

QB365 - Question Bank Software

Accounting for issue of share capital PRESENTATION OF SHARE CAPITAL

Question S T L Global Ltd. was formed with a nominal Share Capital of ` 40,00,000 divided into 4,00,000 shares of ` 10 each. The Company offers 1,30,000 shares to the public payable ` 3 per share on Application, ` 3 per share on Allotment and the balance on First and Final Call. Applications were received for 1,20,000 shares. All money payable on allotment was duly received, except on 200 shares held by Y. First and Final Call was not made by the Company.

How would you show the relevant items in the Balance Sheet of S T L Global Ltd.?

SOLUTION:

BALANCE SHEET OF S T L Global LTD.

as at.....

<i>Equity and Liabilities</i>	<i>Note No.</i>	
Shareholder's Funds:		
(a) Share Capital	(1)	<u>14,34,000</u>
Assets		
Current Assets:		
Cash and Cash Equivalents (cash at Bank)		<u>14,34,000</u>

Notes to Accounts:

(1) Share Capital

Authorised Capital:

4,00,000 shares of ` 10 each **40,00,000**

Issued Capital:

1,30,000 shares of ` 10 each **13,00,000**

Subscribed but not Fully Paid Capital:

1,20,000 shares of ` 10 each

` 6 per share called-up 14,40,000

Less: Calls in Arrears (200 shares × ` 3) 6,000

14,34,000

Question--

.Shree Ganesh Jewelry House Ltd. Issued 40,000 shares of ` 10 each at a discount of 10%. Payments were to be made as—on Application ` 3; on Allotment ` 4 and on First and Final Call ` 2.

Applications were received for 36,000 shares and all were accepted. All money was duly received.

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Pass necessary entries in the Books of Company and also show the Balance Sheet of the Company.

SOLUTION:

Journal

Bank A/c	Dr.	1,08,000	
To Share Application A/c			1,08,000
(Money received on application for 36,000 shares @ ` 3 per shares)			
Share Application A/c	Dr.	1,08,000	
To Share Capital A/c			1,08,000
(Transfer of application money to share capital A/c)			
Share Allotment A/c	Dr.	1,44,000	
Discount on issue of shares A/C	Dr.	36,000	
To Share Capital A/c			1,80,000
(Amount due on allotment, excluding discount)			
Bank A/c	Dr.	1,44,000	
To Share Allotment A/c			1,44,000
(Allotment money received)			
Share first and Final call A/c	Dr.	72,000	
To Share Capital A/c			72,000
(Share first and final call due)			
Bank A/c	Dr.	72,000	
To Share First and Final call A/c			72,000
(Share first and final call money received)			

BALANCE SHEET OF Shree Ganesh Jewelry House LTD.

As on.....

Equity and Liabilities	Note No.		
Shareholder's Funds:			
1. Share Capital	1		3,60,000

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Other Current/Non-Current Assets:

Unamortized Expenses (Share Discount) 36,000

Current Assets:

Cash and Cash Equivalents (Cash at Bank) 3,24,000 **3,60,000**

Notes to Accounts:

2. Share Capital

Authorised Capital -----

Issue Capital:

40,000 Shares of ` 10 each **4,00,000**

Subscribed and fully paid:

36,000 Shares of ` 10 each fully paid up **3,60,000**

Question

Cinevistaas Ltd. Issued 30,000 Preference shares of ` 100 each at a discount of 5%. Payments were to be made as — ` 25 on Application; ` 35 on Allotment and ` 35 on First and Final Call.

The applications for 28,000 shares were received and all were accepted. All the money was duly received except the first and final call on 400 shares.

Give the necessary Journal Entries and prepare Cash Book of the Company. Also give the Opening Balance Sheet of the Company.

CASH BOOK (Bank Column)

To Preference Share		By Balance	26,46,000
Application A/c	7,00,000		
To Preference Share			
Allotment A/c	9,80,000		
To Preference Share First &			
Final Call A/c	9,66,000		
	26,46,000		26,46,000

JOURNAL

Preference Share Application A/c	Dr.	7,00,000	
To Preference Share Capital A/c			7,00,000
(Application money transferred to capital A/c)			
Preference Share Allotment A/c	Dr.	9,80,000	
Share Discount A/c	Dr.	1,40,000	
To Preference Share Capital A/c			11,20,000
(Allotment due and ` 5 per share debited to share discount A/c)			
Preference Share First & Final Call A/c	Dr.	9,80,000	
To Preference Share Capital A/c			9,80,000
(Amount due on first & final call A/c)			
Calls in Arrears A/c	Dr.	14,000	
To Preference Share First & Final Call A/c			14,000
(First and Final call @ `35 per share unpaid on 400 shares)			

BALANCE SHEET OF Cinevistaas LTD.

As on.....

