

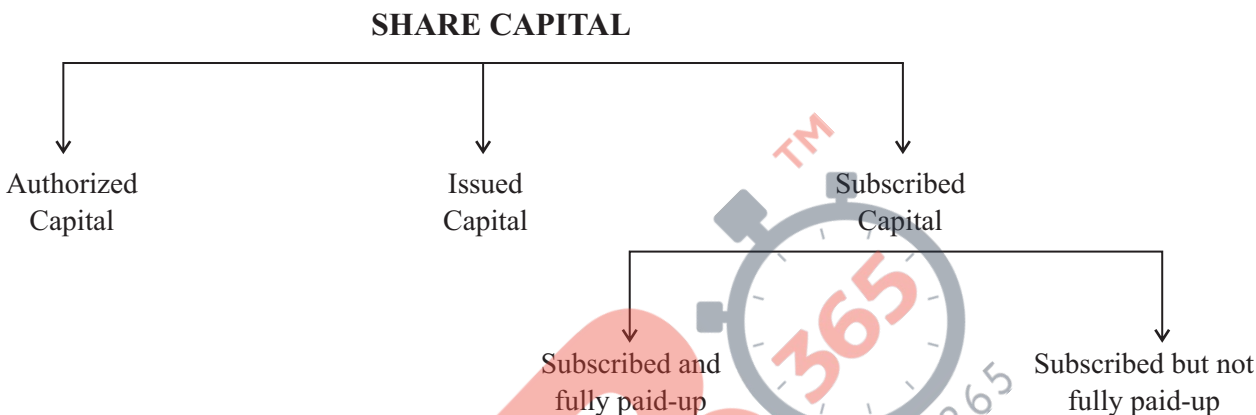


UNIT-II

Company Accounts - Accounting for Share Capital **Meaning of company:** A company is an organization formed by an association of persons through a process of law for undertaking (usually) a business venture.

Definition –“Company means a company incorporated under this Act or any previous company - Section 2(20) of the Companies Act, 2013

Share Capital - Schedule III of the Companies Act, 2013 classified Share Capital as:



- i. Authorised Share Capital is the maximum amount up to which a company can issue shares.
- ii. Issued share capital is a part of authorized share capital that is issued by a company for subscription.
- iii. Subscribed share capital is a part of issued share capital that is subscribed.

Subscribed share capital is shown as (i) Subscribed and fully paid – up (ii) Subscribed but not fully paid – up Called – up amount is the amount of nominal value of shares that has been called up for payment.

Paid – up amount is the amount that is received by the company.

Reserve capital is a part of subscribed share capital that a company resolves, by a special resolution, not to call except in the event and for the purpose of company being wound up.

PREFERENCE SHARES - These are the shares that carry preferential right as to dividend at fixed rate and preferential right as to repayment of capital.

EQUITY SHARES – These shares are the shares that are not preference shares. Shares can be issued (i) for cash and (ii) for consideration other than cash. Further, the shares can be issued (i) at par, or (ii) at premium.

OVER SUBSCRIPTION OF SHARES – It means shares applied for are more than the shares offered for subscription.

UNDER SUBSCRIPTION OF SHARES –It means shares applied for are less than the shares offered for subscription.

PRO RATA ALLOTMENT – It means allotment of shares in a fixed proportion. Pro rata allotment takes place only when the shares are oversubscribed.



SECURITIES PREMIUM RESERVE – It can be utilized for the purpose prescribed in section 52(2) of the Companies Act, 2013, which are:

- (i) writing off preliminary expenses;
- (ii) Writing off expenses such as share issue expenses, commission, discount allowed on issue of securities ;
- (iii) Providing for the premium payable on redemption of debentures or Preference Shares; or
- (iv) in buying-back its own shares.
- (v) Issuing fully paid bonus shares;

CALL – It is a demand by a company from the holders of partly paid shares to pay a further installment towards full nominal value.

CALLS-IN-ARREARS-It is the amount not yet received by the company against the call or calls demanded.

CALLS-IN –ADVANCE- It is the amount received by the company from its allottees against the calls not yet made. Calls- In- Advance is shown as 'Other Current Liability' under 'Current Liabilities'.

FORFEITURE OF SHARES- It means cancellation of shares and forfeiting the amount received against these shares. Forfeiture of shares takes place when a shareholder fails to pay the calls made.

Securities premium-How dealt when shares are forfeited. In case where Securities Premium Reserve Account has been credited and also it has been received-Securities Premium Reserve Account is not debited because of the restrictions imposed by Section 52(2) of the Companies Act, 2013 as to utilization. In case Securities Premium Reserve Account has been credited but the amount has not been received –Securities Premium Reserve Account is debited because the amount has not been received and therefore Section 52(2) of the Companies Act, 2013 does not apply .

REISSUE OF FORFEITED SHARES-Forfeited Shares can be reissued and they may be reissued at a value lower than its face value. But the discount on reissue of a share cannot be more than the forfeited amount of that share credited to Forfeited Share account at the time of forfeiture.

Regarding Reissue of Forfeited Shares, always keep in mind that:

1. Discount on reissue cannot exceed the forfeited amount.
2. If the discount on reissue is less than the amount forfeited, the surplus (i.e., gain on reissue of shares) is transferred to Capital Reserve.
3. When only a part of the forfeited share is reissued then the gain on reissue of such share is such transferred to Capital Reserve.
4. The forfeited amount on shares not yet reissued is shown in the Balance Sheet as an addition to the paid-up share capital.
5. When the shares are reissued at discount, such discount is debited to Forfeited Shares Account.
6. If the shares are reissued at a price which is more than the nominal (face) value of the shares, the excess amount is credited to Securities Premium Reserve Account.
7. In case of the Forfeited Shares are reissued at a price higher than the paid-up value , the excess of issue price over paid up value is credited to 'Securities Premium Reserve Account'.



