

Company Account – Issue of Debenture

Question 1.

Vishwas Ltd. issued 2,000; 9% Debentures of Rs.100 each payable as follows:

Rs.25 on application; Rs.25 on allotment and Rs.50 on first and final call.

Applications were received for all the debentures along with the application money and allotment was made. The call money was also received on the due date.

Pass necessary Journal entries in the books of the company.

Solution:

Books of Vishwas Ltd. Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c To 9% Debenture Application A/c (Being application money received for 2,000 debentures at ₹25 each)	Dr.	50,000	50,000
	9% Debenture Application A/c To 9% Debenture A/c (Being debenture application money transferred to 9% Debentures A/c)	Dr.	50,000	50,000
	9% Debenture Allotment A/c To 9% Debenture A/c (Being debenture allotment money due on 2,000 Debentures at ₹25 each)	Dr.	50,000	50,000
	Bank A/c To 9% Debenture Allotment A/c (Being debenture allotment money received)	Dr.	50,000	50,000
	9% Debenture First and Final Call A/c To 9% Debenture A/c (Being debenture first and final call money due on 2,000 debentures at ₹50 each)	Dr.	1,00,000	1,00,000
	Bank A/c To 9% Debenture First and Final Call A/c (Being debenture first and final call received)	Dr.	1,00,000	1,00,000

Question 2.

A Ltd. Issued 2,000; 9% Debentures of Rs.100 each on the following terms:

Rs.20 on application; Rs.20 on allotment; Rs.30 on first call; Rs.30 on final call.

The public applied for 2,400 debentures. Application for 1,800 debentures were accepted in full. Applications for 400 debentures were allotted 200 debentures and application for 200 debentures were rejected. Pass necessary Journal entries.

Solution:

Books of A Ltd.
Journal Entries

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To 9% Debenture Application A/c (Being application money received for 2,400 debentures at Rs.20 each)	Dr.	48,000	48,000
	9% Debenture Application A/c To 9% Debenture A/c To 9% Debenture Allotment A/c To Bank A/c (Being debenture application money transferred to 9% debentures A/c for 2,000 debenture, adjusted to debenture allotment account for 200 debentures and money refunded for 200 debentures)	Dr.	48,000	40,000 4,000 4,000
	9% Debenture Allotment A/c To 9% Debenture A/c (Being debenture allotment money due on 2,000 debentures at Rs.20 each)	Dr.	40,000	40,000
	Bank A/c To 9% Debenture Allotment A/c (Being debenture allotment money received)	Dr.	36,000	36,000
	Debenture First Call A/c To 9% Debenture A/c (Being debenture first call money due on 2,000 9% debentures at Rs.30 each)	Dr.	60,000	60,000
	Bank A/c To Debenture First Call A/c (Being debenture first call received)	Dr.	60,000	60,000
	Debenture Final Call A/c To 9% Debenture A/c (Being debenture Final call money due on 2,000 9% debentures at Rs.30 each)	Dr.	60,000	60,000
	Bank A/c To Debenture Final Call A/c (Being debenture first call received on 2,000 9% debenture at Rs.30 each)	Dr.	60,000	60,000

Question 3.

Narain Laxmi Ltd. invited applications for issuing 7,500; 12% Debentures of Rs.100 each at a premium of Rs.35 per debenture. The full amount was payable on application. Applications were received for 10,000 Debentures. Applications for 2,500 debentures were rejected and the application money was refunded. Debentures were allotted to the remaining applicants. Pass necessary Journal entries for the above transactions in the books of Narain Laxmi Ltd.

Solution:

Books of Narain Laxmi Ltd.
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c (10,000 debentures × 135) To 9% Debenture Application and Allotment A/c (Being application money received on 10,000 12% debentures)	Dr.	13,50,000	13,50,000
	Debenture Application and Allotment A/c To 12% Debenture A/c To Securities Premium Reserve A/c To Bank A/c (Being 7,500; 12% debenture of ₹100 each issued at a premium of ₹35 and excess money refunded)	Dr.	13,50,000	7,50,000 2,62,500 3,37,500

Question 4.

Raj Ltd. issued 5,000; 8% Debentures of Rs.100 each at a premium of 5% payable as follows: Rs.10 on application; Rs.20 along with premium on allotment and balance on first and final call.

Pass necessary Journal entries.

Books of Raj Ltd.
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c To 8% Debenture Application A/c (Being application money received for 5,000 debentures at ₹10 each)	Dr.	50,000	50,000
	8% Debenture Application A/c To 8% Debenture A/c (Being debenture application money transferred to 8% debentures A/c)	Dr.	50,000	50,000
	8% Debenture Allotment A/c To 8% Debenture A/c To Securities Premium A/c (Being debenture allotment money due on 5,000 8% debentures at ₹20 including premium of ₹5)	Dr.	1,00,000	75,000 25,000
	Bank A/c To 8% Debenture Allotment A/c (Being debenture allotment money received)	Dr.	1,00,000	1,00,000
	8% Debenture First and Final Call A/c To 8% Debenture A/c (Being debenture first and final call money due on 5,000 debentures at ₹75 each)	Dr.	3,75,000	3,75,000
	Bank A/c To 8% Debenture First and Final Call A/c (Being debenture first and final call received)	Dr.	3,75,000	3,75,000

Question 5.