Equity and Liabilities	Note No.		
Shareholder's Funds:			
3. Share Capital	1	27,86,000	
Assets	Note No.		
Other Current/Non-Current Assets:			
Unamortized Expenses (Share Discount)		1,40,000	
Current Assets;			
Cash and Cash Equivalents (Cash at Bank)		26,46,000	
Notes to Accounts:			
4. Share Capital			

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Authorised:

.....Shares of `.....each

Issued:

30,000 Preference Shares of ` 100 each 30,00,000

Subscribed but not fully paid:

28,000 Preference Shares of ` 100 each 28,00,000

Less: Calls in Arrear 14,000 27,86,000

Note: When Cash Book Entries are asked in the question, all cash transactions are to be recorded in Cash Book, other non-cash transactions should be entered in the journal.

Question .

Sibar Media & Entertainment Ltd. invited applications for 1,00,000 shares of `10 each at a discount of 6% payable as follows:

On Application 3

On Allotment 2.40

On First and Final Call 4

The applications were received for 90,000 shares and all of these were accepted. All money due were received except the first and final call on 2,000 shares which were forfeited. 1,000 shares were re-issued @ ` 9 per share as fully paid. Assuming that all requirements of law were complied with, pass Entries in the Journal of the company. Also show how these transactions will be reflected in the company's Balance Sheet.

Sibar Media & Entertainment Ltd.

Journal

Bank A/c	Dr.	2,70,000	
To Share Application A/c			2,70,000

(Application money received on 90,000 shares @ ` 3 per share)

Share Application A/c	Dr.	2,70,000	
To Share Capital A/c			2,70,000

(Application money transferred to Share Capital A/c)

Share Allotment A/c	Dr.	2,16,000	
Share Discount A/c	Dr.	54,000	
To Share Capital A/c			2,70,000

(Allotment money due on 90,000 shares; ` 2.40 per share debited to

Share Allotment A/c and ` 0.60 per share debited to Share Discount A/c)

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Bank A/c	Dr.	2,16,000	
To Share Allotment A/c			2,16,000
(Allotment money received on 90,000 shares @ ` 2.40 per share)			
Share First & Final Call A/c	Dr.	3,60,000	
To Share Capital A/c			3,60,000
(First call due on 90,000 shares at ` 4 per share)			
Bank A/c	Dr.	3,52,000	
To Share First & Final Call A/c			3,52,000
(Share first and final call received on 88,000 shares @ ` 4 per share)			
Share Capital A/c	Dr.	20,000	
To Share First & Final Call A/c			8,000
To Share Discount A/c			1,200
To Share Forfeiture A/c			10,800
(Forfeiture of 2,000 shares for non-payment of first and final call)			
Bank A/c	Dr.	9,000	
Share Discount A/c	Dr.	600	
Share Forfeiture A/c	Dr.	400	
To Share Capital A/c			10,000
(Re-issue of 1,000 shares @ ` 9 per share, ` 0.60 per share debited to Discount A/c and the balance of ` 0.40 per share charged from forfeiture A/c)			
Share Forfeiture A/c	Dr.	5,000	
To Capital Reserve A/c			5,000
(Profit on 1,000 re-issued shares transferred to Capital Reserve A/c from share forfeiture A/C)			

BALANCE SHEET OF Sibar Media & Entertainment Ltd.

As on.....

Equity and Liabilities

Note No.

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Shareholder's Funds:

5.	Share Capital	1	8,95,400
6.	Reserve and Surplus	2	5000
			9,00,400

Assets

Note No.

Other Current/Non-Current Assets:

Unamortized Expenses (Share Discount) 4 **53,400**

Current Assets:

Cash and Cash Equivalents (Cash at Bank) **8,47,000**

9,00,400

Notes to Accounts:

7. **Share Capital:**

Authorised:

Issued Capital:

1,00,000 Shares of ` 10 each

10,00,000

Subscribed and fully paid:

89,000 Shares of ` 10 each fully paid up

8,90,000

Add: Share Forfeiture A/c

5,400

8,95,400

8. **Reserves and Surplus**

Capital Reserve A/c

5,000

Note (3) As profit on 2,000 shares

= ` 10,800

Therefore, Profit on 1,000 Shares

= $\frac{10,800}{200} \times 100$

=

5,400

Less Loss on Re-issue: 1,000 Shares \times ` 0.40

= 400

Transferred to Capital Reserve

5,000

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(4) Share Discount: ` 0.60 per share on 89,000 Shares

Question

Daisy Systems Ltd. Issued 50,000 Equity Shares of ` 10 each, at a discount of 10%, payable as follows:

On Application	` 2.50 per share
On Allotment	` 3 per share
On First Call	` 1.50 per share
On Final Call	The balance amount

Applications were received for 65,000 shares and the Directors made pro-rata allotment to the applicants for 60,000 shares.

The Directors did not make the final Call. X did not pay allotment and first call money on 1,000 shares allotted to him while Y did not pay the First Call on his 2,000 Shares. These shares were forfeited and 2,200 of these shares were re-issued to Mr. Gupta as ` 8 paid at ` 6.50 per share, whole of Y's shares being included in the re-issued shares. Show the journal entries to record the above transactions and prepare the Balance Sheet.

