



ACCOUNTS

BOOKS - ARYA ACCOUNTS (HINGLISH)

COMPANY ACCOUNTS - REDEMPTION OF DEBENTURES

Illustration

1. Saraswati Ltd. Issued 10,000 6% Debentures of Rs.100 each at a premium of 5% on 1st April, 2013 redeemable on March 31, 2018. The issue was fully subscribed. It was decided to invest 15% of the face value of debentures to be redeemed towards Debenture Redemption Investment on 30th April, 2017. Investment were encashed and Debentures were redeemed on due date. Record necessary entries for issue and redemption of debentures.



2. Tulip Ltd. Issued Rs.4,00,000, 9% Debentures of Rs.100 each on April 1, 2014 at a premium of 6% redeemable at a premium of 10% on 31st March, 2018. Assume that required investment was made in 10% Government Securities on April 30 of the financial year in which redemption is due. Debentures were redeemed on the due date.

Pass journal entries at the time of Issue and Redemption of Debentures.

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3. State Bank of India issued 20,000, 6% Debentures of Rs.50 each at a premium of 8% on June 30, 2010 redeemable on June 30, 2018. The issue was fully subscribed. Record necessary entries for issue and redemption of debentures.

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4. Noida Toll Bridge Corporation Ltd. (An infrastructure Company) has outstanding 50,000, 8% debentures of Rs.100 each issued in 2010 due for redemption on March 31, 2018. It was decided to invest the required amount in investment earning 10% p.a. interest on April 30th, 2017. Record necessary entries regarding redemption of debentures.



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5. Alpha Ltd. Has 10,000, 8% Debentures of Rs.100 each due for redemption on 31st March 2018. Debenture Redemption Reserve has a balance of Rs.1,90,000 on 31st March, 2017. It was decided to invest the required amount towards Debenture Redemption Investment. Investments were realised at 104% less 0.5% brokerage and debentures were redeemed. Record the necessary entries for the redemption of debentures.

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6. Mona Ltd., has issued 20,000, 9% Debentures of Rs.100 each of which half the amount is due for redemption on March 31st 2018. It was decided to invest the required amount towards Debenture Redemption Investment. The company has in its Debentures Redemption Reserve Account a balance of Rs.4,40,000 on 31st March, 2017. Record the necessary journal entries for the Redemption of Debentures.

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7. On 1st April, 2014, KK Ltd. Invited applications for issuing 5,000 10% debentures of Rs.1,000 each at a discount of 6%. These debentures were repayable at the end of 3rd year at a premium of 10%. Applications for 6,000 debentures were received and the debentures were allotted on pro-rata basis to all the applicants.

Excess money received with applications was refunded.

The directors decided to transfer the minimum amount to Debenture Redemption Reserve on 31.3.2016. On 1.4.2016, the company invested the necessary amount in 9% bank fixed deposit as per the provisions of the Companies Act, 2013. Tax was deducted at source by bank on interest @10% p.a. Pass the necessary journal entries for issue and redemption of debentures. Ignore entries relating to writing off loss on issue of debentures and interest paid on debentures.



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8. X Ltd. Had issued Rs.10,00,000, 9% debentures which are due to be redeemed out of profits on 1st October 2018 at a premium of 5%. The company had a Debenture Redemption Reserve of Rs.4,14,000. It was decided to invest the required amount in Debenture Redemption Investment. Pass necessary journal entries for the redemption of debentures.



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9. Poonam Ltd. Had a balance of Rs.55,00,000 in its Statement of Profit and Loss. Instead of declaring a dividend it decided to redeem its Rs.50,00,000, 8% debentures at a premium of 10% out of profits on 31st March, 2018. The Company invested the required amount in fixed deposit in a bank on 30th April, 2017 earning interest @8% p.a. Tax was deducted on interest earned @10% by the bank. Pass the necessary Journal entries in the books of the company for the redemption of debentures.



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10. On 1st April, 2013, Rayon Ltd. Issued 20,000, 9% Debentures of Rs.100 each at a discount of 10%, redeemable at par on 31st March, 2017. The issue was fully subscribed. To meet the provisions of the Companies Act, 2013, the Board of Directors decided to transfer

Rs.3,00,000 to Debenture Redemption Reserve on 31st March, 2014, and the balance on 31st March, 2015. On 1st April, 2016, the company made the required investment in government securities.

The investments were encashed and the debentures were redeemed on the due date.

It is the policy of the company to write off capital losses in the year in which they occur.

You are required to pass journal entries for issue and redemption of debentures (ignore interest on debentures).



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11. Kusum Steel Industries Ltd. issued 21,000, 7 1/2 % Debentures of Rs.100 each on March 31, 2011 redeemable at a premium of 8% on 30th June, 2018. The Board of Directors decided to transfer the required amount to Debenture Redemption Reserve in three equal annual instalments starting with March 31, 2016. Record necessary journal entries regarding issue and redemption of debentures.

Ignore entries relating to writing off loss on issue of debentures and interest paid thereon.

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12. Suresh Ltd. On 1st April 2014 acquired assets of the value of Rs.6,00,000 and liabilities worth Rs.70,000 from P & Co., at an agreed value of Rs.5,50,000. Suresh Ltd. Issued 12% Debentures of Rs.100 each at a premium of 10% in full satisfaction of purchase consideration. The debentures were redeemable on 30th November, 2018 at a premium of 5%. Pass journal entries to record the above including redemption of debentures.

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13. Pass necessary Journal entries for the issue and redemption of Debentures in the following cases :

(i) 15,000, 10% Debentures of Rs.100 each issued at 10% premium, repayable at par.

(ii) 6,00,000, 12% Debentures of Rs.500 each issued at 5% premium, repayable at 10% premium.



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14. On 1st April 2014, Gomti Ltd. Has 6,000, 8% debentures of Rs.100 each due for redemption at 5% premium in three equal annual instalments starting from March 31, 2016. The Company complied with the requirements with respect to Investment made in Government Securities on 30th April, 2015.

Pass necessary journal entries and prepare ledger accounts.



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15. Pragati Enterprises Ltd. Issued 35,000 6 1/2 debentures of Rs.100

each on October 1, 2011 redeemable as follows :

On 31st March 2015	5,000 Debentures
On 31st March 2016	5,000 Debentures
On 31st March 2017	7,000 Debentures
On 31st March 2018	7,000 Debentures
On 31st March 2019	11,000 Debentures

The Board decides to transfer to Debenture Redemption Reserve Rs.50,000 and Rs.4,00,000 on March 31, 2012 and 2013 respectively and balance required to be transferred to Debenture Redemption Reserve on March 31, 2014. Record necessary journal entries. Ignore entries for payment of interest. Investment as required by law was made in fixed deposit of the bank.



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16. Akanksha Enterprises Ltd. Issued 12,000, 6% Debentures of Rs.100 each on September 1, 2009 redeemable at a premium of 7% as under

:

On March 31, 2015 4,000 Debentures

On March 31, 2016 3,000 Debentures

On March 31, 2017 5,000 Debentures

The Board of Directors has also decided to transfer the required amount to Debentures Redemption Reserve in four equal annual instalments starting with March 31, 2011. Record necessary journal entries. Ignore entries for interest. Investment as required by law was made in fixed deposit of the bank.



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17. On 1-4-2008 Bharat Ltd. Issued 6,000 9% debentures of Rs.100 each at a discount of 10%. These debentures were redeemable in four instalments starting from the end of third year. The amount of debentures to be redeemed at the end of third, fourth, fifth and sixth year was as follows :

Year Amount of Debentures to be redeemed

Rs.

III 1,00,000

IV 1,00,000

V 2,00,000

VI 2,00,000

Prepare 9% Debentures Account for the years 2008-09 to 2013-14.



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Mcq

1. As per SEBI Guidelines an amount equal to Of the debenture issue must be transferred to Debenture Redemption Reserve before redemption begins.

A. 0.5

B. 0.8

C. 0.25

D. 1

Answer: C

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2. According to the guidelines issued by Securities and Exchange Board of India (SEBI) what percentage of the amount of debentures must be transferred to 'Debentures Redemption Reserve' before the commencement of redemption of debentures, in case of convertible debentures?

A. 0.25

B. 0.5

C. 1

D. Zero

Answer: D

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3. X Ltd. Wants to redeem 5,000, 5% Debentures of Rs.100 each at 5% premium. How much amount it must transfer to Debenture Redemption Reserve, if it has already a balance of Rs.1,00,000 in Debenture Redemption Reserve Account?

A. Rs.4,00,000

B. Rs.25,000

C. Rs.2,00,000

D. Rs.2,50,000

Answer: B



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4. Where is 'Debenture Redemption Reserve' transferred after the redemption of all debentures?

A. Capital Reserve Account

B. General Reserve Account

C. Statement of Profit and Loss

D. Sinking Fund Account

Answer: B



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5. Debentures can be redeemed :

A. By issue of new shares

B. By existing resources

C. By Accumulated profits

D. By all of the above

Answer: D



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6. Debentures can be redeemed :

- A. By annual drawings
- B. By purchase in the open market
- C. By Conversion
- D. By all of the above

Answer: D



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Very Short Answer Questions

1. What is meant by Redemption of Debentures?

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2. Name two sources of finance for redemption of debentures.

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3. What is meant by Redemption of Debentures?

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4. What is meant by redemption of debentures out of Profits?

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5. Mention, in brief, SEBI Guideline regarding Debenture Redemption Reserve.

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6. Which Companies are exempted from creating 'Debenture Redemption Reserve' by the SEBI?

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7. What is meant by redemption of debentures by lump sum payment?

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8. What is the balance of Debenture Redemption Reserve transferred to General Reserve?

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9. X Ltd. Wants to redeem 6,000, 5% Debentures of Rs.100 each at 5% premium. How much amount it must transfer to Debenture Redemption Reserve, if it has already a balance of Rs.1,00,000 in Debenture Redemption Reserve Account?



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Short Answer Questions

1. Shubh Limited has the following balances appearing in its Balance Sheet :



The company decided to redeem its 9% Debentures at a premium of 10%. You are required to suggest the ways in which the company can utilise the securities premium amount.



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1. Kaveri Ltd. Issued 50,000, 8% Debentures of Rs.100 each at par on Oct. 1, 2012 redeemable on March, 31, 2016. It was decided to invest 15% of the face value of debentures to be redeemed towards Debenture Redemption Investment on 30th April, 2015. Debentures were redeemed on due date. Record necessary entries for issue and redemption of debentures.

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2. On 1st April, 2011, F Ltd. Issued Rs.40,00,000, 7% Debentures of Rs.100 each at a premium of 5% redeemable at a premium of 10% at the end of 4 years. Investment as required by law was made in fixed deposit of the bank on 30th April earning interest @6% p.a. Pass journal entries at the time of Redemption of Debentures.

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3. Bank of Baroda issued 8,000, 8% Debentures of Rs.100 each at a premium of 6% on 1st April, 2008 redeemable on 31st March, 2015.

Record necessary entries for issue and redemption of debentures.

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4. AFCONs India Ltd. (an infrastructure company) issued 5,00,000, 9% Debentures of Rs.20 each on April 1, 2005 redeemable on March 31, 2015. Investment as required by law was made in fixed deposit of the bank on 30th April. Record journal entries for issue and redemption of debentures.

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5. On 1st April, 2013 the following balances appeared in books of Blue and Green Ltd. :

12 % Debentures (Redeemable on 31st August, 2015)	Rs.20,00,000
Debentures Redemption Reserve	Rs.2,00,000

The company met the requirements of Companies Act, 2013 regarding Debentures Redemption Reserve and Debentures Redemption Investments and redeemed the debentures.

Ignoring interest on investments, pass necessary Journal entries for the above transactions in the books of company.



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6. Gati Ltd. Has issued 30,000, 8% Debentures of Rs.100 each of which one-third is due for redemption on March 31st 2018. The company has in its Debenture Redemption Reserve Account a balance of Rs.3,80,000 on 31st March, 2017. Required Investment is made in fixed deposit on 30th April 2017 bearing interest @6% p.a.

Record the necessary journal entries for the Redemption of Debentures.



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7. On April 1st, 2013 following were the balances of Blue Bird Ltd.:

10% Debentures (redeemable on 31st March, 2015) Rs.30,00,000

Debenture Redemption Reserve Rs.5,00,000

Required investment was made earning interest @8% p.a.

On 31 March, 2014 the Board of Directors transferred the required amount to DRR and debentures were redeemed.

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



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8. X Ltd., had issued Rs.8,00,000, 9% debentures which are due to be redeemed out of profits on 1st Oct. 2015 at a premium of 5%. The company had a Debenture Redemption Reserve of Rs.4,14,000. The Company invested the required amount in fixed deposit in a Bank on 30th April, 2015 earning interest at 10% p.a. Pass necessary journal entries for the redemption of debentures.



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9. On 1-1-2010 a Public Limited Company issued 15,000, 10% Debentures of Rs.100 each at par which were repayable at a Premium of 15% on 31-3-2015. On the date of maturity, the company decided to redeem the above mentioned 10% Debentures as per the terms of issue, out of profits. Required investment is made on 30th April, 2014 in fixed deposit bearing interest @8% p.a. Bank deducted TDS @10% on its maturity i.e. 31st March 2015.

Pass the necessary journal entries in the books of the Company for the redemption of Debentures.

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10. X Ltd. Issued Rs.80,00,000, 8% debentures of Rs.100 each on 1st April, 2007. The terms of issue stated that the debentures were to be redeemed at a premium of 5% on 30th June, 2015. The company decided to transfer out of profits Rs.10,00,000 to Debenture Redemption Reserve on 31st March, 2014 and Rs.10,00,000 and 31st March, 2015.

Pass the necessary Journal entries regarding the issue and redemption of debentures, without providing for either the interest or loss on issue of debentures.

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11. Chandra Tubes Ltd. Issued 70,000, 7% debentures of Rs.100 each on June 30, 2011 redeemable at a premium of 6% on July 1, 2015. The Board of Directors have decided to transfer out of profits Rs.7,50,000 to Debenture Redemption Reserve on March 31, 2013, Rs.5,00,000 on March 31, 2014 and Rs.5,00,000 on March 31, 2015. Record necessary journal entries regarding issue and redemption of debentures. Ignore entries relating to writing off loss on issue of debentures and interest paid thereon.



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12. Kuber Ltd. On 1st April 2010 acquired assets of the value of Rs.7,00,000 and liabilities worth Rs.80,000 from Varun Ltd., at an agreed value of Rs.6,30,000. Kuber Ltd. Issued 10% Debentures of Rs.100 each at a premium of 5% in full satisfaction of purchase consideration. The debentures were redeemable on 31st October,

2015 at a premium of 4%. Pass journal entries to record the above including redemption of debentures.

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13. Universe Ltd. Has 2,00,000, 9% debentures of Rs.50 each due for redemption in five equal annual instalments starting from March 31, 2015. Debentures Redemption Reserve has a balance of Rs.17,00,000. Record necessary journal entries.

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14. Priya Ltd. Issued 30,000, 8% debentures of Rs.200 each on August 1, 2011 redeemable as follows :

On 31st March, 2015 6,000 Debentures

On 31st March, 2016 7,000 Debentures

On 31st March, 2017 7,000 Debentures

On 31st March, 2018 10,000 Debentures

It was decided to transfer Rs.4,00,000 to Debenture Redemption Reserve on March 31, 2012 and March 31, 2013 and balance required to be transferred to Debenture Redemption Reserve on March 31, 2014. Record necessary journal entries. Ignore entries for payment of interest.



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15. Tata Power Ltd. Issued 90,000, 9% Debentures of Rs.100 each on July 1, 2011 redeemable at a premium of 5% as under :

On March 31st, 2015 30,000 Debentures

On March 31st, 2016 25,000 Debentures

On March 31st, 2017 35,000 Debentures

It was decided to transfer to Debenture Redemption Reserve Rs.10,00,000 on March 31, 2012, Rs.4,00,000 on March 31, 2013 and the balance on March 31, 2014. Record necessary journal entries ignoring for interest.



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16. Mudra Ltd. Had 10,000, 12% Debentures of Rs.100 each due for redemption at a premium of 5% on March 31, 2018. The Board of Directors of the company decided to transfer the required amount to Debenture Redemption Reserve. Required investment was also made and the debentures were redeemed.

Pass necessary journal entries.



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17. Ruchi Ltd. Issued 42,000, 7% Debentures of Rs.100 each on 1st April, 2011, redeemable at a premium of 8% on 31st March 2015. The Company decided to create required Debenture Redemption Reserve on 31st March 2014. The company invested the funds as required by law in a fixed deposit with State Bank of India on 1st April, 2014 earning interest @10% per annum. Tax was deducted at source by

the bank on interest @10%. Pass necessary Journal Entries regarding issue and redemption of debentures.

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18. Saraswati Ltd. Issued 8,000, 9% debentures of Rs.200 each at premium of 5% on June 30, 2005, redeemable on July 1, 2015. The Board of Directors decided to transfer Rs.2,00,000 to Debenture Redemption Reserve on March 31, 2014 and on March 31, 2015. Record necessary entries for the issue as well as at the time of redemption of debentures. Ignore entries for payment of interest.

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19. Pooja Ltd. Issued 80,000, 8% debentures of Rs.100 each on June 30, 2011 redeemable at a premium of 6% on July 1, 2015. The Board of Directors have decided to transfer out of profits Rs.12,00,000 to

Debenture Redemption Reserve on March 31, 2013, Rs.4,00,000 on March 31, 2014 and Rs.4,00,000 on March 31, 2015. Record necessary journal entries regarding issue and redemption of debentures. Ignore entries relating to writing off loss on issue of debenture and interest paid thereon.

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Problem Solution

1. Anupama Ltd. Had issued 20,000, 9% Debentures of Rs.100 each which is due for redemption on 31st March 2018. The company has in its Debenture Redemption Reserve Account a balance of Rs.4,00,000. Record the necessary journal entries for the Redemption of Debentures.

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2. Sony Ltd. Redeemed its entire outstanding 8% Debenture of Rs.100 each at a premium of 5% on 31st March, 2018.

Fill in the missing figures in the following journal entries.



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3. Suzuki Ltd. redeemed its entire 11% debentures at a premium of 10% out of profits on 31st March, 2018.

Fill in the missing figures in the following journal entries :



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