Nipa Limited issued Rs.10,00,000 Debentures of Rs.100 each at a premium of 10%, payable as 25% on application (including the premium) and the balance on allotment. The debentures were duly taken up by the public and the money was duly received.

You are required to give Journal entries and prepare Cash Book.

Solution:

Face value of Debenture = ₹100

Premium (₹100 × 10%) = ₹10

∴ Issue Price = ₹110

Amount Payable as:

On Application (25%) ₹25 including premium of ₹10 (i.e. ₹10 + 15)

On Allotment (85%) ₹85 per debenture

Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Debenture Application A/c To Debenture A/c To Securities Premium A/c (Being debenture application money received for 10,000 debentures at ₹25 including premium of ₹10 each transferred to debenture account)	Dr.	2,50,000	1,50,000 1,00,000
	Debenture Allotment A/c To Debenture A/c (Being debenture allotment due on 10,000 Debentures at ₹85 each)	Dr.	8,50,000	8,50,000

Cash Book

Dr.				Cr.			
Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
	To Debenture Application A/c		2,50,000		By Balance c/d		11,00,000
	To Debenture Allotment A/c		8,50,000				
			11,00,000				11,00,000

Question 6.

Alok Ltd. issued 7,000, 10% Debentures of Rs.500 each at a premium of Rs.50 per debenture redeemable at a premium of 10% after 5 years. According to the terms of issue, Rs.200 was payable on application and balance on allotment.

Record necessary Journal entries at the time of issue of 10% Debentures.

Solution:**Journal**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c (7,000 × 200) To Debenture Application A/c (Being application money received for 7,000 debentures)	Dr.	14,00,000	14,00,000
	Debenture Application A/c To 10% Debenture A/c (Being transferred of application money to Debentures A/c)	Dr.	14,00,000	14,00,000
	Debenture Allotment A/c (7,000 × 350) Loss on issue of Debentures A/c (7,000 × 50) To 10% Debenture A/c (7,000 × 3000) To Securities Premium Reserve A/c (7,000 × 50) To premium on Redemption of Debentures A/c (7000 × 300) (Being allotment due on 7,000 Debentures at a premium of ₹50 per debentures and redeemable at premium of 10%)	Dr. Dr.	24,50,000 3,50,000	21,00,000 3,50,000 3,50,000
	Bank A/c To Debenture Allotment A/c (Being allotment money received)	Dr.	24,50,000	24,50,000

Question 7.

Vijay Laxmi Ltd. invited applications for issuing 10,000; 12% Debentures of Rs.100 each at a premium of Rs.70 per

debenture. The full amount was payable on application. Applications were received for 13,500 debentures. Applications for 3,500 debentures were rejected and application money was refunded. Debentures were allotted to the remaining applications.

Pass necessary Journal entries in the books of Vijay Laxmi Ltd. for the above transactions.

Solution:

**Books of Vijay Laxmi Ltd.
Journal Entries**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To Debenture Application and Allotment A/c (Being application money received on 13,500 12% debenture)	Dr.	22,95,000	22,95,000
	Debenture Application and Allotment A/c To 12% Debenture A/c To Securities Premium Reserve A/c To Bank A/c (Being 10,000; 12% debenture issued at a premium of Rs.70 and excess money refunded)	Dr.	22,95,000	10,00,000 7,00,000 5,95,000

Question 8.

X Ltd. Issued 12,000; 8% Debentures of Rs.100 each at a discount of 5% payable as 25% on application; 20% on allotment and balance after three months.

Pass Journal entries.

Solution:

Face value of Debenture = Rs.100

Premium (Rs.100 × 5%) = Rs.5

∴ Issue Price = Rs.95

Amount Payable as:

On Application (25%)	Rs.25 per debenture
On Allotment (85%)	Rs.20 (25 - 5) per debenture
On First and Final Call (50%)	Rs.50 per debenture

Journal

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
	Bank A/c To 8% Debenture Application A/c (Being application money received for 12,000 8% debentures at Rs.25 each)	Dr.	3,00,000	3,00,000
	8% Debenture Application A/c To 8% Debenture A/c (Being debenture application money transferred to 8% debentures A/c)	Dr.	3,00,000	3,00,000
	8% Debenture Allotment A/c Discounted on Issue of Debentures A/c To 8% Debenture A/c (Being allotment money due on 12,000 8% debentures at Rs.20 each at discount of Rs.5)	Dr. Dr.	2,40,000 60,000	3,00,000
	Bank A/c To 8% Debenture Allotment A/c (Being allotment money received)	Dr.	2,40,000	2,40,000
	8% Debenture First and Final Call A/c To 8% Debenture A/c (Being first and final call money due on 12,000 8% debentures at Rs.50 each)	Dr.	6,00,000	6,00,000
	Bank A/c To 8% Debenture First and Final Call A/c (Being first and final call received)	Dr.	6,00,000	6,00,000

Question 9.

