9,00,000	60,00,000 6,00,000

(v)

JOURNAL OF SMART LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (₹ 70,00,000 + 5% of ₹ 70,00,000) ...Dr. To Debentures Application and Allotment A/c (Debentures application money received)		73,50,000	73,50,000
	Debentures Application and Allotment A/c ...Dr.		73,50,000	
	Loss on Issue of Debentures A/c ...Dr. To 9% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (70,000; 9% Debentures of ₹ 100 each issued at a premium of 5% and redeemable at a premium of 10%)		7,00,000	70,00,000 3,50,000 7,00,000

Illustration 18.

Journalise the following transactions:

- Mehar Ltd. issued ₹ 1,00,000, 12% Debentures of ₹ 100 each at a premium of 5% redeemable at a premium of 2%.
- 12% Debentures were issued at a discount of 10% to a vendor of machinery for payment of ₹ 9,00,000.
- Issue of 10,000, 11% Debentures of ₹ 100 each as collateral in favour of State Bank of India. Company opted to pass necessary entry for issue of debentures. (CBSE Sample Paper, 2019)

Solution:

JOURNAL OF MEHAR LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Bank A/c ...Dr.		1,05,000	
	To Debentures Application and Allotment A/c (Application money received)			1,05,000
	Debentures Application and Allotment A/c ...Dr.		1,05,000	
	Loss on Issue of Debentures A/c ...Dr.		2,000	
(a)	To 12% Debentures A/c			1,00,000
	To Securities Premium A/c			5,000
	To Premium on Redemption of Debentures A/c			2,000
	(1,000; 12% Debentures of ₹ 100 each issued at a premium of 5% and redeemable at 2% premium)			
(b)	Vendor's A/c ...Dr.		9,00,000	
	Discount on Issue of Debentures A/c ...Dr.		1,00,000	
(b)	To 12% Debentures A/c			10,00,000
	(12% Debentures issued to vendor at a discount of 10%)			
(c)	Debentures Suspense A/c ...Dr.		10,00,000	
	To 11% Debentures A/c			10,00,000
	(10,000, 11% Debentures of ₹ 100 each issued as collateral security)			

Illustration 19.

On 1st April, 2021, Hitesh Ltd. took over assets of ₹ 8,00,000 and liabilities of ₹ 40,000 of Pranjal Ltd. at an agreed value of ₹ 8,30,000. Hitesh Ltd. paid the amount to Pranjal Ltd. as follows:

- Gave an acceptance payable after 3 months for ₹ 2,00,000, and
- Issued 10% Debentures of ₹ 100 each at a discount of 10% to Pranjal Ltd. in satisfaction of the balance amount of purchase consideration. (CBSE 2023)

Solution:

JOURNAL OF HITESH LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Sundry Assets A/c ...Dr.		8,00,000	
	Goodwill A/c (Balancing Figure) ...Dr.		70,000	
	To Sundry Liabilities A/c			40,000
	To Pranjal Ltd.			8,30,000
	(Purchase of business from Pranjal Ltd.)			

(ii)	Pranjal Ltd. ...Dr.	2,00,000	
	To Bill Payable A/c		2,00,000
	(Acceptance given for purchase consideration)		
(iii)	Pranjal Ltd. ...Dr.	6,30,000	
	Discount on Issue of Debentures A/c ...Dr.	70,000	
	To 10% Debentures A/c (WN)		7,00,000
	(Issue of 7,000, 10% Debentures at 10% discount for the balance)		

Working Note: No. of Debentures Issued = $\frac{₹ 8,30,000 - ₹ 2,00,000}{₹ (100 - 10)} = 7,000$ (Debentures).

Illustration 20.

Sinco Ltd. purchased assets of the book value of ₹ 1,98,000 from Dixon Ltd. It was agreed that the purchase consideration be paid by issuing 10% Debentures of ₹ 100 each.

Record the necessary Journal entries in the books of Sinco Ltd. assuming that the debentures have been issued:

(i) At a discount of 10%.

(ii) At a premium of 10%.