JOURNAL

Bank A/c	Dr.	1,62,500		
To Equity Share Application A/c				1,62,500
(Application money received on 65,000 shares @ ` 5 per share)				
Equity Share Application A/c	Dr.	1,62,500		
To Equity Share Capital A/c				1,25,000
To Equity Share Allotment A/c				25,000
To Bank A/c				12,500
(Application money transferred to Share Capital A/c for 50,000 shares; to allotment A/c for 5,000 shares and amount returned on 2,500 shares @ ` 2.50 per share)				
Equity Share Allotment A/c	Dr.	1,50,000		
Share Discount A/c	Dr.	50,000		
To Equity Share Capital A/c				2,00,000
(Allotment due on 50,000 shares @ ` 3 per share)				
Bank A/c	Dr.	1,22,500		
To Equity Share Allotment A/c				1,22,500
(Allotment money received on 49,000 shares)				
Equity Share First Call A/c	Dr.	75,000		

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To Equity Share Capital A/c		75,000
(First call due on 50,000 shares @ ` 1.50 per share)		
Bank A/c	Dr.	70,500
To Equity Share First Call A/c		70,500
(First call received on 47,000 shares @ ` 1.5 per share)		
Equity Share Capital A/c (3,000 × ` 8)	Dr.	24,000
To Equity Share Allotment A/c		2,500
To Equity Share First Call A/c		4,500
To Share Discount A/c		3,000
To Share Forfeiture A/c		14,000
(Forfeiture of 1,000 shares of X and 1,000 shares of Y)		
Bank A/c	Dr.	14,300
Share Discount A/c	Dr.	2,200
Share Forfeiture A/c	Dr.	1,100
To Equity Share Capital A/c		17,600
(Re-issue of 2,200 shares @ ` 6.50 per share)		
Share Forfeiture A/c	Dr.	10,500
To Capital Reserve A/c		10,500
(Profit on the re-issue of 2,200 shares transferred to Capital Reserve A/c)		

BALANCE SHEET OF Daisy Systems LTD.

As on.....

Equity and Liabilities	Note No.	
Shareholder's Funds:		
Share Capital	1	3,96,000
Reserve and Surplus (Capital Reserve)		10,500
		4,06,500
Assets	Note No.	
Other Current/Non-Current Assets:		
Unamortized Expenses (Share Discount)		49,200
Current Assets:		
Cash and Cash Equivalents (Cash at Bank)		3,57,300
		4,06,500

Issue of Debentures

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Q. Claris Life Sciences Ltd. issued 5,000 14% Debentures of ₹ 100 each at a discount of 10%. Pass the necessary journal entries in the books of the company for the issue of debentures when debentures were to be:

(i) Redeemed at par.

(ii) Redeemed at a premium of 5%.

Date	Particulars	L. F.	Dr.(₹)	Cr.(₹)
	Bank A/c Dr. To Debenture Application and Allotment (Application money received on 5,000 debentures @ ₹ 90 each)		4,50,000	4,50,000
	Debenture Application and Allotment Dr. Discount on issue of debentures Dr. To 14% Debentures (5,000 14% Debentures of ₹ 100 each issues at a discount of 10%)		4,50,000 50,000	5,00,000
	Debenture Application and Allotment Dr. Discount on issue of debentures Dr. To 14% Debentures To Premium on redemption of debentures (5,000 14% debentures of ₹ 100 each issues at a discount of 10% but redeemable at a premium of 5%)		4,50,000 75,000	5,00,000 25,000

Q. Kirloskar Multimedia Ltd. purchased machinery costing ₹ 16,72,000. It was agreed that the purchase consideration be paid by issuing 13% Debentures of ₹ 100 each. Assume debentures are issued (i) at par, (ii) at a premium of 10% and (iii) at a discount of 5%. Give necessary journal entries.

Journal

Date	Particulars	L. F.	Dr.(₹)	Cr.(₹)
	Machinery A/c Dr. To Vendor (machinery purchased from vendor)		16,72,000	16,72,000
	Vendor Dr. To 13% Debentures (15,960 13% debentures of ₹ 100 each issued at par.)		16,72,000	16,72,000
	Vendor Dr.		16,72,000	

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To 13% debentures A/c To securities premium (15,200 13% debentures of ` 100 each issued at a premium of 10%) Vendor Dr. 16,72,000 Discount on issue of debentures Dr. 88,000 To 13% debentures (17,600 13% debentures of ` 100 each issued at a discount of 5%)	15,20,000 1,52,000 17,60,000
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Q. Zenith Infotech Ltd. issued Debentures of ` 1,00,000 at par redeemable at the end of four years at a premium of 20%. Show the 'loss on Issue of Debentures Account' till it is written off completely. Books of Zenith Infotech Ltd.

