

**2020  
EDITION**

**SUPPLEMENT**

ISC XII

T.S. GREWAL'S

# **Double Entry BOOK KEEPING**

(Section A)

## **Joint Stock Company— Redemption of Debentures**

(As per Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 (as amended *w.e.f.* 16th August, 2019)

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# Joint Stock Company— Redemption of Debentures

## (SUPPLEMENT)

### MEANING

**Redemption of Debentures** means discharging the liability of debentures by repayment of amount to the debentureholders or by converting the debentures into shares or new debentures.

Debentures are normally redeemed on the due date or earlier according to the terms of issue. Debentures may be redeemed in instalments, *i.e.*, by draw of lots or by purchase from the open market for cancellation or by conversion into shares or new debentures.

*Redemption of Debentures by conversion into shares or new debentures is not in syllabus. Hence, it is not discussed.*

At the time of redemption, following three points should be kept in mind:

1. **Time of Redemption of Debentures:** Debentures are normally redeemed on the due date. A company may also, if authorised by its Articles of Association and terms of issue, redeem the debentures before the due date in instalments, *i.e.*, by draw of lots or by purchase from open market for cancellation.
2. **Amount of Redemption of Debentures:** The amount payable on redemption of debentures may be its nominal (face) value or its nominal (face) value *plus* premium payable, if any on redemption of debentures. When the debentures are redeemed by purchase from open market for cancellation, the amount paid for purchase of these debentures is the amount of redemption.
3. **Sources of Redemption of Debentures:** The sources of redemption of debentures may be any of the following:
  - (a) **Out of Capital:** It means redemption of debentures without transfer of profits to Debentures Redemption Reserve (DRR). Redemption only out of capital is possible except by unlisted companies because Companies Act, 2013 along with Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 prescribes that only these

companies shall transfer at least 10 per cent of the nominal (face) value of outstanding debentures to Debentures Redemption Reserve out of profits available for payment of dividends to the shareholders.

- (b) **Out of Profits:** It means redemption of debentures only out of profits. In this case, companies transfer 100 per cent of nominal (face) value of total redeemable debentures to Debentures Redemption Reserve out of profits available for payment as dividends to the shareholders.
- (c) **Out of Profits and Capital:** It means redemption of debentures partially out of profits and partially out of capital. Where the company does not transfer 100 per cent of nominal (face) value of outstanding debentures to Debentures Redemption Reserve out of the surplus available for payment as dividend to the shareholders, it is known as **redemption out of profits and capital.**

### DEBENTURES REDEMPTION RESERVE (DRR)

#### Meaning

Debentures Redemption Reserve (DRR) is a reserve set aside out of profits available for payment of dividend for the purpose of redemption of debentures.

#### Transferring amount to Debentures Redemption Reserve (DRR)

Section 71(4) of the Companies Act, 2013 which deals with DRR is as follows:

*“Where debentures are issued by a company under this section, the company shall create a debenture redemption reserve account out of the profits of the company available for payment of dividend and the amount credited to such account shall not be utilised by the company except for the redemption of debentures.”*

#### Adequacy of Debentures Redemption Reserve (DRR)

Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 (as amended *w.e.f.* 16th August, 2019) prescribes as follows:

- (a) Amount shall be transferred to Debentures Redemption Reserve out of profits of the company that are available for payment of dividend; and
- (b) Amount that shall be transferred to Debentures Redemption Reserve (DRR) shall be as follows:

S. No.	Debentures Issued by	Amount Adequate for DRR
1.	<b>All India Financial Institutions (AIFIs)</b> regulated by Reserve Bank of India (RBI)	DRR is not required.
2.	<b>Banking Companies</b> (For both Public Issue and Private Placement of Debentures)	DRR is not required.

3.	<b>Other Financial Institutions (FIs)</b> within the meaning of Section 2(72) of the Companies Act, 2013	DRR shall be as prescribed for NBFCs registered with RBI. At present such companies are not required to transfer amount to DRR.
4.	<b>Listed Companies (Other than AIFs, Banking Companies and other Financial Institutions)</b> (For both Public Issue and Private Placement of Debentures)	
(a)	Non-Banking Financing Companies (NBFCs), registered with RBI under Section 45-IA of the RBI Act, 1934;	DRR is not required.
(b)	Housing Finance Companies (HFCs) registered with National Housing Bank;	DRR is not required.
(c)	Other Listed Companies.	DRR is not required.
5.	<b>Unlisted Companies (Other than AIFs, Banking Companies and other Financial Institutions)</b> (For Privately Placed Debentures)	
(a)	NBFCs, registered with RBI under Section 45-IA of the RBI Act, 1934;	DRR is not required.
(b)	Housing Finance Companies (HFCs) registered with National Housing Bank.	DRR is not required.
6.	<b>Other Unlisted Companies (Other than NBFCs and HFCs)</b>	DRR shall be 10% of the value of the Outstanding Debentures. In the case of Convertible Debentures, amount shall be set aside to DRR for non-convertible part of the Convertible Debentures.

(c) Debentures Redemption Reserve (DRR) is a specific reserve, which can be used only for the purpose of redemption of debentures.

Thus, *only unlisted companies (Other than NBFCs and/or HFCs)* are required to transfer amount to DRR which shall be at least 10 per cent of the value of Outstanding Debentures.

It should be noted that dividend can be paid by a company from General Reserve, Dividend Equalisation Reserve and Surplus, *i.e.*, Balance in Statement of Profit and Loss. Thus, amount can be set aside to Debentures Redemption Reserve (DRR) out of the above Reserves and Surplus.

### Accounting Treatment

Amount may be transferred by the unlisted company (which is also not a NBFC or HFC) to DRR in lump sum or in parts. However, it should be ensured that minimum amount, *i.e.*, at least 10 per cent of *Outstanding Debentures* is the balance in DRR Account before the redemption of debentures. The Journal entry passed is:

General Reserve A/c	...Dr.
Dividend Equalisation Reserve A/c	...Dr.
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss A/c	...Dr.
To Debentures Redemption Reserve A/c	
(Amount transferred to DRR)	

**Disclosure of Debentures Redemption Reserve (DRR) in the Balance Sheet**

Debentures Redemption Reserve is shown in the Equity and Liabilities part of the Balance Sheet under the main head 'Shareholders' Funds' and sub-head 'Reserves and Surplus'.

**Use of Debentures Redemption Reserve (DRR)**

Debentures Redemption Reserve can be used only for the purposes of redemption of debentures.

**Transfer of Debentures Redemption Reserve (DRR) to General Reserve**

Debentures may be redeemed in parts or in lump sum, *i.e.*, all the outstanding debentures are redeemed together. DRR is transferred to General Reserve after redeeming the debentures. Amount that will be transferred, in the two situations, is as follows:

- (a) *When all Debentures are Redeemed together:* The total amount of DRR is transferred to General Reserve after redemption of all the debentures.

The Journal entry passed is:

Debentures Redemption Reserve A/c	...Dr.
To General Reserve A/c	

- (b) *When Debentures are Redeemed in Parts:* The amount proportionate to the amount of debentures redeemed is transferred from DRR to General Reserve. For example, Hi-point Ltd. an unlisted (Non-NBFC and/or HFC) company has outstanding debentures of ₹ 10,00,000 out of which debentures of ₹ 2,00,000 are redeemed. It will set aside ₹ 1,00,000 (*i.e.*, 10% of ₹ 10,00,000) to DRR and after redemption of debentures of ₹ 2,00,000, it will transfer ₹ 20,000 (*i.e.*, 10% of ₹ 2,00,000) from DRR to General Reserve.

Let us take another example for even better understanding.

Biz Ltd. had 10,000, 9% Debentures of ₹ 100 each outstanding for redemption as follows:

On 31st March, 2018	2,000 Debentures;
On 31st March, 2019	3,000 Debentures;
On 31st March, 2020	Balance Debentures.

Before the redemption of 2,000 debentures on 31st March, 2018, the company should have balance in DRR of ₹ 1,00,000 (*i.e.*, 10 per cent of ₹ 10,00,000, being the amount of outstanding debentures). After redemption of 2,000 Debentures, outstanding debentures will be 8,000 Debentures. DRR should be 10% of ₹ 8,00,000, *i.e.*, ₹ 80,000. The company shall transfer ₹ 20,000 from DRR to General Reserve. Now the balance in DRR will be ₹ 80,000.

Before the redemption of 3,000 debentures on 31st March, 2019 it should have balance in DRR of at least ₹ 80,000 (*i.e.*, 10 per cent of ₹ 8,00,000, being the outstanding debentures). After the redemption of 3,000 Debentures, Outstanding Debentures will be 5,000 Debentures. 10% of ₹ 5,00,000, *i.e.*, ₹ 50,000 should be the balance left in DRR. The company shall transfer ₹ 30,000 from DRR to General Reserve and thereafter, DRR will have balance of ₹ 50,000.

And before the company redeems 5,000 debentures on 31st March, 2020, it should have balance in DRR of at least ₹ 50,000 (*i.e.*, 10 per cent of ₹ 5,00,000, being outstanding debentures). After the last redemption DRR should have 'Nil' balance. Hence, ₹ 50,000 will be transferred from DRR to General Reserve.

**Illustration 1.**

Natraj Ltd., an unlisted (Non-NBFC or HFC) company, has outstanding 10,000, 7% Debentures of ₹ 100 each redeemable as follows:

- 5,000 Debentures on 31st March, 2018;
- 2,500 Debentures on 31st March, 2019; and
- Balance on 31st March, 2020.

Determine the amount that the company should have in DRR Account before each redemption and amount transferred from DRR to General Reserve after each redemption.

**Solution:**

Year	Outstanding Debentures	Balance in DRR before Redemption (₹)	Amount transferred from DRR to General Reserve after redemption (₹)	Balance in DRR Account (₹)
31st March, 2018	10,00,000	1,00,000	50,000	50,000
31st March, 2019	5,00,000	50,000	25,000	25,000
31st March, 2020	2,50,000	25,000	25,000	...

**Debentures Redemption Investment (DRI)**

Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 (as amended from 16th August, 2019) prescribes that companies that are to redeem debentures, except the exempted companies, shall

*“Invest an amount not less than 15 per cent of the nominal (face) value of the debentures to be redeemed by 31st March of the next year in specified securities on or before 30th April of the current year.”*

*It further prescribes that the amount remaining invested or deposited, as the case may be, shall not at any time fall below 15 per cent of the amount of the debentures maturing during the year ending on 31st day of March of that year.*

Investment in specified securities is required to be made by all companies except All India Financial Institutions (AIFIs) regulated by RBI, Banking Companies, Other Financial Institutions, Unlisted Non-Banking Financing Companies (NBFCs) and Unlisted Housing Finance Companies (HFCs). Following chart elaborates it further:

S. No.	Debentures Issued by	Whether Investment to be made in DRI or Not
1.	<b>All India Financial Institutions (AIFIs)</b> regulated by Reserve Bank of India	No
2.	<b>Banking Companies</b> (For both Public Issue and Private Placement of Debentures)	No
3.	<b>Other Financial Institutions (FIs)</b> within the meaning of Section 2(72) of the Companies Act, 2013	No
4.	<b>Listed Companies (Other than AIFIs, Banking Companies and other Financial Institutions)</b> (For both Public Issue and Private Placement of Debentures)	
	(a) NBFCs, registered with RBI under Section 45–IA of the RBI Act, 1934;	Yes
	(b) HFCs, registered with National Housing Bank;	Yes
	(c) Other Listed Companies.	Yes
5.	<b>Unlisted Companies (Other than AIFIs, Banking Companies and other Financial Institutions)</b> (For Privately Placed Debentures)	
	(a) NBFCs, registered with RBI under Section 45– IA of the RBI Act, 1934;	No
	(b) HFCs, registered with National Housing Bank.	No
6.	<b>Other Unlisted Companies (Other than NBFCs and HFCs)</b>	Yes

Thus, a company redeeming the debentures shall invest an amount that is at least 15 per cent of the nominal (face) value of debentures to be redeemed by 31st March of the next year in the securities specified for the purpose on or before 30th April of the current year. For example, Best Ltd., a listed retail company is to redeem 2,000, 8% Debentures of ₹ 100 each on 30th June, 2020, 3,000, 8% Debentures of ₹ 100 each on 31st December, 2020 and 2,500, 8% Debentures of ₹ 100 each on 31st March, 2021. It shall invest ₹ 1,12,500 (i.e., 15% of ₹ 7,50,000) in Debentures Redemption Investment (DRI) on or before 30th April, 2020.

Also, if the debentures are redeemed in parts, it should be ensured that the investment does not fall below 15 per cent of the nominal (face) value of debentures yet to be redeemed during the year ending 31st March of the next year. Continuing the above example, Best Ltd., may realise investment of ₹ 30,000 (i.e., ₹ 1,12,500 × 2,000/7,500) on 30th June, 2020. After realising investments of ₹ 30,000, it will be left with balance of ₹ 82,500 which is 15% of ₹ 5,50,000, the value of debentures yet to be redeemed during the year ended 31st March, 2021.

### Accounting Entries

The Journal entries passed are:

(i) On Investment or Deposit being made in specified securities:

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

(ii) On Realising the Investment:

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

The amount invested or deposited in specified securities shall not be used for any purpose other than for redemption of debentures.

#### Specified Securities for Debentures Redemption Investment (DRI)

Securities specified for Investment are:

1. in deposits with any Scheduled Bank, free from any charge;
2. in unencumbered securities of the Central Government or any State Government;
3. in unencumbered securities mentioned in sub-clauses (a) to (d) and (ee) of Section 20 of the Indian Trust Act, 1882;
4. in unencumbered bonds issued by a company which is notified under Section 20(f) of the Indian Trust Act, 1882.

Debentures Redemption Investment may earn income which may be subject to Tax Deduction at Source (TDS). Tax is deducted at source on the interest and balance amount is paid to the debentureholders. Tax deducted is deposited with the Government on behalf of the person whose tax is deducted. Thus, Tax so deducted on the income of the company is an asset for the company since it is deducted out of income earned. Thus, when tax is deducted on income earned on investment or deposit 'TDS Collected (Receivable) Account' is debited.