(CBSE 2023)

Solution:

JOURNAL OF SINCO LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Assets A/c ...Dr.		1,98,000	
	To Dixon Ltd.			1,98,000
	(Assets purchased from Dixon Ltd.)			
(i)	Dixon Ltd. ...Dr.		1,98,000	
	Discount on Issue of Debentures A/c ...Dr.		22,000	
	To 10% Debentures A/c (WN 1)			2,20,000
	(2,200, 10% Debentures issued at 10% discount against the purchase consideration)			
	Statement of Profit & Loss (Finance Cost) ...Dr.		22,000	
	To Discount on Issue of Debentures A/c			22,000
	(Discount on Issue of Debentures written off)			
(ii)	Dixon Ltd. ...Dr.		1,98,000	
	To 10% Debentures A/c (WN 2)			1,80,000
	To Securities Premium A/c			18,000
	(1,800, 10% Debentures issued @ 10% Premium)			

Working Notes:

1. No. of Debentures issued at 10% discount = $\frac{₹ 1,98,000}{(₹ 100 - ₹ 10)} = 2,200$ Debentures.

2. No. of Debentures issued at a premium of 10% = $\frac{₹ 1,98,000}{(₹ 100 + ₹ 10)} = 1,800$ Debentures.

Illustration 21.

Ayush Organics Limited is engaged in manufacture and trading of organic spices. Considering the Covid situation, the directors of the company got an idea to prepare Ayush Kwath Powder, which will improve the immune system internally. They decided to distribute some of them as free samples in Covid Hospitals. They also decided to sell it through online portals so that they can provide immediate relief to Covid affected persons and make them able to fight against after effects of this deadly virus.

For this they would be requiring new Machinery and Equipment costing around ₹ 75,00,000. The company decided to utilise their existing free reserves of ₹ 35,00,000 for the same and balance can be raised from public by issuing sufficient number of 9% Debentures at 25% premium. These Debentures were to be redeemed at 30% premium at the end of 5 years. Applications for 60,000 Debentures were received and *pro rata* allotment was made to all the applicants.

Based on the above information, answer the following questions:

A. Number of 9% Debentures that the company shall issue is

1. 40,000.
2. 36,000.
3. 32,000.
4. 28,000.

B. The entry passed in the books of Ayush Organics Limited to allot 9% Debentures is:

1. Debentures Application and Allotment A/c	...Dr.	₹ 75,00,000	
To 9% Debentures A/c			₹ 60,00,000
To Securities Premium A/c			₹ 15,00,000
2. Debentures Application and Allotment A/c	...Dr.	₹ 75,00,000	
Loss on Issue of Debentures A/c	...Dr.	₹ 12,00,000	
To 9% Debentures A/c			₹ 60,00,000
To Securities Premium A/c			₹ 15,00,000
To Premium on Redemption of Debentures A/c			₹ 12,00,000
3. Debentures Application and Allotment A/c	...Dr.	₹ 75,00,000	
To 9% Debentures A/c			₹ 36,00,000
To Securities Premium A/c			₹ 9,00,000
To Bank A/c			₹ 30,00,000
4. Debentures Application and Allotment A/c	...Dr.	₹ 75,00,000	
Loss on Issue of Debentures A/c	...Dr.	₹ 9,60,000	
To 9% Debentures A/c			₹ 32,00,000
To Securities Premium A/c			₹ 8,00,000
To Premium on Redemption of Debentures A/c			₹ 9,60,000
To Bank A/c			₹ 35,00,000

C. At the time of issue of 9% Debentures, Premium Payable on redemption of debentures is accounted at the time of allotment of debentures by _____ due to _____.

1. Crediting Premium on Redemption of Debentures Account; Prudence Concept.
2. Debiting Loss on Issue of Debentures Account; Prudence Concept.
3. Debiting Premium on Redemption of Debentures Account; Prudence Concept.
4. Crediting Loss on Issue of Debentures Account; Prudence Concept.

D. Loss on Issue of Debentures Account is written off by:

1. Securities Premium A/c	...Dr.	₹ 8,00,000	
Statement of Profit & Loss	...Dr.	₹ 1,60,000	
To Loss on Issue of Debentures A/c			₹ 9,60,000
2. Statement of Profit & Loss	...Dr.	₹ 9,60,000	
To Loss on Issue of Debentures A/c			₹ 9,60,000
3. Securities Premium A/c	...Dr.	₹ 8,00,000	
Capital Reserve A/c	...Dr.	₹ 1,60,000	
To Loss on Issue of Debentures A/c			₹ 9,60,000
4. Securities Premium A/c	...Dr.	₹ 3,20,000	
Capital Reserve A/c	...Dr.	₹ 3,20,000	
Statement of Profit & Loss	...Dr.	₹ 3,20,000	
To Loss on Issue of Debentures A/c			₹ 9,60,000

Solution:

- A. 3
- B. 4
- C. 2
- D. 1

Illustration 22.