Loss on Issue of Debentures Account

Date	Particulars	L.F.	`	Date	Particulars	L.F.	`
Year I	To premium on redemption on debentures A/c		20,000	Year I	By Profit & loss A/c		5,000
			20,000		By balance c/d		15,000
Year II	To Balance b/d		15,000	Year II	By Profit & loss A/c		5,000
			15,000		By balance c/d		10,000
Year III	To Balance b/d		10,000	Year III	By Profit & loss A/c		5,000
			10,000		By balance c/d		5,000
Year IV	To Blanco b/d		5,000	Year IV	By Profit & loss A/c		5,000
			5,000				5,000

Q. Archana Software Ltd. issues 6,000 15% Debentures of ` 100 each at a discount of 10%. The amount was payable as follows:

On Application 50

On Allotment 40

Applications for 8,000 debentures were received. Allotment was made to all the applicants on pro-rata basis. Identify the value involved in the decision of allotment.

Give Journal entries in the books of the company.

Journal

Date	Particulars	L.F.	Dr.([^])	Cr.([^])
	Bank A/c Dr.		4,00,000	

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To Debenture Application A/c (Application money received on 8,000 debentures @ ` 50 each) Debenture Application Dr.		4,00,000	
To 15% Debentures		3,00,000	
To Debentures Allotment		1,00,000	
(Application money transferred to 15% Debentures account and Debentures Allotment A/c)			
Debenture Allotment Dr.		2,40,000	
Discount on Issue of Debenture Dr.		60,000	
To 15% Debentures			3,00,000
(Allotment money due on 6,000 debentures at ` 40 each)			
Bank A/c Dr.		1,40,000	
To Debenture Allotment			1,40,000
(Allotment money received)			

Question A Ltd. issued 5,000 10% Debenture of ` 100 each at a discount of 20%. All the amount was payable with the application. Applications were received for 4,000 Debentures only. All due amount duly received. Give the necessary journal entries in the books of A Ltd. at the time of issue of Debentures In the Books of A Ltd.

Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c Dr.	3,20,000	
	To Debenture Application and Allotment A/c (Being Debenture Application amount received for 4,000 debentures @ ` 80 each)		3,20,000
	Debenture Application and Allotment A/c Dr.	3,20,000	
	Discount on issue of Debentures A/c Dr.	80,000	
	To 10% Debentures A/c (Being application money adjusted at the time of allotment of debentures)		4,00,000

Question

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Give journal entries for issue of debentures in the following cases and also prepare balance sheet in each case.

I. Issued 1,000 7% debentures of Rs. 100 each at par, redeemable at par.

Solution I.

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c. Dr. To Debentures Applications A/c. (Application money received)		1,00,000	1,00,000
	Debentures Application A/c. Dr. To 7% Debentures A/c (Issue of debentures at par, redeemable at par)		1,00,000	1,00,000

Balance Sheet of
As at 31st December, 2012 (assumed)

	Particulars	Note No.	(Rs.)
I (3)	Equity and Liabilities Non-Current Liabilities (a) Long-term Borrowings	1	<u>1,00,000</u>
II (2)	Assets Current Assets (e) Cash and Cash Equivalents	2	<u>1,00,000</u>

Notes to Balance Sheet

Note No.1	(Rs.)
Long-term Borrowings :	
1,000 , 7% Debentures of Rs. 100 each	<u>1,00,000</u>
Note no.2	
Cash and Cash Equivalents :	
Cash at Bank	<u>1,00,000</u>

II. Issued 1,000 7% debentures of Rs. 100 at a Premium of 5%, redeemable at par.

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Solution II

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c. Dr. To Debentures Applications A/c. (Application money on 1,000 debentures @ Rs. 105 each received)		1,05,000	1,05,000
	Debentures Application A/c. Dr. To 7% Debentures A/c. To Securities Premium A/c (Debentures issued at premium repayable at par)		1,05,000	1,00,000 5,000

Balance Sheet of

	Particulars	Note No.	(Rs.)
I	Equity and Liabilities		
(1)	Shareholders' Fund		
	(b) Reserve and surplus	1	5,000
(3)	Non-Current Liabilities		
	(a) Long-term borrowings	2	1,00,000
			<u>1,05,000</u>
II	Assets		
(2)	Current Assets		
	(d) Cash and Cash Equivalents	3	<u>1,05,000</u>

Notes to Balance Sheet

Note No.1	(Rs.)
Reserve and Surplus :	
Securities Premium Reserve	<u>5,000</u>
Note no.2	
Long-term Borrowings :	
1,000 , 7% Debentures of Rs. 100 each	<u>1,00,000</u>
Note No.3	
Cash and Cash Equivalents :	
Cash at Bank	<u>1,05,000</u>

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III. Issued 1,000 7% debentures of Rs. 100 each at a discount of 5%, redeemable at par.