The Journal entry for income received and tax having been deducted is:

Bank A/c	...Dr.
TDS Collected (Receivable) A/c	...Dr.
To Interest Earned A/c	

**Illustration 2** (*Investment or Deposit to be made for Redemption of Debentures*).

Adidas Ltd. had issued on 1st April, 2015, 20,000, 9% Debentures of ₹ 100 each redeemable as under:

- (i) During the year ending on 31st March, 2017—15%
- (ii) During the year ending on 31st March, 2018—25%
- (iii) During the year ending on 31st March, 2019—15%
- (iv) During the year ending on 31st March, 2020—25%
- (v) During the year ending on 31st March, 2021—20%.

How much minimum investment or deposit should be made by Adidas Ltd. as per the Companies Act, 2013 before redemption of debentures? Also state, when should it be made?

**Solution:** Table Showing Investment or Deposit to be made by Adidas Ltd.

Redemption during the year ending	Time of Investment	Nominal (Face) Value of Debentures Maturing	Minimum Investment or Deposit in DRI
(i) 31st March, 2017	On or Before 30th April, 2016	15% of ₹ 20,00,000 = ₹ 3,00,000	15% of ₹ 3,00,000 = ₹ 45,000
(ii) 31st March, 2018	On or Before 30th April, 2017	25% of ₹ 20,00,000 = ₹ 5,00,000	15% of ₹ 5,00,000 = ₹ 75,000 Further Investment: ₹ 75,000 – ₹ 45,000 = ₹ 30,000 Realise Investment: ₹ 30,000 (15% of ₹ 2,00,000) on 31st March, 2018
(iii) 31st March, 2019	On or Before 30th April, 2018	15% of ₹ 20,00,000 = ₹ 3,00,000	15% of ₹ 3,00,000 = ₹ 45,000
(iv) 31st March, 2020	On or Before 30th April, 2019	25% of ₹ 20,00,000 = ₹ 5,00,000	15% of ₹ 5,00,000 = ₹ 75,000 Further Investment: ₹ 75,000 – ₹ 45,000 = ₹ 30,000 Realise Investment: ₹ 15,000 (15% of ₹ 1,00,000) on 31st March, 2020
(v) 31st March, 2021	On or Before 30th April, 2020	20% of ₹ 20,00,000 = ₹ 4,00,000	Realise full Investment of ₹ 60,000

**Note:** For redemption on 31st March, 2019 and 31st March, 2021, there is no need of further investment since previous investment is more than the required amount of investment.

*In case redemption is in equal instalments, Debentures Redemption Investment made for the first instalment is not realised but remains invested till the last instalment of redemption.*

Normally, investment is realised at the time of redemption of debentures. However, if the debentures are to be redeemed in the next year or years, investments are not realised but carried forward to the extent required to meet the requirement of law, *i.e.*, 15% of the debentures to be redeemed during the year. It means, if investment is less than the required amount, more investment is made and if investment is more than the required investment, excess investment is realised. Following examples will make it more clear.

**Example 1** (*Debentures to be redeemed in equal instalments*). On 1st April, 2018, P Ltd. issued 5,000, 10% Debentures of ₹ 100 each at a discount of 10% repayable at par in four equal annual instalments beginning 1st April, 2019. How much minimum investment or deposit should be made by P Ltd. as per the Companies Act, 2013 before redemption of debentures? Also state, when should it be made?

First Redemption Due on 1st April, 2019 = ₹ 5,00,000 × 1/4 = ₹ 1,25,000

Amount of Investment = ₹ 1,25,000 × 15/100 = ₹ 18,750

Time of Investment = On or Before 30th April, 2018

Investment (DRI) made for the first instalment remains invested till the last redemption.

**Example 2** (*Redemption of Debentures in Lump Sum*). Harsh Ltd. has outstanding 10,000, 8% Debentures of ₹ 100 each and it has to redeem all the debentures on 31st January, 2020. It will invest ₹ 1,50,000 (*i.e.*, 15% of ₹ 10,00,000) in specified securities on or before 30th April, 2019. This investment will be realised at the time of redemption of debentures since all the debentures are redeemed.

**Example 3** (*Redemption of Debentures when further redemption is not given*). Jasmine Ltd. has outstanding 10,000, 8% Debentures of ₹ 100 each out of which it is to redeem 2,000 debentures on 31st January, 2020. It will invest ₹ 30,000 (*i.e.*, 15% of ₹ 2,00,000) in specified securities on or before 30th April, 2019. This investment will be realised at the time of redemption of 2,000 debentures since further redemption of debentures is not given.

**Example 4** (*Redemption of Debentures in part, all debentures not redeemed*). Bhoomi Ltd. has outstanding 10,000, 8% Debentures of ₹ 100 each on 31st March, 2019, out of which it is to redeem debentures as follows:

- |                            |                  |
|----------------------------|------------------|
| (i) On 31st January, 2020  | 2,000 Debentures |
| (ii) On 31st October, 2020 | 2,000 Debentures |
| (iii) On 1st June, 2021;   | 2,000 Debentures |

The company will invest ₹ 30,000 (*i.e.*, 15% of ₹ 2,00,000) in specified securities on or before 30th April, 2019. This investment will not be realised at the time of redemption of 2,000 debentures on 31st January, 2020 since further 2,000 Debentures are to be redeemed on 31st October, 2020.

The investment will not be realised at the time of redemption of 2,000 debentures on 31st October, 2020 also because another 2,000 debentures are to be redeemed on 1st June, 2021.

The investment will be realised at the time of redemption of 2,000 debentures on 1st June, 2021 since further redemption of debentures is not given.

**Example 5** (*Redemption of all debentures in instalments*). Bharat Ltd. has outstanding 10,000, 8% Debentures of ₹ 100 each on 31st March, 2019, out of which it is to redeem 2,000 debentures on 1st January, 2020, 3,000 debentures on 1st October, 2020 and 1,000 debentures on 1st June, 2021. The investment in specified securities will be as follows:

- (i) The company will invest ₹ 30,000 (*i.e.*, 15% of ₹ 2,00,000) in specified securities on or before 30th April, 2019. This investment will not be realised at the time of redemption of 2,000 debentures on 1st January, 2020 since further 3,000 Debentures are to be redeemed on 1st October, 2020.
- (ii) The company will further invest ₹ 15,000 [15% of ₹ 1,00,000 (*i.e.*, ₹ 3,00,000 less ₹ 2,00,000)] on or before 30th April, 2020 to make investment in specified securities equal to ₹ 45,000 (*i.e.*, 15% of ₹ 3,00,000). The investment to the extent of ₹ 30,000 [15% of ₹ 2,00,000 (*i.e.*, ₹ 3,00,000 less ₹ 1,00,000)] will be realised at the time of redemption of 3,000 debentures on 1st October, 2020 because another 1,000 debentures are to be redeemed on 1st June, 2021 for which investment in specified securities should be ₹ 15,000 (*i.e.*, 15% of ₹ 1,00,000). As a result, investment in specified securities will be ₹ 15,000 (15% of ₹ 1,00,000).
- (iii) The investment of ₹ 15,000 will be realised at the time of redemption of 1,000 debentures on 1st June, 2021 since further redemption of debentures is not planned.

**Methods of Redemption of Debentures**

Debentures may be redeemed:

1. on maturity in lump sum,
2. in instalments by draw of lots,
3. by purchase from open market, and
4. by Conversion. (It is not in syllabus)

Each of the above methods of redemption, except redemption by conversion is discussed below.

**1. Redemption of Debentures on Maturity in Lump Sum:** Under this method, all debentures are redeemed on the redemption date specified in the terms of issue, *i.e.*, on their maturity at par or at premium.

*When Debentures are Redeemed at Par, the Journal entries are:*

- (i) *On Debentures becoming due for Payment:*
- |                          |        |                      |
|--------------------------|--------|----------------------|
| ...% Debentures A/c      | ...Dr. | [With nominal value] |
| To Debentureholders' A/c |        |                      |
- (ii) *On Payment to Debentureholders:*
- |                       |        |                      |
|-----------------------|--------|----------------------|
| Debentureholders' A/c | ...Dr. | [With nominal value] |
| To Bank A/c           |        |                      |

*When Debentures are Redeemed at Premium, the Journal entries are:*

- (i) *On Debentures becoming due for Payment:*
- |                                         |        |                                |
|-----------------------------------------|--------|--------------------------------|
| ...% Debentures A/c                     | ...Dr. | [With nominal value]           |
| Premium on Redemption of Debentures A/c | ...Dr. | [With the amount of premium]   |
| To Debentureholders' A/c                |        | [With nominal value + premium] |
- (ii) *On Payment to Debentureholders:*
- |                       |        |                        |
|-----------------------|--------|------------------------|
| Debentureholders' A/c | ...Dr. | [With the amount paid] |
| To Bank A/c           |        |                        |

Premium payable on redemption is a *Capital loss*. At the time of issue of debentures, premium payable on redemption is provided by passing the following Journal entry:

Loss on Issue of Debentures A/c	...Dr.	
To Premium on Redemption of Debentures A/c		

It means liability to pay premium on redemption is recorded in the books of account following the Prudence Principle. At the time of redemption, 'Premium on Redemption of Debentures Account' is debited as the liability becomes due for payment.

**Illustration 3** (*Issue and Redemption of Debentures by unlisted (Non-NBFC or HFC) company*).

Eagle Ltd., an unlisted (Non-NBFC or HFC) company, has 3,000; 10% Debentures of ₹ 100 each outstanding as on 31st March, 2016. These debentures are due for redemption on 31st March, 2017. The Debentures Redemption Reserve has a balance of ₹ 10,000 on 31st March, 2016.

You are required to pass Journal entries to complete the redemption of debentures.

*(ISC Specimen Question Paper 2018, Modified)*

**Solution:**

JOURNAL OF EAGLE LTD.

Date	Particulars	L.F.	Dr.(₹)	Cr.(₹)
2016 March 31	Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss A/c To Debentures Redemption Reserve A/c (Being the balance amount transferred to DRR) (Note)	...Dr.	20,000	20,000

## 9.10

## Double Entry Book Keeping (Section A) – ISC XII

April 1	Debtures Redemption Investment A/c To Bank A/c (Being the investment made of a sum equal to 15% of the nominal (face) value of debtures to be redeemed, i.e., ₹ 3,00,000)	...Dr.	45,000	45,000
2017 March 31	Bank A/c To Debtures Redemption Investment A/c (Being the Debtures Redemption Investment realised)	...Dr.	45,000	45,000
March 31	10% Debtures A/c To Debtureholders' A/c (Being the amount due to debtureholders on redemption)	...Dr.	3,00,000	3,00,000
March 31	Debtureholders' A/c To Bank A/c (Being the amount due to debtureholders paid)	...Dr.	3,00,000	3,00,000
March 31	Debtures Redemption Reserve A/c To General Reserve A/c (Being the DRR transferred to General Reserve)	...Dr.	30,000	30,000

**Note:** Balance in DRR is ₹ 10,000 as on 31st March, 2016. ₹ 20,000 is further transferred from Surplus, i.e., Balance in Statement of Profit and Loss to make DRR equal to ₹ 30,000, i.e., 10% of ₹ 3,00,000.

**Illustration 4** (Issue and Redemption of Debtures by Listed Company).

Nurturing Green Ltd., a listed company, issued 50,000; 10% Debtures of ₹ 10 each on 1st April, 2019 redeemable at par on 30th June, 2020. The company received applications for 55,000 debtures and the allotment was made to all the applicants on *pro rata* basis. The debtures were redeemed on the due date. Investment was made on 1st April of the financial year in which redemption is due.

Pass necessary Journal entries regarding issue and redemption of debtures. Assume that interest was payable on debtures on 31st March every year.

**Solution:** JOURNAL OF NURTURING GREEN LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2019 April 1	Bank A/c To Debtures Application and Allotment A/c (Being the receipt of application money)	...Dr.	5,50,000	5,50,000
April 1	Debtures Application and Allotment A/c To 10% Debtures A/c To Bank A/c (Being 50,000; 10% Debtures allotted and excess debtures application money returned)	...Dr.	5,50,000	5,00,000 50,000
2020 March 31	Debtures' Interest A/c To Debtureholders' A/c (Being the interest due, i.e., ₹ 5,00,000 × 10/100)	...Dr.	50,000	50,000
March 31	Debtureholders' A/c To Bank A/c (Being the payment of interest)	...Dr.	50,000	50,000

**Joint Stock Company—Redemption of Debentures**

**9.11**

April	1	Debentures Redemption Investment A/c To Bank A/c (Being investment of 15% of ₹ 5,00,000, nominal (face) value of debentures to be redeemed)	...Dr.	75,000	75,000
June	30	Debentures' Interest A/c To Debentureholders' A/c (Being the interest due for three months, i.e., ₹ 5,00,000 × 10/100 × 3/12)	...Dr.	12,500	12,500
June	30	Bank A/c To Debentures Redemption Investment A/c (Being the investment realised on redemption of debentures)	...Dr.	75,000	75,000
June	30	10% Debentures A/c To Debentureholders' A/c (Being the payment on redemption of debentures due to debentureholders)	...Dr.	5,00,000	5,00,000
June	30	Debentureholders' A/c To Bank A/c (Being the payment due to debentureholders discharged including interest)	...Dr.	5,12,500	5,12,500

**Notes:**

1. It being a listed company shall not transfer amount to DRR.
2. Debentures' Interest Account will be shown in Statement of Profit and Loss under the head 'Finance Costs'.

**Illustration 5** (*Redemption of Debentures in case of Banking Company*).

Bank of India Ltd. has outstanding 1,00,000; 10% Debentures of ₹ 10 each issued on 1st April, 2015 due for redemption on 30th June, 2020.

Pass Journal entries at the time of redemption of debentures.

**Solution:**

**JOURNAL OF BANK OF INDIA LTD.**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 June 30	10% Debentures A/c To Debentureholders' A/c (Being the amount due to debentureholders on redemption)	...Dr.	10,00,000	10,00,000
	Debentureholders' A/c To Bank A/c (Being the amount due to debentureholders paid)	...Dr.	10,00,000	10,00,000

**Note:** As per Section 71(4) of the Companies Act, 2013 read with Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 (as amended), a banking company is not required to set aside amount to Debentures Redemption Reserve. It is also not required to invest in specified securities.

**Illustration 6.**

Pass necessary Journal entries for the issue and redemption of Debentures by a listed company (NBFC) in the following cases:

- (i) 15,000; 10% Debentures of ₹ 100 each issued at 10% premium, repayable at par.  
(ii) 60,000; 12% Debentures of ₹ 100 each issued at 5% premium, repayable at 10% premium.

