



CHAPTER - 08

ISSUE OF DEBENTURES

Meaning of Debenture: The term, 'debenture' has been derived from the Latin word "debre" which means "to borrow". Thus, it is a written document acknowledging a debt under the common seal of the company and containing a contract for the repayment of the principal sum at a specified date and for the payment of interest (usually half-yearly) at a fixed rate percent until the principal sum is repaid.

→ "Debenture includes debenture stock, bonds and any other securities of a company whether constituting a charge on the assets of the company or not."- Section 2(30) of the Companies Act, 2013

Characteristics or features of debentures:

1. A debenture is issued by a company in the form of certificate, which is a written acknowledgement of debt taken by the company.
2. A debenture is issued under the seal of the company.
3. It contains a contract for the repayment of principal sum at a specified date.
4. As per Companies Act, 2013 no company is allowed to issue debentures having a maturity date of more than 10 years from the date of issue. However, a company engaged in infrastructure projects can issue debentures for more than 10 years but not exceeding 30 years.
5. Usually the debenture are issued with a specified rate of interest, which is called 'Coupon Rate'. A debenture holder receives interest on his debentures at the specified rate, as mentioned in the certificate. Payment of interest is made, normally after every six months, whether the company makes profit or not.

6. A company is generally secured by a charge on the assets of the company. This means that if the company is unable to repay the debentures as per terms of issue, the debenture holder can move the court and realise the money by getting the assets of the company sold.
7. Funds raised by the issue of debentures are of long term nature and usually the debentures are repaid after a long period, such as eight years, ten years. As such, the loan raised by issue of debentures is called 'Loan Capital'.

Difference Between Share and Debenture:

Basis of Distinction	Share	Debenture
Capital vs Loan	A share is part of the capital of the company, therefore, the shareholders are the owners of the company.	A debenture is a part of the loan and as such, the debenture holders are the creditors of the company.
Dividend vs Interest	A shareholder gets dividend from the company.	A debenture holder gets interest from the company.
Fluctuating or Fixed rate of dividend or interest	Dividend is paid only if there are profits. The rate of dividend may fluctuate from year to year depending upon the profits earned by the company.	The rate of interest is fixed and it must be paid irrespective of the company making a profit or loss.

Voluntary or Compulsory Redemption	It is at option of the company to return the amount of shares by buying back to its shares.	The amount of debentures must be returned according to the terms of the issue.
Priority of repayment of principal in case of winding up	In case of winding up, the payment of share capital is made after the repayment of debentures.	In case of winding up, the payment of debentures is made before the payment of share capital.
Unsecured or Secured	A share is always unsecured. Hence, they bear more risk	Debentures are usually secured on the assets of the company. Hence they bear little risk.
Restriction on issue at discount	Under Section 53 of the Companies Act, 2013 shares cannot be issued at discount except sweat equity shares.	There are no restriction on the issue of debentures at discount.
Voting rights	Share confers on its holder the right to participate in and vote at Company's meetings.	A holder of debentures neither possesses any voting right in the company's meetings nor can he participate in meetings

Types of Debentures:

- (a) **Secured/Mortgage Debentures:** These debentures are those which are secured either on particular assets of the Company called fixed charge or on all assets of the Company in general, called a floating charge. Fixed charge denies the Company from dealing with mortgaged assets, whereas the floating charge does not prevent the Company from using the assets. If the Company is unable to repay the debentures on the due date, the debenture holders can realise their money from the assets mortgaged with them. First mortgage debentures are those that have a first claim on the assets charged and second mortgage debentures are those having a second claim on the assets charged. In India, debentures have necessarily to be secured.
- (b) **Unsecured/Naked Debentures:** Unsecured Debentures do not have a specific charge on the assets of the company. The holders of these debentures are treated as unsecured creditors at the time of liquidation of the company.
- (c) **Registered Debentures:** Names and addresses of the holders of such debentures are recorded in Registrar of

the company called "Register of Debentureholders". Such debentures are not freely transferable. The transfer of such debentures requires the execution of a proper transfer deed. Principal amount and interest on such a debenture is paid to the person whose name appears in the company's register.

- (d) **Redeemable Debentures:** Redeemable debentures are those that will be repaid by the company either in lump sum at the end of a specific period or by instalments during the lifetime of the company. Most of the debentures are generally of this type.
- (e) **Irredeemable /Perpetual Debentures:** Irredeemable debentures are those that are not repayable during the lifetime of the company. These debentures are repayable only at the time of liquidation of the company.
- (f) **Convertible Debentures:** Convertible debentures are those the holder of which is given an option of exchanging the amount of their debenture for equity shares after a specified period. When only a part of amount of debentures is convertible into shares, such debentures are called 'Partly convertible debentures. When the full amount of debenture is convertible into shares, such shares are called 'Fully Convertible Debentures'
- (g) **Bearer Debentures:** Names and addresses of the holders of such debentures are not recorded in the Company and these debentures are repayable by mere delivery. Payments of principal and interest is made to bearer of such debentures. Coupons are attached with these debentures and the interest is paid to such persons who produce the coupons in the specified bank.

Bonds:

It is very much similar to that of debenture. Main distinction between Debenture and Bond is with respect to the rate of interest. Debentures are issued with a fixed rate of interest whereas bonds can be issued without pre-determined rate of interest as in case of deep discount bonds or zero coupon bonds. A deep discount bond or zero coupon bond is one which is issued without prefixed rate of interest and its issue price is heavily discounted. The difference between issue price and the redemption price represents the total interest charged to Statement of Profit and Loss every year over the life time of bond.

Issue of Debentures: Debentures can be issued at par, at a premium, or at a discount. They can also be issued for consideration other than cash or as Collateral Security. Accounting treatment regarding the issue of debenture is done in the same manner as in the case of the issue of share. The only difference is that 'Debenture' in place of 'Share' and 'Debenture A/c' in place of 'Share Capital A/c' is substituted.

Issue of Debentures at Par: Debentures are said to have been issued at par when the issue price is equal to their face value.

Following entries will be passed on the issue of debentures (assuming that the debentures carry 11% interest).

1. On receipt of application money:

Bank A/c Dr.
 To 11% Debenture Application A/c
(Application Money received)

2. On transfer of application money to Debenture Account:

11% Debenture Application A/c Dr.
 To 11% Debentures A/c
(Application money transferred)

3. On refund of money on totally rejected applications:

11% Debenture Application A/c Dr.
 To Bank A/c
(Application money returned on rejected application)

4. On transfer of surplus application money on partially accepted applications:

11% Debenture Application A/c Dr.
 To Debenture Allotment A/c

5. On making allotment money due:

11% Debenture Allotment A/c Dr.
 To 11% Debentures A/c

6. On receipt of allotment money:

Bank A/c Dr.
 To 11% Debenture Allotment A/c

7. On making the call money due:

11% Debenture First Call A/c Dr.
 To 11% Debentures A/c
(First call money due)

8. On receipt of call money:

Bank A/c Dr.
 To 11% Debenture First Call A/c
(First call money received)

Similar entries like can be made for the second call and final call.

Issue of Debentures at Premium

When the debentures are issued at more than their face value, they are said to have been issued at premium. For example, if a debenture of ₹100 is issued as ₹110, ₹10 is the premium. The premium received is a capital profit and should, therefore, be used in writing off the capital losses, such as discount on issue of shares and debentures, premium on redemption of debentures etc.

Accounting Treatment:

On Issue of Debenture at Premium

Debenture Allotment A/c Dr.
 To Debentures A/c
 To Securities Premium A/c

Issue of Debentures at a Discount: When the debentures are issued at less than the face value, it is said to be issued at

discount. It is a capital loss and should be written off in the year it occurs. It can be written off by debiting to Securities Premium Reserve Account or from Capital Reserve Account or Statement of Profit and Loss in that order. Following entry is passed for writing off discount or loss on issue of debentures:

Securities Premium A/c Dr.

OR

Capital Reserve A/c Dr.

OR

Statement of Profit and Loss Dr.

 To Discount on issue of Debentures A/c

Discount is generally recorded at the time of allotment entry.

Over Subscription: When the number of debentures applied for is more than the number of debentures offered to the public, the issue is said to be oversubscribed. The excess money received on oversubscription may be retained for adjustment towards allotment and respective calls when the amount is payable in Instalments or excess money will be refunded.

Issue of Debentures for Consideration Other than Cash:

When the company purchases some assets (including services) and instead of making the payment to the supplier in the form of cash, issues its fully paid debentures, such issue of debentures is called the Issue of Debentures for Consideration Other than Cash. Such debentures can be issued at par, a premium, or at a discount.

Following entries will be passed for this purpose:

1. On purchase of assets:

Assets A/c Dr.
 To Vendor's A/c

2. For issue of debentures to vendor at par:

Vendor's A/c Dr.
 To Debentures A/c

3. For issue of debentures to vendor at premium:

Vendor's A/c Dr.
 To Debentures A/c
 To Securities Premium Reserve A/c

4. For issue of debentures to vendor at discount:

Vendor's A/c Dr.
Discount on Issue of Debentures A/c Dr.
 To Debentures A/c

If the purchase consideration is greater than the value of the net assets acquired (i.e., the difference between the agreed value of the assets taken over and the agreed value of liabilities taken over), the difference is treated as a capital loss which should be debited to Goodwill A/c.

Sundry Assets A/c Dr.

Goodwill A/c Dr.

 To Sundry Liabilities A/c

 To Vendor's A/c

Or

If the amount of the purchase consideration is lower than the value of the net assets acquired, the difference is

treated as a capital profit which should be credited to Capital Reserve A/c.

Sundry Assets A/c Dr.

To Sundry Liabilities A/c

To Vendor's A/c

To Capital Reserve A/c

Issue of Debentures as Collateral Security: When a company takes a loan from a bank or any other party and gives some additional security in the shape of debentures, the debentures are said to be issued as collateral security. In such a case, the lender has the absolute right over the debentures unless and until the loan is repaid. On repayment of the loan, the lender is legally bound to release the debenture forthwith. In case the loan is not repaid by the company on the due date, the lender has the right to retain these debentures and realize them. The holder of such debentures is entitled to interest only on the amount of loan, but not on the debentures.

Debentures issued as collateral security can be dealt with in two ways in the books.

1. First Method: No accounting entry is required to be shown in the books at the time of issue of such debentures, as no debentures are not actually issued, but only given as collateral security. As such, under this method entry is passed only for taking a loan. If loan is taken from Bank, the entry will be :

Bank A/c Dr.

To Bank Loan A/c

2. Second Method: If it is desired that such an issue of debentures is to be recorded in the books, the following entries are recorded:

(a) On the issue of Debentures as Collateral Security

Debentures Suspense A/c Dr.

To Debentures A/c

(b) On repayment of the loan

Debentures A/c Dr.

To Debentures Suspense A/c

Accounting for Issue of Debentures Considering the terms and Conditions of Redemption

1. When debentures are issued at par and are redeemable at par: For Example, if a debenture of ₹100 is issued at ₹100 and is redeemable at ₹100, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c Dr.	100		Debentures A/c Dr.	100	
To Debenture Application & Allotment A/c		100	To Debentureholders A/c		100
Debenture Application & Allotment A/c Dr.	100		Debentureholders A/c Dr.	100	
To Debentures A/c		100	To Bank A/c		100

2. When debentures are issued at a discount and are redeemable at par: For example, if a debenture of ₹100 is issued at Rs 95 and is redeemable at ₹100, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c Dr.	95		Debentures A/c Dr.	100	
To Debenture Application & Allotment A/c		95	To Debentureholders A/c		100
Debenture Application & Allotment A/c Dr.	95		Debentureholders A/c Dr.	100	
Discount on Issue of Debentures A/c Dr.	5		To Bank A/c		100
To Debentures A/c		100			

3. When debentures are issued at a premium and are redeemable at par : For example, if a debenture of ₹100 is issued at Rs 105 and is redeemable at ₹100, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c Dr.	105		Debentures A/c Dr.	100	
To Debenture Application & Allotment A/c		105	To Debentureholders A/c		100
Debenture Application & Allotment A/c Dr.	105		Debentureholders A/c Dr.	100	
To Debentures A/c		100	To Bank A/c		100
To Securities Premium Reserve A/c		5			

4. **When debentures are issued at par and are redeemable at a premium:** Sometimes the debentures are issued with the specific condition that the Company will pay a premium at the time of their redemption. Although, such premium will be paid at the time of actual redemption, but as it is a known loss, the Company records such loss at the time of issue by debiting an account called, "Loss on issue of debentures A/c". It is done in keeping with the convention of conservatism. For example, if a debenture of ₹100 is issued at ₹100 and is redeemable at ₹105, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c Dr.	100		Debentures A/c Dr.	100	
To Debenture Application & Allotment A/c		100	Premium on Redemption of Debenture A/c Dr.	5	
			To Debentureholders A/c		105
Debenture Application & Allotment A/c Dr.	100		Debentureholders A/c Dr.	105	
Loss on Issue of Debentures A/c Dr.	5		To Bank A/c		105
To Debentures A/c		100			
To Premium on Redemption of Debentures A/c		5			

5. **When debentures are issued at a discount and are redeemable at a premium:** For example, if a debenture of ₹100 is issued at ₹98 and is redeemable at ₹105, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c Dr.	98		Debentures A/c Dr.	100	
To Debenture Application & Allotment A/c		98	Premium on Redemption of Debentures A/c Dr.	5	
			To Debentureholders A/c		105
Debenture Application & Allotment A/c Dr.	98		Debentureholders A/c Dr.	105	
Loss on Issue of Debentures A/c	7		To Bank A/c		105
To Debentures A/c		100			
To Premium on redemption of Debentures A/c		5			

6. **When debentures are issued at a premium and are redeemable at a premium:** For example, if a debenture of ₹100 is issued at ₹106 and is redeemable at ₹110, the following entries will be passed:

Entries for Issue:			Entries for Redemption:		
Bank A/c Dr.	106		Debentures A/c Dr.	100	
To Debenture Application & Allotment A/c		106	Premium on Redemption of Debentures A/c Dr.	10	
			To Debentureholders A/c		110
Debenture Application & Allotment A/c Dr.	106		Debentureholders A/c Dr.	110	
Loss on Issue of Debentures A/c	10		To Bank A/c		110
To Debentures A/c		100			
To Premium on redemption of Debentures A/c		10			
To Securities Premium Reserve A/c		6			

Interest on Debentures: Interest on debentures is usually paid half-yearly. It is a charge against the profits of the company and is payable irrespective of the fact whether there are profits or not. It is calculated on the face value of the debenture. The rate of interest payable on debentures is prefixed on debentures. While preparing the final accounts for an accounting period, provision must be made for any accrued interest on the very date of preparing the Balance Sheet. Accrued Interest may of two types:

- 1. Interest Accrued and Due:** If a company pays interest on debentures half-yearly on 30th June and 31st December, while preparing the balance sheet as on 31st March, 2020, the interest for the period ending 31st December, 2019 remains unpaid, it will be called 'Interest Accrued and Due'.
- 2. Interest Accrued but not Due:** If a company pays interest on debentures half-yearly on 30th June and 31st December, while preparing the Balance Sheet on 31st March, 2020, the interest for the period from 1st January, 2018 to 31st March, 2019 will be called 'Interest accrued but not due'.

Both the types of interest as discussed above, will be shown in the Current Liabilities in the Balance Sheet.

Following Entries are passed for interest on debentures:

(i) When Interest is due:

Interest on Debentures A/c Dr.
To Debentureholders A/c
(Interest due to debentureholder)

(ii) When interest is paid to the debenture holders:

Debenture holder A/c Dr.
To Bank A/c
(Payment of interest)

(iii) On Closing of Debenture Interest A/c

Statement of Profit and Loss Dr.
To Debenture Interest A/c
(Interest transferred to Statement of Profit and Loss)

Solved Examples

Q1. Ram Ltd. issued 5,000, 12% Debentures of ₹100 each, at par, payable as follows:

On Application ₹20; On Allotment ₹20; On First Call ₹30; and On Final Call ₹30.

Public applied for 6,000 debentures. Applications for 4,500 debentures were accepted in full. Applications for 800 debentures were allotted 500 debentures and applications for 700 debentures were rejected. Money overpaid on applications was utilised towards allotment.

Pass journal entries assuming that all moneys due were duly received, except final call on 200 debentures.