Solution III

Journal

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr. (Rs.)</i>	<i>Cr. (Rs.)</i>
	Bank A/c. Dr. To Debentures Applications A/c. (Application money on 1,000 debentures @ Rs. 95 each received)		95,000	95,000
	Debentures Application A/c. Dr. Discount on issue of Debentures A/c. Dr. To 7% Debentures A/c. (Debentures issued at discount, repayable at par)		95,000 5,000	1,00,000

Balance Sheet of

	<i>Particulars</i>	<i>Note No.</i>	<i>(Rs.)</i>
I	Equity and Liabilities		
(1)	Shareholders' Fund		
	(a) Long-term borrowings	1	<u>1,00,000</u>
II	Assets		
(1)	Non-current Assets		
	(e) Other Non-current Assets	2	<u>5,000</u>
(2)	Current Assets		
	(d) Cash and Cash Equivalent	3	<u>95,000</u>
			<u>1,00,000</u>

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Notes to Balance Sheet

Note No.1	(Rs.)
Long-term Borrowings :	
1,000 , 7% Debentures of Rs. 100 each	<u>1,00,000</u>
Note no.2	
Other Non-current Assets	
Discount on Issue of Debentures	<u>5,000</u>
Note No.3	
Cash and Cash Equivalents :	
Cash at Bank	<u>95,000</u>

IV. Issued 1,000 7% debentures of Rs. 100 each at par, redeemable at 5% Premium.

Solution IV

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c. Dr. To Debentures Applications A/c. (Application money received)		1,00,000	1,00,000
	Debentures Application A/c. Dr. Loss on issue of Debentures A/c. Dr. To 7% Debentures A/c. To Premium on Redemption A/c. (Debentures issued at par, repayable at premium)		1,00,000 5,000	1,00,000 5,000

Balance Sheet of

	Particulars	Note No.	(Rs.)
I	Equity and Liabilities		
(3)	Non-current liabilities		
	(a) Long-term borrowings	1	1,00,000
	(c) Other Long-term Liabilities		<u>5,000</u>
	Total		<u>1,05,000</u>
II	Assets		
(1)	Non-current Assets		
	(e) Other Non-current Assets	2	<u>5,000</u>
(2)	Current Assets		
	(d) Cash and Cash Equivalents	3	<u>1,00,000</u>

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	Total		<u>1,05,000</u>
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Notes to Balance Sheet

Note No.1 Non-current Liabilities : (a) Long-term Borrowings : 1,000 , 7% Debentures of Rs. 100 each (b) Other long-term Liabilities Premium on Redemption	(Rs.) 1,00,000 <u>5,000</u> <u>1,05,000</u>
Note no.2 Other Non-current Assets : Loss on Issue of Debentures	5,000 <u>5,000</u>
Note No.3 Cash and Cash Equivalents : Cash at Bank	1,00,000 <u>1,00,000</u>

V. Issued 1,000 7% debentures at a discount of 5%, redeemable at a Premium of 5%.

Solution V

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c. Dr. To Debentures Applications A/c. (Application money on Rs. 95 each received)		95,000	95,000
	Debentures Application A/c. Dr. Loss on issue of Debentures A/c. Dr. To 7% Debentures A/c. To Premium on Redemption A/c. (Debentures issued at discount of 5% repayable @ 5% premium)		95,000 10,000	1,00,000 5,000

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Debentures Application A/c. Dr. Loss on issue of Debentures A/c. Dr. To 7% Debentures A/c. To Securities premium A/c. To Premium on Redemption A/c. (Debentures issued at a premium of 5% repayable @ 8% premium)		1,05,000 8,000	1,00,000 5,000 8,000
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Balance Sheet of

	<i>Particulars</i>	<i>Note No.</i>	(Rs.)
I	Equity and Liabilities		
(1)	Shareholders' Fund		
	(b) Reserves and surplus	1	5,000
(3)	Non-Current Liabilities		
	(a) Long-term borrowings	2	1,00,000
	(c) Other Long-term Liabilities		<u>8,000</u>
	Total		<u><u>1,13,000</u></u>
II	Assets		
(1)	Non-current Assets		
	(e) Other Non-current Assets	3	<u>8,000</u>
(2)	Current Assets		
	(d) Cash and Cash Equivalents	4	<u>1,05,000</u>
	Total		<u><u>1,13,000</u></u>

Notes to Balance Sheet

Note No.1 Reserve and Surplus : Securities Premium	(Rs.) <u>5,000</u>
Note no.2 Non-current liabilities : (a) Long-term Borrowings : 1,000 , 7% Debentures of Rs. 100 each	1,00,000
(b) Other Long-term liabilities Premium on redemption	8,000 <u>1,08,000</u>
Note No.3 Other Non-current Assets: Loss on Issue on Debentures	<u>8,000</u>
Note No.4 Cash and Cash Equivalents : Cash at Bank	<u>1,05,000</u>

(Issue of Debentures at Discount)

. PQR Ltd. Has issued 2,000, 10% Debentures of ₹ 100 each at ₹ 92 each. Applications were received for 2,500 debentures. The Co. has decided to make pro-rata allotment to all applicants. Full amount was payable at the time of application.

Pass necessary Journal entries in the books of PQR Ltd.

JOURNAL

Date	Particulars	L.F.	Debit	Credit
	Bank A/c Dr. To Debenture Application and Allotment A/c (Being application money received on 2,500 debentures @ ₹ 92 per debenture)		2,30,000	2,30,000
	Debenture Application and Allotment A/c Dr. Discount on Issue of Debentures A/c Dr. To 10% Debentures A/c To Bank A/c (Being application money adjusted on 2,000 debentures and extra money refunded)		16,000	2,00,000 46,000

(Issue of Debentures at Discount)

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XYZ Ltd. has issued 3,000, 8% Debentures of ₹ 100 each at a discount of 5%. Full amount was payable at the time of application. Issue was fully subscribed by the public.

Pass necessary Journal entries in the books of XYZ Ltd.

JOURNAL

Date	Particulars	L.F.	Debit	Credit
	Bank A/c Dr		2,85,000	
	To Debenture Application and Allotment A/c			2,85,000
	(Being application money received on 3,000 debentures @ ₹ 95 per debenture)			
	Debenture Application and Allotment A/c Dr		2,85,000	
	Discount on Issue of Debentures A/c Dr.		15,000	
	To 8% Debentures A/c			3,00,000
	(Being application money adjusted at the time of allotment of debentures)			

(Issue of Debentures as Collateral Security)

MUST READ IT CAREFULLY

X Ltd. Had 12,00,000, 11% Debentures outstanding on 1st April, 2008. During the year, it took a loan of Rs. 4 Lakh from canara Bank for which company deposited debentures of Rs. 5 Lakh as collateral security.

Pass journal entries and show how these transactions will appear in Balance Sheet of the company.

(C.B.S.E., 2004-C)

Solution.

First method. No entry is passed for debentures.

Journal

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Date	Particulars	L.F.	Dr.(Rs.)	Cr.(Rs.)
2008	Bank A/c Dr. To Canara Bank's loan A/c (Loan taken from bank against collateral security of debentures worth Rs. 5 Lakhs)		4,00,000	4,00,000

Balance Sheet of X Ltd.

As at 31st March, 2012 (*assumed*)

	Particulars	Note No.	(Rs.)
I (3)	Equity and Liabilities Non-Current Liabilities (a) Long-term Borrowings	1	<u>16,00,000</u>

Notes to Balance Sheet

Note No. 1

Long-term Borrowings :

11% Debentures
Bank Loan (Against collateral security of debentures Rs. 5,00,000)

12,00,000
4,00,000
16,00,000

Second method. Entry for debentures is also passed.

Journal

Date	Particulars	L.F.	Dr.(Rs.)	Cr.(Rs.)
	Bank A/c Dr. To Canara Bank's loan A/c (Loan taken from bank)		4,00,000	4,00,000
	Debentures Suspense A/c. Dr. To 11% Debentures A/c. (Issue of Rs. 5,00,000 debentures issued as collateral)		5,00,000	5,00,000

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	security)			
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Presentation of debenture and bank loan will remain same as explained in Balance Sheet under 1st method, however, presentation of information in note will differ.

Balance Sheet of X Ltd.

As at 31st March, 2012 (*assumed*)

	Particulars	Note No.	(Rs.)
I (3)	Equity and Liabilities Non-Current Liabilities (a) Long-term Borrowings	1	<u>16,00,000</u>

Ind method

Notes to Balance Sheet

<p>Note No. 1 Other Long-term Borrowings : 11% Debentures Less : Debentures Suspense A/c. Bank Loan (Against collateral security of debentures Rs. 5,00,000</p>	<p>17,00,000 5,00,000</p>	<p>12,00,000 4,00,000 <u>16,00,000</u></p>
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22. On 1st April, 2012 A Ltd. took a loan of ₹ 5,00,000 from the State Bank of India for which the company issued 8 % Debentures of ₹ 6,00,000 as collateral security. Record the issue of debentures in the books of the co. and also show how the debentures and bank loan will appear in the Balance Sheet of the company. **JOURNAL**

Date	Particulars	L.F.	Debit	Credit
			^	^

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Bank A/c Dr. <p style="text-align: center;">To Bank Loan A/c</p> (Being loan taken from bank of 5,00,000)		5,00,000	5,00,000
Debenture Suspense A/c Dr. <p style="text-align: center;">To 8% Debentures A/c</p> (Being the issuance of debentures as collateral security)		6,00,000	6,00,000

Balance Sheet of A Ltd.

As at 1st April, 2012

Particulars	Note No.	Figure as at the end of current accounting period	Figure as at the end of previous accounting period
I.EQUITY AND LIABILITIES			
(1) Shareholders' Funds			
(2) Share Application Money Pending Allotment	1	5,00,000	_____
(3) Non-Current Liabilities			
TOTAL		5,00,000	

Notes to Accounts:

Particulars	Figure as at the end of current accounting	Figure as at the end of previous accounting

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	period	period
Note No. 1. Non Current Liabilities:		
Bank Loan	5,00,000	
8% Debentures		
6,00,000	_____	
Less: Debenture Suspense A/c		
(6,00,000)	5,00,000	
Total		

s

ABC Ltd had ` 15,00,000, 10% Debentures outstanding as on 1st April, 2012. On 1st Sept.2012 Company took a loan of ` 5,00,000 from the Punjab National Bank for which the company placed with the bank , 10% Debentures for ` 7,00,000 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 on 31st March,2013.

Solution: JOURNAL of ABC Ltd.

Date	Particulars		Dr. (₹)	Cr. (₹)
2012 1 st Sept.	Bank A/c	Dr.	5,00,000	
	To Bank Loan A/c (Loan taken from bank of `5,00,0000)			5,00,000
	Debentures Suspense A/c	Dr.	7,00,000	
	To 10% Debentures A/c (Issue of Debentures as Collateral Security)			7,00,000

Balance Sheet of ABC Ltd.

Notes to Accounts:

Note I.

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Particulars	As on 31.03.2012 (₹)	As on 01.03.2012 (₹)
Long Term Borrowings		
(i) 10% Debentures 22,00,000		
Less: Debentures Suspense A/c <u>7,00,000</u>	15,00,000	15,00,000
(ii) Bank Loan	5,00,000	-----
Total	<u>20,00,000</u>	<u>15,00,000</u>

Redemption of Debentures:

Question. AB Power Ltd., an infrastructure company has outstanding 10 lac, 9% Debentures of ₹ 5 each due for redemption on 30st Sept.2012. Record the necessary entries at the time of redemption of debentures. Journal of AN Power Ltd.

(₹ in Lac)

Date	Particulars	Dr. (₹)	Cr. (₹)
30 th Sep t	9% Debentures A/c Dr.	50	
	To Debentureholders' A/c (Being the amount due to Debentureholders on redemption)		50
	Debentureholders' A/c Dr.	50	
	To Bank A/c (Being the amount due to Debentureholders paid)		50

Note: As per SEBI Guideline, Infrastructure companies are exempted from creating Debenture Redemption Reserve.

Question Abha Ltd. Has 5,000 ; 10% Debentures of ₹ 20 each due for redemption on 30th sept. 2012. Debenture Redemption Reserve has a Balance of ₹ 20,000 on that date. .

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Record the necessary entries at the time of redemption of debentures Journal in the Books of Abha Ltd.

Date	Particulars	Dr. (₹)	Cr. (₹)
	Profit And Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being the required amount transferred to DRR)	30,000	30,000
	10% Debentures A/c Dr. To Debentureholders' A/c (Being the amount due to Debentureholders on redemption)	1,00,000	1,00,000
	Debentureholders' A/c Dr. To Bank A/c (Being the amount due to Debentureholders paid)	1,00,000	1,00,000
	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being the DRR transferred to General Reserve)	50,000	50,000

Note: DRR existed in the book with ₹ 20,000 , As per SEBI guideline DRR is required for minimum 50% of debentures face value e.i. ₹ 50,000 total DRR required . So the with the difference amount (50,000-20,000) is credited.

Question Vivek Transport Ltd. Has 5,000 ; 10% Debentures of ₹ 20 each due for redemption on 30th sept. 2012. Debenture Redemption Reserve has a Balance of ₹ 80,000 on that date. . Record the necessary entries at the time of redemption of debentures.

Solution: Journal in the Books of Vivek Transport Ltd.

Date	Particulars	Dr. (₹)	Cr. (₹)
	Profit And Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being the required amount transferred to DRR)	20,000	20,000

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	10% Debentures A/c Dr. To Debentureholders' A/c (Being the amount due to Debentureholders on redemption)	1,00,000	
		1,00,000	1,00,000
	Debentureholders' A/c Dr. To Bank A/c (Being the amount due to Debentureholders paid)	1,00,000	
		1,00,000	1,00,000
	Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being the DRR transferred to General Reserve)	1,00,000	
		1,00,000	1,00,000

Note: 1. DRR exists in the books more than 50% of the debentures face value, so it assumed that redemption is out of profit. In this case DRR is to be created upto 100% face value of Debentures. So DRR A/c is credited with the difference amount e.i. `1,00,000-`80,000=`20,000.

Question -- Rahul Ltd. redeemed ` 25,00,000 ; 12% Debentures at a premium of 5% out of Profit on 30th sept. 2012. Pass the necessary journal entries for the redemption of debentures

Solution: Journal in the Books of Rahul Ltd.

Date	Particulars	Dr. (₹)	Cr. (₹)
	Profit And Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being the required amount transferred to DRR)	25,00,000	
			25,00,000

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12% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders' A/c (Being the amount due to Debentureholders on redemption)	25,00,000 1,25,000	26,25,000
Debentureholders' A/c Dr. To Bank A/c (Being the amount due to Debentureholders paid)	26,25,000	26,25,000
Debenture Redemption Reserve A/c Dr. To General Reserve A/c (Being the DRR transferred to General Reserve on the redemption of all Debentures)	25,00,000	25,00,000

Note: 1. If in any question it is mentioned that redemption of debenture is out of profit, then the Debenture Redemption Reserve A/c should be created with the full face value (100%) of debentures. If DRR is created only with 50% of the total amount of debentures, it would mean that remaining 50% of the debentures have been redeemed out of capital.

(2) So, it would be clear if in question it is mentioned the redemption is out of profit, then an amount equal to total amount of debentures (100% of face value of debentures) to be transferred to DRR A/c. in all other case (except Companies exempted by the SEBI) DRR would be created with the 50% of the face of the debentures.

Question Rajesh Ltd. has issued 25,000 ;10% Debentures of ` 100 each of which half the amount is due for redemption on 30th Sept. 2012 at a premium of 5%.The company has in its Debenture Redemption Reserve Account a balance of ` 5,40,000. Record the necessary journal entries at the time of Redemption of Debentures. Journal in the Books of Rajesh Ltd.

Date	Particulars	Dr. ()	Cr. ()
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Profit And Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being the required amount transferred to DRR)	7,10,000	
12% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debentureholders' A/c (Being the amount due to Debentureholders on redemption)	12,50,000 62,500	7,10,000 13,12,500
Debentureholders' A/c Dr. To Bank A/c (Being the amount due to Debentureholders paid)	13,12,500	13,12,500

- Note:
1. In this question only half of the total debenture is to be redeemed , as per SEBI guideline A company shall create DRR equivalent to at least of 50% of the amount of debentures issued before starting the redemption of debentures So, DRR A/c is to be created with the amount ` 12,50,000 (e . i. 50% of ` 25,00,000), not related with the amount of debentures to be redeemed.
 2. Debenture Redemption Reserve will be transferred to General Reserve when all the debentures are redeemed.

Question--- Pass necessary journal entries in the books of Arbind T. Ltd. in the following case for the redemption of 2,000; 10% Debentures of ` 10 each when issued at par

Debentures redeemed at par by conversion into 13% Preference shares of ` 20 each.

Debentures redeemed at a premium of 10% by conversion into Equity Shares issued at par.

Journal in the Books of Arbind T. Ltd.

Date	Particulars	Dr. ()	Cr. ()
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10% Debentures A/c Dr. To Debentureholders' A/c (Being the amount due on redemption)	20,000	
Debentureholders' A/c Dr. To 13% Preference Share Capital A/c (amount due to Debentureholders discharged by issue of 1000 preference shares of `20 each re. i. 20,000/20)	20,000	20,000
10% Debentures A/c Dr. Premium of Redemption of Debentures A/c Dr. To Debentureholders' A/c (Being the amount due on redemption)	20,000 2,000	22,000
Debentureholders' A/c Dr. To Equity Share Capital A/c (amount due to Debentureholders discharged by issue of Equity shares at par)	22,000	22,000
10% Debentures A/c Dr. Premium of Redemption of Debentures A/c Dr. To Debentureholders' A/c (Being the amount due on redemption)	20,000 2,000	22,000
Debentureholders' A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (amount due to Debentureholders discharged by issue of Equity shares at a premium of 25% e. i. 22,000/125%=17,600)	22,000	17,600 4,400

Question -- Pass necessary journal entries in the books of M.L.B. Ltd. in the following case for the redemption of 2,000; 10% Debentures of ` 10 each when Debentures originally issued at a discount of 10%

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- i. Conversion into 13% Preference shares of ` 20 each.
- ii. Conversion into Equity Shares of ` 25 issued at par.

Debentures redeemed at premium of 10% by conversion into 12% Debentures of ` 50 issued at a par. Journal in the Books of M.L. B. Ltd.

Date	Particulars	Dr. (₹)	Cr. (₹)
	10% Debentures A/c Dr.	20,000	
	To Debentureholders' A/c		18,000
	To Discount on issue of Debentures A/c		2,000
	(Being the amount due on redemption)		
	Debentureholders' A/c Dr.	18,000	
	To 13% Preference Share Capital A/c		18,000
	(amount due to Debentureholders discharged by issue of 900 preference shares of `20 each re. i. 18,000/20)		
		20,000	
	10% Debentures A/c Dr.		18,000
	To Debentureholders' A/c		2,000
	To Discount on issue of Debentures A/c		
	(Being the amount due on redemption)	18,000	
	Debentureholders' A/c Dr.		18,000
	To Equity Share Capital A/c		
	(amount due to Debentureholders discharged by issue of 720 Equity shares of `25 at par e. i. 18000/25)	20,000	
	10% Debentures A/c Dr.		20,000
	To Debentureholders' A/c		
	(Being the amount due on redemption)	20,000	
	Debentureholders' A/c Dr.		20,000
	To 12% Debentures A/c		
	(amount due to Debentureholders discharged by issue of 400, 12% Debentures e. i.		

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	20,000/50=400)		
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Values involved in issue of SHARE CAPITAL AND DEBENTURES-----

Communication of material information

Complying with legal provisions

Orderliness