Reliance Ltd. purchased machinery costing ₹ 1,35,000. It was agreed that the purchase consideration be paid by issuing 9% Debentures of ₹ 100 each. If debentures have been issued (i) at par and (ii) at a discount of 10%. Give necessary Journal entries.

Solution:

In the Books of Reliance Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Machinery A/c ...Dr.		1,35,000	
	To Vendor's A/c (Machinery acquired)			1,35,000
(i)	<i>Issued at Par:</i> Vendor's A/c ...Dr.		1,35,000	
	To 9% Debentures A/c (1,350 × ₹ 100) (1,350 debentures issued and account settled)			1,35,000
(ii)	<i>Issued at a discount:</i> Vendor's A/c ...Dr.		1,35,000	
	Discount on Issue of Debentures A/c ...Dr.		15,000	
	To 9% Debentures A/c (1,500 debentures issued at a discount of 10%)			1,50,000

Working Notes:

$$\text{Number of Debentures Issued} = \frac{\text{Purchase Price}}{\text{Issue Price of Debenture}}$$

$$(i) \quad \text{At Par} = \frac{\text{₹ } 1,35,000}{\text{₹ } 100} = 1,350 \text{ Debentures.}$$

$$(ii) \quad \text{At Discount} = \frac{\text{₹ } 1,35,000}{\text{₹ } 90} = 1,500 \text{ Debentures.}$$

Illustration 23.

Pass necessary Journal entries relating to the issue of debentures for the following:

- Issued ₹ 28,000; 10% Debentures of ₹ 100 each at a premium of 15% redeemable at par.
- Issued ₹ 30,000; 10% Debentures of ₹ 100 each at a premium of 10% and redeemable at a premium of 15%.
- Issued ₹ 80,000; 10% Debentures of ₹ 100 each at par repayable at a premium of 10%.

(CBSE 2012 C)

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Case (a)				
(i)	Bank A/c (₹ 28,000 + 15%) ...Dr. To Debentures Application and Allotment A/c (Debentures application money received)		32,200	32,200
(ii)	Debentures Application and Allotment A/c ...Dr. To 10% Debentures A/c To Securities Premium A/c (₹ 28,000 × 15%) (Issue of ₹ 28,000, 10% Debentures of ₹ 100 each at a premium of 15% and redeemable at par)		32,200	28,000 4,200
Case (b)				
(i)	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Debentures application money received)		33,000	33,000
(ii)	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c (₹ 30,000 × 15%) ...Dr. To 10% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (₹ 30,000 Debentures issued at a premium of 10% and redeemable at a premium of 15%)		33,000 4,500	30,000 3,000 4,500
Case (c)				
(i)	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Debentures application money received)		80,000	80,000
(ii)	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c (₹ 80,000 × 10%) ...Dr. To 10% Debentures A/c To Premium on Redemption of Debentures A/c (Issue of ₹ 80,000, 10% Debentures of ₹ 100 each at par redeemable at a premium of 10%)		80,000 8,000	80,000 8,000

Illustration 24.

Pass necessary Journal entries for the issue of debentures in the following cases:

- (a) ₹ 40,000; 12% Debentures of ₹ 100 each issued at a premium of 5% redeemable at par.
 (b) ₹ 70,000; 12% Debentures of ₹ 100 each issued at a premium of 5% redeemable at ₹ 110.

(CBSE 2013)

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(a)	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Application money received on 400 debentures)		42,000	42,000
	Debentures Application and Allotment A/c ...Dr. To 12% Debentures A/c To Securities Premium A/c (5% of ₹ 40,000) (Issue of 400 debentures at a premium of 5%, redeemable at par)		42,000	40,000 2,000
(b)	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Money received on 700 debentures)		73,500	73,500
	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr.		73,500 7,000	
	To 12% Debentures A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (12% Debentures issued at 5% premium and redeemable at 10% premium)			70,000 3,500 7,000

Illustration 25.

On 1st April, 2023, Mathew Ltd. issued 10,000, 9% Debentures of ₹ 100 each at a discount of 5%, redeemable at a premium of 5%. These debentures were redeemable as follows:

- On 31st March, 2024 2,000 Debentures;
 On 31st March, 2025 5,000 Debentures;
 On 31st March, 2026 3,000 Debentures.

Prepare the Loss on Issue of Debentures Account, 9% Debentures Account and Premium on Redemption of Debentures Account for three years.

Solution:

Dr.		LOSS ON ISSUE OF DEBENTURES ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2023			2024			
April 1	To 9% Debentures A/c To Premium on Red. of Deb. A/c	50,000 50,000	March 31	By Statement of Profit & Loss	1,00,000	
		1,00,000			1,00,000	

Dr.		9% DEBENTURES ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2024			2023			
March 31	To Debentureholders' A/c	2,00,000	April 1	By Debentures Application and Allotment A/c	9,50,000	
March 31	To Balance c/d	8,00,000	April 1	By Loss on Issue of Debentures A/c	50,000	
		10,00,000			10,00,000	
2025			2024			
March 31	To Debentureholders' A/c	5,00,000	April 1	By Balance b/d	8,00,000	
March 31	To Balance c/d	3,00,000			8,00,000	
		8,00,000			8,00,000	
2026			2025			
March 31	To Debentureholders' A/c	3,00,000	April 1	By Balance b/d	3,00,000	
					3,00,000	

Dr.		PREMIUM ON REDEMPTION OF DEBENTURES ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2024			2023			
March 31	To Debentureholders' A/c	10,000	April 1	By Loss on Issue of Debentures A/c	50,000	
March 31	To Balance c/d	40,000			50,000	
		50,000			50,000	
2025			2024			
March 31	To Debentureholders' A/c	25,000	April 1	By Balance b/d	40,000	
March 31	To Balance c/d	15,000			40,000	
		40,000			40,000	
2026			2025			
March 31	To Debentureholders' A/c	15,000	April 1	By Balance b/d	15,000	
					15,000	

Illustration 26 (Issue of Debentures to Vendor at Premium with Part Payment by cheque).

Vayee Ltd. purchased the following assets of E.X. Ltd.:

Land and Building of ₹ 60,00,000 at ₹ 84,00,000; Plant and Machinery of ₹ 40,00,000 at ₹ 36,00,000.

The purchase consideration was ₹ 1,10,00,000. Payment was made by issuing a cheque in favour of E.X. Ltd. of ₹ 20,00,000 and remaining by issue of 8% Debentures of ₹ 100 each at a premium of 20%.

Record the necessary Journal entries for the above transactions in the books of Vayee Ltd.

(CBSE 2020, Modified)

Solution: JOURNAL OF VAYEE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Land and Building A/c	...Dr.	84,00,000	
	Plant and Machinery A/c	...Dr.	36,00,000	
	To E.X. Ltd.			1,10,00,000
	To Capital Reserve A/c (Balancing Figure)			10,00,000
	(Assets taken over from E.X. Ltd.)			

E.X. Ltd.	...Dr.	1,10,00,000	
To Bank A/c			20,00,000
To 8% Debentures A/c (WN)			75,00,000
To Securities Premium A/c			15,00,000
(Purchase consideration discharged by issuing 8% Debentures at a premium and a Bill Payable)			

Working Note: Number of Debentures to be Issued = $\frac{₹ 1,10,00,000 - ₹ 20,00,000}{₹ 120} = 75,000$ Debentures.

Illustration 27 (Issue of Debentures to Vendors at Premium with Part Payment in Cash).

Rocky Ltd. purchased building for ₹ 22,00,000. Half the payment was made by cheque and the balance half by issue of 9% Debentures of ₹ 100 each at a premium of 10%.

Pass necessary Journal entries.

Solution:

JOURNAL OF ROCKY LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Building A/c ...Dr.		22,00,000	
	To Vendor's A/c (Building purchased)			22,00,000
	Vendor's A/c ...Dr.		11,00,000	
	To Bank A/c (Half payment made by cheque)			11,00,000
	Vendor's A/c ...Dr.		11,00,000	
	To 9% Debentures A/c (WN)			10,00,000
	To Securities Premium A/c			1,00,000
	(Balance payment made by issue of 10,000; 9% Debentures at 10% premium)			

Working Note: Number of Debentures Issued = $\frac{₹ 22,00,000 - ₹ 11,00,000}{₹ 110} = 10,000$ Debentures.