Issue of Debentures

Standard difficulty · 20 questions · 40 marks · Time: 46 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. A debentureholder is a(n):

(a) partner **(b)** employee
(c) owner of the company **(d)** creditor of the company

2. What are “irredeemable (perpetual) debentures”?

(a) debentures repaid only on winding up of the company
(b) debentures given as extra security for a loan, in addition to the main security
(c) debentures transferable by mere delivery
(d) debentures with no stated interest, issued at a deep discount

3. Which of these is true of debentures (and not of shares)?

(a) the return varies with profit **(b)** the return is paid only out of profits
(c) holders are owners of the company **(d)** they are repaid after a fixed period

4. Maple Ltd issued 13,500 10% Debentures of ₹100 each at a premium of 5%, redeemable at a premium of 5%. What is the loss on issue of debentures?

(a) ₹67,500 **(b)** ₹66,500 **(c)** ₹1,35,000 **(d)** ₹68,500

5. Riverstone Ltd has 20,000 12% Debentures of ₹100 each. What is the interest for one full year?

(a) ₹4,80,000 **(b)** ₹1,20,000 **(c)** ₹2,40,000 **(d)** ₹20,00,000

6. Silverline Ltd issued 9,300 9% Debentures of ₹100 each on 1 August. Interest is payable half-yearly on 30 September and 31 March. How much interest is due on 30 September?

(a) ₹20,925 **(b)** ₹41,850 **(c)** ₹13,950 **(d)** ₹83,700

7. Meadow Ltd bought machinery for ₹3,36,000 and paid the vendor by issuing debentures of ₹100 each at a premium of 5%. How many debentures were issued?

(a) 3,300 debentures **(b)** 3,537 debentures
(c) 3,360 debentures **(d)** 3,200 debentures

8. Bluebell Ltd issued 11,800 12% Debentures of ₹100 each at a discount of 10%, redeemable at a premium of 5%. What amount is credited to Premium on Redemption of Debentures Account?

(a) ₹59,000 **(b)** ₹11,80,000 **(c)** ₹1,18,000 **(d)** ₹1,77,000

Section B — Short answer — 8 × 2 = 16 marks

9. What is a debenture?

10. Explain each kind of debenture: (a) zero coupon rate debentures (b) debentures as collateral security

11. Sunrise Ltd issued 15,700 9% Debentures of ₹100 each at a premium of 5%, redeemable at par. Find the loss on issue of debentures.

12. Skylark Ltd issued 14,300 8% Debentures of ₹100 each at a discount of 10%, redeemable at a premium of 5%. The whole amount was received with the application and the debentures were allotted. Pass the journal entry for the allotment.

13. Brightway Ltd bought a building for ₹3,32,500 from a vendor and paid by issuing 10% debentures of ₹100 each at a discount of 5%. Pass the journal entries.

14. Greenleaf Ltd has 4,100 11% Debentures of ₹100 each. Interest is paid once a year on 31 March. Pass the journal entries for the interest due, its payment, and its transfer to the Statement of Profit and Loss.

15. A company has a loss on issue of debentures of ₹39,000, and its Securities Premium balance is ₹9,000. The loss is written off in the year of issue. How much is written off from (a) Securities Premium (b) the Statement of Profit and Loss?

16. Hilltop Ltd offered 6,100 debentures of ₹100 each, with ₹100 payable on application. Applications for 8,200 debentures were received; the extra applications were rejected. How much application money is refunded?

Section C — Word problems — 4 × 4 = 16 marks

17. Explain the different types of debentures.

18. Maple Ltd issued 13,800 11% Debentures of ₹100 each at a discount of 5%, redeemable at a premium of 5%. The full amount was payable on application. All the debentures were applied for and allotted. Pass the journal entries for receiving the application money, the allotment, and writing off the loss on issue from the Statement of Profit and Loss.

19. Greenleaf Ltd took over assets of ₹3,50,000 and liabilities of ₹54,000 from another firm for a purchase consideration of ₹3,06,000. It paid ₹16,000 in cash and the rest by issuing 9% debentures of ₹100 each at par. Pass the journal entries.

20. Northstar Ltd issued 15,900 12% Debentures of ₹100 each on 1 August of a year that ends on 31 March. Interest is payable half-yearly on 30 September and 31 March. Find (a) the interest due on 30 September (b) the interest due on 31 March (c) the debenture interest transferred to the Statement of Profit and Loss for the year.

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Answer key

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Q	Answer	Working
1	**(d) creditor of the company**	—
2	**(a) debentures repaid only on winding up of the company**	—
3	**(d) they are repaid after a fixed period**	—
4	**(a) ₹67,500**	discount ₹0 + premium on redemption ₹67,500
5	**(c) ₹2,40,000**	₹20,00,000 × 12/100
6	**(c) ₹13,950**	₹9,30,000 × 9/100 × 2/12
7	**(d) 3,200 debentures**	₹3,36,000 ÷ ₹105
8	**(a) ₹59,000**	11,800 × ₹5
9	**A written acknowledgement of a debt by a company, under its seal, promising interest and repayment on stated terms.**	—
10	**(a) debentures with no stated interest, issued at a deep discount (b) debentures given as extra security for a loan, in addition to the main security**	—
11	**₹0**	discount ₹0 + premium on redemption ₹0
12	**Debenture Application and Allotment A/c Dr. ₹12,87,000** **Loss on Issue of Debentures A/c Dr. ₹2,14,500** **To 8% Debentures A/c ₹14,30,000** **To Premium on Redemption of Debentures A/c ₹71,500**	issue price ₹90; loss on issue ₹2,14,500
13	**(i) Building A/c Dr. ₹3,32,500** **To Vendor A/c ₹3,32,500** **(ii) Vendor A/c Dr. ₹3,32,500** **Discount on Issue of Debentures A/c Dr. ₹17,500** **To 10% Debentures A/c ₹3,50,000**	₹3,32,500 ÷ ₹95 = 3,500 debentures
14	**(i) Debenture Interest A/c Dr. ₹45,100** **To Debentureholders A/c ₹45,100** **(ii) Debentureholders A/c Dr. ₹45,100** **To Bank A/c ₹45,100** **(iii) Statement of Profit and Loss A/c Dr. ₹45,100** **To Debenture Interest A/c ₹45,100**	interest ₹4,10,000 × 11/100 = ₹45,100
15	**(a) ₹9,000; (b) ₹30,000**	securities premium is used first, the rest from profit
16	**₹2,10,000**	(8,200 − 6,100) × ₹100

Q	Answer	Working
17	**By security: secured and unsecured; by tenure: redeemable and irredeemable; by convertibility: convertible and non-convertible; by coupon: specific rate and zero coupon; by registration: registered and bearer.**	—
18	**(i) Bank A/c Dr. ₹13,11,000** **To Debenture Application and Allotment A/c ₹13,11,000** **(ii) Debenture Application and Allotment A/c Dr. ₹13,11,000** **Loss on Issue of Debentures A/c Dr. ₹1,38,000** **To 11% Debentures A/c ₹13,80,000** **To Premium on Redemption of Debentures A/c ₹69,000** **(iii) Statement of Profit and Loss A/c Dr. ₹1,38,000** **To Loss on Issue of Debentures A/c ₹1,38,000**	issue price ₹95; loss on issue ₹1,38,000
19	**(i) Sundry Assets A/c Dr. ₹3,50,000** **Goodwill A/c Dr. ₹10,000** **To Sundry Liabilities A/c ₹54,000** **To Vendor A/c ₹3,06,000** **(ii) Vendor A/c Dr. ₹3,06,000** **To Bank A/c ₹16,000** **To 9% Debentures A/c ₹2,90,000**	goodwill ₹3,06,000 − (₹3,50,000 − ₹54,000) = ₹10,000; debentures ₹2,90,000 ÷ ₹100 = 2,900
20	**(a) ₹31,800; (b) ₹95,400; (c) ₹1,27,200**	(a) ₹15,90,000 × 12/100 × 2/12 (b) × 6/12 (c) (a) + (b)