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PRIVATE PLACEMENT OF SHARES- It refers to issue and allotment of shares to a selected group of persons. In other words, an issue, which is not a public issue but offered to a selected group of persons, is called Private Placement Of Shares.

EMPLOYEES STOCK OPTION PLAN (ESOP) - It is the plan for granting options to subscribe shares by employees and employee directors. A company may issue stock (shares) options fulfilling the following conditions:

- (a) These shares are of the same class of shares already issued;
- (b) It is authorized by a special resolution passed by the company;
- (c) The resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
- (d) Not less than one year has, at the date of issue, elapsed since the date on which the company had commenced business and
- (e) These shares are issued in accordance with SEBI regulations, if the shares are listed.

Presentation of Share Capital in Company's Balance Sheet As per Schedule III of Companies Act 2013, Share Capital is to be disclosed in a Company's Balance Sheet in the following manner :

EXTRACT OF BALANCE SHEET OF as at.....

Particulars	Note No.	Amt. current year Rs.	Amt. Previous year Rs.
1. EQUITY AND LIABILITIES :			
Shareholder 's Funds :			
(a) Share Capital*	(1)	
(b) Reserves and Surplus		
(c) Money received against share warrants	

*As per schedule III disclosure requirements pertaining to Share Capital are to be provided in notes to accounts.

Notes to Accounts:

Particulars	Rs.	Rs.
(1) Share Capital		
Authorised Capital:		
.....Equity Shares of Rs.....each		
.....preferences Shares of Rs.....each		
Issued Capital :		
.....Equity Shares of Rseach		
.....Preferences Shares of Rseach		



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Particulars	Rs.	Rs.
Subscribed Capital Subscribed and Fully Paid CapitalEquity Shares of RseachPreferences of Share of Rseach (Of the above sharesShares are allotted as fully paid up pursuant to a contract without payments beings received in cash) Subscribed but not fully paid Capital :Shares of Rs..... each , Rs per share Called-up Less : Calls in Arrears : (i) By Directors & Officers of the company Rs..... (ii) By Others Rs..... Add: Forfeited shares Rs.....		

Journal Entries Regarding Issue of Shares Capital

1. ISSUE OF SHARES FOR CASH

(i) Shares Payable in Lump Sum :

For Receiving Share Application Money:

Bank a/c Dr.

To Share Application and Allotment a/c

(Being the application money received)

For Allotment of Shares:

Share Application and Allotment a/c Dr

To Share Capital a/c [With Nominal (face) Value]

To Securities Premium Reserves a/c [With Premium Amt]

(Being the shares against share application and allotment money received)

(ii) Shares Payable in Installments :

Transaction	Journal Entry	Amount
On Receipt of Application Money	Bank a/c Dr. To Share Application a/c	Amount received with application.
On Allotment of Shares Share Application Money is transferred to Share Capital Account	Share Application a/c Dr. To Share Capital a/c	Application money on shares allotted.
Amount Due on Allotment	Share Allotment a/c Dr. To Share Capital a/c	Money due on shares allotted.
On Receipt of Allotment Money	Bank a/c Dr. To Share Allotment a/c	Amount received on shares allotted.
On First Call Being Due	Share First Call a/c Dr. To Share Capital a/c	Amount payable on first call.
On Receipt of First Call	Bank a/c Dr. To Share First Call a/c	Amount received on first call.



Accounting Entries in Case of Over subscription

1. For Application Money Received

Bank A/cDr

To Share Application A/c

Application Money For Allotted Shares

Share Application A/cDr

To Share Application A/c

2 Excess Application Money

a) Refund

Share Application A/cDr

To Bank A/C

b) Adjustment

Share Application A/cDr

To Share Allotment A/c

To Calls – in- Advances A/c

Combined Entry

Share Application A/cDr

To share Capital A/c

To Bank A/c

To Share Allotment A/c

To Calls- in – Advance A/c

SHARE ISSUED FOR CONSIDERATION OTHER THAN CASH

The journal entries passed are:

I. (a) On Purchased of Assets

Sundry Assets A/cs (Individually) ...Dr [With the amount of purchase price]

To Vendor's A/c [With purchase consideration]

(b) On Purchase of Business

Sundry Assets A/cs ...Dr [Agreed value of assets]

Goodwill A/c* ...Dr

To Sundry Liabilities A/c [Agreed value of liabilities]

To Vendor's A/c ** [With purchased consideration]

To Capital Reserve A/c***

Note: Purchasing consideration is an amount paid by purchasing company in consideration for purchase of assets /business from other enterprise. It may be given in the question otherwise it will be equal to net assets, i.e, sundry assets minus sundry liabilities.

*If purchase consideration given is more than net assets, then the difference is debited in Goodwill Account.



** Vendor is credited by purchase consideration payable to him.

*** If purchase consideration given is less than the net assets, then the difference is credited to Capital Reserve.

Either Goodwill or Capital Reserve will appear at a time.

II. On Issues of Shares

(a) If shares are issued to vendor at par:

Vendor's A/cDr [With the nominal value of share allotted]
To share Capital A/c

(b) If share are issued to vendor at a premium:

Vendor's A/cDr [With the purchase price]
To share Capital A/c [With the nominal value of share allotted]
To Securities Premium Reserve A/c [With the amount of premium]

Note: Before making the journal entry we should calculate the number of share to be issued against purchase consideration. It will help in calculating the correct amount of share capital and securities premium reserve.

*Number of share to be issued = Purchase Consideration / Issue price of share

FORFEITURE OF SHARES -

Forfeiture of shares issued at par:

The entry for forfeiture of shares is:

Shares capital a/c (called up value) Dr.
To Share forfeited A/c
To share allotment a/c
To share call a/c

Forfeiture of shares which were originally issued at premium:

- securities premium amount has been received; and
- Securities Premium amount has not been received.