Solution:

JOURNAL OF RAM LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application A/c (Application money received on 6,000 debentures @ ₹20 each)		1,20,000	1,20,000
	12% Debenture Application A/c Dr. To 12% Debentures A/c To 12% Debenture Allotment A/c To Bank A/c (Application money transferred)		1,20,000	1,00,000 6,000 14,000
	12% Debenture Allotment A/c Dr. To 12% Debentures A/c (Allotment money due on 5,000 debentures @ ₹20 each)		1,00,000	1,00,000
	Bank A/c Dr. To 12% Debenture Allotment A/c (Balance of allotment money received, i.e., ₹1,00,000 - ₹6,000)		94,000	94,000
	12% Debenture First Call A/c Dr. To 12% Debentures A/c		1,50,000	1,50,000

(First Call due)			
Bank A/c Dr. To 12% Debenture First Call A/c (First Call money received)		1,50,000	1,50,000
12% Debenture Second & Final Call A/c Dr. To 12% Debentures A/c (Second & Final Call due)		1,50,000	1,50,000
Bank A/c Dr. To 12% Debenture Second & Final Call A/c (Second & Final Call money received on 4,800 Debentures @ ₹30 per Debenture)		1,44,000	1,44,000

- Q2.** Sagar Chemicals Ltd. of Jalandhar issued 1,00,00,000, 10% Debentures of ₹ 100 each at a premium of 10% payable as ₹40 on application and ₹70 on allotment. Debentures are redeemable on March 31, 2010. Record necessary entries to record issue of debentures assuming that the issue is fully subscribed and all the money due is received.

Solution:

JOURNAL OF SAGAR CHEMICALS LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 10% Debenture Application A/c (Application money received)		40,00,00,000	40,00,00,000
	10% Debenture Application A/c Dr. To 10% Debentures A/c (Application money transferred to 10% Debentures account consequent upon allotment)		40,00,00,000	40,00,00,000
	10% Debenture Allotment A/c Dr. To 10% Debentures A/c To Securities Premium Reserve A/c (Allotment due)		70,00,00,000	60,00,00,000 10,00,00,000
	Bank A/c Dr. To 10% Debenture Allotment A/c (Allotment money received)		70,00,00,000	70,00,00,000

- Q3.** Mega Ltd. issued 2,500, 15% Debentures of ₹100 each at a discount of 10% payable as follows: ₹25 on application; ₹25 on allotment and the balance on First Call. Applications were received for 2,000 debentures and the allotment was made. All the moneys were duly received. Expenses on issue of debentures amounted to ₹8,000. Company decided to write off all the capital losses in the first year itself.
Pass journal entries (for first year only).

Solution:

JOURNAL OF MEGA LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 15% Debenture Application A/c (Application money received for 2,000 debentures @ ₹25 each)		50,000	50,000
	15% Debenture Application A/c Dr. To 15% Debentures A/c (Application money transferred)		50,000	50,000
	15% Debenture Allotment A/c Dr. Discount on Debentures A/c Dr. To 15% Debentures A/c (Allotment due)		50,000 20,000	70,000
	Bank A/c Dr. To 15% Debentures Allotment A/c (Amount received on allotment)		50,000	50,000

15% Debentures First & Final Call A/c To 15% Debentures A/c (First & Final Call due)	Dr.	80,000	80,000
Bank A/c To 15% Debentures First & Final Call A/c (Amount received on First & Final Call)	Dr.	80,000	80,000
Expenses on Issue A/c To Bank A/c (Expenses paid on issue of debentures)	Dr.	8,000	8,000
Statement of Profit & Loss To Discount on Debentures A/c To Expenses on Issue A/c (Discount on issue of debentures and expenses on issue written off)	Dr.	28,000	20,000 8,000

It should be noted that in case, the full amount of a debenture is received in one instalment, the amount should be credited to 'Debenture Application & Allotment A/c', instead of 'Debenture Application A/c'.

- Q4.** A company purchased assets of the book value of ₹99,000 from another Co. It was agreed that the purchase consideration be paid by issuing 11% Debentures of ₹100 each. Assume that the debentures have been issued (i) at par, (ii) at a discount of 10%, and (iii) at a premium of 10%.
Give necessary journal entries in the books of purchasing company.

Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c To Vendor's A/c (Assets purchased)		99,000	99,000
(1)	When Debentures are issued at par: Vendor's A/c To 11% Debentures A/c (Issue of debentures at par)		99,000	99,000
(2)	When Debentures are issued at Discount: Vendor's A/c Discount on Issue of Debentures A/c To 11% Debentures A/c (Issue of 1,100 debentures of ₹100 each at 10% discount) Calculated as follows: $\frac{99,000}{90} = 1,100$ debentures	Dr. Dr.	99,000 11,000	1,10,000
(3)	When debentures are issued at premium: Vendor's A/c To 11% Debentures A/c To Securities Premium Reserve A/c (Issue of 900 debentures of ₹100 each at 10% each at 10% premium,) Calculated as follows: $\frac{99,000}{110} = 900$ debentures	Dr.	99,000	90,000 9,000

- Q5.** A Company had ₹10,00,000, 12% Debentures outstanding as on 1st April, 2017. During the year company took a loan of ₹2,00,000 from the State Bank of India for which the Company placed with the bank debentures for ₹2,50,000 as Collateral Security. Pass journal entries, if any. Also show how the Debentures and Bank Loan will appear in the Company's Balance Sheet as at 31st March, 2018.

Solution:

First Method: No entry is passed for the issue of debentures in this method. Entry is passed only for taking a loan from the bank, as under:

Bank A/c	Dr.	2,00,000	
To Bank Loan A/c			2,00,000

(Loan taken from the Bank and ₹2,50,000 debentures deposited as collateral security)

EXTRACT OF BALANCE SHEET
as at 31st March, 2018

Particulars	Note No.	31 st March, 2018	31 st March, 2017
I. EQUITY AND LIABILITIES:		₹	₹
Non-Current Liabilities:			
Long-term Borrowings	1	12,00,000	10,00,000

Notes to Accounts:

	₹
(1) Long-term Borrowings:	
12% Debentures (In addition, Debentures for ₹2,50,000 Have been issued as collateral security)	10,00,000
Bank Loan (On collateral security of Debentures of ₹2,50,000)	2,00,000
	<u>12,00,000</u>

Second Method: Following entries are passed in this method:

1. Bank A/c	Dr.	2,00,000	
To Bank Loan A/c		2,00,000	
(Loan taken from the Bank)			
2. Debentures Suspense A/c	Dr.	2,50,000	
To 12% Debentures A/c			2,50,000
(Issue of ₹2,50,000 debentures as collateral Security to secure a loan of ₹2,00,000 from the Bank)			

EXTRACT OF BALANCE SHEET
as at 31st March, 2018

Particulars	Note No.	31 st March, 2018	31 st March, 2017
I. EQUITY AND LIABILITIES:		₹	₹
Non-Current Liabilities:			
Long-term Borrowings	1	<u>12,00,000</u>	10,00,000

Notes to Accounts:

	₹
(1) Long-term Borrowings:	
12% Debentures 12,50,000	
Less: Debenture Suspense A/c (2,50,000)	10,00,000
Bank Loan (On collateral security of Debentures of ₹2,50,000)	<u>2,00,000</u>
	<u>12,00,000</u>

- Q6.** Give journal entries for the issue of debentures in the following conditions.
- Issued 2,000, 12% debentures of ₹100 each at par, redeemable also at par.
 - Issued 2,000, 12% debentures of ₹100 each at a discount of 2%, redeemable at par.
 - Issued 2,000, 12% debentures of ₹100 each at a premium of 5%, redeemable at par.
 - Issued 2,000, 12% debentures of ₹100 each at par but redeemable at 5% premium.
 - Issued 2,000, 12% debentures of ₹100 each at a discount of 2%, redeemable at a premium of 5%.
 - Issued 2,000, 12% debentures of ₹100 each at a premium of 5%, redeemable at a premium of 10%.

Solution:

I. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.		2,00,000	
	To 12% Debenture Application & Allotment A/c (Application money received)			2,00,000
	12% Debenture Application & Allotment A/c Dr.		2,00,000	
	To 12% Debentures A/c (Transfer of application money to Debentures Account, issue at par)			2,00,000

II. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application & Allotment A/c (Application money received)		1,96,000	1,96,000
	12% Debenture Application & Allotment A/c Dr. Discount on issue of Debentures A/c Dr. To 12% Debentures A/c (Transfer of application money to Debentures Account, issued at a discount of 2%)		1,96,000 4,000	2,00,000

III. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application & Allotment A/c (Application money received)		2,10,000	2,10,000
	12% Debenture Application & Allotment A/c Dr. To 12% Debentures A/c To Securities Premium Reserve A/c (Transfer of application money to Debentures Account, issued at a premium of 5%)		2,10,000	2,00,000 10,000

IV. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application & Allotment A/c (Application money received)		2,00,000	2,00,000
	12% Debenture Application & Allotment A/c Dr. Loss on issue of debentures A/c Dr. To 12% Debentures A/c To Premium on Redemption A/c (Transfer of application money to Debentures Account, issued at par, but redeemable at a premium of 5%)		2,00,000 10,000	2,00,000 10,000

V. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application & Allotment A/c (Application money received)		1,96,000	1,96,000
	12% Debenture Application & Allotment A/c Dr. Loss on issue of Debenture A/c ⁽¹⁾ Dr. To 12% Debentures A/c To Premium on Redemption A/c (Transfer of application money to Debentures Account, issued at a discount of 2% and redeemable at a premium of 5%)		1,96,000 14,000	2,00,000 10,000

Note 1: Loss on issue A/c has been debited by ₹14,000 by grouping together the discount on issue ₹4,000 and premium on redemption ₹10,000.