**Solution:**

## JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	<b>At the time of Issue of Debentures</b>			
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the receipt of application money)		16,50,000	16,50,000
	Debentures Application and Allotment A/c ...Dr. To 10% Debentures A/c To Securities Premium Reserve A/c (Being the allotment of 10% Debentures at 10% premium, repayable at par)		16,50,000	15,00,000 1,50,000
	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being investment of 15% of ₹ 15,00,000 as required by Rule 18(7)(c) of the Companies (Share Capital and Debentures) Rules, 2014)		2,25,000	2,25,000
	<b>At the time of Redemption of Debentures</b>			
	Bank A/c ...Dr. To Debentures Redemption Investment A/c (Being the investment realised)		2,25,000	2,25,000
	10% Debentures A/c ...Dr. To Debentureholders' A/c (Being the amount due to debentureholders)		15,00,000	15,00,000
Debentureholders' A/c ...Dr. To Bank A/c (Being the amount paid to debentureholders)		15,00,000	15,00,000	
(ii)	<b>At the time of Issue of Debentures</b>			
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the receipt of application money)		63,00,000	63,00,000
	Debentures Application and 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 of Debentures A/c (Being the issue of 60,000; 12% Debentures of ₹ 100 each at 5% premium, repayable at 10% premium)		63,00,000 6,00,000	60,00,000 3,00,000 6,00,000
	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being Investment of 15% of ₹ 60,00,000 as required by Rule 18(7)(c) of Companies (Share Capital and Debentures) Rules, 2014)		9,00,000	9,00,000

At the time of Redemption of Debentures			
Bank A/c	...Dr.	9,00,000	
To Debentures Redemption Investment A/c			9,00,000
(Being realisation of DRI on redemption of debentures)			
12% Debentures A/c	...Dr.	60,00,000	
Premium on Redemption of Debentures A/c	...Dr.	6,00,000	
To Debentureholders' A/c			66,00,000
(Being the amount due to debentureholders)			
Debentureholders' A/c	...Dr.	66,00,000	
To Bank A/c			66,00,000
(Being the amount paid to debentureholders on redemption)			

**Illustration 7.**

Citi Finance Ltd., a listed NBFC, issued 1,00,000; 9% Debentures of ₹ 50 each at a discount of 10% on 30th June, 2018 redeemable on 31st March, 2020. The issue was fully subscribed. The company met the legal requirements and invested in Fixed Deposit with bank earning interest @ 10% p.a. on 1st April, 2019. Tax was deducted at source (TDS) by bank @ 10%.

Pass Journal entries for issue and redemption of debentures along with interest on investment.

**Solution:** JOURNAL OF CITI FINANCE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
June 30	Bank A/c	...Dr.	45,00,000	
	To Debentures Application and Allotment A/c			45,00,000
	(Being the application money received for 1,00,000 debentures @ ₹ 45 each)			
June 30	Debentures Application and Allotment A/c	...Dr.	45,00,000	
	Discount on Issue of Debentures A/c	...Dr.	5,00,000	
	To 9% Debentures A/c			50,00,000
	(Being the issue of 1,00,000; 9% Debentures of ₹ 50 each at 10% discount)			
2019				
March 31	Statement of Profit and Loss (Finance Cost)	...Dr.	5,00,000	
	To Discount on Issue of Debentures A/c			5,00,000
	(Being the discount on issue of debentures written off)			
April 1	Debentures Redemption Investment A/c	...Dr.	7,50,000	
	To Bank A/c			7,50,000
	(Being 15% of the value of debentures invested in 10% fixed deposit with bank)			
2020				
March 31	Bank A/c	...Dr.	8,17,500	
	TDS Collected (Receivable) A/c	...Dr.	7,500	
	To Debentures Redemption Investment A/c			7,50,000
	To Interest Earned A/c			75,000
	(Being the realisation of 10% fixed deposit)			
March 31	9% Debentures A/c	...Dr.	50,00,000	
	To Debentureholders' A/c			50,00,000
	(Being the amount due on redemption of debentures)			
March 31	Debentureholders' A/c	...Dr.	50,00,000	
	To Bank A/c			50,00,000
	(Being the payment made to debentureholders)			

**Note:** The company is not required to transfer amount to DRR being a listed company. However, it is required to invest in DRI.

**Illustration 8.**

On 1st April, 2013, Rayon Pvt. Ltd., an unlisted (Non-NBFC or HFC) company, issued 2,000, 9% Debentures of ₹ 100 each at a discount of 10%, redeemable at par on 31st March, 2017. The issue was fully subscribed. To meet the provisions of the Companies Act, 2013, the Board of Directors decided to transfer ₹ 10,000 to Debenture Redemption Reserve on 31st March, 2014, and the balance on 31st March, 2015. On 1st April, 2016, the company made the required investment in government securities.

The investments were encashed and the debentures were redeemed on the due date.

It is the policy of the company to write off capital losses in the year in which they occur.

You are required to pass Journal entries for issue and redemption of debentures (ignore interest on debentures).  
(ISC 2018, Modified)

**Solution:**

## JOURNAL OF RAYON PVT. LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2013 April 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the application money received)		1,80,000	1,80,000
April 1	Debentures Application and Allotment A/c ...Dr. Discount on Issue of Debentures A/c ...Dr. To 9% Debentures A/c (Being the issue of 2,000; 9% Debentures of ₹ 100 each at 10% discount)		1,80,000 20,000	2,00,000
2014 March 31	Statement of Profit and Loss ...Dr. To Discount on Issue of Debentures A/c (Being the amount written off from Statement of Profit and Loss)		20,000	20,000
March 31	Surplus, i.e., Balance in Statement of Profit and Loss A/c ...Dr. To Debenture Redemption Reserve A/c (Being the amount transferred to DRR)		10,000	10,000
2015 March 31	Surplus, i.e., Balance in Statement of Profit and Loss A/c ...Dr. To Debenture Redemption Reserve A/c (Being the amount transferred to DRR)		10,000	10,000
2016 April 1	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being the amount invested in government securities being 15% of ₹ 2,00,000)		30,000	30,000
2017 March 31	Bank A/c ...Dr. To Debentures Redemption Investment A/c (Being the investment realised)		30,000	30,000
March 31	9% Debentures A/c ...Dr. To Debentureholders' A/c (Being the amount due to debentureholders)		2,00,000	2,00,000
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the amount paid to debentureholders)		2,00,000	2,00,000
March 31	Debenture Redemption Reserve A/c ...Dr. To General Reserve A/c (Being the DRR amount transferred to General Reserve)		20,000	20,000

**2. Redemption of Debentures in Instalments by Draw of Lots:** Under this method, the company may 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**.

*DRR is created before commencing redemption of debentures and also Debentures Redemption Investment is made under this method also in the manner discussed earlier in the chapter. It should be kept in mind that when Debentures are redeemed in parts, proportionate amount of Debentures Redemption Reserve (DRR) is transferred to General Reserve.*

**Remember**

1. Companies, except unlisted companies and which are not NBFC or HFC, are not required to transfer amount to DRR.
2. Companies that are All India Financial Institutions (AIFIs) regulated by RBI, Banking Companies, Other Financial Institutions as per Section 2(72) of the Companies Act, 2013 and unlisted NBFCs and HFCs are not required to invest in specified securities (DRI).

Debentures Redemption Investment is *not* realised if debentures are to be redeemed in following years. They are realised to the extent they are in excess of 15% of the debentures to be redeemed in the next year. If debentures to be redeemed are more than the debentures redeemed in the previous year, then further investment is made in specified securities to make the investment equal to 15% of the amount of the debentures to be redeemed.

**Illustration 9.**

Mahindra Ltd., an unlisted (Non-NBFC or HFC) company, had outstanding 3,000, 10% Debentures of ₹ 100 each redeemable in three equal yearly instalments of 1,000 debentures beginning 30th June, 2018.

Pass the Journal entries for DRR, DRI and redemption of debentures. (Ignore Interest)

**Solution:**

JOURNAL OF MAHINDRA LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018				
March 31	Surplus, i.e., Balance in Statement of Profit and Loss A/c ...Dr. To Debentures Redemption Reserve A/c (Being the amount transferred to Debentures Redemption Reserve)		30,000	30,000
April 30	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being the amount invested in specified securities of 15% of ₹ 1,00,000)		15,000	15,000
June 30	10% Debentures A/c ...Dr. To Debentureholders' A/c (Being 1,000; 10% Debentures due for redemption)		1,00,000	1,00,000

## 9.16

## Double Entry Book Keeping (Section A) – ISC XII

June 30	Debentureholders' A/c To Bank A/c (Being the due amount paid)	...Dr.	1,00,000	1,00,000
June 30	Debentures Redemption Reserve A/c To General Reserve A/c (Being the proportionate amount of DRR transferred to General Reserve, <i>i.e.</i> , ₹ 30,000 × 1,000/3,000)	...Dr.	10,000	10,000
2019				
June 30	10% Debentures A/c To Debentureholders' A/c (Being 1,000; 10% Debentures due for redemption)	...Dr.	1,00,000	1,00,000
June 30	Debentureholders' A/c To Bank A/c (Being the due amount paid)	...Dr.	1,00,000	1,00,000
June 30	Debentures Redemption Reserve A/c To General Reserve A/c (Being the proportionate amount of DRR transferred)	...Dr.	10,000	10,000
2020				
June 30	Bank A/c To Debentures Redemption Investment A/c (Being the investments realised)	...Dr.	15,000	15,000
June 30	10% Debentures A/c To Debentureholders' A/c (Being 1,000; 10% Debentures due for redemption)	...Dr.	1,00,000	1,00,000
June 30	Debentureholders' A/c To Bank A/c (Being the due amount paid)	...Dr.	1,00,000	1,00,000
June 30	Debentures Redemption Reserve A/c To General Reserve A/c (Being the balance in DRR transferred to General Reserve)	...Dr.	10,000	10,000

**Notes:**

1. Debentures Redemption Reserve is set-aside of amount at least equal to 10% of Outstanding Debentures, *i.e.*, 10% of ₹ 3,00,000.
2. After every redemption, amount of DRR proportionate to Debentures redeemed is transferred from Debentures Redemption Reserve to General Reserve.
3. Debentures Redemption Investment is realised at the time of last redemption, since equal number of debentures are redeemed in each lot.

**Illustration 10.**

Raymond Ltd., a listed company (Non-NBFC or HFC), has 7,500, 8% Debentures of ₹ 100 each redeemable 2,000 Debentures on 1st September, 2017, 2,500 on 1st June, 2018 and balance on 1st September, 2019.

Pass the necessary Journal entries for redemption of debentures. (Ignore Interest)

**Solution:**

JOURNAL OF RAYMOND LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017				
April 30	Debentures Redemption Investment A/c (Note 2) ...Dr. To Bank A/c (Being the investment made in specified securities)		30,000	30,000
Sept. 1	8% Debentures A/c ...Dr. To Debentureholders' A/c (Being 2,000; 8% Debentures due for redemption)		2,00,000	2,00,000
Sept. 1	Debentureholders' A/c ...Dr. To Bank A/c (Being the amount paid)		2,00,000	2,00,000
2018				
April 30	Debentures Redemption Investment A/c (Note 3) ...Dr. To Bank A/c (Being the further amount invested in Debentures Redemption Investment)		7,500	7,500
June 1	8% Debentures A/c ...Dr. To Debentureholders' A/c (Being 2,500; 8% Debentures due for redemption)		2,50,000	2,50,000
June 1	Debentureholders' A/c ...Dr. To Bank A/c (Being the due amount paid)		2,50,000	2,50,000
2019				
April 30	Debentures Redemption Investment A/c (Note 4) ...Dr. To Bank A/c (Being the further investment in Debentures Redemption Investment)		7,500	7,500
Sept. 1	Bank A/c (Note 5) ...Dr. To Debentures Redemption Investment A/c (Being the investment realised)		45,000	45,000
Sept. 1	8% Debentures A/c ...Dr. To Debentureholders' A/c (Being 3,000; 8% Debentures due for redemption)		3,00,000	3,00,000
Sept. 1	Debentureholders' A/c ...Dr. To Bank A/c (Being the due amount paid)		3,00,000	3,00,000

**Notes:**

1. Debentures Redemption Reserve is not required to be created by a listed company.
2. ₹ 30,000 (i.e., 15% of ₹ 2,00,000) was invested in Debentures Redemption Investment on 30th April, 2017.
3. ₹ 7,500 is further invested in Debentures Redemption Investment on 30th April, 2018 so that total Debentures Redemption Investment is ₹ 37,500 (i.e., 15% of ₹ 2,50,000).
4. ₹ 7,500 is further invested in Debentures Redemption Investment on 30th April, 2019 so that total Debentures Redemption Investment is ₹ 45,000 (i.e., 15% of ₹ 3,00,000).
5. Total Debentures Redemption Investment of ₹ 45,000 is realised at the time of last redemption.

**Illustration 11.**

RC Ltd., an unlisted (Non-NBFC or HFC) company, issued 15,000; 10% Debentures of ₹ 100 each at par on 1st April, 2016 redeemable at 5% premium in three yearly instalments by draw of lots as follows:

On 31st March, 2018	3,000 Debentures;
On 31st March, 2019	6,000 Debentures;
On 31st March, 2020	6,000 Debentures.

The company complied with the legal requirements with respect to Debentures Redemption Reserve and investment (made in Government Securities on 1st April each year.)

Pass necessary Journal entries and prepare ledger accounts. Ignore interest paid and received.

**Solution:**

## JOURNAL OF RC LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the application money received for 15,000; 10% Debentures)		15,00,000	15,00,000
April 1	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 10% Debentures A/c To Premium on Redemption of Debentures A/c (Being 10% Debentures allotted at par redeemable at a premium of 5%)		15,00,000 75,000	15,00,000 75,000
2017 March 31	Statement of Profit and Loss (Finance Cost) ...Dr. To Loss on Issue of Debentures A/c (Being loss on Issue of Debentures written-off)		75,000	75,000
March 31	Surplus, i.e., Balance in Statement of Profit and Loss A/c ...Dr. To Debentures Redemption Reserve A/c (Being DRR created for 10% of the nominal value of outstanding debentures)		1,50,000	1,50,000
April 1	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being the investment made as required by law)		45,000	45,000
2018 March 31	10% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. To Debentureholders' A/c (Being 3,000; 10% Debentures due for redemption at 5% premium)		3,00,000 15,000	3,15,000
	Debentureholders' A/c ...Dr. To Bank A/c (Being the amount due to debentureholders paid)		3,15,000	3,15,000
	Debentures Redemption Reserve A/c ...Dr. To General Reserve A/c (Being the amount proportionate to 3,000 debentures redeemed transferred from DRR to General Reserve)		30,000	30,000

**Joint Stock Company—Redemption of Debentures**

**9.19**

April 1	Debtures Redemption Investment A/c To Bank A/c (Being further investment made to make investment equal to 15% of ₹ 6,00,000)	...Dr.	45,000	45,000
2019 March 31	10% Debentures A/c Premium on Redemption of Debentures A/c To Debentureholders' A/c (Being the redemption due of 6,000; 10% Debentures at a premium of 5%)	...Dr. ...Dr.	6,00,000 30,000	6,30,000
	Debentureholders' A/c To Bank A/c (Being the due amount paid)	...Dr.	6,30,000	6,30,000
	Debentures Redemption Reserve A/c To General Reserve A/c (Being the amount proportionate to 6,000 debentures redeemed transferred from DRR to General Reserve)	...Dr.	60,000	60,000
2020 March 31	Bank A/c To Debtures Redemption Investment A/c (Being the investment realised)	...Dr.	90,000	90,000
	10% Debentures A/c Premium on Redemption of Debentures A/c To Debentureholders' A/c (Being the redemption due of 6,000; 10% Debentures at a premium of 5%)	...Dr. ...Dr.	6,00,000 30,000	6,30,000
	Debentureholders' A/c To Bank A/c (Being the due amount paid)	...Dr.	6,30,000	6,30,000
	Debentures Redemption Reserve A/c To General Reserve A/c (Being the amount transferred from DRR to General Reserve)	...Dr.	60,000	60,000

**In the Books of RC Ltd.**

Dr.			Cr.		
10% DEBENTURES ACCOUNT					
Date	Particulars	₹	Date	Particulars	₹
2017 March 31	To Balance <i>c/d</i>	15,00,000	2016 April 1	By Debtures Application and Allotment A/c	15,00,000
2018 March 31	To Debentureholders' A/c	3,00,000	2017 April 1	By Balance <i>b/d</i>	15,00,000
March 31	To Balance <i>c/d</i>	12,00,000			15,00,000
		15,00,000			
2019 March 31	To Debentureholders' A/c	6,00,000	2018 April 1	By Balance <i>b/d</i>	12,00,000
March 31	To Balance <i>c/d</i>	6,00,000			12,00,000
		12,00,000			
2020 March 31	To Debentureholders' A/c	6,00,000	2019 April 1	By Balance <i>b/d</i>	6,00,000

## 9.20

## Double Entry Book Keeping (Section A) – ISC XII

Dr.		DEBENTUREHOLDERS' ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2018 March 31	To Bank A/c	3,15,000	2018 March 31	By 10% Debentures A/c	3,00,000	
			March 31	By Premium on Redemption of Debentures A/c	15,000	
		3,15,000			3,15,000	
2019 March 31	To Bank A/c	6,30,000	2019 March 31	By 10% Debentures A/c	6,00,000	
			March 31	By Premium on Redemption of Debentures A/c	30,000	
		6,30,000			6,30,000	
2020 March 31	To Bank A/c	6,30,000	2020 March 31	By 10% Debentures A/c	6,00,000	
			March 31	By Premium on Redemption of Debentures A/c	30,000	
		6,30,000			6,30,000	

Dr.		DEBENTURES REDEMPTION RESERVE ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2018 March 31	To General Reserve A/c	30,000	2018 March 31	By Surplus, i.e., Balance in Statement of Profit and Loss A/c	1,50,000	
	To Balance c/d	1,20,000			1,50,000	
		1,50,000				
2019 March 31	To General Reserve A/c	60,000	2018 April 1	By Balance b/d	1,20,000	
	To Balance c/d	60,000			1,20,000	
		1,20,000				
2020 March 31	To General Reserve A/c	60,000	2019 April 1	By Balance b/d	60,000	

Dr.		DEBENTURES REDEMPTION INVESTMENT ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2017 April 1	To Bank A/c	45,000	2018 March 31	By Balance c/d	45,000	
2018 April 1	To Balance b/d	45,000	2019 March 31	By Balance c/d	90,000	
	To Bank A/c	45,000			90,000	
		90,000				
2019 April 1	To Balance b/d	90,000	2020 March 31	By Bank A/c	90,000	
		90,000			90,000	



**Illustration 13.**

Roots Finance Ltd., an unlisted NBFC, has outstanding 10,000, 7% Debentures of ₹ 100 each as on 31st March, 2017 redeemable as follows:

On 1st October, 2017	2,500 Debentures;
On 1st July, 2018	3,000 Debentures;
On 1st October, 2019	2,500 Debentures; and
On 1st June, 2020	Balance Debentures

Pass the necessary Journal entries for redemption of debentures. (Ignore Interest)

**Solution:**

## JOURNAL OF ROOTS FINANCE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017				
Oct. 1	7% Debentures A/c To Debentureholders' A/c (Being the amount due to Debentureholders)	...Dr.	2,50,000	2,50,000
Oct. 1	Debentureholders' A/c To Bank A/c (Being the amount paid)	...Dr.	2,50,000	2,50,000
2018				
July 1	7% Debentures A/c To Debentureholders' A/c (Being the amount due to Debentureholders)	...Dr.	3,00,000	3,00,000
July 1	Debentureholders' A/c To Bank A/c (Being the amount paid)	...Dr.	3,00,000	3,00,000
2019				
Oct. 1	7% Debentures A/c To Debentureholders' A/c (Being the amount due to Debentureholders)	...Dr.	2,50,000	2,50,000
Oct. 1	Debentureholders' A/c To Bank A/c (Being the amount paid)	...Dr.	2,50,000	2,50,000
2020				
June 1	7% Debentures A/c To Debentureholders' A/c (Being the amount due to Debentureholders)	...Dr.	2,00,000	2,00,000
June 1	Debentureholders' A/c To Bank A/c (Being the amount paid)	...Dr.	2,00,000	2,00,000

**Note:** An unlisted NBFC or HFC is not required to transfer amount to DRR nor is required to invest in specified securities.

**3. Redemption of Debentures by Purchase from Open Market:** Redemption of Debentures by purchase from Open Market means purchase of own debentures by the company from the market for cancellation. A company can discharge the debenture liability in full or in part by purchasing its own debentures from the market if it is authorised to do so by its Articles of Association.

Debentures can be purchased from open market either for immediate cancellation or for investment purpose.

**Note:** Purchase of debentures from open market for investment purpose is not in syllabus, hence is not discussed.

**Debentures Redemption Reserve:** Before the purchase of debentures for cancellation the company should have balance in Debentures Redemption Reserve of an amount that is at least 10% of the total nominal (face) value of outstanding debentures of the class or category to be cancelled (redeemed).

Amount will be transferred to Debentures Redemption Reserve (DRR) by an unlisted company that is not a NBFC or HFC.

**Debentures Redemption Investment:** The company should have investment of at least 15% of the nominal (face) value of the debentures to be redeemed during the financial year, *i.e.*, by 31st March, of next year in specified securities on or before 30th April, of the current year. In case, debentures are to be redeemed in the next years, further investment is made if debentures to be redeemed in the next year are more than the debentures redeemed during the previous year to make investment equal to 15% of the nominal (face) value of the debentures to be redeemed.

In case, debentures to be redeemed are of lesser value part of investment is realised so that the investment in specified securities is equal to 15% of the nominal (face) value of debentures to be redeemed.

**IMPORTANT NOTE**

*Unless otherwise stated in the question, it is assumed that the company has adequate balance in Debentures Redemption Reserve (DRR) before purchase of debentures for cancellation. Also it is assumed that required investment is made in specified securities.*

**Accounting Treatment**

**1. Debentures Purchased from the Open Market for Cancellation and Redeemable at Par:**

The purchase value of the debentures may be equal to or *less* or more than the nominal (face) value of debentures.

**(a) When Debentures are Purchased at a Price equal to Nominal (Face) Value of Debentures:**

(i) *On Purchase of Own Debentures:*

Own Debentures A/c	...Dr.	[With purchase value]
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 (Face) Value of Debentures:**

(i) *On Purchase of Own Debentures:*

Own Debentures A/c	...Dr.	[With purchase value]
To Bank A/c		

(ii) *For Cancellation of Own Debentures:*

...% Debentures A/c	...Dr.	[With nominal (face) value]
To Own Debentures A/c		[With purchase value]
To Gain (Profit) on Cancellation of Own Debentures A/c		[Excess of face value over cost of own debentures cancelled]

Gain (Profit) on Cancellation of Own Debentures is a *capital profit* and, therefore, is transferred to Capital Reserve. The entry is:

Gain (Profit) on Cancellation of Own Debentures A/c	...Dr.	
To Capital Reserve A/c		

**Note:** Gain on cancellation of debentures may be used to write off capital losses.

**(c) When Debentures are Purchased at a Price higher than the Nominal (Face) Value of Debentures:****(i) On Purchase of Own Debentures:**

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

**(ii) For Cancellation of Own Debentures:**

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

Loss on Cancellation of Own Debentures is a *capital loss* and is debited to Capital Reserve, if it has a balance. If there is no balance in Capital Reserve Account it is transferred to Statement of Profit and Loss. The entry is:

Capital Reserve A/c	...Dr.	[If it exists, up to the available balance]
<b>or/and</b>		
Statement of Profit and Loss	...Dr.	
To Loss on Cancellation of Own Debentures A/c		

**2. Debentures Purchased from the Open Market for Cancellation and Redeemable at Premium:**

If debentures are redeemable at premium, Premium on Redemption of Debentures Account is credited at the time of issue of those debentures, it being a liability. Premium on Redemption of Debentures Account is cancelled, *i.e.*, debited at the time of their redemption. Purchase value of the debentures may be equal to or less or more than the nominal (face) value of the debentures. The entries in each case are as follows:

**(a) When Debentures are Purchased at a Price equal to Nominal (Face) Value of Debentures:****(i) On Purchase of Own Debentures:**

Own Debentures A/c	...Dr.	[With purchase value]
To Bank A/c		

**(ii) For Cancellation of Own Debentures:**

...% Debentures A/c	...Dr.	[With nominal (face) value]
Premium on Redemption of Debentures A/c	...Dr.	[With amount of premium payable on redemption]
To Own Debentures A/c		[With purchase value]
To Gain (Profit) on cancellation of Own Debentures A/c		[With premium amount]

**IMPORTANT NOTE**

*If debentures are redeemable at premium, Premium on Redemption of Debentures Account will also be debited with the amount of premium. This will effect the amount of gain/loss on redemption of debentures.*

Gain (Profit) on cancellation of Own Debentures is a *capital profit* and, therefore, is transferred to Capital Reserve. The entry is:

Gain (Profit) on Cancellation of Own Debentures A/c	...Dr.
To Capital Reserve A/c	

**(b) When Debentures are Purchased at a Price below the Nominal (Face) Value of Debentures:****(i) On Purchase of Own Debentures:**

Own Debentures A/c	...Dr.	[With purchase value]
To Bank A/c		

(ii) For Cancellation of Own Debentures:

...% Debentures A/c	...Dr.	[With nominal (face) value]
Premium on Redemption of Debentures A/c	...Dr.	[With amount of premium payable on redemption]
To Own Debentures A/c		[With purchase value]
To Gain (Profit) on Cancellation of Own Debentures A/c		[With the amount of premium plus difference between purchase value and nominal (face) value]

Gain (Profit) on Cancellation of Own Debentures is a *capital profit* and is transferred to Capital Reserve.

(c) When Debentures are Purchased at a Price higher than the Nominal (Face) Value of Debentures:

(i) On Purchase of Own Debentures:

Own Debentures A/c	...Dr.	[With purchase value]
To Bank A/c		

(ii) For Cancellation of Own Debentures:

In case of Gain (Profit):

...% Debentures A/c	...Dr.	[With nominal (face) value]
Premium on Redemption of Debentures A/c	...Dr.	[With premium payable on redemption]
To Own Debentures A/c		[With purchase value]
To Gain (Profit) on Cancellation of Own Debentures A/c		[With the excess of nominal (face) value and premium over purchase value]

In case of Loss:

...% Debentures A/c	...Dr.	[With nominal (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 value over nominal (face) value and premium]
To Own Debentures A/c		[With purchase value]

Loss on Cancellation of Own Debentures is a *capital loss* and is debited to Capital Reserve or Statement of Profit and Loss.

**Illustration 14.**

Crystal Finance Ltd., an unlisted NBFC company, purchased from the open market its own 2,000, 10% Debentures of ₹ 100 each @ ₹ 100 each for cancellation. Pass Journal entries for purchase and cancellation of own debentures.

**Solution:**

JOURNAL OF CRYSTAL FINANCE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Own Debentures A/c ...Dr. To Bank A/c (Being the purchase of 2,000 own debentures for cancellation)		2,00,000	2,00,000
	10% Debentures A/c ...Dr. To Own Debentures A/c (Being the own debentures cancelled)		2,00,000	2,00,000

**Illustration 15.**

Sparrow Finance Ltd., an unlisted NBFC, purchased its own 100; 10% Debentures of ₹ 100 each at ₹ 94 from the open market for cancellation. You are required to pass Journal entries for purchase and cancellation of own debentures. (ISC Specimen Question Paper 2018, Modified)

**Solution:** JOURNAL OF SPARROW FINANCE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Own Debentures A/c ...Dr. To Bank A/c (Being the purchase of 100 own debentures @ ₹ 94 each)		9,400	9,400
	10% Debentures A/c ...Dr. To Own Debentures A/c To Gain (Profit) on Cancellation of Own Debentures A/c (Being the cancellation of 100 own debentures)		10,000	9,400 600
	Gain (Profit) on Cancellation of Own Debentures A/c ...Dr. To Capital Reserve A/c (Being the transfer of gain (profit) on cancellation of own debentures to Capital Reserve)		600	600

**Illustration 16.**

Amrit Foods Ltd., a listed (Non-NBFC or HFC) company, purchased from open market its own 1,000, 10% Debentures of ₹ 100 each @ ₹ 105 per debenture for cancellation. Pass Journal entries for purchase and cancellation of own debentures.

**Solution:** JOURNAL OF AMRIT FOODS LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Own Debentures A/c ...Dr. To Bank A/c (Being the purchase of 1,000 Own Debentures of ₹ 100 each @ ₹ 105)		1,05,000	1,05,000
	10% Debentures A/c ...Dr. Loss on Cancellation of Own Debentures A/c ...Dr. To Own Debentures A/c (Being Own 1,000; 10% Debentures of ₹ 100 each cancelled)		1,00,000 5,000	1,05,000
	Statement of Profit and Loss (Finance Cost) ...Dr. To Loss on Cancellation of Own Debentures A/c (Being the loss on cancellation of own debentures transferred)		5,000	5,000

**Illustration 17.**

Pilot Pens Ltd., a listed company, purchased its own 2,000, 10% Debentures of ₹ 100 each @ ₹ 100 each for cancellation. These debentures were redeemable at 10% premium. Pass necessary Journal entries for purchase and cancellation of debentures.

**Solution:** JOURNAL OF PILOT PENS LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Own Debentures A/c ...Dr. To Bank A/c (Being 2,000 Own debentures of ₹ 100 each purchased @ ₹ 100 per debenture for immediate cancellation)		2,00,000	2,00,000
	10% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. To Own Debentures A/c To Gain (Profit) on Cancellation of Own Debentures A/c (Being the Own Debentures of nominal value of ₹ 100 each cancelled)		2,00,000 20,000	2,00,000 20,000
	Gain (Profit) on Cancellation of Own Debentures A/c ...Dr. To Capital Reserve A/c (Being the gain (profit) on cancellation of own debentures transferred to Capital Reserve)		20,000	20,000

**Illustration 18.**

Zebra Finance Ltd., an unlisted (NBFC or HFC) company, purchased its own 2,000; 9% Debentures of nominal (face) value ₹ 100 each @ ₹ 95 per debenture. These debentures were redeemable @ 10% premium.

Pass necessary Journal entries for purchase and cancellation of debentures.

**Solution:** JOURNAL OF ZEBRA FINANCE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Own Debentures A/c ...Dr. To Bank A/c (Being the purchase of 2,000 own debentures @ ₹ 100 each)		1,90,000	1,90,000
	9% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. To Own Debentures A/c To Gain (Profit) on Cancellation of Own Debentures A/c (Being Own 2,000; 9% Debentures of ₹ 100 each cancelled)		2,00,000 20,000	1,90,000 30,000
	Gain (Profit) on Cancellation of Own Debentures A/c ...Dr. To Capital Reserve A/c (Being the gain (profit) on cancellation of own debentures transferred to Capital Reserve)		30,000	30,000

**Illustration 19.**

Arihant Securities Ltd. a listed NBFC company, purchased for cancellation its own 2,000, 12% Debentures of ₹ 100 each redeemable at 10% premium for ₹ 125 each. It has balance in Capital Reserve of ₹ 50,000.

Pass necessary Journal entries.

**Solution:** JOURNAL OF ARIHANT SECURITIES LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Own Debentures A/c ...Dr. To Bank A/c (Being Own 2,000, 12% Debentures purchased @ ₹ 125 per debenture)		2,50,000	2,50,000
	12% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. Loss on Cancellation of Own Debentures A/c ...Dr. To Own Debentures A/c (Being Own 2,000, 12% Debentures of ₹ 100 each redeemable @ 10% premium and purchased @ ₹ 125 per debenture cancelled)		2,00,000 20,000 30,000	2,50,000
	Capital Reserve A/c ...Dr. To Loss on Cancellation of Own Debentures A/c (Being the loss on cancellation of own debentures written off from Capital Reserve)		30,000	30,000

**Illustration 20.**

Excel Stores Ltd., an unlisted company, purchased its own 2,000, 8% Debentures of ₹ 50 each @ ₹ 60 per debenture for cancellation. These debentures were redeemable at 10% premium. Balance in Capital Reserve is ₹ 7,500.

Pass the Journal entries for purchase and cancellation of debentures.

**Solution:** JOURNAL OF EXCEL STORES LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Own Debentures A/c ...Dr. To Bank A/c (Being own 2,000, 8% Debentures purchased @ ₹ 60 per debenture)		1,20,000	1,20,000
	8% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. Loss on Cancellation of Own Debentures A/c ...Dr. To Own Debentures A/c (Being own 2,000, 8% Debentures redeemable @ 10% premium cancelled)		1,00,000 10,000 10,000	1,20,000
	Capital Reserve A/c ...Dr. Statement of Profit and Loss ...Dr. To Loss on Cancellation of Own Debentures A/c (Being the loss on cancellation of own debentures written off)		7,500 2,500	10,000

**Illustration 21.**

On 1st April, 2018, Healthcare Ltd., a listed company, issued 2,000, 8% Debentures of ₹ 100 each at a premium of ₹ 20, repayable at a premium of ₹ 20. The terms of issue provided for the redemption of ₹ 20,000 debentures every year commencing from 31st March, 2020 either by purchase from the open market or by draw of lots at the company's option.

On 31st March, 2020, it purchased for cancellation its own debentures of the face value of ₹ 16,000 at ₹ 95 per debenture and of ₹ 4,000 at ₹ 90 per debenture.

Pass Journal entries for redemption of debentures.

**Solution:** JOURNAL OF HEALTHCARE LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2020 March 31	Own Debentures A/c ...Dr. To Bank A/c (Being the purchase of own debentures of the face value of ₹ 16,000 at ₹ 95 per debenture and of ₹ 4,000 at ₹ 90 per debenture)		18,800	18,800
	8% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. To Own Debentures A/c To Gain (Profit) on Cancellation of Own Debentures A/c (Being the cancellation of 200 own debentures)		20,000 4,000	18,800 5,200
	Gain (Profit) on Cancellation of Own Debentures A/c ...Dr. To Capital Reserve A/c (Being the transfer of gain (profit) on cancellation of own debentures to Capital Reserve)		5,200	5,200

**Illustration 22.**

On 1st April, 2016, Cloud Ltd., an unlisted (Non-NBFC or HFC) company, issued 10,000; 9% Debentures of ₹ 100 each at ₹ 110 per debenture. The terms of issue provided for the redemption of debentures every year commencing from 31st March, 2018 *either* by purchase from Open Market *or* at par by draw of lots at the company's option as follows:

On 31st March, 2018 — 2,000 Debentures;

On 31st March, 2019 — 3,000 Debentures;

On 31st March, 2020 — 5,000 Debentures.

The company decided to transfer the required amount of profits to Debentures Redemption Reserve on 31st March, 2018. The company complying with the requirement of the Companies Act, 2013 made investment in fixed deposit on 1st April, 2017.

The company purchased for cancellation Debentures of the face value of ₹ 1,80,000 at ₹ 95 per debenture and of ₹ 20,000 at ₹ 90 per debenture during the year.

Journalise the above transactions and show how the gain (profit) on redemption would be treated (Ignore the payment of interest).

**Solution:** JOURNAL OF CLOUD LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the debentures application money received on issue of debentures)		11,00,000	11,00,000
	Debentures Application and Allotment A/c ...Dr. To 9% Debentures A/c (10,000 × ₹ 100) To Securities Premium Reserve A/c (10,000 × ₹ 10) (Being the allotment of debentures at 10% premium)		11,00,000	10,00,000 1,00,000
2017 April 1	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being the amount equal to 15% of ₹ 2,00,000 being the nominal (face) value of debentures to be redeemed placed in fixed deposit)		30,000	30,000

## 9.30

## Double Entry Book Keeping (Section A) — ISC XII

2018				
March 31	Surplus, i.e., Balance in Statement of Profit and Loss A/c To Debentures Redemption Reserve A/c (Being the amount set aside for Debentures Redemption Reserve)	...Dr.	1,00,000	1,00,000
March 31	Own Debentures A/c To Bank A/c (Being the purchase of own 1,800 debentures of ₹ 100 each @ ₹ 95 and 200 debentures @ ₹ 90 per debenture)	...Dr.	1,89,000	1,89,000
March 31	9% Debentures A/c To Own Debentures A/c To Gain (Profit) on Cancellation of Own Debentures A/c (Being the cancellation of Own 2,000; 9% Debentures of ₹ 100 each)	...Dr.	2,00,000	1,89,000 11,000
March 31	Gain (Profit) on Cancellation of Own Debentures A/c To Capital Reserve A/c (Being the gain (profit) on cancellation of own debentures transferred to Capital Reserve)	...Dr.	11,000	11,000
March 31	Debentures Redemption Reserve A/c To General Reserve A/c (Being the amount proportionate to 2,000 debentures transferred from DRR to General Reserve)	...Dr.	20,000	20,000
April 1	Debentures Redemption Investment A/c To Bank A/c (Being further investment made to make investment equal to 15% of ₹ 3,00,000)	...Dr.	15,000	15,000
2019				
March 31	9% Debentures A/c To Debentureholders' A/c (Being the 3,000 Debentures due for redemption of draw of lots)	...Dr.	3,00,000	3,00,000
March 31	Debentureholders' A/c To Bank A/c (Being the amount paid)	...Dr.	3,00,000	3,00,000
March 31	Debentures Redemption Reserve A/c To General Reserve A/c (Being the proportionate amount of DRR transferred to General Reserve)	...Dr.	30,000	30,000
April 1	Debentures Redemption Investment A/c To Bank A/c (Being the further investment made to make investment equal to 15% of ₹ 5,00,000, i.e., ₹ 75,000)	...Dr.	30,000	30,000
2020				
March 31	Bank A/c To Debentures Redemption Investment A/c (Being the investment realised)	...Dr.	75,000	75,000
March 31	9% Debentures A/c To Debentureholders' A/c (Being the balance debentures due for redemption)	...Dr.	5,00,000	5,00,000
March 31	Debentureholders' A/c To Bank A/c (Being the debentureholders paid)	...Dr.	5,00,000	5,00,000
March 31	Debentures Redemption Reserve A/c To General Reserve A/c (Being the Debentures Redemption Reserve transferred to General Reserve)	...Dr.	50,000	50,000

**Illustration 23.**

Parker Ltd., an unlisted (Non-NBFC or HFC) company, issued 10,000; 9% Debentures of ₹ 100 each at premium of ₹ 5 on 1st April, 2017. The terms of issue provided for redemption of 25% debentures annually, commencing from 31st March, 2019, either by draw at par or by purchase from the market at the company's option.

The company transferred the prescribed amount to DRR on 31st March, 2018. It also invested prescribed amount in fixed deposit with State Bank of India on 1st April, 2018 earning interest @ 8% p.a. on which the bank deducts TDS @ 10%. Interest was received every year.

The company purchased from open market for cancellation 1,500 of its debentures at ₹ 95 each, 1,000 debentures @ ₹ 96 each on 31st March, 2019. The expenses of purchase amounted to ₹ 400.

As per the terms of issue, it redeemed debentures on 31st March, 2020 by draw of lots.

Pass Journal entries for issue of debentures, purchase of debentures and their cancellation for the years ended 31st March, 2019 and 31st March, 2020.

**Solution:**

JOURNAL OF PARKER LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 April 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the receipt of debentures application money)		10,50,000	10,50,000
	Debentures Application and Allotment A/c ...Dr. To 9% Debentures A/c To Securities Premium Reserve A/c (Being the issue of 10,000; 9% Debentures of ₹ 100 each at 5% premium)		10,50,000	10,00,000 50,000
2018 March 31	Surplus, i.e., Balance in Statement of Profit and Loss A/c ...Dr. To Debentures Redemption Reserve A/c (10% of ₹ 10,00,000) (Being the transfer of profit to DRR)		1,00,000	1,00,000
April 1	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being the investment made in fixed deposit of 15% of ₹ 2,50,000 being the debentures to be redeemed on 31st March, 2019)		37,500	37,500
2019 March 31	Own Debentures A/c ...Dr. To Bank A/c (Being the own 2,500, 9% Debentures purchased: 1,500 debentures @ ₹ 95 each and 1,000 debentures @ ₹ 96 each and expenses incurred ₹ 400)		2,38,900	2,38,900
	Bank A/c ...Dr. TDS Collected (Receivable) A/c ...Dr. To Interest Earned A/c (Being the interest received on Debentures Redemption Investment)		2,700 300	3,000
	9% Debentures A/c ...Dr. To Own Debentures A/c To Gain (Profit) on Cancellation of Own Debentures A/c (Being Own 2,500, 9% Debentures cancelled)		2,50,000	2,38,900 11,100
	Gain (Profit) on Cancellation of Own Debentures A/c ...Dr. To Capital Reserve A/c (Being the gain (profit) on cancellation of own debentures transferred)		11,100	11,100

2020 March 31	Debitures Redemption Reserve A/c	...Dr.	25,000	25,000
	To General Reserve A/c			
	(Being the amount proportionate to cancelled debentures, i.e., 25% transferred from DRR)			
	9% Debentures A/c	...Dr.	2,50,000	2,50,000
	To Debentureholders' A/c			
(Being the amount due on debentures being redeemed by draw of lots)				
	Debentureholders' A/c	...Dr.	2,50,000	2,50,000
	To Bank A/c			
(Being the amount paid)				
	Bank A/c	...Dr.	2,700	
	TDS Collected (Receivable) A/c	...Dr.	300	
	To Interest Earned A/c			3,000
(Being the interest received on Debentures Redemption Investment)				
	Debitures Redemption Reserve A/c	...Dr.	25,000	25,000
	To General Reserve A/c			
(Being the proportionate amount of DRR transferred to General Reserve)				

**Notes:**

1. Debentures Redemption Reserve is set aside out of Surplus, i.e., Balance in Statement of Profit and Loss of amount equal to 10% of Outstanding Debentures, i.e., ₹ 1,00,000 (10% of ₹ 10,00,000) on 31st March, 2018 as is decided by the company.
2. Investment is made in fixed deposit (specified securities) of an amount equal to 15% of Debentures to be redeemed every year, i.e., ₹ 37,500 on 1st April, 2018.
3. Debentures Redemption Investment is not realised every year but will be realised at the time of last redemption. However, interest is received every year.

**Advantages of Redemption by Purchase in the Open Market**

1. **Gain on Redemption:** Own debentures are generally purchased at the time when they are trading below par value. The company gains on their redemption, nominal (face) value of debentures being higher than purchase value.
2. **Reduction in Interest Cost:** Company saves on interest payable on debentures held by outsiders.
3. **Saving Amount Equal to Premium Payable on Redemption:** The company will not be required to pay premium on redemption of debentures in case the terms of issue have provided for such premium on maturity.

**QUESTIONS****Higher Order Thinking Skills (HOTS) Questions**

**Q. 1.** Herbal Products Ltd., a listed company, issued 10,000; 10% Debentures of ₹ 100 each at a premium of 8% on 1st July, 2019 redeemable at par on 30th June, 2020. The issue was fully subscribed. How much amount should be set aside to DRR before redemption of debentures and how much amount is to be invested and by which date?

**Ans.** Amount shall not be set aside to DRR, it being a listed company. The company should invest 15% of ₹ 10,00,000, i.e., ₹ 1,50,000 in specified securities on or before 30th April, 2020.

**Q. 2.** Casio Pvt.Ltd., an unlisted (Non-NBFC or HFC) company, issued 10,000, 9% Debentures of ₹ 100 each on 1st October, 2018 redeemable at par on 31st December, 2020. The issue was subscribed. State the amount that the company should transfer to DRR before the redemption of debentures and also the amount it should invest in specified securities by which date.

**Ans.** It should transfer ₹ 1,00,000 (10% of ₹ 10,00,000) to DRR. It should invest in specified securities ₹ 1,50,000 (15% of ₹ 10,00,000) on or before 30th April, 2020.

**Q. 3.** Exide Finance Ltd., an unlisted NBFC company, had issued 20,000, 8% Debentures of ₹ 100 each on 1st June, 2018 redeemable at premium of 10% on 31st October, 2020. State the amount it should transfer to DRR before the redemption of Debentures. Also, how much amount it should invest in specified securities?

**Ans.** It need not transfer amount to DRR, it being an unlisted NBFC. Also, it need not invest amount in specified securities, it being an unlisted NBFC.

**Q. 4.** Shree Finance Ltd. a listed NBFC, had issued 50,000, 8% Debentures of ₹ 100 each on 1st April, 2018 redeemable at par on 31st March, 2020. State the amount it should transfer to DRR before the redemption of debentures. Also state whether it will invest in specified securities (DRI). If yes, how much and by which date?

**Ans.** It being a listed company need not transfer amount to DRR. However, it should invest ₹ 7,50,000 (15% of ₹ 50,00,000) in specified securities (DRI) on or before 30th April, 2019.

**Q. 5.** Srei Housing Finance Ltd., an unlisted HFC, had issued 25,000, 9% Debentures of ₹ 100 each at a premium of 10% on 1st February, 2018 redeemable at par on 31st March, 2020. State the amount it should transfer to DRR before the redemption of debentures. Also state whether it will invest in specified securities (DRI). If yes, how much amount it should invest and by which date?

**Ans.** It being an unlisted HFC need not transfer amount to DRR and also need not invest in specified securities (DRI).

**Q. 6.** G & G Ltd., an unlisted (Non-NBFC or HFC) company, has following balances under Reserves and Surplus:

<b>Ans.</b> (a) Workmen Compensation Reserve	₹ 5,00,000
(b) General Reserve	₹ 3,00,000
(c) Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss (Debit)	₹ 1,00,000

State the maximum amount it can transfer to DRR.

**Ans.** It can transfer ₹ 3,00,000 to DRR, being the amount out of which dividend can be paid.

**Q. 7.** Name **two** sources of finance for redemption of debentures.

**Ans.** The two sources of finance for redemption of debentures are:

- (i) Redemption out of Capital, *i.e.*, fresh issue of shares or debentures.
- (ii) Redemption out of Profits.

**Q. 8.** When is the balance of Debentures Redemption Reserve transferred to General Reserve?

**Ans.** If the debentures have been redeemed in part, proportionate amount to debentures redeemed is transferred to General Reserve from Debentures Redemption Reserve. In case all the debentures are redeemed together, total amount of Debentures Redemption Reserve is transferred to General Reserve.

**Q. 9.** What are the provisions for Debentures Redemption Investment?

**Ans.** Company has to invest *at least* 15% of the nominal (face) value of the debentures to be redeemed by 31st March of next year in specified securities on or before 30th April of current year.

### Objective Type Questions

Read the following statements and select the correct alternative:

- (i) The provisions of the Companies Act, 2013 in respect of redemption of debentures are to protect the interest of
 

(a) Debentureholders.	(b) Creditors.
(c) Shareholders.	(d) Bankers.

- (ii) In case debentures of ₹ 10,000 are issued at par and are redeemable at a premium of 10%, the premium payable is debited to
- Debentures Suspense Account.
  - Premium on Redemption of Debentures Account.
  - Loss on Issue of Debentures Account.
  - Both (a) and (c).
- (iii) In which of the following cases, amount is set aside to DRR?
- Debentures issued by a listed Company.
  - Debentures issued by an unlisted NBFC.
  - Debentures issued by an unlisted (Non-NBFC or HFC) company.
  - Debentures issued by a listed HFC company.
- (iv) Which of the following reserves can be transferred to DRR?
- Capital Reserve
  - Securities Premium Reserve
  - Surplus, *i.e.*, Balance in Statement of Profit and Loss
  - Revaluation Reserve
- (v) Uniball Ltd., a listed company, issued 5,000, 10% Debentures of ₹ 100 each. It will have to transfer to DRR at least
- ₹ 2,50,000.
  - ₹ 5,00,000.
  - ₹ 50,000.
  - Nil
- (vi) Uniflow Ltd., an unlisted (Non-NBFC or HFC) company, had issued 5,000, 10% Debentures of ₹ 100 each, 25% of the issued debentures redeemable every year starting from 31st March, 2020. It transferred the amount to DRR as required by law. The balance in DRR after redemption on 31st March, 2020 will be
- ₹ 50,000.
  - 40,000.
  - Nil.
  - 37,500.
- (vii) Top Ramen Ltd., a listed company, is to redeem 1,000; 10% Debentures of ₹ 100 each redeemable at 10% premium. The company will have to invest in specified securities at least
- ₹ 15,000.
  - ₹ 16,500.
  - ₹ 25,000.
  - ₹ 27,500.
- (viii) 3 Aces Ltd., an unlisted (Non-NBFC or HFC) company, is to redeem 2,000; 9% Debentures of ₹ 100 each on 31st December, 2019. The company should invest in specified securities on or before
- 30th April, 2018.
  - 30th April, 2019.
  - 31st December, 2019.
  - 31st December, 2018.
- (ix) Pind Baluchi Ltd., an unlisted (Non-NBFC or HFC) company, has to redeem 2,000, 8% Debentures of ₹ 100 each out of outstanding debentures of 10,000, 8% Debentures. It should transfer amount to DRR before redemption
- ₹ 80,000.
  - ₹ 20,000.
  - ₹ 1,00,000.
  - Nil.
- (x) Best Barcode Ltd. is to redeem 10,000, 10% Debentures of ₹ 100 each in four equal annual instalments beginning 30th June, 2018. It invested ₹ 1,50,000 in specified securities on 1st April, 2018. It
- will realise investment at the time of each redemption and reinvest.
  - may or may not realise the investment at the time of each redemption.
  - will realise the investment at the time of third redemption.
  - will realise the investment at the time of last redemption.

- (xi) Bailey Ltd. is to redeem its outstanding 7,000, 10% Debentures of ₹ 100 each as follows:
- (i) On 30th September, 2018 — 2,000 Debentures;
  - (ii) On 30th September, 2019 — 3,000 Debentures; and
  - (iii) On 30th September, 2020 — Balance Debentures.

Which of the following statement is correct with respect to investment in specified securities?

- (a) It will invest ₹ 30,000 in specified securities on or before 30th April, 2018 and realise them on 30th September, 2018.
  - (b) It will invest ₹ 30,000 in specified securities on or before 30th April, 2019, and realise them on 30th September, 2019.
  - (c) It will invest ₹ 30,000 in specified securities on or before 30th April, 2018, realise them on or before 30th September, 2018 and again invest ₹ 45,000 in specified securities on or before 30th April, 2019 to be realised on 30th September, 2019. It will again invest ₹ 30,000 in specified securities on or before 30th April, 2020 to be realised on 30th September, 2020.
  - (d) It will invest ₹ 30,000 in specified securities on or before 30th April, 2018, further invest ₹ 15,000 in specified securities on or before 30th April, 2019 and realise ₹ 15,000 investment at the time of redemption on 30th September, 2019. Balance investment of ₹ 30,000 will be realised at the time of redemption on 30th September, 2020.
- (xii) In case debentures of ₹ 1,00,000 redeemable at premium were purchased from open market at below the nominal (face) value. Gain (Profit) on cancellation is transferred to
- (a) Statement of Profit and Loss.
  - (b) Surplus, *i.e.*, Balance in Statement of Profit and Loss.
  - (c) Capital Reserve.
  - (d) General Reserve.

[Ans.: (i) (a); (ii) (c); (iii) (c); (iv) (c); (v) (d); (vi) (d); (vii) (a); (viii) (b); (ix) (c); (x) (d); (xi) (d); (xii) (c).]

### Short Answer Type Questions

1. What is meant by Redemption of Debentures?
2. State the meaning of redemption of debentures out of profit.
3. Which account is debited when annual instalment is set aside towards reserve for the redemption of debentures?
4. How much amount is required to be invested in specified securities when debentures are redeemed?
5. What is Debentures Redemption Reserve (DRR)?
6. State the minimum amount of profit required to be transferred to Debentures Redemption Reserve.

Or

State the provisions of the Companies Act, 2013 for the creation of 'Debentures Redemption Reserve'.

7. Name the head under which the Debentures Redemption Reserve is shown in the Balance Sheet.
8. How is Debentures Redemption Reserve treated:
  - (a) When the debentures are redeemed?
  - (b) When only a part of debentures is redeemed?
9. When is the balance of Debentures Redemption Reserve transferred to General Reserve?

(ISC Specimen Question Paper 2018)

10. What is meant by Redemption of Debentures by purchase in the open market?
11. State the purpose of Purchase of Debentures in the open market.
12. State **any two** advantages of 'Redemption by purchase in the open market'.
13. Enumerate **any two** methods for redemption of debentures. (ISC 2019)
14. State **two** reasons for a company to purchase its own debentures from the open market. (ISC 2018)

## PRACTICAL PROBLEMS

### Creation of Debentures Redemption Reserve (DRR)

1. A listed company had outstanding 5,000, 8% Debentures of ₹ 1,000 each due for redemption on 30th September, 2020. How much amount it should transfer to Debentures Redemption Reserve?
2. An unlisted public limited company is a manufacturer of chemical fertilisers having turnover of ₹ 50 crore. The company had issued 5,000, 12% Debentures of ₹ 500 each at par. Calculate the amount of Debentures Redemption Reserve which needs to be set aside to meet the requirements of law.
3. Hitachi Ltd., which is an unlisted company and not a NBFC or HFC, had issued following debentures:
  - (a) 1,00,000, 10% fully convertible debentures of ₹ 100 each on 1st April, 2018 redeemable by conversion into shares after 5 years.
  - (b) 20,000, 10% Debentures of ₹ 100 each redeemable after 4 years, 25% debentures in Cash and 75% by conversion into new debentures.

State the amount of DRR required to be set aside as per the Companies Act, 2013.

4. Dow Housing Finance Ltd. issued ₹ 2,00,000; 8% Debentures of ₹ 10 each at a premium of 8% on 30th June, 2018 redeemable on 31st March, 2020. How much amount should be transferred to Debentures Redemption Reserve?
5. Care Products Ltd., a listed company, has outstanding 2,000, 8% Debentures of ₹ 1,000 each redeemable at a premium of 10% on 31st December, 2020. How much amount it will transfer to Debentures Redemption Reserve before the redemption of debentures?
6. Prakash Finance Ltd., a listed NBFC company, has outstanding 5,000, 9% Debentures of ₹ 1,000 each redeemable at par on 31st January, 2021. How much amount it should transfer to Debentures Redemption Reserve before the redemption of debentures?
7. SBI Housing Finance Ltd. has 6,000, 7% Debentures of ₹ 1,000 each outstanding for redemption. How much amount it should transfer to Debentures Redemption Reserve?
8. Star Finance Ltd., an Unlisted NBFC issued 2,00,000; 8% Debentures of ₹ 10 each at a premium of 8% on 30th June, 2016 redeemable on 31st March, 2020. How much amount it should transfer to Debentures Redemption Reserve before the redemption of debentures?

### Debentures Redemption Investment (DRI)

9. Nirbhay Chemicals Ltd, a listed company, issued ₹ 10,00,000; 6% Debentures of ₹ 50 each at a premium of 8% on 30th June, 2019 redeemable on 30th June, 2020. The issue was fully subscribed. Pass Journal entries for issue and redemption of debentures. How much amount should be transferred to Debentures Redemption Reserve before redemption of debentures? Also, state how much amount should be invested in specified securities?
10. Export-Import Bank of India (EXIM Bank) issued 20,000, 10% Debentures of ₹ 100 each through public issue and 10,000, 10% Debentures of ₹ 100 each through private placement. State the amount of Investment to be made by EXIM Bank before redemption of debentures.
11. SRCC Finance Ltd., a listed NBFC, has issued on 1st April, 2016, 20,000, 12% Debentures of ₹ 100 each redeemable by draw of lots as under:
 

During the year ended on 31st March, 2017	:	15%
During the year ended on 31st March, 2018	:	25%
During the year ended on 31st March, 2019	:	15%
During the year ended on 31st March, 2020	:	25%
During the year ended on 31st March, 2021	:	20%

How much should be the minimum investment or deposit in specified securities as per Companies Act, 2013 before redemption of debentures? When should it be made?

12. On 1st April, 2018 Moon Ltd., a listed company, issued 10,000, 10% Debentures of ₹ 100 each at par redeemable at 5% premium in four equal annual instalments beginning 30th June, 2019. How much Investment should be made by the company as per the provisions of Companies Act, 2013 before redemption of debentures? Also state when should it be made and when realised?
13. Amera Ltd. had outstanding 6,000, 7% Debentures of ₹ 100 each due for redemption in three equal annual instalments beginning 30th June, 2018.  
Explain how it will invest in specified securities to redeem the debentures.
14. Windsor Ltd. had outstanding 10,000, 8% Debentures of ₹ 100 each due for redemption as follows:  
On 31st July, 2018 — 2,000 Debentures;  
On 31st July, 2019 — 3,000 Debentures;  
On 31st July, 2020 — Balance Debentures.  
Explain how the company will invest in specified securities to redeem the debentures.
15. United Ltd. had 10,000, 8% Debentures of ₹ 100 each due for redemption at a premium of ₹ 10 each as follows:  
On 31st May, 2018 — 5,000 Debentures;  
On 31st May, 2019 — 3,000 Debentures;  
On 31st May, 2020 — Balance Debentures.  
Pass the Journal entries for investment in specified securities for the above. Investment is made on 1st April.
16. Health Foods Ltd. had 10,000, 9% Debentures of ₹ 100 each due for redemption at a premium of ₹ 10 each as follows:  
On 30th September, 2017 — 3,000 Debentures;  
On 30th September, 2018 — 2,000 Debentures;  
On 30th September, 2019 — Balance Debentures.  
Pass the Journal entries for investment in specified securities for the above. Investment is made on 30th April.

### **Redemption of Debentures in Lump Sum**

17. Paradise Ltd., an unlisted (Non-NBFC or HFC) company, has ₹ 20,00,000, 9% Debentures of ₹ 100 each of which half the amount is due for redemption at a premium of 10%. The company has in its Debentures Redemption Reserve Account a balance of ₹ 50,000. How much amount of profit should be further transferred to Debentures Redemption Reserve?
18. A listed public Limited Company is a manufacturer of chemical fertilisers having turnover of ₹ 50 crore. The company has issued 1,00,000; 10% Debentures of ₹ 100 each at par. Calculate the amount of Debentures Redemption Reserve which should be set aside to meet the requirement of law before redemption of the debentures.
19. IFCI Ltd. (an other Financial Institution as per Section 2(72) of the Companies Act, 2013) issued 10,00,000; 9% Debentures of ₹ 50 each on 1st April, 2014 redeemable on 1st April, 2020. How much amount of Debentures Redemption Reserve should be set aside to Debentures Redemption Reserve before the redemption of debentures? Also, pass Journal entries for issue and redemption of debentures.
20. On 31st March, 2018, Geekay Ltd., an unlisted (Non-NBFC or HFC) company, had outstanding ₹ 8,00,000; 9% Debentures due for redemption. The company had a balance of ₹ 20,000 in its Debentures Redemption Reserve. Pass necessary Journal entries for redemption of debentures.
21. Global Bank Ltd. has outstanding 50,000, 8% Debentures of ₹ 100 each which are due for redemption on 31st December, 2020.  
Pass Journal entries for redemption of debentures.

22. Pass necessary Journal entries in the books of Bajaj Finance Ltd., a listed NBFC, for issue and redemption of Debentures in the following cases:

- (i) 2,500, 8% Debentures of ₹ 100 each at a premium of ₹ 10, repayable at par.
- (ii) 2,500, 7% Debentures of ₹ 100 each at a premium of 10%, repayable at premium of ₹ 10.

23. On 31st March, 2020, W Ltd., an unlisted company, not being a NBFC or HFC, had the following balances in its books:

	₹
9% Debentures	6,00,000
Debentures Redemption Reserve	30,000
Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss	3,00,000

On that date, the company transferred ₹ 30,000 to Debentures Redemption Reserve. It redeemed debentures of ₹ 3,00,000 on 30th June, 2020.

Pass necessary Journal entries in the books of the company for the above.

24. Mansi Ltd., an unlisted (Non-NBFC/HFC) company, had 6,000; 10% Debentures of ₹ 100 each due for redemption on 31st March, 2020. As per the terms of issue, debentures were redeemed out of profits.

Pass necessary Journal entries for the redemption of debentures. There was a credit balance of ₹ 6,00,000 in Surplus, *i.e.*, Balance in Statement of Profit and Loss.

25. India Textiles Corporation Ltd., a listed company, has outstanding ₹ 50,00,000; 9% Debentures of ₹ 100 each due for redemption on 31st July, 2020. Pass necessary Journal entries for redemption.

26. Manish Ltd., an unlisted (Non-NBFC/HFC) company, issued ₹ 40,00,000; 8% Debentures of ₹ 100 each on 1st April, 2018. The terms of issue stated that the debentures are to be redeemed at a premium of 5% on 30th June, 2020. The company decided to transfer ₹ 10,00,000 out of profits to Debentures Redemption Reserve on 31st March, 2019 and ₹ 2,00,000 on 31st March, 2020.

Pass Journal entries regarding the issue and redemption of debentures, DRR and Investment without providing for the interest or loss on issue of debentures.

27. Fraser & Ross Ltd. issued 5,000, 9% Debentures of ₹ 100 each at par on 1st April, 2018 redeemable at par on 31st March, 2020. The company transferred the required amount to DRR out of Surplus, *i.e.*, Balance in Statement of Profit and Loss on 31st March, 2019. It invested the specified amount in fixed deposit with Canara Bank on 1st April, 2019 earning 8% interest. Interest is paid on debentures annually on 31st March.

Pass Journal entries for issue and redemption of debentures, DRR, investment and interest on debentures.

28. Godrej Ltd., an unlisted (Non-NBFC/HFC) company, has 20,000; 7% Debentures of ₹ 100 each due for redemption out of profits on 31st August, 2020. It has a balance of ₹ 7,50,000 in Debentures Redemption Reserve Account as on 31st March, 2019. Investment, as required by the Companies Act, 2013 is made on 1st April, 2020 in fixed deposit bearing interest @ 6% p.a. Bank deducted TDS @ 10% on its maturity.

Pass Journal entries for redemption of debentures.

29. Apollo Ltd., an unlisted (Non-NBFC/HFC) company, issued 21,000; 8% Debentures of ₹ 100 each on 1st April, 2013 redeemable at a premium of 8% on 30th June, 2020. The company decided to transfer the required amount to Debentures Redemption Reserve in three equal annual instalments starting with 31st March, 2018. Required investment was made in Government Securities on 30th April, 2020. Ignore interest on debentures and also investment.

Pass necessary Journal entries regarding issue, transfer to DRR, investment, and redemption of debentures.

30. Excel Ltd. issued 7,500, 6% Debentures of ₹ 100 each on 1st April, 2014 redeemable at a premium of 15% on 31st December, 2019. The company decided to transfer the required amount to DRR in three equal annual instalments starting from 31st March, 2017. The company invested in fixed deposit on 30th April, 2019 earning 5% interest on which the bank deducted TDS @ 10%.

Interest on Debentures is paid annually on 31st March on which TDS is deducted @ 10%.

Pass Journal entries for redemption of debentures and interest (both debentures and investment) for the years ended 31st March, 2019 and 2020.

31. On 1st April, 2019, following were the balances of Blue Bird Ltd., an unlisted (Non-NBFC/HFC) company:
- |                                                                    |            |
|--------------------------------------------------------------------|------------|
| 10% Debentures (redeemable out of profits on 30th September, 2020) | ₹ 5,00,000 |
| Securities Premium Reserve                                         | ₹ 2,00,000 |
| General Reserve                                                    | ₹ 4,00,000 |
| Surplus, <i>i.e.</i> , Balance in Statement of Profit and Loss     | ₹ 1,00,000 |
- The company met the requirements of the Companies Act, 2013 for Debentures Redemption Reserve and Investment and redeemed the debentures.
- Pass necessary Journal entries for the above transactions in the books of the company.
32. Mahima Ltd., an unlisted (Non-NBFC/HFC) company, issued ₹ 38,00,000, 9% Debentures of ₹ 100 each on 1st April, 2017. The debentures were redeemable at a premium of 5% on 30th June, 2020. The company transferred an amount of ₹ 3,80,000 to Debentures Redemption Reserve on 31st March, 2020. Investments as required by law were made in fixed deposit of a bank on 1st April, 2020.
- Ignoring interest on fixed deposit, pass necessary Journal entries starting from 31st March, 2020 regarding redemption of debentures.
33. On 1st April, 2019 the following balances appeared in the books of Blue & Green Ltd., an unlisted (Non-NBFC/HFC) company;
- |                                                  |             |
|--------------------------------------------------|-------------|
| 12% Debentures (Redeemable on 31st August, 2020) | ₹ 20,00,000 |
| Debentures Redemption Reserve                    | ₹ 1,00,000  |
- The company met the requirements of Companies Act, 2013 regarding Debentures Redemption Reserve and Debentures Redemption Investments and redeemed the debentures.
- Ignoring interest on investments, pass necessary Journal entries for the above transactions in the books of company.

#### Redemption of Debentures by Draw of Lots

34. Rich Sugar Ltd., an unlisted (Non-NBFC/HFC) company, issued ₹ 20,00,000, 8% Debentures divided into debentures of ₹ 100 each on 1st April, 2013, redeemable in four equal annual instalments starting from 31st March, 2020. The company decided to transfer ₹ 1,00,000 to Debentures Redemption Reserve each year on 31st March, 2018 and 2019.
- The company invested in Government securities as required by the Companies Act, 2013 on 1st April, 2019 to be realised on last redemption.
- Pass necessary Journal entries for the above transactions.
35. JP Ltd., an unlisted (Non-NBFC/HFC) company, has 1,00,000; 8% Debentures of ₹ 50 each due for redemption in five equal annual instalments starting from 30th June, 2020. Debentures Redemption Reserve has a balance of ₹ 1,00,000 on that date. Pass Journal entries.
36. Venus Ltd., an unlisted (Non-NBFC/HFC) company, had 9,000, 9% Debentures of ₹ 100 each due for redemption. These debentures are to be redeemed in 3 equal annual instalments (starting from 31st March, 2020) at a premium of 10%. The company had a balance of ₹ 25,000 in the Debentures Redemption Reserve.
- Pass necessary entries for redemption of debentures if company transfers the balance of DRR to General Reserve after redeeming all the debentures.
37. Sham Motors Ltd., an unlisted (Non-NBFC/HFC) company, issued 40,000; 7% Debentures of ₹ 100 each on 1st July, 2014 redeemable at premium of 5% as under:
- |                     |                   |
|---------------------|-------------------|
| On 31st March, 2020 | 16,000 Debentures |
| On 31st March, 2021 | 16,000 Debentures |
| On 31st March, 2022 | 8,000 Debentures  |

It was decided to transfer amount out of profit to Debentures Redemption Reserve ₹ 50,000 on 31st March, 2017; ₹ 1,00,000 on 31st March, 2018 and balance on 31st March, 2019. It invested the required amount in terms of the Companies Act, 2013 in Government Securities and decided to realise them after last redemption. Pass Journal entries ignoring interest.

38. Maira Retail Chain Ltd., an unlisted (Non-NBFC/HFC) company, had 6,000, 8% Debentures of ₹ 1,000 each outstanding for redemption to be redeemed as follows:

On 31st March, 2020	3,000 Debentures
On 31st March, 2021	2,000 Debentures
On 31st March, 2022	Balance Debentures

It complied with the requirements of Companies Act, 2013 by transferring amount to Debentures Redemption Reserve on 31st March, 2020 and invested in fixed deposit with State Bank of India on 1st April, 2019, which proportionate amount of investment was to be redeemed.

Pass the necessary Journal entries from 1st April, 2019 onwards.

39. Hemco Ltd. an unlisted (Non-NBFC (HFC) company issued 10,000; 10% Debentures of ₹ 100 each at par on 1st April, 2015 redeemable at 5% premium in three yearly instalments by draw of lots as follows:

On 1st March, 2019	1,000 Debentures
On 1st August, 2019	2,000 Debentures
On 1st March, 2020	3,000 Debentures

The company complied with the legal requirement with respect to DRR and investment (made in Government Securities on 1st April).

Pass Journal entries for Issue and Redemption of debentures.

#### Redemption of Debentures by Purchase from Open Market

40. ITC Ltd., a listed company, purchased its own debentures of ₹ 1,00,000 of nominal (face) value of ₹ 100 each from the open market for cancellation at ₹ 92. Pass Journal entries.
41. On 1st April, 2019, Golden Trading Ltd., an unlisted (Non-NBFC or HFC company), had outstanding 1,000; 12% Debentures of ₹ 100 each. Interest on debentures is payable half yearly on 30th September and on 31st March. On 1st July, 2019, it purchased 300 own debentures at ₹ 93 each for cancellation.
42. Tuff Drilling Ltd. purchased for cancellation of its ₹ 25,000; 15% Debentures of ₹ 100 each at ₹ 98. The expenses of purchase amounted to ₹ 50. Journalise the above transactions.
43. Gagan Ltd., a listed company, has outstanding 4,20,000, 9% Debentures of ₹ 10 each on 1st April, 2019. The company purchased 1,00,000 of its own debentures for cancellation @ ₹ 10 each. Record the above transactions in the books.
44. On 1st April, 2017, Lotte Ltd., an unlisted (Non-NBFC or HFC) company, issued 4,000, 9% Debentures of ₹ 100 each at par.

The terms of issue provided that, beginning 31st March, 2019, ₹ 2,00,000 debentures would be redeemed either by draw of lots or by purchase in the open market every year. The expenses of issue amounted to ₹ 12,000 which were written off from Securities Premium Reserve in the year of issue.

On 31st March, 2019, debentures to be redeemed were repaid by drawings.

During the year ended 31st March, 2020, the company purchased for cancellation 2,000 debentures at the market price of ₹ 98 on 31st December, the expenses being ₹ 400.

Interest on debentures is payable yearly on 31st March each year.

Pass necessary Journal entries in the books of the company to record the transactions including those for Debentures Redemption Reserve and Investment.

**Purchase of Own Debentures for Cancellation and Redeemable at Premium**

45. Star Steads Ltd., a listed company, purchased its own 1,000; 10% Debentures of ₹ 100 each @ ₹ 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.

46. Galaxy Ltd., an unlisted (Non-NBFC or HFC) company, purchased its own 1,500; 11% Debentures of ₹ 100 each redeemable at 10% premium @ ₹ 95 per debenture.

Pass necessary Journal entries for purchase and cancellation of debentures.

47. Espirit Ltd., a listed company, purchased its own 2,000; 11% Debentures of ₹ 100 each redeemable at 10% premium @ ₹ 103 per debenture for immediate cancellation.

Pass necessary Journal entries for purchase and cancellation of debentures.

48. Prime Ltd., a listed NBFC, purchased its own 2,500; 10% Debentures of ₹ 100 each redeemable at 10% premium @ ₹ 112 per debenture for immediate cancellation.

Pass necessary Journal entries for purchase and cancellation of debentures.

49. Excel Motors Ltd., an unlisted (Non-NBFC or HFC) company, issued on 1st April, 2015, 4,500; 10% Debentures of ₹ 100 each at a premium of 5% redeemable at a premium of 10% by purchase from open market or by draw of lots every year debentures of nominal value of ₹ 1,50,000 beginning 31st March, 2018. The company transferred the required amount to DRR on 31st March, 2018. It also invested the required amount in Debentures Redemption Investment as required by law. The company purchased 1,500; 10% Debentures on 1st January, 2018 @ ₹ 98 and cancelled them on 31st March, 2018.

It purchased another lot of 1,500; 10% Debentures on 1st March, 2019 @ ₹ 106 per debenture and cancelled them on 31st March, 2019.

Remaining debentures were purchased on 15th March, 2020 @ ₹ 115 per debenture and cancelled them on 31st March, 2020.

You are required to pass necessary Journal entries.



Scan QR Code for Master Question and Advanced Level Question



Scan QR Code for Key Terms and Chapter Summary

<b>GUIDE TO ANSWERS</b>
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1. Nil.
2. Required DRR = ₹ 2,50,000.
3. (a) DRR is not required to be created as the debentures are fully convertible.  
(b) DRR is to be created for non-convertible part of the debentures outstanding, i.e., ₹ 50,000 (10% of ₹ 5,00,000).
4. Nil, it being Housing Finance Company.

5. Nil.
6. Nil.
7. Nil.
8. Nil.
9. Debentures Redemption Reserve—Nil; Investment in specified securities—₹ 1,50,000.
10. NIL.
- 11.

Year Ended on	Time of Investment	Investment or Deposit to be made (₹)	Total Investment (₹)
31st March, 2017	On or before 30.4.2016	45,000	45,000
31st March, 2018	On or before 30.4.2017	30,000 (15% of ₹ 5,00,000 – ₹45,000)	75,000
31st March, 2019	On or before 30.4.2018	(30,000)	45,000
31st March, 2020	On or before 30.4.2019	30,000	75,000
31st March, 2021	On or before 30.4.2020	(15,000)	60,000

12. Amount of Investment = ₹ 37,500; Time of Investment = on or before 30th April, 2018.  
It should be realised at the time of last redemption, *i.e.*, on 30th June, 2022.
13. It will invest ₹ 30,000 (*i.e.*, 15% of ₹ 2,00,000) in specified securities on or before 30th April, 2018. The invested amount shall be realised at the time of last redemption, *i.e.*, 30th June, 2020.
14. It will invest ₹ 30,000 (*i.e.*, 15% of ₹ 2,00,000) in specified securities on or before 30th April, 2018.  
It will further invest ₹ 15,000 in specified securities on or before 30th April, 2019 to make total investment equal to ₹ 45,000 (*i.e.*, 15% of ₹ 3,00,000).  
It will further invest ₹ 30,000 in specified securities on or before 30th April, 2020 to make total investment equal to ₹ 75,000 (*i.e.*, 15% of ₹ 5,00,000). Before redemption of 5,000, 8% Debentures on 31st July, 2020, the investment will be realised.
15. On 1st April, 2018: Dr. Debentures Redemption Investment A/c and Cr. Bank A/c for ₹ 75,000 (15% of ₹ 5,00,000).  
On 31st May, 2018: Dr. Bank A/c and Cr. Debentures Redemption Investment A/c—₹ 30,000.  
On 31st May, 2019: Dr. Bank A/c and Cr. Debentures Redemption Investment A/c—₹ 15,000.  
On 31st May, 2020: Dr. Bank A/c and Cr. Debentures Redemption Investment A/c—₹ 30,000.  
**[Hint:** Investments are realised to the extent that balance in Debentures Redemption Investment is equal to 15% of the debentures to redeemed in the next year. Debentures Redemption Investment is made of amount equal to 15% of the nominal of debentures to be redeemed.]
16. On 30th April, 2017: Dr. Debentures Redemption Investment A/c and Cr. Bank A/c— ₹ 45,000 (15% of ₹ 3,00,000).  
On 30th Sept., 2017: Dr. Bank A/c and Cr. Debentures Redemption Investment A/c—₹ 15,000.  
(After realisation of Securities, balance investment in Specified Securities is ₹ 30,000, *i.e.*, 15% of ₹ 2,00,000, *i.e.*, debentures to be redeemed on 30th September, 2018).  
On 30th April, 2019: Dr. Debentures Redemption Investment A/c and Cr. Bank A/c— ₹ 45,000.  
(After this investment, investment in specified securities is ₹ 75,000 (₹ 30,000 + ₹ 45,000) (*i.e.*, 15% of ₹ 5,00,000, equal to nominal value of debentures to be redeemed on 30th September, 2019).  
On 30th Sept., 2019: Dr. Bank A/c and Cr. Debentures Redemption Investment A/c—₹ 75,000.  
(At the time of redemption on 30th September, 2019, total investment will be realised, since all the debentures are redeemed).

17. Amount of Profit to be transferred to DRR = ₹ 1,50,000 [*i.e.*, (₹ 20,00,000 × 10/100) – ₹ 50,000].
18. Amount need not be set aside to DRR, it being a listed company.
19. Debentures Redemption Reserve is not to be created, it being an Other Financial Institution as per Section 2(72) of the Companies Act, 2013.
20. Amount transferred to Debentures Redemption Reserve—₹ 60,000; Investment in specified securities—₹ 1,20,000.
21. (i) Dr. 8% Debentures A/c and Cr. Debentureholders' A/c by ₹ 50,00,000;  
(ii) Dr. Debentureholders' A/c and Cr. Bank A/c by ₹ 50,00,000.

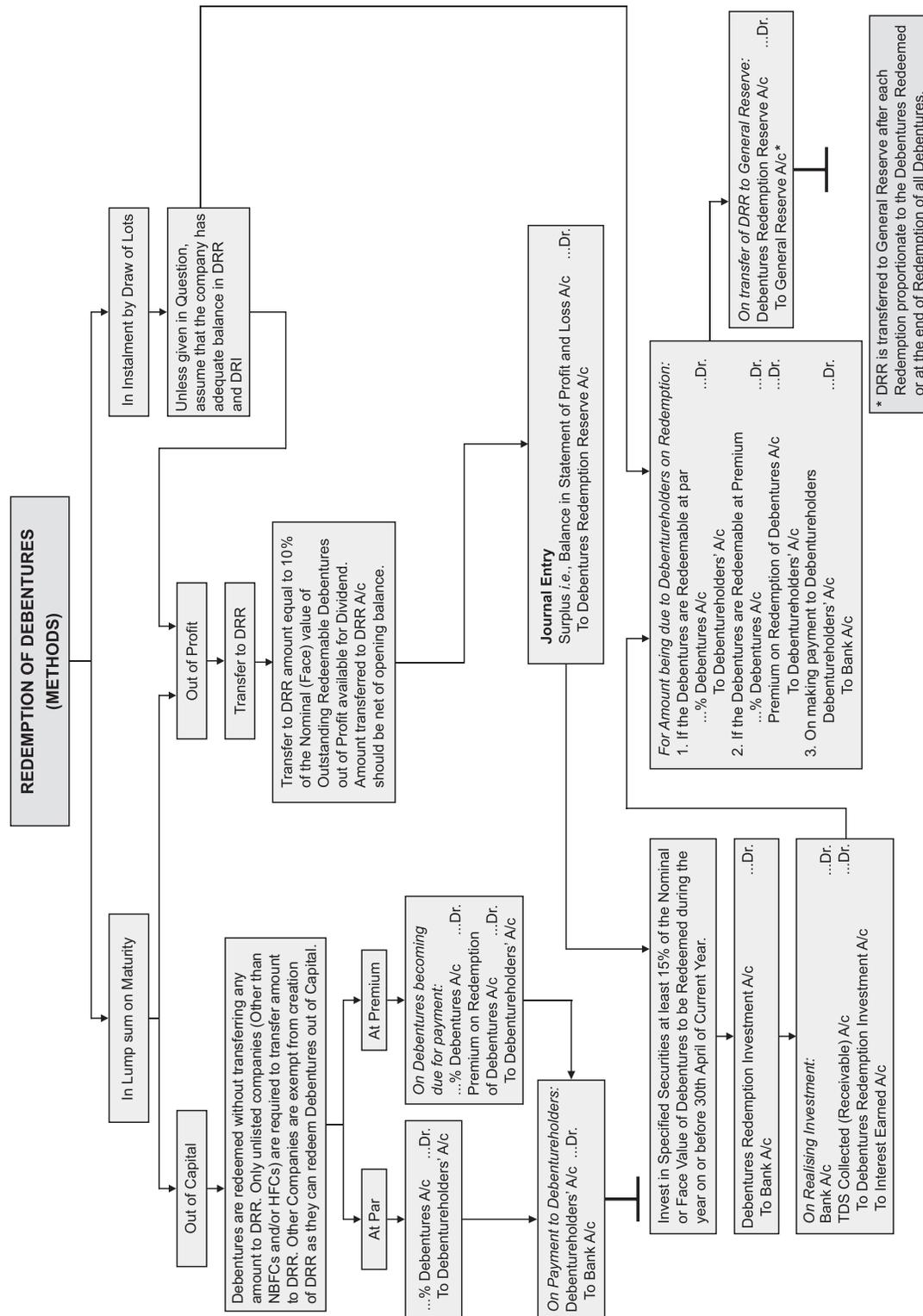
**[Hint:** It being a banking company, is not required to create DRR or make investment in specified securities.]

22. (i) 1. Dr. Bank A/c and Cr. Debentures Application and Allotment A/c by ₹ 2,75,000;  
2. Dr. Debentures Application and Allotment A/c by ₹ 2,75,000;  
Cr. 8% Debentures A/c by ₹ 2,50,000 and Securities Premium Reserve A/c by ₹ 25,000.  
3. Dr. Debentures Redemption Investment A/c and Cr. Bank A/c by ₹ 37,500.  
4. Dr. Bank A/c and Cr. Debentures Redemption Investment A/c by ₹ 37,500.  
5. Dr. 8% Debentures A/c and Cr. Debentureholders' A/c by ₹ 2,50,000.  
6. Dr. Debentureholders' A/c and Cr. Bank A/c by ₹ 2,50,000.  
(ii) 1. Dr. Bank A/c and Cr. Debentures Application and Allotment by ₹ 2,75,000;  
2. Dr. Debentures Application and Allotment A/c—₹ 2,75,000, Loss on Issue of Debentures—₹ 25,000;  
Cr. 7% Debentures A/c—₹ 2,50,000; Securities Premium Reserve A/c—₹ 25,000 and Premium on Redemption of Debentures A/c—₹ 25,000.  
3. Dr. Debentures Redemption Investment A/c and Cr. Bank A/c by ₹ 37,500.  
4. Dr. Bank A/c and Cr. Debentures Redemption Investment A/c by ₹ 37,500.  
5. Dr. 7% Debentures A/c by ₹ 2,50,000 and Premium on Redemption of Debentures A/c by ₹ 25,000;  
Cr. Debentureholders' A/c by ₹ 2,75,000.  
6. Dr. Debentureholders' A/c and Cr. Bank A/c by ₹ 2,75,000.
23. (i) Dr. Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c and Cr. Debentures Redemption Reserve A/c by ₹ 30,000.  
(ii) Dr. Debentures Redemption Investment A/c and Cr. Bank A/c by ₹ 45,000 (on or before 30th April, 2020).  
(iii) Dr. Bank A/c and Cr. Debentures Redemption Investment A/c by ₹ 45,000 (on 30th June, 2020).  
(iv) Dr. 9% Debentures A/c and Cr. Debentureholders' A/c by ₹ 3,00,000.  
(v) Dr. Debentureholders' A/c and Cr. Bank A/c by ₹ 3,00,000.  
(vi) Dr. Debentures Redemption Reserve A/c and Cr. General Reserve A/c by ₹ 30,000\*.

\*Amount proportionate to 50% Debentures redeemed transferred. Alternatively, DRR may be transferred to General Reserve when all the debentures have been redeemed.

24. DRR of ₹ 6,00,000 is created since redemption is out of profit; Investment in specified securities (DRI) to be made of ₹ 90,000.
25. Amount will not be transferred to DRR, it being a listed company; Investment in specified securities (DRI) should be— ₹ 7,50,000.
26. Total DRR—₹ 12,00,000 (Transferred to General Reserve); Debentures Redemption Investment (DRI)—₹ 6,00,000.

28. ₹ 12,50,000 will be transferred from Surplus, *i.e.*, Balance in Statement of Profit and Loss to DRR A/c and after redemption DRR ₹ 20,00,000 will be transferred to General Reserve; Investment in Fixed Deposit (DRI)—₹ 3,00,000; Interest earned on Fixed Deposit—₹ 7,500; TDS Receivable (Collected)—₹ 750.
29. Amount transferred to DRR—₹ 2,10,000, in three equal annual instalments, *i.e.*, ₹ 70,000 each. Investment in specified securities (DRI)—₹ 3,15,000.
30. 2019: Transfer to DRR—₹ 25,000 annually for 3 years, Interest on Debentures—₹ 45,000, TDS Payable—₹ 4,500.  
2020: Interest on Debentures—₹ 33,750, TDS Payable—₹ 3,375, Interest Earned on Investment—₹ 3,750, TDS Receivable—₹ 375.
31. Transfer to DRR—₹ 5,00,000; from General Reserve—₹ 4,00,000 and from Surplus, *i.e.*, Balance in Statement of Profit and Loss—₹ 1,00,000; DRI—₹ 75,000.
32. Total DRR— ₹ 3,80,000 (Transferred to General Reserve); DRI—₹ 5,70,000.
33. Balance Amount transferred to DRR—₹ 1,00,000; DRI—₹ 3,00,000.  
**Note:** Amount may be transferred to DRR on any date before 31st August, 2020.
34. Transfer from DRR to General Reserve each year—₹ 50,000.
35. Balance Amount transferred to DRR—₹ 4,00,000; DRI—₹ 1,50,000, *i.e.*, 15% of ₹ 10,00,000; Transfer from DRR to General Reserve each year—₹ 1,00,000.
36. Amount transferred to Debentures Redemption Reserve—₹ 65,000; Debentures Redemption Investment—₹ 45,000; Transfer from DRR to General Reserve—₹ 30,000 each year.
37. Balance in DRR on 31st March, 2019—₹ 2,50,000; Transfer from DRR to General Reserve: 31st March, 2020—₹ 1,60,000; 31st March, 2021—₹ 1,60,000; 31st March, 2022—₹ 80,000; DRI to be made ₹ 2,40,000, *i.e.*, 15% of ₹ 16,00,000; Realise DRI on 31st March, 2022.
38. Amount transferred to DRR on 31st March, 2020—₹ 6,00,000; