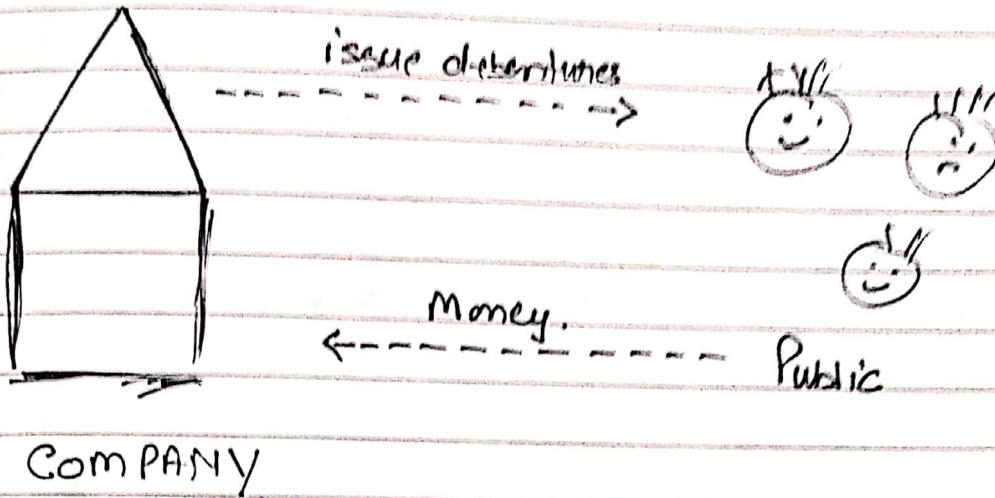




(Issue & Redemption)



*.

Rate of interest.

10% Debentures
OR
9% Debentures
OR
7.5% Debentures

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*. It is a long term debt.

*. Basic Calculations:

→ All calculation shall be done on Face-Value OR Nominal Value.



Suppose Arpit Limited issue 1000 debentures of ₹ 10 each.

Calculate interest on debentures.

$$\text{Total Face Value} = 1000 \times 10 = ₹ 10,000$$

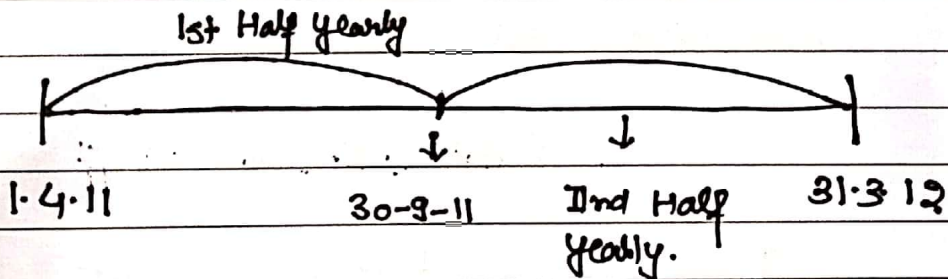
$$\text{Interest} = 10,000 \times 7\%$$

$$= 10,000 \times \frac{7}{100}$$

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Interest = ₹ 700

Note: Generally debentures interest is paid by the company Half yearly.



$$\text{1st Half yearly interest} = 700 \times \frac{6}{12} = 350$$

(30-sep-2011)

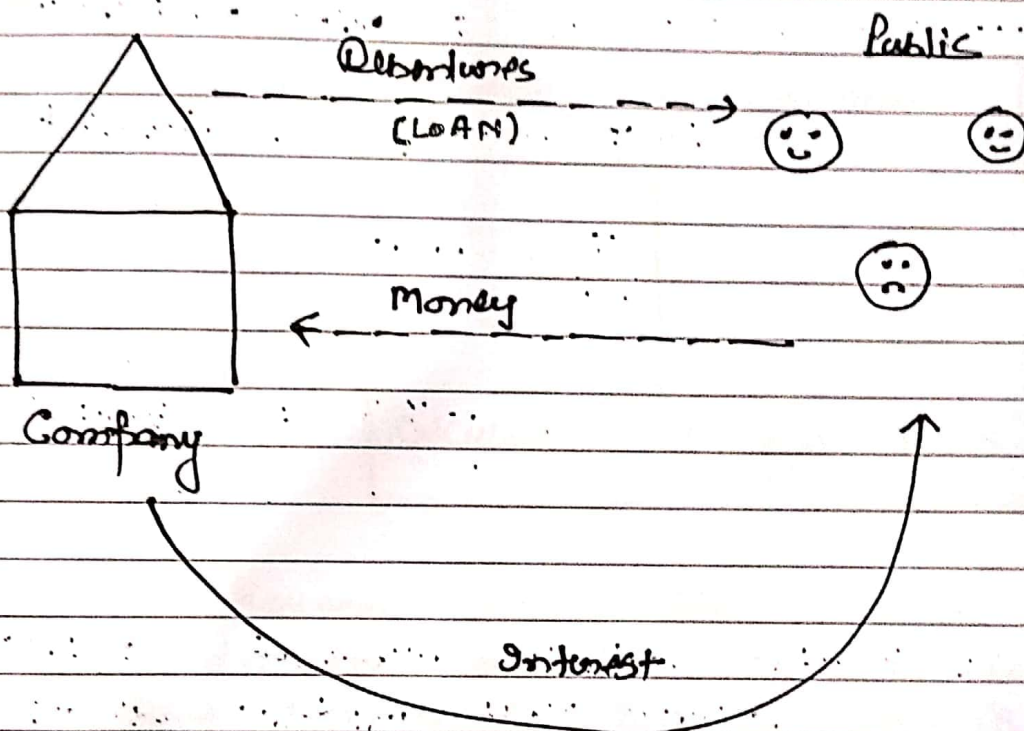
$$\text{2nd Half yearly interest} = 700 \times \frac{6}{12} = 350$$

(31-march-2012)



Note: You have to pass entry for interest when the question requires it.

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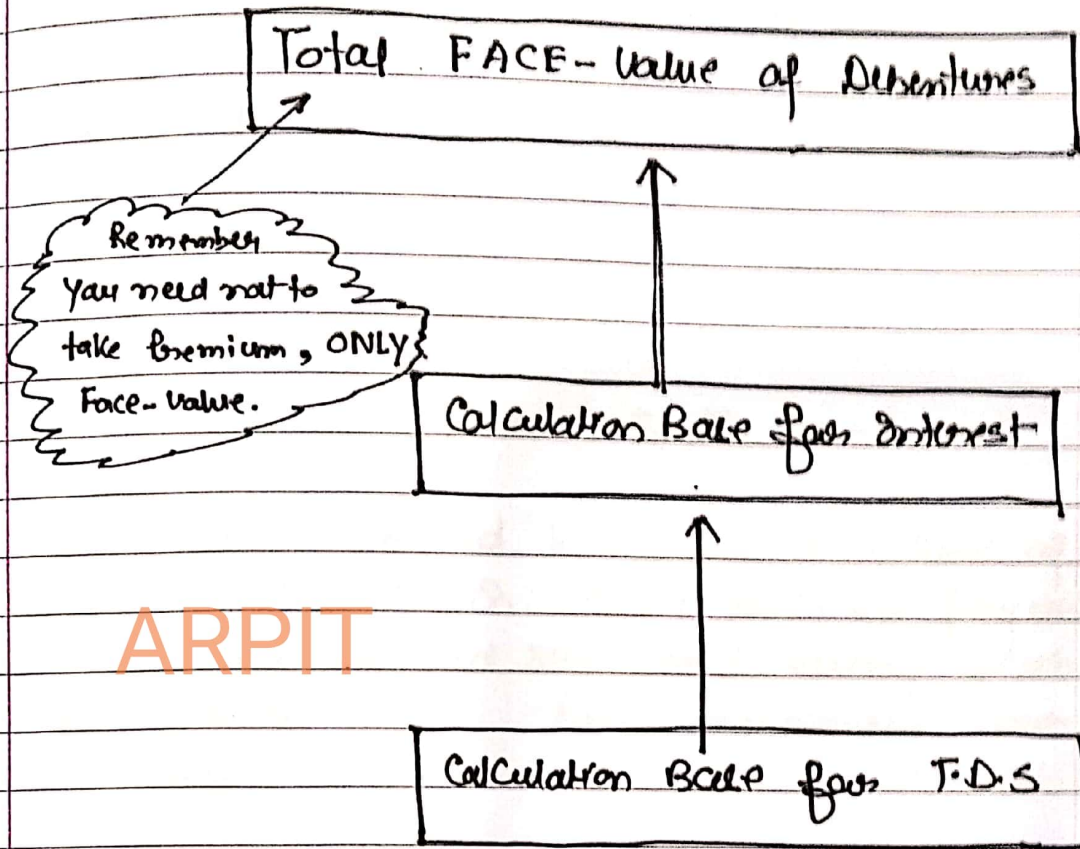
Note: Interest & TDS Calculations

Now: what is TDS?

T.D.S = Tax deducted at source.

You have to calculate TDS on interest:

See the chart on Next Page.



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Ex: M/s. Raveend Tandon Limited issue 200, 10% debtentures of ₹100 each. The interest is paid Half yearly. Rate of T.D.S is 40%. Show the calculation.

For: 1-4-xxxx to 30-9-xxxx (1st Half yearly)

Total Face value	=	₹ 20,000
(200 x 100)		
Interest	=	₹ 1000
(20,000 x 10 x $\frac{6}{12}$)		
T.D.S	=	₹ 400
(1000 x 40%)		



Same Calculation for Ind Half.

$$\text{Interest} = 1000$$

$$\text{T.D.S} = 400$$

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Accounting for Interest & TDS :-

Mona Ltd. Issued 1000, 10% debtures of ₹ 100 each on 1-4-2018. The interest is payable on 30th September and 31st March every year. Rate of T.D.S is 20%. Pass Necessary Journal Entries.

(i) Bank A/c Dr. 100000
 1-4-18 To 10% Deb. App & Allotment A/c 1,00,000
 (100 x 1000)

(ii) 10% Deb. App & Allotment A/c Dr. 100000
 1-4-18 To 10% Debtures A/c 1,00,000
 (Deb. Allotment)

(iii) Interest on Debtures A/c Dr. 5000
 30-9-18 To TDS Payable 1000
 To Debtureholders A/c 4000
 Govt.



(iv). TDS Payable A/c @. 1000
 (30-9-18) To Bank A/c. 1000

(v). Debentureholders A/c @. 4000
 (30-9-18) To Bank A/c. 4000

(vi). Interest on Debentures A/c @. 5000
 (31-3-19) To TDS Payable A/c. 1000
 To Debentureholders A/c. 4000

(vii). TDS Payable A/c @. 1000
 (31-3-19) To Bank A/c. 1000

(viii). Debentureholders A/c @. 4000
 (31-3-19) To Bank A/c. 4000.

Working Note :-

₹

Total Face Value : 100000
 (100 x 1000)

Interest : 10,000 (Total Interest)
 (100000 x 10%)

↓
 Ist Half
 10,000 x 1/2
 = 5000

↓
 IInd Half
 10,000 x 1/2
 = 5000

(-) TDS 1000
 (20%)

Net : 4000
 Payment

(30/9/18)

ARPIT

(-) TDS 1000

Net : 4000
 Payment

(31/3/18)

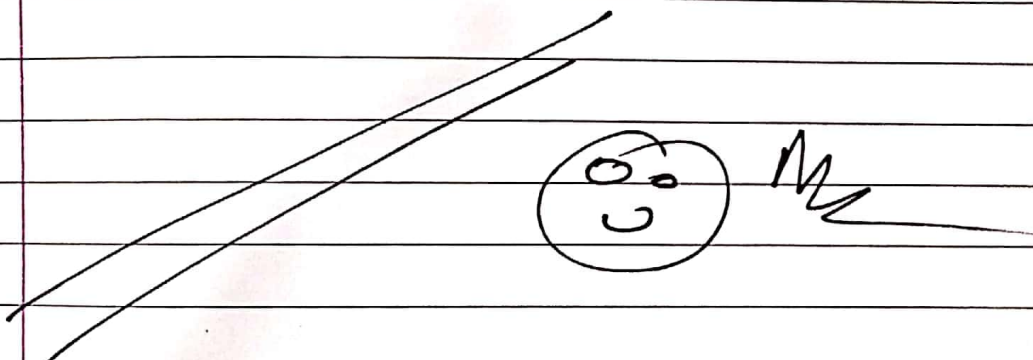


Since Interest on debenture is a nominal A/c. It shall be transferred to the St. of P&L.

(ix). St. of Profit & Loss Rs. 10,000

To Interest on Debentures A/c. 10,000

(5000 + 5000)
₹ ₹

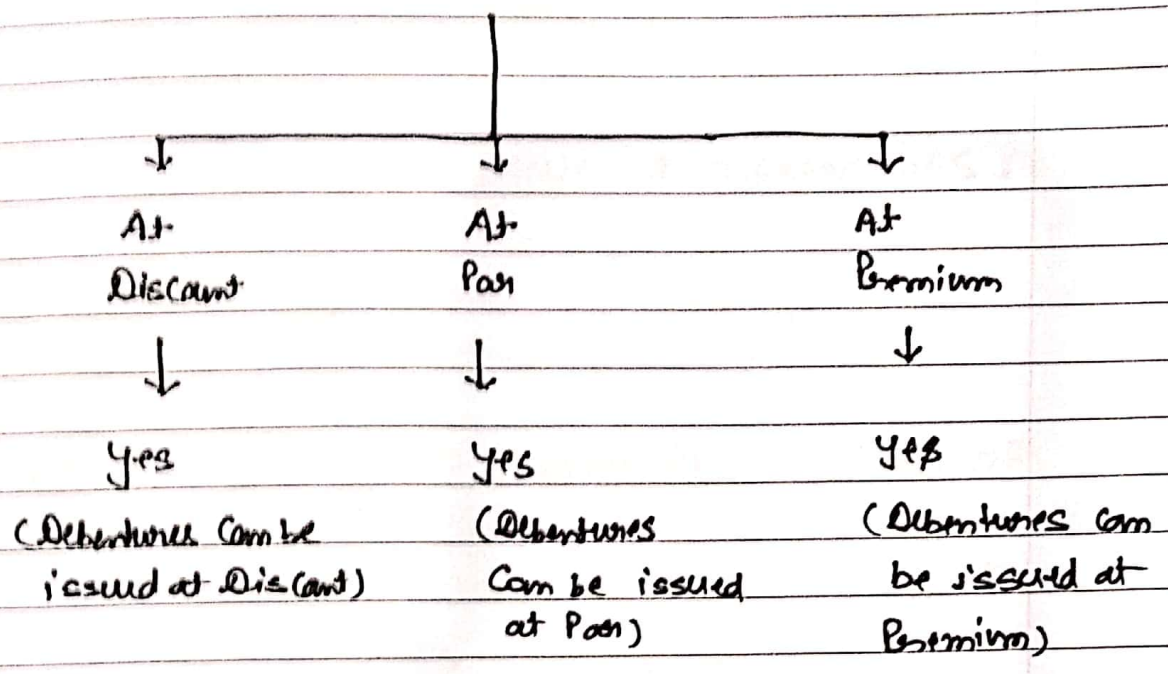


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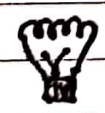
Page: 8 (Debtunee)

Issue & Redemption

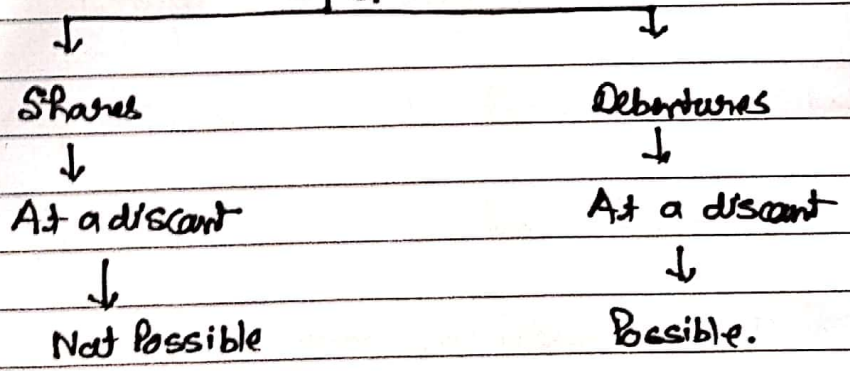
Issue of Debtunee



KEEP IN MIND



Issue of



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[Issue & Redemption]

See the Figure

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AT THE TIME OF ISSUE OF DEBENTURES :

COMPANY RECEIVES MONEY.

AT THE TIME OF ~~ISSUE~~ REDEMPTION OF DEBENTURES :

L, Means Pay Back

COMPANY PAYS MONEY

Comparative Analysis

Issue of Debentures	Redemption of Debentures.
At Par : Possible	At Par : Possible.
At Discount : Possible ↔	At Discount : Not Possible.
At Premium : Possible.	At Premium : Possible.
==.	



Q. XYZ Limited issued 2000 debentures (7.5%) @ ₹10 each. The amount was payable as -

ARPIT

- ₹ on Application : 3
- on Allotment : 5 + 10% Premium.
- on first & final call : 2

The company maintains the cash book. Pass the necessary journal entries.

Ans.

Cash Book (Bank Column)

DR.		CR.	
Particulars	₹	Particulars	₹
To 7.5% Deb. Application A/c. (2000 x 3)	6000	By Balance b/d.	22000
To 7.5% Deb. Allotment A/c. [2000 x (5 + 1)]	12000		
To 7.5% Deb. First & Final Call A/c. [2000 x 2]	4000		
	22000		22000

Journal (Profes)

Date	Particulars	L.F	₹ (DR)	₹ (CR)
?	7.5% Deb. Application A/c DR. To 7.5% Debentures A/c.		6000	6000
?	7.5% Deb. Allotment A/c DR. To Security Premium Reserves A/c To 7.5% Deb. A/c		12000	2000 10000
(2000 x 1)	← (2000 x 5)			

Page 12 : Debentures(Issue & Redemption)

Date	Particulars	L.F	of (DR.)	of (CR.)
?	7.5 % Deb. First & Final Call Ac. Cr. (2000 x 2)		4000	
	To 7.5 % Debentures Ac.			4000

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Page 13: Debentures(Issue & Redemption)

—: Questions on issue of debentures for a consideration other than cash:—

Q: X Ltd. purchased Machinery from Arpit Limited for ₹ 10,00,000. The company issued 10% debentures of ₹ 100 each.

Pass Journal Entries when—

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Case 1. • Debentures are issued at Par.

Case 2. • Debenture are issued at 25% Premium.

Case 3. • Debentures are issued at 20% Discount.

Sol.

PAR	PREMIUM	DISCOUNT
No. of debentures:—	No. of debentures:—	No. of debentures:—
$\frac{10,00,000}{100}$	$\frac{10,00,000}{125}$	$\frac{10,00,000}{80}$
= 10,000 Debentures.	= 8000 debentures.	= 12,500 debentures.



At Par	At Premium	At discount
Machinery A/c Dr. 10L To Arpit Ltd. 10L	Machinery Ltd Dr. 10L To Arpit Ltd. 10L	Machinery Ltd Dr. 10L To Arpit Ltd. 10L
Arpit Ltd. Dr. 10L To 10% Deb. A/c. 10L	Arpit Ltd. Dr. 10L To 10% Deb. A/c. 8L (0000 x 100) To Security Premium 2L Reserve A/c. (0000 x 25)	Arpit Ltd. Dr. 10L Dis. on Issue Dr. 2.5L of deb. A/c. (12500 x 20) To 10% Deb. A/c. 12.5L (12500 x 100)

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Q. X Ltd. Purchased following from Y Ltd:

Assets/Liability	Book Value	Taken at
Building	100,000	300,000
Plant & Machinery	80,000	50,000
Stock	40,000	50,000
Creditors	50,000	Actual
Bill Payable	20,000	At par.

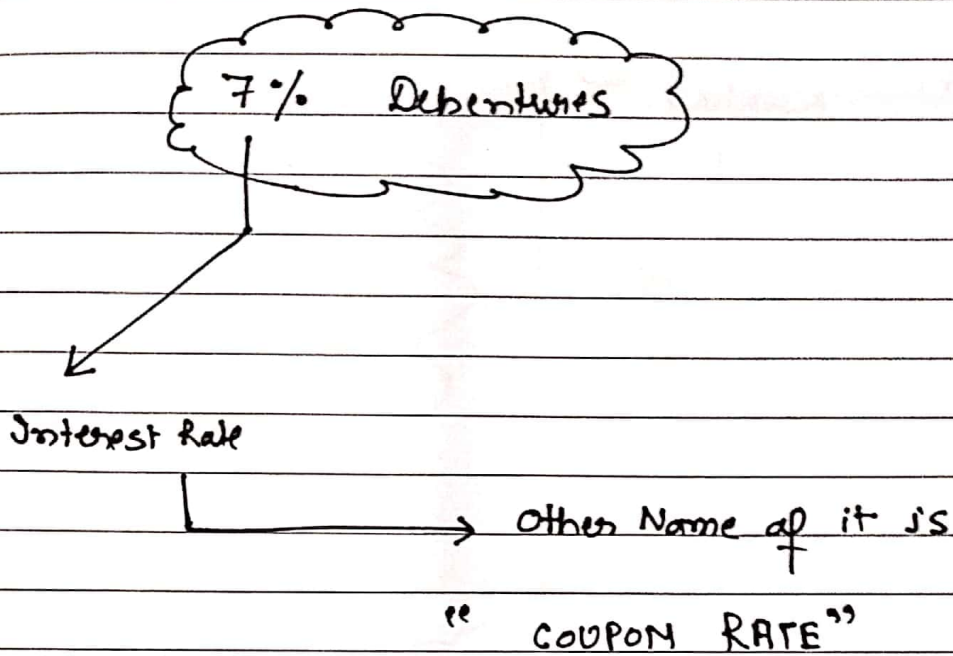
7.5% debentures were issued by X Ltd. at 100 + 25%. Purchase consideration is ₹ 500,000.

Pass Necessary Journal Entries.



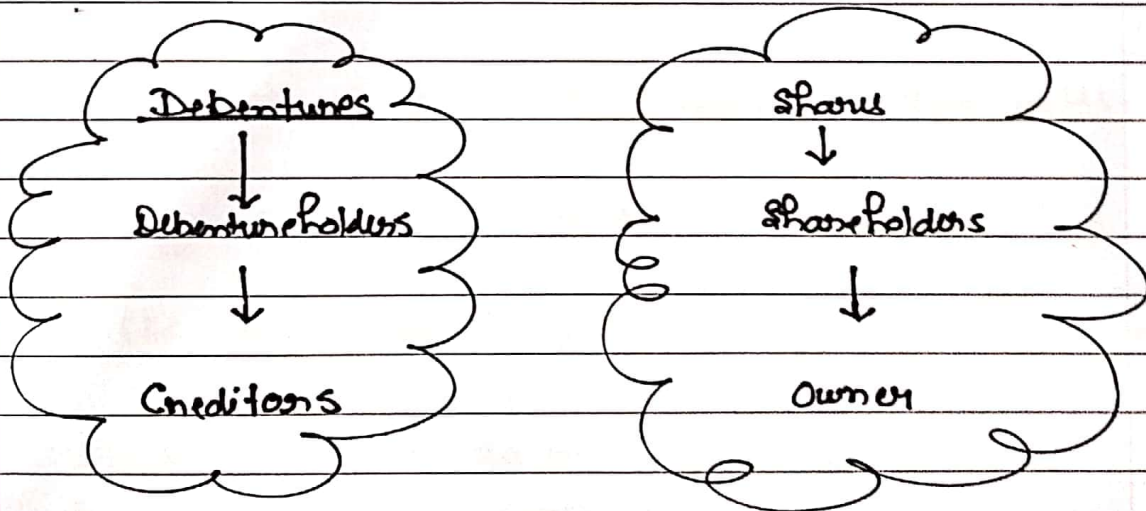
ARPIT

Note :

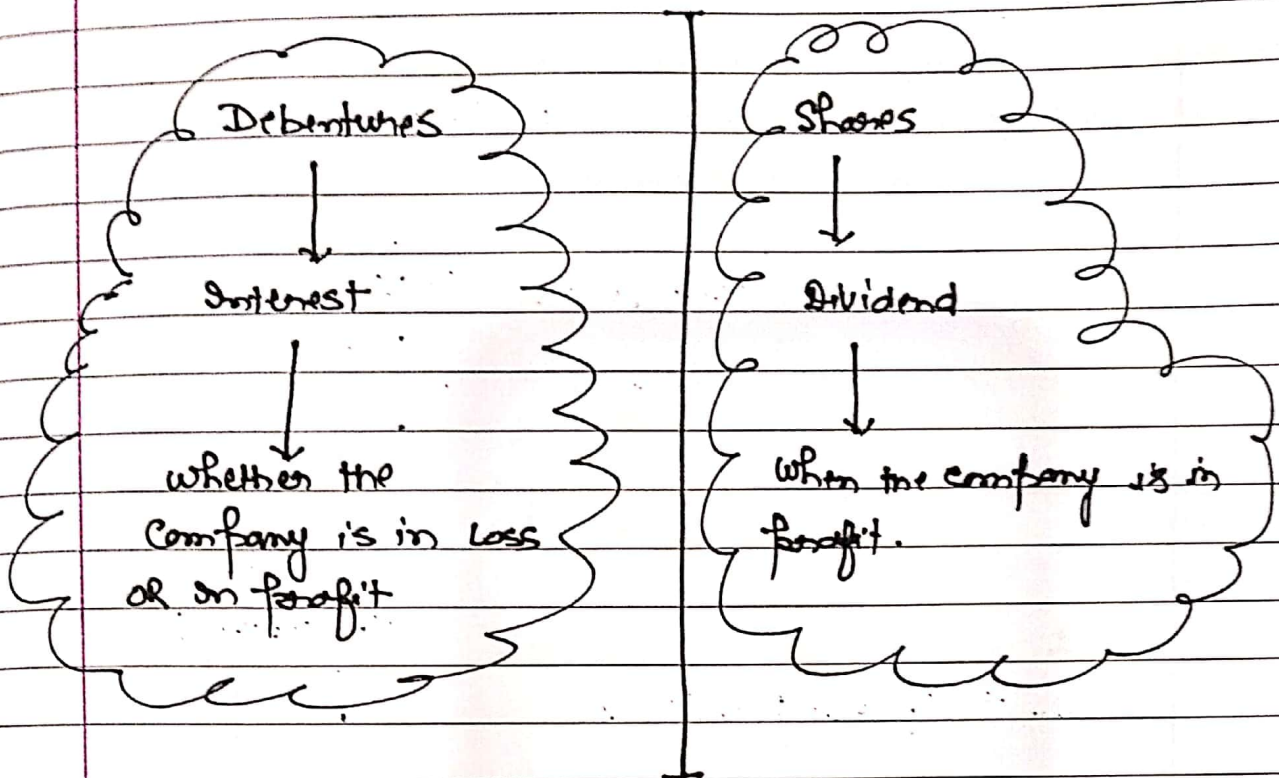


" COUPON RATE "

(CBSE 1 Mark Question)



(CBSE, 1 Mark Question)



ARPIT

CBSE 1 Mark.

Calculate No. of Shares & prepare working note:

Case 1.

X Ltd. took over followings Assets from Y Ltd: →

	₹
Stock	: 30,000
Debtors	: 50,000
Building	: 2,40,000
Creditors	: 20,000

Case 1. Settlement is done by 10% Debentures of ₹ 100 each at 20% Premium.

Case 2: if settlement is done by 10% Debentures of ₹ 100 each at 20% Discount.



Case 1
(At Premium)

Stock A/c Dr. 20,000
Debitum A/c Dr. 50,000
Building A/c Dr. 2,40,000
 To Creditum 20,000
 To Y Ltd. 300,000

+

Y Ltd Dr. 300,000
(2500 x 100) To 10% Debitum A/c. 25,000
 To Security Premium Reserve A/c. 50,000
(2500 x 20)

Case 2
(At discount)

Stock A/c Dr. 30,000
Debitum A/c Dr. 50,000
Building A/c Dr. 2,40,000
 To Creditum A/c. 20,000
 To Y Ltd. 300,000

+

Y Ltd Dr. 300,000
Dis. on issue of Deb. A/c (3750 x 20) 75,000
 To 10% Debitum A/c. 37,500
(3750 x 100)

(I, hope that concept is clear to you.)

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Q. Arun Ltd. purchased following assets & liabilities from Varun Ltd. :-

	₹
Building	200000
Inventory	100000
Creditors	20,000

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The purchase consideration was fixed at ₹ 300000 to be settled through issue of debentures (0.5%).

Pass Journal Entries in following cases -

Case 1: issue at Premium : 100 + 20%.

Case 2: issue at Discount : 100 - 20%.

Working Note :-

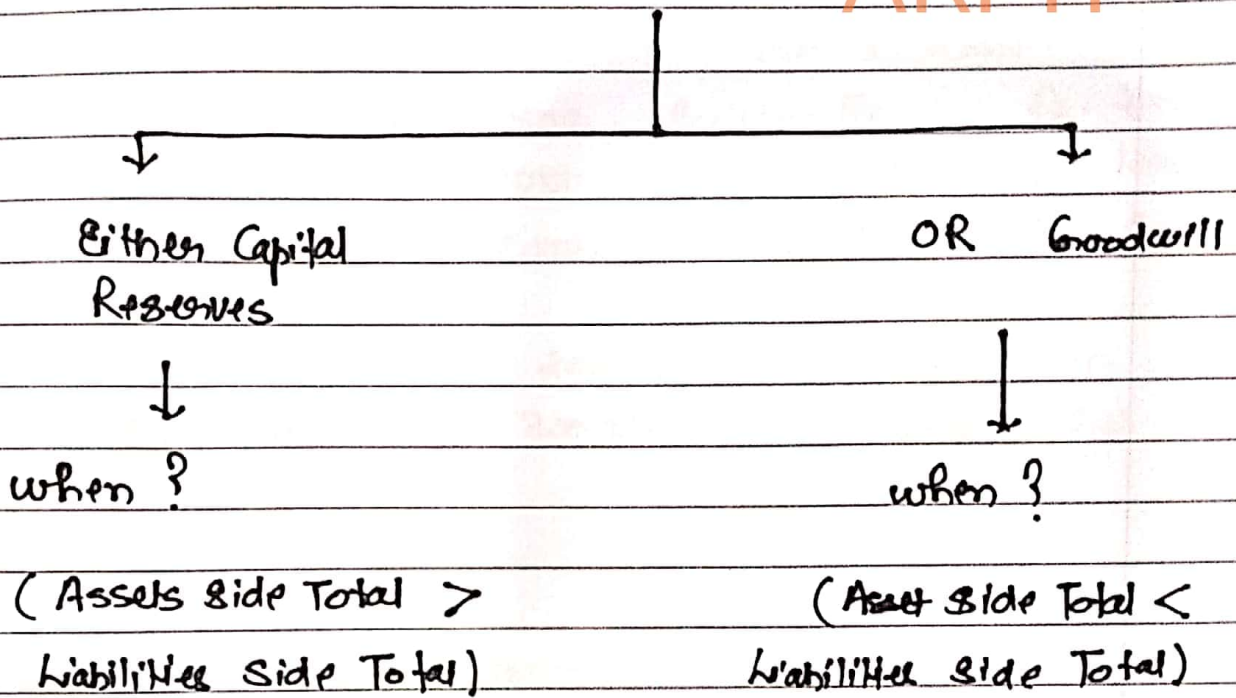
Balance sheet

Liabilities	₹	Assets.	₹
Creditors	20,000	Building	200000
Varun Limited	300000	Inventory	100000
		Goodwill A/c.	20,000
		↓	
		(Asset Total < Liability Total)	
	320000		320000



Analysis: In this question, Purchase consideration is given. So in this case there may be two possibilities of Balancing figure

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No. of debentures	
At Premium	At Discount
$\frac{300000}{120}$	$\frac{300000}{80}$
= 2500 Debentures	= 3750 Debentures.



Journal Entries

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JOURNAL

At Premium		At Discount.	
Building A/c	Dr. 200000	Building A/c	Dr. 200000
Inventory A/c	Dr. 100000	Inventory A/c	Dr. 100000
Goodwill A/c	Dr. 20,000	Goodwill A/c	Dr. 20,000
To Creditors A/c.	20,000	To Creditors A/c.	20,000
To Varun Limited	300000	To Varun Limited.	300000
+		+	
Varun Limited	Dr. 300000	Varun Limited	Dr. 300000
To 8.5% Debentures A/c.	250000	Dis. on issue of	Dr. 75000
(2500 x 100)		Deb. A/c	(3750 x 20)
To Security Premium		To 0.5% Deb. A/c.	375000
Reserve A/c.	50,000	(3750 x 100)	
(2500 x 20)			

I HOPE CONCEPT IS CLEAR TO YOU.



Q. What do you mean by debentures?

(1 Mark Question)

→ It means document

*. Written instrument issued by the company

→ Company की ओर

*. Under the seal of the company

*. It is the acknowledgement of a debt.

*. It contains provisions



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In respect
of Repayment
of principal.

Payment
of interest at
a fixed rate.

Q. Coupon rate is the _____ ?

Ans. Rate of interest on debentures.

M. Imp

Q. X Ltd. took-over assets of ₹ 500,000 and liabilities of ₹ 100,000 of another company at an agreed price of ₹ 3,00,000. The purchase consideration was discharged by issuing debentures of ₹ 100 each at a discount of 10%. It was agreed that any fraction of the debenture be paid in cash. Give necessary Journal Entries in the book of X Ltd.



Working Note:

Balance sheet

Liabilities	₹	Assets	₹
Sundry liabilities	100 000	Sundry Assets	500 000
Vendors Company	300 000		
Capital Reserve	20 000		

No. of Debentures :

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$$\frac{3,00,000}{100 - 10\%}$$

$$= \frac{300,000}{90}$$

$$= 4222.22$$

fraction
 ↳ Ignore it as per the language of question

$$= 4222 \text{ Debentures.}$$

See Journal Entry on Next page.



• Sundry Assets A/c	Dr.	500000	
	To Sundry Liabilities A/c		100000
	To Vendor Company A/c.		300000
	To Capital Reserve A/c.		20000
• Vendor Company A/c	Dr.	380000	
(4222 x 10) Discount on Issue of Deb. A/c	Dr.	4222.0	
	To % Debentures A/c.		4222.00
	(4222 x 100)		
	To Bank A/c		20

⇒ 😊 Expected Question in CBSE.

DON'T MISS IT

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M. Imp. CBSE Expected Question

Q. A company purchased assets of Book-Value of ₹ 6,00,000 and took over liabilities of ₹ 1,50,000 from Golden Limited. It was agreed that the purchase — Consideration settled at ₹ 4,00,000 be paid by — issuing debentures of ₹ 100 each at a premium of 10%. It was further agreed that any fraction of the debentures be paid in cash. Give Necessary Journal Entries.



(Issue & Redemption).

Solution:

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working Note:

B/s

Liabilities	₹	Assets	₹
Sundry Liabilities	150000	Sundry Assets	600000
Golden Limited	480000	Goodwill A/c. (Bal. figure)	30,000
	<u>630000</u>		<u>6,30,000</u>
		(A < L) ⇒ Goodwill	

No. of debentures :-

$$\frac{4,80,000}{100 + 10\%}$$

$$= \frac{4,80,000}{110}$$

$$= 4363.63$$

↓
You have to consider only
4363 as per the language of
the question.

Page 27 : Debentures
(Issue & Redemption)



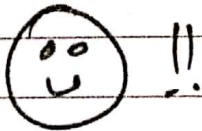
DATE _____

PAGE _____

Journal.

Date	Particulars	L.F	₹ (DR.)	₹ (CR.)
?	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c. To Golden Limited A/c.		600000 30,000	150000 400000
?	Golden Limited A/c Dr. To % Debentures A/c. (4363 x 100) To Sewell & Partners Reserve A/c (4363 x 10) To Bank A/c.		400000	436300 43630 70

fraction paid in cash



ARPIT

Page 20: Debentures
(Issue & Redemption)



DATE _____

PAGE _____

Master Question:

Q. X Ltd. purchased following assets :
₹

Building : 10,00,000

Plant & machinery : 2,00,000

Stock : 5,00,000

Also, took-over following liabilities :
₹

Bills Payable : 2,00,000

Creditors : 3,00,000

The purchase consideration was ₹ 13,00,000. It is to be settled as :

₹

By way of Cash : 2,00,000

By way of Bills : 3,00,000

By way of Promissory Note : 1,00,000

By way of Bank Draft : 1,50,000

By Acceptance of Bill : 50,000

By way of Shares : ₹ 2,00,000 (F.V. 100 + Premium 25%)

By way of Debentures : ₹ 3,00,000 (F.V. 100 - Discount: 40%)

Pass the Journal Entries.



(Issue & Redemption)

ARPIT

working Notes:

Balance - Sheet

Liabilities	₹	Assets	₹
Bills Payables	200000	Building	10,00,000
Creditors	300000	Plant & Machinery	200000
Vendors	1300000	Stock	500000
		Goodwill.	100000
	1800000		1800000

No. of Shares.

$$\frac{200000}{125} \Rightarrow 100 + 25\%$$

$$\Rightarrow 100 + \frac{100 \times 25}{100}$$

$$= 1600 \text{ Shares} \Rightarrow 100 + 25$$

$$\Rightarrow 125$$

No. of Debentures

$$\frac{300000}{60} \Rightarrow 100 - 40\%$$

$$\Rightarrow 100 - \frac{100 \times 40}{100}$$

$$\Rightarrow 100 - 40$$

$$\Rightarrow 60$$



Journal

* Building A/c	Dr.	10,00,000	
Plant & Machinery A/c	Dr.	2,00,000	
Stock A/c	Dr.	50,000	
Goodwill A/c	Dr.	1,00,000	
	To Bills Payable A/c.		2,00,000
	To Creditors A/c.		3,00,000
	To Vendor A/c.		13,00,000

(5000 x 40)

Discount on Issue of Deb. A/c. Dr. 2,00,000

* Vendor A/c Dr. 13,00,000

To Cash A/c. 2,00,000

To Bank A/c. 3,00,000

(Promission Note) To B/P A/c 1,00,000

(Bank Draft) To Bank A/c 1,50,000

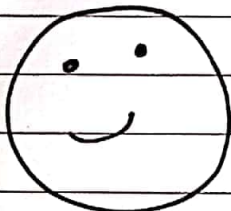
(Acceptance) To B/P A/c 50,000

(1600 x 100) To Share Capital A/c. 1,60,000

(5000 x 100) To % Dividend A/c. 5,00,000

To Security Premium Reserve A/c. 40,000

(1600 x 25)



!!

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