VI. JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c Dr. To 12% Debenture Application & Allotment A/c (Application money received)		2,10,000	2,10,000
	12% Debenture Application & Allotment A/c Dr.		2,10,000	

Loss on issue of debentures A/c	Dr.	20,000	
To 12% Debentures A/c			2,00,000
To Securities Premium Reserve A/c			10,000
To Premium on Redemption A/c			20,000
(Transfer of application money to Debentures Account, issued at a premium of 5% and redeemable at a premium of 10%)			

- Q7.** On 1.4.2015, R.S. Ltd. issued 8,000, 9% redeemable at ₹1,000 each at a discount of 6%, redeemable at a premium of 5% after three years. The company closes its books on 31st March every year. Interest on 9% debentures is payable on 30th September and 31st March every year.

Pass necessary journal entries for the issue of debentures and debenture interest for the year ended 31.3.2016.

Solution:

JOURNAL OF R.S. LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2015 April 1	Bank A/c Dr. To Debenture Application & Allotment A/c (Amount received on Application)		75,20,000	75,20,000
April 1	Debenture Application & 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 (Issue of Debentures at 6% discount and redeemable at 5% premium)		75,20,000 8,80,000	80,00,000 4,00,000
Sept. 30	Interest on Debentures A/c Dr. To Debenture holders A/c (Half Yerly Interest Due on Debentures)		3,60,000	3,60,000
Sept. 30	Debentureholders A/c Dr. To Bank A/c (Payment of interest)		3,60,000	3,60,000
2016 March 31	Interest on Debentures A/c Dr. To Debentureholders A/c (Half-yearly interest due on debentures)		3,60,000	3,60,000
March 31	Debentureholders A/c Dr. To Bank A/c (Payment of interest)		3,60,000	3,60,000
March 31	Statement of Profit & Loss Dr. To Loss on Issue of Debentures A/c To Interest on Debentures A/c (₹3,60,000 + ₹3,60,000) (Loss on issue and Interest transferred to Statement of Profit and Loss)		16,00,000	8,80,000 7,20,000

PRACTICE QUESTIONS

Multiple Choice Questions

- Q1.** The following journal entry appears in the books of X Co. Ltd.
- | | | |
|---|-----|----------|
| Bank A/c | Dr. | 4,75,000 |
| Loss on Issue of Debenture A/c | Dr. | 75,000 |
| To 12% Debentures A/c | | 5,00,000 |
| To Premium on Redemption of Debenture A/c | | 50,000 |
- Debentures have been issued at a discount of:
- 15%
 - 5%
 - 10%
 - 20%
- Q2.** At the time of issue, Debentures Account is:
- credited by the amount received
 - credited by the face value of debentures
 - credited by the issue price of the debentures
 - none of the above.
- Q3.** For recording the issue of debentures as collateral security, the amount of debentures issued is debited to:
- Statement of Profit and Loss
 - Debentures Suspense Account
 - Debentures Account
 - General Reserve Account
- Q4.** X Co Ltd. purchased assets worth ₹28,80,000. It issued debentures of ₹100 each at a discount of 4 per cent in full satisfaction of the purchase consideration. The number of debentures issued to vendor is
- 30,000
 - 28,800
 - 32,000
 - 40,000
- Q5.** Premium received on issue of debentures is credited to:
- Capital Reserve
 - Securities Premium Reserve
 - General Reserve
 - None of these
- Q6.** The discount on issue of debentures is:
- Revenue profit
 - Capital gain
 - Capital loss
 - All of the above
- Q7.** Those debentures in which the holders are given option to partially or fully convert debentures into equity shares after a specified period are known as:
- Registered Debentures
 - Mortgage Debentures
 - Naked Debentures

(d) Convertible Debentures

- Q8.** Debentures which do not carry any specific rate of interest are known as:
- Registered Debentures
 - Zero Coupon Rate Debentures
 - Bearer Debentures
 - First Debentures
- Q9.** If debentures are issued at premium, then they can be redeemed at:
- Par
 - Premium
 - Both (a) and (b)
 - can't be redeemed
- Q10.** Company can utilise premium received on issue of debentures for which purpose?
- Writing-off discount allowed on issue
 - For writing-off preliminary expenses
 - Both (a) and (b)
 - None of the above
- Q11.** 'X' Limited purchased the assets from 'Y' Limited for ₹16,20,000. 'X' Limited issued 10% debentures of ₹10 each at 10% discount against the payment. The number of debentures issued by 'X' Limited will be
- 16,200
 - 18,000
 - 1,80,000
 - 1,62,000
- Q12.** Shashi Ltd. issued 6,000 Debentures of ₹100 each at a premium of ₹10. It will credit Debentures Account by:
- ₹6,60,000
 - ₹6,00,000
 - ₹4,50,000
 - None of these
- Q13.** X Ltd. issued 10,000, 8% debentures of ₹10 each, payable on application and redeemable at par at any time after 6 years. Record the entries for the application money received in the books of X Ltd.
- | | | |
|---|----|----------|
| (a) Bank A/c | Dr | 80,000 |
| To Debenture Application and Allotment A/c | | |
| | | 80,000 |
| (b) Bank A/c | Dr | 1,00,000 |
| To Debenture Application and Allotment A/c | | |
| | | 1,00,000 |
| (c) Debenture Application and Allotment A/c | Dr | 80,000 |
| To 8% Debentures A/c | | |
| | | 80,000 |
- (d) None of the above
- Q14.** Goel Ltd. invited applications for issuing 6,000, 12% debentures of ₹100 each at a premium of ₹50 per debenture. The full amount was payable on

application. Applications were received for 8,000 debentures.

Applications for 2,000 debentures were rejected and application money was refunded. Debentures were allotted to the remaining applicants. Based on the information, pass the journal entry for adjusting the application money received in the books of Goel Ltd.

(a) Bank A/c Dr 10,00,000
To Debenture Application and Allotment A/c 10,00,000

(b) Debenture Application and Allotment A/c Dr 9,00,000
To 12% Debentures A/c 9,00,000

(c) Debenture Application and Allotment A/c Dr 12,00,000
To 12% Debentures A/c 6,00,000
To Securities Premium Reserve A/c 3,00,000
To Bank A/c (2,000 × 150) 3,00,000

(d) None of the above

Q15. A company 'Vansh Ltd.' has purchased an asset costing ₹22,00,000. Vendor issued 10% debentures of ₹ 100 each at 10% premium as consideration against asset purchased. Calculate number of debentures to be issued.

- (a) 26,000 debentures
(b) 24,000 debentures
(c) 20,000 debentures
(d) 22,000 debentures

Q16. A machine was purchased for ₹2,18,500. The Vendor was paid by the issue of 1,900 debentures of ₹100 each at a premium of 15%, to be redeemed at par. The entry for the payment will be:

(a) Machinery A/c Dr 2,18,500
To Vendor's A/c 2,18,500
(b) Vendor's A/c Dr 2,18,500
To 12% Debentures A/c 1,90,000
To Securities Premium Reserve A/c 28,500

(c) Vendor's A/c Dr 2,18,500
To Machinery A/c 2,18,500

(d) 12% Debentures A/c Dr 1,90,000
Securities Premium Reserve A/c Dr 2,18,500
To Vendor's A/c 2,18,500

Q17. Name the sub-head under which the 'premium on redemption of debentures' appears in the balance sheet?

- (a) Shareholders' fund
(b) Long term provisions
(c) Other long-term liabilities
(d) None of the above

Q18. On 1st Oct., 2018 PK Ltd. issued 500, 9% Debentures of ₹500 each at a discount of 4%. Debentures interest for the year ended 31st March, 2019 will be:

- (a) ₹11,250

(b) ₹10,800

(c) ₹22,500

(d) None of these

Q19. Which of the following alternatives are available for the company at the time of oversubscription?

- (i) Pro-rata
(ii) Rejection of excess application

Alternatives

- (a) Only (i)
(b) Only (ii)
(c) Both (a) and (b)
(d) None of these

Q20. A company AB Ltd issued 12% debentures of ₹10,00,000 of ₹ 100 each to public. In the terms of issue, these debentures are redeemable after 10 months ending on 31st January, 2022. These debentures will be shown in balance sheet as on 31st March, 2021 under the heading:

- (a) Long-Term Liability
(b) Current Liability
(c) Fixed Assets
(d) Current Assets

Q21. Which of the following is not a feature of debentures?

- (a) These are written document acknowledging a debt.
(b) The mode and payment of principal and interest is fixed.
(c) Interest on debentures is an appropriation of profit.
(d) They may be secured by way of charge on assets of the company.

Q22. Which of the following is not a characteristic of Bearer Debenture?

- (a) They are treated as negotiable instruments.
(b) Their transfer requires a deed of transfer.
(c) They are transferable by mere delivery.
(d) The interest on it is paid to the holder irrespective of identity.

Q23. Loss on debentures arises when:

- (a) Debentures are issued at par and redeemable at premium
(b) Debentures are issued at premium and redeemable at par
(c) Debentures are issued at par and redeemable at par
(d) All of these

Q24. Debentures which are transferred by executing transfer deed are:

- (a) Registered Debentures
(b) Bearer Debentures
(c) Naked Debentures
(d) Convertible Debentures

Q25. Premium on redemption of debentures is a:

- (a) Personal A/c
(b) Real A/c
(c) Nominal A/c
(d) Suspense A/c

- Q26.** Debentures which are transferred by mere delivery are:
 (a) Registered Debentures
 (b) Bearer Debentures
 (c) First Debentures
 (d) Irredeemable Debentures
- Q27.** On 1st April, 2017, Mehta Ltd. issued 5,000, 8% debentures of ₹100 each at a discount of 5%. What will be total amount of interest for the year ending 31st March, 2018?
 (a) ₹38,000
 (b) ₹42,000
 (c) ₹40,000
 (d) ₹25,000
- Q28.** Debenture holders are:
 (a) Owners of the Company
 (b) Debtors of the Company
 (c) Creditors of the Company
 (d) Promoters of the Company
- Q29.** Debentures represent the:
 (a) Long-term Borrowings of a Company
 (b) The Investment of Equity-Shareholders
 (c) Directors' shares in a company
 (d) Short-term Borrowings of a Company
- Q30.** Which of the following is false?
 (a) A company can issue redeemable debentures
 (b) A company can issue debentures with voting rights
 (c) A company can buy its own shares
 (d) A company can buy its own debentures
- Q31.** A debenture holder is entitled to:
 (a) Fixed dividend
 (b) Share in profits
 (c) Voting rights in the company
 (d) Interest at the fixed rate
- Q32.** Rate of interest on debentures is:
 (a) 12% p.a.
 (b) 20% p.a.
 (c) Fixed Rate
 (d) 15% p.a.
- Q33.** AB Ltd. purchased assets worth ₹6,80,000 and took over liabilities of ₹80,000. It was agreed to pay the purchase price of ₹6,40,000, of which ₹2,00,000 was to be paid in cash and rest through issue of debentures of face value ₹100 at 10% premium. Calculate the number of debentures issued.
 (a) 4,000
 (b) 4,500
 (c) 3,800
 (d) 4,200
- Q34.** Which of the following statements is false?
 (a) At maturity, debenture holders get back their money.
 (b) Debentures can be forfeited for non-payment of call money.
 (c) In Company's Balance sheet, debentures are shown under the head Long term borrowings.
 (d) Interest on debentures is a charge against profits.
- Q35.** Debentures of a company can be issued at:
 (a) For Cash
 (b) As a Collateral Security
 (c) For Consideration other than Cash
 (d) Any of the above
- Q36.** If Debentures of ₹4,50,000 are issued for the consideration of net assets of ₹5,00,000 balance ₹50,000 will be credited to:
 (a) Profit & Loss A/c
 (b) Goodwill A/c
 (c) General Reserve A/c
 (d) Capital Reserve A/c
- Q37.** Loss on issue of debentures would be written-off out of
 (i) securities premium reserve
 (ii) capital reserve
 (iii) Statement of Profit and Loss
 (a) Only (i)
 (b) (i) and (ii)
 (c) (ii) and (iii)
 (d) (i), (ii) and (iii)
- Q38.** Which group of securities has voting rights in a company?
 (a) Shareholders
 (b) Debentureholders
 (c) Both shareholders and debentureholders
 (d) Neither shareholders nor debentureholders
- Q39.** What is the primary characteristic of Secured Debentures?
 (a) They do not require any charge on the company's assets.
 (b) They have a fixed charge on specific company assets.
 (c) They are not meant to be issued by companies.
 (d) None of the above
- Q40.** What is the primary difference between fixed and floating charges?
 (a) Fixed charges involve general assets, while floating charges are specific to certain assets.
 (b) Fixed charges are only created in case of unsecured debentures, while floating charges are for secured debentures.
 (c) Fixed charges are specific to certain assets, while floating charges involve all assets of the company in general.
 (d) None of the above
- Q41.** Narain Laxmi Ltd. invited applications for issuing 7,500, 12% debentures of ₹100 each at a premium of

₹35 per debenture. The full amount was payable on application.

Applications were received for 10,000 debentures. Applications for 2,500 debentures were rejected and the application money was refunded. Debentures were allotted to the remaining applicants.

What is the amount transferred to SPR?

- (a) ₹3,37,500
- (b) ₹2,62,500
- (c) ₹1,35,000
- (d) None of the above

Q42. X Ltd. invited applications for issuing 500, 12% debentures of ₹100 each at a discount of 5%. These debentures were redeemable after three years at par. Applications for 600 debentures were received. Pro-rata allotment was made to all the applicants. What amount is refunded back to applicants?

- (a) ₹2,500
- (b) ₹2,000
- (c) ₹9,500
- (d) None of the above

Q43. Deepak Ltd. purchased furniture of ₹2,20,000 from M/S Furniture Mart. 50% of the amount was paid to Furniture Mart by accepting a bill of exchange and for the balance, company issued 9% debentures of ₹100 each at a premium of 10% in favour of Furniture Mart.

How many debentures are issued for such purchase and What is the amount of securities premium reserve created?

- (a) 1,000, ₹10,000
- (b) 1,100, ₹10,000
- (c) 1,000, ₹11,000
- (d) None of the above

Q44. Nano Ltd. purchased assets of Dow Ltd. for ₹3,00,000. It also agreed to take over the liabilities of Dow Ltd. amounting to ₹50,000 for a purchase consideration of ₹2,75,000. The payment to Dow Ltd. was made by issue of 8% Debentures of ₹50 each at a premium of 10%. What amount will be transferred to 8% Debenture A/c?

- (a) ₹2,75,000
- (b) ₹2,50,000
- (c) ₹25,000
- (d) ₹2,25,000

Q45. What is the primary purpose of collateral security in the context of obtaining a loan?

- (a) It serves as the main security against the loan.
- (b) It acts as a secondary security to supplement the primary security.
- (c) It is a financial institution's own asset pledged for the loan.
- (d) It is an additional interest payment required by the lender.

Q46. What happens if the realizable value of the primary security does not cover the entire loan amount?

(a) The lender must forgive the remaining loan amount.

(b) The collateral security is automatically sold.

(c) The lender can invoke the collateral security to cover the shortfall.

(d) The company must issue additional shares.

Q47. In the balance sheet, where is the information about the debentures issued as collateral security typically presented?

- (a) In the Assets side of Balance Sheet.
- (b) In Notes to Accounts.
- (c) In the Liabilities side of Balance Sheet.
- (d) In the Income Statement.

Q48. What can be the possible treatment of debentures issued at collateral security in books of accounts.

- (a) Debited to Debenture Suspense Account
- (b) No entry is made
- (c) Either (a) or (b)
- (d) None of the above

Q49. A company took a loan of ₹10,00,000 from Punjab National Bank and issued 10% debentures of ₹12,00,000 of ₹100 each as a collateral security. What amount will be debited to the Debenture Suspense Account?

- (a) ₹1,20,00,000
- (b) ₹1,00,000
- (c) ₹10,00,000
- (d) ₹12,00,000

Q50. When debentures are issued at a discount and are redeemable at a premium, with which amount Loss on Issue of Debentures Account will be debited?

- (a) Amount of Discount of Issue
- (b) Amount of Premium on Redemption
- (c) Amount of Premium on Redemption + Amount of Discount on issue
- (d) None of the above.

Q51. A company issued debentures of ₹1,00,000, 9% debentures of ₹100 each at par but repayable at a premium of 5%. What amount will be debited to Loss on Issue of Debentures Account?

- (a) ₹1,00,000
- (b) ₹1,05,000
- (c) ₹5,000
- (d) ₹95,000

Q52. What is the impact of interest payment on debentures on a company's profits?

- (a) It increases the company's profits.
- (b) It has no impact on the company's profits.
- (c) It reduces the company's profits.
- (d) It creates a separate category of profits.

Q53. A Ltd., issued 2,000, 10% debentures of ₹100 each on April 01, 2016 at a discount of 5% redeemable at a premium of 3%. What does 10% in this indicate?

- (a) Rate of Dividend
(b) Rate of Interest on Debentures
(c) Rate of tax deducted at source
(d) None of these
- Q54.** What is the journal entry past for the payment of tax deducted at source on interest on the debentures?
(a) Income Tax Payable A/c Dr.
To Bank A/c
(b) Bank A/c Dr.
To Income tax Payable
(c) Government A/c Dr.
To Bank
(d) None of these
- Q55.** Sunrise Ltd. purchased a building for ₹5,00,000 payable as 15% in cash and balance by allotment of 9% debentures of ₹100 each at a premium of 25%. Number of debentures issued will be:
(a) 4,250
(b) 4,000
(c) 5,000
(d) 3,400
- Q56.** Issued 10,000, 7% debentures of ₹100 at a premium of 3%, redeemable at a premium of 5%. In such case:
(a) Loss on Issue will be debited by ₹20,000
(b) Loss on Issue will be debited by ₹50,000
(c) Loss on Issue will be debited by ₹80,000
(d) Loss on Issue will be debited by ₹1,00,000
- Q57.** Glob Ltd. issues 20,000, 9% debentures of ₹100 each at a discount of 5% redeemable at the end of 5 years at a premium of 6%. For what amount 'Loss on Issue of Debentures Account' will be debited?
(a) ₹1,00,000
(b) ₹1,20,000
(c) ₹2,80,000
(d) ₹2,20,000
- Q58.** Which of the following statements is/are True in case of Debentures?
I. The Debenture Holder is entitled to a fixed rate of Interest.
II. Debenture Holder is entitled to a fixed rate of dividend.
III. Debenture Holder is entitled to voting rights.
IV. Interest on Debentures is a charge against profits.
V. Interest on Debentures is an appropriation of profits.
Choose the most appropriate answer from the options given below:
(a) I Only
(b) I and IV Only
(c) IV Only
(d) I and V Only
- Q59.** On liquidation of company, principal amount of debentures is returned :
(a) First of All
(b) Last of All
(c) Before Equity Capital
(d) After Equity Capital
- Q60.** According to the Companies Act, 2013, what is the stance on issuing debentures at a discount?
(a) It is strictly prohibited by the act.
(b) It is allowed only for specific types of companies.
(c) There are restrictions and regulations imposed on issuing debentures at a discount.
(d) There are no restrictions imposed by the act on issuing debentures at a discount.
- Q61.** What does it mean when an issue of debentures is considered "over subscribed"?
(a) The company has offered more debentures than it can fulfill.
(b) The company has not received enough applications for its debenture issue.
(c) The number of debentures applied for exceeds the number of debentures offered.
(d) The company has invited too many applicants for its debenture issue.
- Q62.** In case of over subscription, how can a company handle the excess money received?
(a) It refunds the entire excess amount to all applicants.
(b) It retains the entire excess amount for its own use.
(c) It uses the excess money to issue additional debentures.
(d) None of the above
- Q63.** The Principal amount of debentures will be repaid by the company either at the end of a specified period or by instalments during the life time of the company. Such types of debentures are called:
(a) Redeemable Debentures
(b) Irredeemable Debentures
(c) Convertible Debentures
(d) Bearer Debentures
- Q64.** Premium received on issue of debentures may be utilised for:
(a) For writing off Goodwill
(b) For writing off premium allowed on redemption of debentures
(c) For writing off preliminary expenses
(d) All of the Above
- Q65.** On issue of debentures as a collateral security, which account is credited?
(a) Debentures Account
(b) Bank Loan Account
(c) Debenture Holdings Account
(d) Debenture Suspense Account
- Q66.** When debentures of ₹1,00,000 are issued as Collateral Security against a loan of ₹1,50,000, the entry for issue of debentures will be:
(a) Credit Debentures ₹1,50,000 and Debit bank A/c ₹1,50,000

- (b) Debit Debenture Suspense A/c ₹1,00,000 and Credit Bank A/c ₹1,00,000
 (c) Debit Debenture Suspense A/c ₹1,00,000 and Credit Debentures A/c ₹1,00,000.
 (d) Debit Cash A/c ₹1,50,000 and Credit Bank A/c ₹1,50,000

- Q67.** _____ debentures are those that are not repayable during the lifetime of the company.
 (a) Registered Debentures
 (b) Bearer Debentures
 (c) Perpetual Debentures
 (d) Convertible Debentures
- Q68.** X Ltd, purchased a building for ₹60,00,000 payable as 20% in Cash and balance by allotment of 8% debentures of ₹500 each at a premium of 20%. Number of debentures issued will be:
 (a) 9,600
 (b) 8,000
 (c) 12,000
 (d) 10,000
- Q69.** If Vendors are issued debentures of ₹80,000 in consideration of net assets of ₹1,00,000, the balance of ₹20,000 will be credited to:
 (a) Statement of Profit & Loss
 (b) Goodwill Account
 (c) General Reserve Account
 (d) Capital Reserve Account
- Q70.** Perpetual Debentures are also known as:
 (a) Irredeemable Debentures
 (b) Convertible Debentures
 (c) Secured Debentures
 (d) Unsecured Debentures

Assertion and Reason MCQs

Direction: Assertion-Reasoning MCQs (71 to 82): There are two statements marked as Assertion (A) and Reason (R). Read the statements and choose the appropriate option from the options given below

- (a) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of Assertion (A)
 (b) Both Assertion (A) and Reason (R) are true but Reason (R) is not the correct explanation of Assertion (A)
 (c) Assertion (A) is false, but Reason (R) is true
 (d) Assertion (A) is true, but Reason (R) is false
- Q71. Assertion (A):** Interest on debentures is payable whether the company earns profits or incurs loss.
Reason (R): Interest on debentures is a charge against the profits of the company.

- Q72. Assertion (A):** A zero coupon bond is issued at zero rate of interest.

Reason (R): In case of zero coupon bond the difference between issue price and the redemption price represents the total interest.

- Q73. Assertion (A):** While preparing the Balance Sheet as at 31st March, 2022, if ₹5,00,000, 10% debentures are redeemable on 31st October 2022, they will be shown under main head 'Current Liabilities' and sub-head 'Other Current Liabilities' as 'Current Maturities of long-term Debts'.

Reason (R): Debentures becoming due for redemption within 12 months from the date of Balance Sheet are shown as Current Maturities of Long-term Debts under the main head Current Liabilities.

- Q74. Assertion (A):** Premium on issue of debentures is a capital gain for the company.

Reason (R): Loss on issue of debentures is a revenue loss.

- Q75. Assertion (A):** Debentures may have fixed or floating charge on the assets of the company.

Reason (R): Fixed charge denies the company from dealing with mortgaged assets, whereas the floating charge does not prevent the company from using the assets.

- Q76. Assertion (A):** Premium on Redemption of Debentures is a Personal Account.

Reason (R): It appears under the head 'Non Current Liabilities' under sub-head 'Other Long-term Liabilities'.

- Q77. Assertion (A):** Security Premium received on issue of debentures may be utilised for writing off capital losses, such as discount on issue, premium on redemption, preliminary expenses and for declaration of dividend.

Reason (R): Security Premium Reserve may be used for issue of fully paid bonus shares.

- Q78. Assertion:** Debentures are long term borrowings of the company.

Reason: A company engaged in infrastructure projects can issue debentures for a maturity period more than 10 years but not exceeding 30 years.

- Q79. Assertion (A):** Shares and debentures are not alike.

Reason (R): Debenture holders are owners and shareholders are creditors of the company.

- Q80. Assertion (A):** Debentures is an instrument acknowledging a debt.

Reason (R): Shareholders are the owners of the company.

- Q81. Assertion (A):** Debentures being borrowings of the company are shown on Liabilities side of the Balance Sheet.

Reason (R): Debentures are Current Liabilities of a company.

Q82. Assertion (A): A company can issue debentures for raising Long-term Borrowings.

Reason (R): The power to issue debentures must be mentioned in Articles of Association.