Accounting Entries for Forfeiture of Shares Issued at a Premium:

i. If premium has been received :

Share Capital a/c Dr
To Share Allotment a/c
To Share Call/calls a/c
To Share forfeited A/c

i. If premium has not been received:

Share Capital a/c Dr.
Securities Premium Reserve a/c Dr.
To Share Allotment a/c
To Share call/calls a/c
To Share forfeited A/c



REISSUE OF FORFEITED SHARES

In case, they are reissued at par, accounting entry is:

Bank a/c	Dr.
To Share capital a/c	

In case, they are reissued at discount, accounting entry is:

Bank a/c	Dr.
Share forfeited A/c	Dr.
To Share Capital a/c	

If the forfeited shares are reissued at a price higher than that of paid-up value, the excess of reissues price over paid-up value is credited to Securities Premium Reserve a/c. Following entry is passed:

Bank a/c	Dr.
To Share capital a/c	
To Securities Premium Reserve a/c	

NOTE: Maximum Permissible Discount on Reissue of Forfeited Shares: Maximum Permissible Discount on Reissue of Forfeited Shares is the amount forfeited, i.e., the amount credited to the forfeited shares.

In other words, reissue price cannot be less than the amount unpaid on forfeited shares.

Accounting Treatment:

i. When all Forfeited Shares are Reissued

Forfeited Shares a/c	Dr.
To Capital Reserve a/c	

(Being the gain on reissue transferred to Capital Reserve)

ii. When All Forfeited Shares are not Reissued

*Gain on reissue of shares is calculated as follows:

= (Total amount forfeited "No. of shares forfeited × No. of shares reissued) - (Amount with which Forfeited Shares Account was debited at the Or Reissue Discount time of reissue of such shares.)

Practical Questions

Q.1. On 1st April, 2013 Janta Ltd. was formed with an authorized capital of Rs.30,00,000 divided into 30,000 shares of Rs. 100 each. The company issued 10,000 shares at par.

The issue price was payable as follows:

On application	-	Rs 30 per share
On allotment	-	Rs 50 per share
On final call	-	Rs 20 per share

The issue was fully subscribed and the company allotted shares to all the applicants. All money was received except the final call money on 1,000 shares. Show the 'share capital' in the balance sheet of the company as per Schedule III of the companies act, 2013 as at 31st March, 2014 and also show note to accounts.

Ans. BALANCE SHEET OF JANTALTD. (Relevant Extract)



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Particulars	Note No.	Rs.
1. EQUITY AND LIABILITIES		
Shareholders' Funds Share Capital	1	
		9,80,000

Note to Accounts

1. Share Capital	
Authorised Capital	
30,000 Equity Shares of Rs. 100 each	30,00,000
Issued Capital	
10,000 Equity Shares of Rs 100 each	10,00,000
Subscribed Capital	
Subscribed and Fully Paid-up	
9,000 Equity Shares of Rs 100 each	9,00,000
Subscribed but not fully Paid-up	
1,000 Equity Shares of Rs 100 each	1,00,000
Less: Calls-in-Arrears(1,000*Rs20)	20,000
	9,80,000

Q.2. Rohit Ltd. Purchased assets from Rohan & Co. , for Rs 350,000. A sum of Rs 75000 was paid by means of a bank draft and for the balance due Rohit Ltd. Issued equity shares of Rs. 10. each at Premium of 10%. Journalise the above transactions in the books of the company.

Q.3. Mohan Ltd. forfeited the following equity shares of Rs 10. Each issued at a premium of Rs 2 per shares :-

- (i) 700 shares issued to X for the non-payment of second and final call of Rs 3 per shares.
- (ii) 500 shares issued to Z for the non-payment of first call of Rs 2 per shares and second and final call of Rs 3 per share. The forfeited shares were reissued to Y for Rs 11 per share fully paid.

Pass entries to record the forfeiture and reissues of share.

Q.4. X Ltd. issued 50,000 shares of Rs 10 each at a premium of Rs 2 per shares payable as follows
Rs 3 on application,
Rs 6 on allotment (including premium)and
Rs 3 on call. Applications were received for 75,000 shares and a pro rata allotment was made as follows :

To the applicants of 40,000 shares , 30,000 shares were issued and for the rest 20,000 shares were issued. All money due was received except the allotment and call money from Ram who had applied for 1,200 shares (out of the group of 40,000 shares). All his shares were forfeited. The forfeited shares were reissued for Rs 7 per share fully paid up.

Pass necessary journal entries for the above transactions.

[Ans- Capital Reserve- Rs.900]



Q.5. Lennova ltd. has authorized share capital of Rs 1, 00, 00,000 divided into 10, 00,000 equity shares of Rs 10 each. It has existing issues and paid up capital of Rs 25, 00,000. It further issued to public 2,50,000 equity shares at a premium of 20% for subscription payable as under:

On applications: Rs 3

On allotment: Rs 6; and On call: Balance Amount

The issue was fully subscribed and allotment was made to all the applicants. The company did not make the call during the year. Show share capital of the company in the balance sheet of the company.

Note: Problems related to disclosure of share capital in company's Balance sheet are also given under the head issue of shares at par and at premium.

- Q.6.** (a) X Ltd. forfeited 30 shares of Rs 10 each fully called up held by Karim for non-payment of allotment money of Rs3 per share and Final call of Rs4 per share. He had paid the application money of Rs 3 per share. These shares were reissued to Salim for Rs 8 per share.
- (b) X Ltd. Forfeited 20 shares of Rs 10 each, Rs 7 called up on which Mahesh had paid application and allotment money of Rs 5 per share. Of these, 15 shares were reissued to Naresh as fully paid up for Rs 6 per share.

Ans:- (a) [Capital Reserve – 30]

(b) [Capital Reserve – 15]

Q.7. Super Star ltd. issued a prospectus inviting applications for 2,000 shares of Rs 10 each at a premium of Rs 2 per share, payable as:

On applications - Rs 3 (including Re 1 premium),

On allotments - Rs 4(including Rs 1 premium) On first call - Rs 3, On second and final call -Rs 2

Applications were received for 3,000 shares and pro rata allotments were made on the applications for 2,400 shares. It was decided to utilise excess applications money towards the amount due on allotments. Ramesh to whom 40 shares were allotted, failed to pay the allotments money and on his subsequent failure to pay the first call, his shares were forfeited. Ramesh to whom 40 shares were allotted, failed to pay the allotments money and on his subsequent failure to pay the first call, his shares were forfeited. Rajesh who applied for 72 shares failed to pay the two calls on such failures, his shares were forfeited of the shares forfeited, and 80 shares were sold to Krishna credited as fully paid up for Rs 9 per share, the whole of Ramesh's share being included. Give journal entries to record the above transactions (including cash transactions).

Ans. [Capital Reserve – Rs224]



MISSING INFORMATION:-

1) Complete the following journal entries:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share Capital A/C To Forfeited shares A/C To shares first call A/C (Being 1,000 shares of RS.100 each forfeited for non-payment of first call)		80,000	50,000 30,000
	Bank A/c Dr Shareforfeiture Ac-Dr To Share Capital A/c (Being 1,000 shares reissued at Rs.70 per share Rs.80 paid-up)		? ?	?
	?A/c To? A/c (Being the gain on reissued of shares transferred to capital reserve)		?	?

Solution

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share Capital A/cDr To Forfeited Shares A/c To Shares First call A/c (Being 1000 shares of Rs100 each forfeited for non-payment of First call)		80,000	50,000 30,000
	Bank A/cDr Forfeited Shares A/cDr To Share Capital A/c (Being 1000 Shares reissued at Rs70 per share Rs80 paid up)		70,000 10,000	80,000
	Shares forfeited A/cDr To Capital Reserve A/c (Being the gain on reissue of shares transfer to Capital reserve)		40,000	40,000

6. Fill in the blanks :

Forfeited shares account

Liabilities	Amount	Assets	Amount
To Share Capital A/c (Discount on reissue of 200 shares)	2,000	By Share Capital A/c (Amount forfeited on 500 shares)	15,000
To Capital Reserve A/c	?		
To Bal c/d	?		



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Solution:

Liabilities	Amount	Assets	Amount
To Share Capital A/c (Discount on reissue of 200 shares)	2,000	By Share Capital A/c (Amount forfeited on 500 shares)	15,000
To Capital Reserve A/c	4,000		
To Bal c/d	9,000		
	15,000		15,000

COMPANY ACCOUNTS - ISSUE OF DEBENTURES

***DEBENTURE**-debenture is a written acknowledgement of a debt by the company. **Its** contains the terms for the repayment of the principal debt on specified date and for payment of interest at a fixed percent until the principal sum is paid.

***DISCLOSURE OF DEBENTURES IN COMPANY'S BALANCE SHEET**-As per schedule III of the companies act,2013,debentures are shown in balance sheet as a Long-Term borrowings under non-current liabilities but debentures, shown as long - term borrowings and payable within 12 months for the date of balance sheet or within the period of operating cycle is shown as current maturity of long term debts under other current liabilities under the head current liability interest accrued [due and not due] is shown as other current liability under current liabilities

DEBENTURE TRUST DEED-is document created by the company whereby trustees are appointed to protect the interest of debentureholder before they are offered for public subscription.

ISSUE OF DEBENTURES-Debenture like shares can be issued for [i] cash and [ii] consideration other than cash. These debentures can be issued [a] at par or [b] at premium or [c] at discount. Accounting for issue of debenture for cash is the same as the accounting for issue of shares with one change i.e. the word 'share' shall be replace by 'debenture' and 'share capital' by 'debenture' . The terms used for the issue of the share will be changed at the time of issue of debenture.

*****Premium on redemption of debentures: disclosure in the balance sheet**[i] If the debentures are shown as 'long term borrowing' then it is shown in equity and liabilities part of the balance sheet under the head 'non-current liabilities' and sub head 'other long term liabilities'. [II] If the debentures are shown as 'short term borrowing' then it is shown in the equity and liabilities part of the balance sheet under the head 'current liabilities' and sub head 'other current liabilities'. [iii] If the debentures are shown as 'current maturities of a long term debts' then it is shown under the head 'current liabilities' and sub head and 'other current liabilities'.

INTEREST ON DEBENTURES- is considered as an expense it is charged against the profit of the company and is payable whether profit are earned or not.

TAX DEDUCTED AT SOURCE [TDS] tax is deducted on interest at the specified rate and deposited in the government account on the due date.

ISSUE OF DEBENTURES FOR CONSIDERATION OTHER THAN CASH a company can issue debentures to the vendors as a payment for the purchase of the assets such as issue of debentures is known as an issue of debenture consideration other than cash.



ISSUE OF DEBENTURES AS COLLATERAL SECURITY means issue of debentures as a subsidiary or secondary security collateral security means additional security i.e., in addition to the prime security. It is only to be realised when the prime security fails to pay the amount of the loan. Debentures issued as collateral security may or may not be recorded in the books of accounts if an accounting entry is not passed it is disclosed under the loan if an accounting entry is passed it is shown below the loan first as debenture issued and thereafter debenture suspense account is deducted.

Case	Conditions of Issue	Condition on Redemption
1	Issued At Par	Redeemable At Par
2	Issued At Discount	Redeemable At Par
3	Issued As Premium	Redeemable At Premium
4	Issued At Par	Redeemable At Premium
5	Issued At Discount	Redeemable At Premium
6	Issued At Premium	Redeemable At Premium

COMPANY ACCOUNTS-REDEMPTION OF DEBENTURES

*****REDEMPTION OF DEBENTURE** Is a process of repayment of a loan taken by issue of debentures

*****METHODS OF REDEMPTION OF DEBENTURES** 1.on the maturity in lump sum, 2. in installments by the draw of lots, 3. by purchase of own debentures from open market and 4. by conversion into share or new class of debentures.

SOURCES OF REDEMPTION OF DEBENTURES-debentures can be redeemed by utilizing any of the following sources.

[i] **Redemption out of capital:** when the debentures are redeemed without adequate profits being transferred from surplus i.e. statement of profit and loss to debenture redemption reserve [DRR] at the time of redemption of debentures, such redemption is said to be out of capital.

[ii] **REDEMPTION OUT OF PROFITS :** when debentures are redeemed only out of profit and amount equal to nominal [face] value of debenture is transferred from surplus i.e., statement of profit and loss to debenture redemption reserve [DRR] before the redemption of debentures, such redemption is said to be out of profits.

[III] **Redemption partly out of profits and partly out of capital:** It means that the company does not transfer 100 per cent nominal (face) value of the total redeemable debentures of a particular series to DRR out of surplus.

Debenture Redemption Reserve (DRR): is created out of profit of the company available for payment as divided for the purpose of redemption of debentures. As per the provision of section 71 (4) of the companies act, 2013 read with Rule 18(7) of the companies (share capital of debentures) Rules 2014, a company shall transfer at least 25% of total nominal (face) value of redeemable debentures of that class out of surplus available for payment of dividend to DRR. DRR is required to be created in only case of non-convertible Debentures (NCD) and Non-convertible portion of partly Convertible Debentures (PCD).

Debenture Redemption Investment: A company required to create/maintain DRR shall on or before 30th April of the current year, deposit or invest (as the case may be) at least 15 % of the



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amount of its debentures maturing during the year ending on 31st March of the next year. Companies not required to create DRR are not required to invest in specified securities. **Issue Of Debentures (Solved Practical Questions)** Q.1.X limited issued 5,000, 12% debentures of Rs. 100 each on 1st April, 2010 at par redeemable at a premium of 5%. Interest on these debentures is paid half yearly, i.e., on 30th September and 31st March. Pass necessary journal entries for the year ended 31st March, 2011 assuming income tax is deducted @20% on the amount of interest.

Solution

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2010	Bank A/c Dr.		5,00,000	
April 1	To Debentures Application and Allotment A/c (Amount received on application.)			5,00,000
April 1	Debenture Application & Allotment A/c Dr.		5,00,000	
	Loss on issue of Debenture A/c Dr.		25,000	
	To 12% Debentures A/c			5,00,000
	To Premium on Redemption of Debentures A/c (Issue of Debentures at par and redeemable at 5% premium)			25,000
Sept. 30	Interest on Debentures A/c Dr.		30,000	
	To Debenture holders A/c			24,000
	To Income Tax Payable A/c (Half-yearly interest due on debentures and tax deducted at source)			6,000
Sept. 30	Debenture holders A/c Dr.		24,000	
	To Bank A/c (Payment of interest)			24,000
Sept. 30	Income Tax Payable A/c Dr.		6,000	
	To Bank A/c (TDS deposited with income tax authorities)			6,000
2011	Interest on Debentures A/c Dr.		30,000	
March 31	To Debenture holders A/c			24,000
	To Income Tax Payable A/c (Half-yearly interest due on debentures and tax deducted at source)			6,000
March 31	Debenture holders A/c Dr.		24,000	
	To Bank A/c (Payment of interest)			24,000
March 31	Income Tax Payable A/c Dr.		6,000	
	To Bank A/c (TDS deposited with income tax authorities)			6,000
March 31	Statement of Profit & Loss Dr.		6,000	
	To Interest on Debentures A/c (30,000+30,000) (Interest transferred to statement of profit & loss)			60,000



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

Solution

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
Case 1	Bank A/c Dr.		2,00,000	
	To 12% debentures application & allotment a/c (application money received)			2,00,000
	12% debentures application & allotment A/c Dr.		2,00,000	
	To 12% debentures a/c (Transfer of application money to dentures a/c, issued at par)			2,00,000
Case 2	Bank a/c Dr.		1,96,000	
	To 12% debentures application & allotment a/c (Application money received)			1,96,000
	12% debentures application & allotment a/c Dr.		1,96,000	
	Discount on issue of debentures a/c Dr.		4,000	
	To 12% debentures a/c (Transfer of application money to debentures a/c, issued at a discount of 2%)			2,00,000
Case 3	Bank a/c Dr.		2,10,000	
	To 12% debentures application & allotment a/c (application money received)			2,10,000
	12% debentures application & allotment a/c Dr.		2,10,000	
	To 12% debentures a/c To Securities premium reserve A/c (Transfer of application money to debentures a/c, issued at a premium of 5%)			2,00,000 10,000
Case 4	Bank A/c Dr.		2,00,000	
	To 12% debentures application & allotment a/c (application money received)			2,00,000
	12% debentures application & allotment a/c Dr.		2,00,000	
	Loss on issue of debentures a/c To 12% debentures a/c		10,000	2,00,000



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	To premium on redemption a/c (transfer of application money to debentures a/c, issued at par, but redeemable at a premium of 5%)			10,000
Case 5	Bank a/c Dr. To 12% debentures application & allotment a/c (application money received) 12% debentures 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 a/c, issued at a discount of 2% and redeemable at a premium of 5%)		1,96,000 1,96,000 14,000	1,96,000 2,00,000 10,000
Case 6	Bank a/c Dr. To 12% debentures application & allotment a/c (application money received) 12% debentures application & allotment a/c Dr. Loss on issue of debentures a/c Dr. To 12% debentures a/c To Securities premium reserve a/c To premium on redemption a/c (transfer of application money to debentures a/c, issued at a premium of 5% and redeemable at a premium of 10%)		2,10,000 2,10,000 20,000	2,10,000 2,00,000 10,000 20,000

METHODS OF REDEMPTION OF DEBENTURES

1. Redemption of Debentures on Maturity in Lump Sum –

Case 1. When debentures are Redeemed at Par, the journal entries are:

(i) On debentures becoming due for payment:

...% Debentures A/cDr [with nominal value]
To Debenture holders' A/c

(ii) On payment:

Debenture holder A/c ...Dr. [with nominal value]
To Bank A/c

Case 2. When debentures are redeemed at premium, the journal entries are:

(i) On debentures becoming due for payment:

.... % Debentures A/cDr. [with nominal value]
Premium on redemption on debentures A/c ...Dr. [with amount of premium]
To Debenture holders' A/c [with nominal value + premium]



(ii) On payment:

Debenture holder A/c ...Dr [with the amount paid]
To Bank A/c

(i) **Redemption of debentures out of capital:**

a. On Debentures becoming due for Payment:

.... %debentures A/c ...Dr. [with nominal value]
Premium on redemption on debentures A/c ...Dr. [if premium is payable on redemption]
To Debenture holders A/c [with nominal value+ premium]

b. On payment

Debenture holder A/c ...Dr [with the amount paid]
To Bank A/c

(ii) **Redemption of debentures out of profit:**

(i) on creation of Debenture Redemption Reserve:

Surplus, i.e., balance in statement of Profit and Loss A/cDr.
To Debenture Redemption Reserve

(ii) on investment or deposit being made in specified securities:

Debenture Redemption Investment A/c ...Dr.
To Bank A/c

(iii) On Encashing investment before redemption of debentures:

Bank A/c ...Dr.
To Debenture Redemption Investment A/c

(iv) On the Amount being due to Debenture holders on redemption:

a. if the debentures are to be redeemed at par:

...% Debentures A/c ...Dr. [Due with nominal value]
To Debenture holders A/c

b. if the debentures are to be redeemed at premium:

...% Debentures A/c ...Dr. [Due with nominal value]
Premium on Redemption of Debentures ...Dr. [with premium payable]
To Debenture holders A/c [Due with nominal +premium]

(v) On payment to Debenture holders:

Debenture holders' A/c ...Dr. [with the amount paid]
To Bank A/c

2. Redemption of debentures in Installments by Draw of Lots: Under this method, the company can redeem its debentures by payment each year a part of debentures being selected by draw.



The holders of the debentures, which are drawn out, are repaid the amount at par or at premium according to the terms of issue. This process is called **Redemption of Debentures by Draw of Lots**.

3. Redemption of debentures by Purchase from Open Market:

1) When Debentures are Purchased from the Open Market for Immediate Cancellation and are Redeemable at Par:

(a) When Debentures are Purchased at a Price Equal to Nominal Value of Debentures:

(i) When debentures are purchased, the entry passed is:

Own debentures A/c	...Dr. [with purchase cost]
To Bank A/c	

(ii) For Cancellation of Own Debentures:

...% Debentures A/c	...Dr.
To Own Debentures A/c	

(b) When Debentures are Purchased at a Price below the Nominal Value of Debentures:

(i) When Debentures are purchased:

Own Debentures A/c	...Dr. [with purchase cost]
To Bank A/c	

(ii) For Cancellation of Own Debentures:

...% Debentures A/c	...Dr. [with nominal value]
To own Debentures A/c	[with purchase cost]
To gain on cancellation of own debentures A/c	[excess of face value over cost of own debentures cancelled]

Gain on cancellation of debentures:-

Gain on cancellation of own debentures A/c	
To Capital Reserve	

(c) When Debentures are purchased at a Price Higher than the Nominal Value of Debentures:

(i) when debentures are purchased:

Own Debentures A/c	...Dr.
To Bank A/c	

(ii) For cancellation of Own Debentures:

...% Debentures A/c	...Dr. [with face value]
Loss on Cancellation of own Debentures A/c	...Dr. [with excess of cost over nominal value]
To Own Debentures A/c	[with purchase cost]

Note: loss on Cancellation of own Debentures is debited to the Capital Reserve.

2) **When Debentures are Purchased from the Open Market for Immediate Cancellation and Debentures are Redeemable at Premium:**



- (a) When Debentures are Purchased at a Price equal to Nominal Value of Debentures:
- (i) When Debentures are Purchased, the entry is:
- | | | |
|--------------------|--------|----------------------|
| Own Debentures A/c | ...Dr. | [with purchase cost] |
| To Bank A/c | | |
- (ii) For Cancellation of Own Debentures:
- | | | |
|---|--------|--|
| ...% Debentures A/c | ...Dr. | [with face value] |
| Premium on Redemption of Debentures A/c | ...Dr. | [with amount of premium payable on redemption] |
| To Own Debentures A/c | | [with purchase cost] |
| To Gain on cancellation of Own Debentures A/c | | [with premium amount] |
- Gain on cancellation of debentures:-
Gain on cancellation of own debentures A/c
To Capital Reserve
- (b) When Debentures are Purchased at a Price below to Nominal Value of Debentures:
- (i) When Debentures are Purchased, the entry is:
- | | | |
|--------------------|--------|----------------------|
| Own Debentures A/c | ...Dr. | [with purchase cost] |
| To Bank A/c | | |
- (ii) For Cancellation of Own Debentures:
- | | | |
|---|--------|---|
| ...% Debentures A/c | ...Dr. | [with face value] |
| Premium on Redemption of Debentures A/c | ...Dr. | [with amount of premium payable on redemption] |
| To Own Debentures A/c | | [with purchase cost] |
| To Gain on Cancellation of Own Debentures A/c | | [amount of premium +with difference between purchase cost and face value] |
- (c) When Debentures are Purchased at a Price Higher than the Nominal Value of Debentures:
- (i) When Debentures are Purchased, the entry is:
- | | | |
|--------------------|--------|----------------------|
| Own Debentures A/c | ...Dr. | [with purchase cost] |
| To Bank A/c | | |
- (ii) For Cancellation of Own Debentures:
- In case of gain (profit)
- | | | |
|---|--------|---|
| ...% Debentures A/c | ...Dr. | [with face value] |
| Premium on Redemption of Debentures A/c | ...Dr. | [with premium payable on redemption] |
| To Own Debentures A/c | | [with purchase cost] |
| To Gain on cancellation of own Debentures A/c | | [with excess of nominal value & premium over purchase cost] |
- In Case of loss



ACCOUNTANCY

...% Debentures A/c	...Dr.	[with face value]
Premium on Redemption of Debentures A/c	...Dr.	[with premium payable on redemption]
Loss on Cancellation of Own Debentures A/c	...Dr.	[with excess of purchase cost over face value and premium]
To Own Debentures A/c		[with purchase cost]

Note: Loss on Cancellation of Own Debentures Account is debited to the Capital Reserve.

ACCOUNTING ENTRIES FOR CONVERSION OF DEBENTURES;

For amount due to Debenture Holders

- (i) If redemption is at par ;
_____% debentures A/c Dr. (With nominal value)
 To Debenture holders A/c
- (ii) If redemption is at premium
_____% Debentures A/c Dr. (With nominal value)
Premium on redemption of debentures A/c Dr. (With premium payable)
 To debenture holders A/c

For Issuing Shares or debentures where the debentures are fully convertible;

- (i) If shares or New debentures are issued at par;
 Debentures holders A/c Dr. (with amount due)
 To share capital A/c (With nominal amount)
- (ii) If shares or new debentures are issued at a premium ;
 Debentures holders A/c Dr. (With amount due)
 To share capital a/c
 To securities Premium reserve A/c

REDEMPTION OF DEBENTURES BY CONVERSION

For issuing the shares/debentures where debentures are fully convertible:

- (i) If shares or New Debentures are issued at a par:
 Debenture holders' A/cDr.
 To Share Capital A/c/ New Debentures A/c
- (ii) If shares or New Debentures are issued at a Premium:
 Debenture holders' A/cDr.
 To Share Capital A/c/ New Debentures A/c
 To Securities Premium Reserve A/c



When Shares or New Debentures are Issued at Par for Part Consideration and Balance is paid in Cash

- (a) Debenture holders' A/cDr.
 To Share Capital A/c/New Debentures A/c
 To Bank
- (b) Debenture Redemption Reserve A/cDr.
 To General Reserve A/c

When Shares or New Debentures are issued at Premium for part Consideration and Balance is paid in Cash:

- (a) Debenture holders' A/cDr.
 To Share Capital A/c/ New Debentures A/c
 To Securities Premium Reserve A/c
 To Bank
- (b) Debenture Redemption ReserveDr.
 To General Reserve A/c

When new Debentures are issued at a Discount for Part Consideration and Balance is paid in Cash:

- (a) Debenture holders' A/cDr.
 Discount on Issue of Debentures A/cDr.
 To New Debentures A/c
 To Bank A/c
- (b) Debenture Redemption ReserveDr.
 To General Reserve A/c

Conversion of convertible Debentures issued at a Discount by Conversion into shares

Accounting Entries

Debentures may be redeemed by conversion into shares (preference or equity) or new debentures. The journal entries passed are as follows:

- i. Conversion of debentures into shares or debentures at par:
-% Debentures A/cDr. (with nominal value)
 To Debenture holders' A/c (with net amount due)
- ii. Conversion of debentures redeemable at a premium, into shares:
-% Debentures A/cDr. (with nominal value)
 Premium on redemption of debenture A/cDr. (with premium payable)
 To Debenture holders' A/c (with net amount due)
- iii. (a) On issue of shares or new debentures at par:
- Debenture holders' A/cDr
 To share capital A/c (if shares are issued)
 To% Debentures A/c (if debentures are issued)



- (b) On issue of shares or new debentures at premium:
- | | |
|-----------------------------------|----------------------------|
| Debenture holders A/c |Dr. |
| To share capital A/c | (if shares are issued) |
| To ...% Debentures A/c | (if debentures are issued) |
| To securities premium reserve A/c | (with amount of premium) |
- (c) On issue of new debentures at discount:
- | | |
|-------------------------------------|---------|
| Debenture holders A/c |Dr. |
| Discount on issue of debentures A/c |Dr. |
| To% Debentures A/c | |
- (d) On issue of new debentures at discount redeemable at premium:
- | | |
|--|---------|
| Debenture holders A/c |Dr. |
| Loss on issue of debentures A/c |Dr. |
| To% Debentures A/c | |
| To premium on redemption of debentures A/c | |

UNSOLVED PRACTICAL PROBLEM

- Q1.** Give the journal entries at the time of issue of debentures in the following cases:
- Issued 5,00,000, 12% debentures at par and redeemable at par after 5 years.
 - Issued 8,00,000, 11% debentures at 6% discount, redeemable at par after 4 years.
 - Issued 10,00,000, 14% debentures at 5% premium, redeemable at par after 4 years.
 - Issued 20,00,000, 12% debentures at par, redeemable at 5% premium after 3 years.
 - Issued 12,00,000, 13% debentures at 4% discount, redeemable at 6% premium after 3 years.
- Q2.** Chandra Tubes Ltd. Issued 70,000, 7% debentures of 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 7,50,000 to Debentures Redemption Reserve on March 31, 2013, 5,00,000 on March 31, 2014 and 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.
- [Ans2. Debentures Redemption Investment 10,50,000 on 30th April, 2015; Debenture Redemption Reserve amounting to 17,50,000 will be transferred to General Reserve.]
- Q3.** Mayur Ltd. Issued 15,000 9% Debentures of 100 each redeemable after 5 years either by draw of lots or by purchase in the open market. At the end of five years, it purchased all its debentures for immediate cancellation @ 94 per debenture. Expenses of purchase amounted to 1,500. Pass the necessary journal entries for cancellation of debentures assuming the company has sufficient balance in Debenture Redemption Reserve.
- [Ans3. Profit on Redemption 88,500 will be transferred to Capital Reserve; Debenture Redemption Reserve transferred to General Reserve 3,75,000.] Hint: Investment encashed 2,25,000 Note: It is assumed that the Company has invested 15% amount at the beginning of financial year.



- Q4.** On 1st April, 2012 a company issued 10,000, 9% debentures of 100 each at a premium of 5%. The terms of issue provide for redemption of 1,00,000 worth Debentures every year commencing from March, 2014 either by purchasing in the open market or by draw of lots at the company's option. On 31st March, 2014, the company purchased 400 debentures @95 and 500 debentures @96 for cancellation and redeemed the balance of 10,000 debentures by draw of lots. Journalise these transactions and also show how you would deal with the profit on redemption of debentures. [Ans4. Debentures Redemption Investment made on 30th April, 2013 for 15,000 and will not be encashed. Profit on redemption 4,000 will be transferred to capital reserve.]
- Q5.** Green Forest Ltd. Issued 12,00,000, 7% Debentures divided into debentures of 100 each on April 1, 2010, redeemable in four equal annual installments starting from 31st March, 2015. The Board of Directors have decided to create Debenture Redemption Reserve of 80,000 on March 31, 2012; 80,000 on March 31, 2013 and the balance on March 31, 2014. Record necessary journal entries at the time of issue and at the time of redemption of debentures and creation of Debenture Redemption Reserve.
- [Ans 5. Debenture Redemption Investment made for 45,000 on 30th April, 2014 and encashed on 31st March, 2018. Amount transferred to Debenture Redemption Reserve on March 31, 2014 1,40,000 and the balance of this account transferred General Reserve 3,00,000.]

PRACTICAL PROBLEMS

1. IFCI Ltd. (an All India Financial Company) issued 10,00,000; 9% Debentures of Rs.50 each on 1st April, 2008 redeemable on 1st April, 2015. How much amount of Debentures Redemption Reserve is required before the redemption of debentures? Also, pass Journal entries for issue and redemption of debentures.
- [Ans- Debenture Redemption Reserve is not to be created, it being an All India Financial Company]
2. On 1st April, 2013, following were the balances of Blue Bird Ltd.:
- | | |
|---|---------------|
| 10% Debentures (redeemable on 31 st March, 2015) | Rs. 15,00,000 |
| Debenture Redemption Reserve | Rs. 2,00,000 |
- The company met the requirements of the Companies Act, 2013 regarding - Debenture Redemption Reserve and Investment and redeemed the debentures.
- Pass necessary Journal entries for the above transactions in the books of the company.
- [Ans- Transfer of Profit to DRR- Rs.1,75,000; Investment- Rs.2,25,000]
3. Shakti Enterprises Ltd. Issued 30,000; 8% Debentures of Rs.100 each on 1st October, 2011 redeemable in five equal annual instalments starting with 31st March, 2015. The Board decides to transfer the Debenture Redemption Reserve Rs.50,000 and Rs.4,00,000 on 31st March, 2012 and 2013 respectively and balance required to be transferred to Debenture Redemption Reserve on 31st March, 2014.
- Pass Journal entries.
- [Ans- Transferred Rs.3,00,000 to DRR on 31st March, 2014, Investment in specified securities- Rs.90,000]



ACCOUNTANCY

4. On 1st April, 2010, X Ltd. Had 1,000; 12% Debentures of Rs.100 each. Interest on debentures is payable half yearly on 30th September and on 31st March. On 1st July, 2010, the company purchased 300 own debentures at Rs.93 for immediate cancellation.

Pass Journal entries for the purchase and cancellation of debentures.

[Ans- Gain on cancellation of Debentures- Rs.2,100]

5. AAA Ltd. purchased its own 1,000; 10% of Debentures of Rs.100 each @ Rs.100 from open market for immediate cancellation. As per the terms of issue, these debentures were redeemable at 5% premium.

Pass necessary Journal entries for purchase and cancellation of debentures.

[Ans- Gain (Profit) on Cancellation- Rs.5,000]

6. DDD Ltd. purchased its own 2,500; 10% of Debentures of Rs.100 each redeemable at 10% premium @112 per debenture for immediate cancellation.

Pass necessary Journal entries for purchase and cancellation of debentures.

[Ans- Loss on Cancellation- Rs.5,000]

7. Pass necessary Journal entries in the books of the company in the following cases for redemption of 2,000; 12% Debentures of Rs.10 each issued at par:

- (a) Debentures redeemed at par by conversion into 10% preference shares of Rs.50 each.
- (b) Debentures redeemed at premium of 5% by conversion into equity shares issued at a par.
- (c) Debentures redeemed at premium of 5% by conversion into equity shares issued at a premium of 20%.

[Ans- (a) Number of preference shares issued- 400 preference share;

(b) Number of Equity Shares issued- 2,100 shares (assume face value Rs.10);

(c) Number of Equity Shares issued- 1,750 shares (assume face value Rs.10)]

Problem 6 . Fill in the missing information in the following journal entries:

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Own Debentures A/c Dr.		
	To Bank A/c			
	(2,000 own debentures of 100 each purchased at ___ each for immediate cancellation.)		
	11% Debentures A/c Dr.		
	To _____ A/c			
	To profit on redemption of debentures A/c (Cancellation of own debentures)			
	Profit on redemption of debentures A/c Dr.		5000	
	To Capital Reserve A/c			5000
	(Profit on redemption transferred to capital reserve A/c)			

Answer and hint to solve the problem 6: 2,000 own debentures purchased for Rs. 1,95,000, @ 95 per debenture