Alka Ltd. issued 5,000, 10% Debentures of Rs.1,000 each at a discount of 10% redeemable at a premium of 5% after 5 years. According to the terms of issue Rs.500 was payable on application and the balance amount on allotment of debentures. Record necessary entries regarding issue of 10% Debentures.

Solution:**Journal Entries**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c (5,000 × 500) To Debenture Application A/c (Being application money received for 5,000 debentures)	Dr.	25,00,000	25,00,000
	Debenture Application A/c To 10% Debenture A/c (Being transferred application money to debentures A/c)	Dr.	25,00,000	25,00,000
	Debenture Allotment A/c (5,000 × 400) Discount on issue of Debentures A/c (5,000 × 100) Loss on issue of Debentures A/c (5,000 × 50) To 10% Debenture A/c (5,000 × 500) To Premium on Redemption of Debentures (5,000 × 50) (Being allotment due on 5,000 debentures at a discounted of ₹100 per debentures and redeemable at premium of 5%)	Dr. Dr. Dr.	20,00,000 5,00,000 2,50,000	25,00,000 2,50,000
	Bank A/c To Debenture Allotment A/c (Being allotment money received)	Dr.	20,00,000	20,00,000

Question 10.

A limited company bought a Building for Rs.9,00,000 and the consideration was paid by issuing 10% Debentures of the nominal (face) value of Rs.100 at a discount of 10%.

Give Journal entries.

Solution:**Journal Entries**

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Building A/c To Vendor A/c (Being building purchased)	Dr.	9,00,000	9,00,000
	Vendor A/c Discount on Issue of Debentures A/c To 10% Debentures A/c (Being issued 10,000, 10% debentures at 10% discount)	Dr. Dr.	9,00,000 1,00,000	10,00,000

Working Notes :

$$\text{No. of debentures to be issued} = \frac{\text{purchase Consideration}}{\text{Issue Price}} = \frac{9,00,000}{90} = 10,000 \text{ debentures}$$

Question 11.

Wye Ltd. purchased an established business for Rs.2,00,000 payable as Rs.65,000 by cheque and the balance by an issue of 9% Debentures of Rs.100 each at a discount of 10%.

Give Journal entries in the books of Wye Ltd.

Solution:

Books of Wye Ltd.
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Sundry Assets A/c To vendor A/c (Being business purchased)	Dr.	2,00,000	2,00,000
	Vendor A/c To Bank A/c (Being amount paid to vendor in cash)	Dr.	65,000	65,000
	Vendor A/c Discount on Issue of Debentures A/c To 9% Debenture A/c (Being issued 1,500 debentures at 10% discount)	Dr. Dr.	1,35,000 15,000	1,50,000

Working Notes :

$$\text{No. of debentures to be issued} = \frac{\text{purchase Consideration}}{\text{Issue Price}} = \frac{1,35,000}{90} = 1,500 \text{ debentures}$$

Question 12.

Newton Ltd. purchased a Machinery from B for an agreed purchase consideration of Rs.5,76,000 to be satisfied by the issue of 9% Debentures of Rs.100 each at 4% discount. Journalise the transactions.

Solution:

Books of Newton Ltd.
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Machinery A/c To B's A/c (Being machinery purchased from B)	Dr.	5,76,000	5,76,000
	B's A/c Discount on Issue of Debentures A/c To 9% Debenture A/c (Being issued 6,000 debentures at 4% discount)	Dr. Dr.	5,76,000 24,000	6,00,000

Working Notes :

$$\text{No. of debentures to be issued} = \frac{\text{purchase Consideration}}{\text{Issue Price}} = \frac{5,76,000}{100 - 4} = \frac{5,76,000}{96} = 6,000 \text{ debentures}$$

Question 13.

Reliance Ltd. purchased machinery costing Rs.1,35,000. It was agreed that the purchase consideration be paid by issuing 9% Debentures of Rs.100 each. Assume debentures have been issued (i) at par and (ii) at a discount of 10%. Give necessary Journal entries.

Books of Reliance Ltd.
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Machinery A/c To Vendor A/c (Being machinery purchased)	Dr.	1,35,000	1,35,000
	Vendor A/c To 9% Debenture A/c (Being issued 1,350 debentures at par)	Dr.	1,35,000	1,35,000

Working Notes :

No. of debentures to be issued = $\frac{\text{purchase Consideration}}{\text{Issue Price}} = \frac{1,35,000}{100} = 1,350$ debentures

Case 2

Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Machinery A/c To Vendor A/c (Being machinery purchased)	Dr.	1,35,000	1,35,000
	Vendor A/c Discount on Issue of Debentures A/c To 9% Debenture A/c (Being issued 1,500 debentures at 10% discount)	Dr. Dr.	1,35,000 15,000	1,50,000

Working Notes :

No. of debentures to be issued = $\frac{\text{purchase Consideration}}{\text{Issue Price}} = \frac{1,35,000}{90} = 1,500$ debentures