Match the Column - MCQs

Q83. Match the columns

(i) Cash received against Debentures	(a) Issue of Debentures as collateral security
(ii) Assets received against Debentures	(b) Issue of Debentures for cash
(iii) Debentures given as secondary security	(c) Issue of Debentures in kind

Options

- (a) i- (a), ii-(c), iii-(b)
- (b) i-(a), ii-(b), iii-(c)
- (c) i-(b), ii-(a), iii-(c)
- (d) i-(b), ii-(c), iii-(a)

Q84. Match the columns

(i) Loss on issue of Debenture is a	(a) Personal Account
(ii) Premium on Redemption of Debentures Account is a	(b) Real Account
	(c) Nominal Account

Options

- (a) i- (c), ii-(a)
- (b) i-(a), ii-(b)
- (c) i-(b), ii-(a)
- (d) i-(b), ii-(c)

Q85. Match the columns

(i) Debentures suspense account	(a) Loss on Issue of Debentures Account
(ii) Debentures are issued at discount and redeemable at premium	(b) Issue of Debentures as collateral security
(iii) Non-Current Liabilities	(c) Interest Accrued and due on debentures
(iv) Current Liabilities	(d) Premium on Redemption A/c

Options

- (a) i-(a), ii-(b), iii-(c), iv-(d)
- (b) i-(b), ii-(a), iii-(d), iv-(c)
- (c) i-(a), ii-(b), iii-(d), iv-(c)
- (d) i-(b), ii-(a), iii-(c), iv-(d)

Q86. Match the columns

(i) Issued without pre-determined rate of interest	(a) Convertible Debentures
--	----------------------------

(ii) Debentures transferable by mere delivery	(b) Bearer Debentures
(iii) Debentures that can be converted into equity shares	(c) Registered Debentures
(iv) Not freely transferable	(d) Zero Coupon Bonds

Options

- (a) i-(a), ii-(b), iii-(c), iv-(d)
- (b) i-(a), ii-(b), iii-(d), iv-(c)
- (c) i-(d), ii-(b), iii-(a), iv-(c)
- (d) i-(d), ii-(b), iii-(c), iv-(a)

Q87. Match the columns

(i) Excess of Purchase consideration over Value of Net Assets	(a) Capital Reserve
(ii) Excess of Net Assets over Purchase Consideration	(b) Sundry Assets - Liabilities taken over
(iii) Purchase Consideration	(c) Goodwill
(iv) On making payment of purchase consideration Account debited will be	(d) Vendor's Account

Options

- (a) i-(a), ii-(b), iii-(c), iv-(d)
- (b) i-(b), ii-(a), iii-(d), iv-(c)
- (c) i-(c), ii-(a), iii-(b), iv-(d)
- (d) i-(b), ii-(a), iii-(c), iv-(d)

Q88. Match the columns

(i) Received Oversubscription	(a) Debentures Suspense A/c
(ii) Debentures issued to promoters	(b) Rejection of excess application
(iii) Issued Debentures as collateral security	(c) Goodwill

Options

- (a) i-(a), ii-(b), iii-(c)
- (b) i-(b), ii-(c), iii-(a)
- (c) i-(c), ii-(a), iii-(b)
- (d) i-(b), ii-(a), iii-(c)

Q89. Match the columns

(i) A Company purchased a Building of ₹40,00,000 for purchase consideration of ₹45,00,000, ₹5,00,000 will be transferred to:	(a) General Reserve
(ii) A Company purchased building ₹40,00,000 for purchase consideration of ₹36,00,000, ₹4,00,000 will be transferred to:	(b) Vendor's A/c

	(c) Goodwill Account
	(d) Capital Reserve Account

Options

- (a) i-(c), ii-(d)
- (b) i-(a), ii-(b)
- (c) i-(c), ii-(b)
- (d) i-(d), ii-(a)

Q90. Match the columns

(i) A company purchased Sundry Assets of ₹20,00,000 and Liabilities of ₹2,00,000 from another company for purchase consideration of ₹22,00,000. Amount of Goodwill will be:	(a) ₹2,00,000
(ii) A company purchased Sundry Assets of ₹20,00,000 and Liabilities of ₹2,00,000 from another company for purchase consideration of ₹15,00,000. Amount of Capital Reserve will be:	(b) ₹4,00,000
	(c) ₹7,00,000
	(d) ₹3,00,000

Options

- (a) i-(b), ii-(c)
- (b) i-(b), ii-(d)
- (c) i-(c), ii-(b)
- (d) i-(d), ii-(a)

Case Based – MCQs

Direction for Question (91 to 93): Read the given case study carefully and answer the following questions:

Moonlight India Ltd. is to produce and distribute green energy in the backward areas of India. It has also taken up a project of giving vocational training to the girls belonging to the backward areas of Rajasthan. To meet the requirements of funds to serve the purpose, company issued 40,000 debentures of ₹100 each at a premium of ₹25, payable as follows

₹20 per share on Application

₹45 per share on Allotment (including premium of ₹ 15)

₹60 per share on First and Final call (including premium of ₹ 10)

The issue was oversubscribed by 20,000 debentures. Applicants of 16,000 were allotted only 2,000 debentures and applicants of 2,000 debentures were sent letter of regret. Excess amount received at the time of application was to be adjusted only against allotment and payments exceeding the amount due in the allotment were to be refunded. All the money due on allotment and calls was duly received.

Q91. Amount refunded to Debentureholders will be:

- (a) ₹2,60,000
- (b) ₹2,50,000
- (c) ₹2,30,000
- (d) ₹2,00,000

Q92. What pro-rata allotment is made in this case other than the One already mentioned?

- (a) 44,000 : 40,000
- (b) 42,000 : 38,000
- (c) 60,000 : 40,000
- (d) 42,000 : 36,000

Q93. Amount of Security Premium transferred to Balance Sheet will be:

- (a) ₹6,00,000
- (b) ₹10,00,000
- (c) ₹4,00,000
- (d) ₹14,00,000

Direction: Read the following case study and answer the question no. 94 to 97 on the basis of the same.

Golden Blankets Ltd' are the manufacturers of woollen blankets. Blankets of the company are exported to many countries. The company decided to distribute blankets free of cost to five villages of Kashmir valley destroyed by the recent floods. It also decided to employ 100 young persons from these villages in their newly established factory at Solan in Himachal Pradesh. To meet the requirements of funds for starting its new factory, the company issued 50,000, 10% debentures of ₹10 each and 2000, 8% debentures of ₹100 each to the vendor of the machinery purchased for ₹ 7,00,000.

Q94. Debentures issued to vendor of machinery, would be classified as

- (a) Issue of debentures in cash
- (b) Issue of debentures for consideration other than cash
- (c) Issue of debentures as collateral security
- (d) None of the above

Q95. How many debentures should be issued, if 8% debentures of ₹100 each are issued at 20% discount amounting to ₹2,00,000?

- (a) 2,500
- (b) 1,000
- (c) 1,500
- (d) 2,000

Q96. Total interest payable by the company will amount to

- (a) ₹52,000
- (b) ₹5,200
- (c) ₹66,000
- (d) ₹16,000

Q97. Zero coupon bonds are issued:

- (a) At Zero Interest Rate
- (b) With Specified Rate of Interest
- (c) Without Specified Rate of Interest
- (d) None of these

Direction: Read the following case study and answer the question no. 98 to 100 on the basis of the same.

Disha Ltd. purchased machinery from Nisha Ltd. and paid to Nisha Ltd. as follows:

- (i) By issuing 10,000, Equity Shares of ₹10 each at a premium of 10%.
- (ii) By issuing 200, 9% Debentures of ₹100 each at a discount of 10%.
- (iii) Balance by accepting a Bill of Exchange of ₹50,000 payable after one month.

Q98. What is the amount transferred to Securities Premium Reserve?

- (a) ₹1,00,000
- (b) ₹10,000
- (c) ₹110,000

(d) None of the above

Q99. What is the amount transferred to Discount on Issue of Debentures?

- (a) ₹18,000
- (b) ₹2,000
- (c) ₹20,000
- (d) ₹9,000

Q100. What is the total amount paid to Nisha Ltd for purchase of Machinery?

- (a) ₹1,70,000
- (b) ₹1,20,000
- (c) ₹1,78,000
- (d) ₹1,28,000

SOLUTIONS

S1. Ans. (b)

Rate of Discount on issue of Debentures

$$= \frac{(75,000 - 50,000)}{5,00,000} \times 100 = 5\%$$

S2. Ans. (b)

S3. Ans. (b)

S4. Ans. (a)

$$\text{Number of debentures} = \frac{28,80,000}{100 - 4} = 30,000$$

S5. Ans. (b)

S6. Ans. (c)

S7. Ans. (d)

S8. Ans. (b)

S9. Ans. (c)

S10. Ans. (c)

S11. Ans. (c)

$$\text{Number of Debentures} = \frac{16,20,000}{10 - 10\% \text{ of } 10} = \frac{16,20,000}{9} = 1,80,000$$

S12. Ans. (b)

Debentures Account will be credited by = $6,000 \times 100$
= ₹6,00,000

S13. Ans. (b)

Bank A/c Dr. 1,00,000
To Debenture Application and Allotment A/c 1,00,000

S14. Ans. (c)

Debenture Application and Allotment A/c	Dr	12,00,000
To 12% Debentures A/c		6,00,000
To Securities Premium Reserve A/c		3,00,000
To Bank A/c (2,000 × 150)		3,00,000

S15. Ans. (c)

Number of Debentures Issued
= $\frac{22,00,000}{100 + 10} = 20,000$ debentures

S16. Ans. (b)

Vendor's A/c	Dr	2,18,500
To 12% Debentures A/c		1,90,000
To Securities Premium Reserve A/c		28,500

S17. Ans. (c)

The 'Premium on Redemption of Debentures' appears under the head 'Non-Current Liabilities' and sub-head 'Other long term liabilities'.

S18. Ans. (a)

$$\text{Interest on Debentures} = 25,000 \times \frac{9}{100} \times \frac{6}{12} = ₹11,250$$

S19. Ans. (c)

S20. Ans. (b)

Whenever debentures are issued for less than 12 months or debentures are redeemable within 12 months, then these are shown under 'current liability'.

S21. Ans. (c)

Interest on debentures is charge against profits.

S22. Ans. (b)

S23. Ans. (a)

S24. Ans. (a)

Debentures which are transferred by executing transfer deed are called Registered Debentures.

S25. Ans. (a)

S26. Ans. (b)

Debentures which are transferred by mere delivery are called Registered Debentures.

S27. Ans. (c)

$$\text{Interest on Debentures} = 5,00,000 \times \frac{8}{100} = ₹40,000$$

S28. Ans. (c)

S29. Ans. (a)

S30. Ans. (b)

A company cannot issue debentures with voting rights, only shareholders have voting rights.

S31. Ans. (d)

A Debentureholder is entitled Interest at fixed rate.

S32. Ans. (c)

Rate of Interest on Debentureholders is fixed.

S33. Ans. (a)

$$\begin{aligned} &\text{Number of Debentures issued} \\ &= \frac{6,40,000 - 2,00,000}{100 + 10} = 4,000 \text{ debentures.} \end{aligned}$$

S34. Ans. (b)

Debentures cannot be forfeited for non-payment of call money.

S35. Ans. (d)

S36. Ans. (d)

Excess of net assets over purchase consideration is transferred to Capital Reserve Account.

S37. Ans. (d)

S38. Ans. (a)

Shareholders have voting rights in a company.

S39. Ans. (b)

S40. Ans. (c)

S41. Ans. (b)

$$\begin{aligned} &\text{Amount in Securities Premium Reserve} = 7,500 \times 35 = \\ &₹2,62,500 \end{aligned}$$

S42. Ans. (c)

Amount refunded on Application = $100 \times 95 = ₹9,500$.

S43. Ans. (a)

Number of Debentures = $\frac{\text{Total Amount Due}}{\text{Issue Price Per Debenture}} = \frac{1,10,000}{110} =$
1,000 debentures

Amount transferred to Securities Premium Reserve
= $1,000 \times 10\% \text{ of } 100 = ₹10,000$

S44. Ans. (b)

No. of debentures issued
= $\frac{\text{Purchase consideration}}{\text{Issue Price}} = \frac{2,75,000}{55} = 5,000$

Amount will be transferred to 8% Debenture A/c =
 $5,000 \times 50 = ₹2,50,000$

S45. Ans. (b)**S46. Ans. (c)****S47. Ans. (b)****S48. Ans. (c)**

There are two methods to deal with debentures issued as collateral security:

1. No entry is made in the books of accounts since no liability is created by such issue
2. By debiting debentures suspense account when issuing debentures as collateral security and then crediting back at the time of repayment.

S49. Ans. (d)

Debenture suspense account is debited the amount of debentures issued as collateral security.

S50. Ans. (c)

When debentures are issued at a discount and are redeemable at a premium, the amount of discount on issue along with amount of premium on redemption is debited to Loss on Issue of Debentures Account.

S51. Ans. (c)

Amount debited to Loss on Issue of Debentures Account
= $1,00,000 \times 5\% = ₹5,000$

S52. Ans. (c)**S53. Ans. (b)****S54. Ans. (a)****S55. Ans. (d)**

Payment to be made in Cash = $15\% \text{ of } 5,00,000 = ₹75,000$
Number of debentures issued = $\frac{5,00,000 - 75,000}{125} = 3,400$

S56. Ans. (b)

Loss on issue will be debited by = $10,000 \times 5 = ₹50,000$

S57. Ans. (d)

Loss/ Discount on each debenture = $5\% \text{ of } ₹100 + 6\% \text{ of } ₹100 = ₹11$

So, Loss on Issue of Debentures Account will be debited with
= $11 \times 20,000 = ₹2,20,000$

S58. Ans. (b)**S59. Ans. (c)****S60. Ans. (d)****S61. Ans. (c)****S62. Ans. (a)****S63. Ans. (a)****S64. Ans. (d)****S65. Ans. (a)****S66. Ans. (c)**

When debentures are issued as collateral security, debenture suspense account is debited with the amount of debentures placed as security and debentures account is credited.

S67. Ans. (c)

Perpetual debentures are those that are not repayable during the lifetime of the company.

S68. Ans. (b)

Amount to be paid in Cash = $20\% \text{ of } 60,00,000 = ₹12,00,000$

Issue Price of Debentures = $500 \times 120\% = ₹600$

No. of debentures issued = $\frac{60,00,000 - 12,00,000}{600} = 8,000$

S69. Ans. (d)**S70. Ans. (a)****S71. Ans. (a)****S72. Ans. (c)****S73. Ans. (a)****S74. Ans. (d)****S75. Ans. (a)****S76. Ans. (b)****S77. Ans. (c)****S78. Ans. (b)****S79. Ans. (d)****S80. Ans. (b)****S81. Ans. (d)****S82. Ans. (d)**

The power to issue debentures must be mentioned in Memorandum of Association.

S83. Ans. (d)**S84. Ans. (a)****S85. Ans. (b)****S86. Ans. (c)****S87. Ans. (c)****S88. Ans. (b)****S89. Ans. (a)****S90. Ans. (b)****S91. Ans. (c)**

Excess money received on application not adjusted in any call will be refunded

Excess money received $(20,000 \times 20) = ₹4,00,000$

Adjusted on allotment $(2,000 \times 45 + 4,000 \times 20) = ₹1,70,000$

Therefore, total amount refunded is: $(4,00,000 - 1,70,000) = ₹2,30,000$

S92. Ans. (b)

Out of 60,000 applications, applicants of 16,000 debentures were allotted 2,000 debentures and applications of 2,000 debentures were rejected. So pro-rata will be made to the remaining shareholders, i.e. 42,000 debenture applications were allotted 38,000 debentures.

S93. Ans. (b)

At the time of allotment $(40,000 \times 15) = ₹6,00,000$

(+) At the time of call $(40,000 \times 10) = ₹4,00,000$

Total security premium received = ₹10,00,000

S94. Ans. (b)

S95. Ans. (a)

Number of Debentures = $\frac{2,00,000}{100-80} = 2,500$

S96. Ans. (c)

50,000, 10% debenture @ 10 = $5,00,000 \times 10/100 = ₹50,000$

2,000, 8% debenture @ 100 each = $2,00,000 \times 8/100 = ₹16,000$

Total interest = $50,000 + 16,000 = ₹66,000$

S97. Ans. (c)

S98. Ans. (b)

Premium Per share = 10% of 10 = ₹1

Amount transferred to Securities Premium Reserve = $10,000 \times 1 = ₹10,000$.

S99. Ans. (b)

Amount transferred to Discount on Issue of debentures = $200 \times 10 = ₹2,000$

S100. Ans. (c)

Value of Shares issued $(10,000 \times 11)$	₹1,10,000
Add: Value of Debentures Issued (200×90)	₹18,000
Add: Value of Bill of Exchange	₹50,000
Total amount paid to Nisha Ltd for purchase of machinery	₹1,78,000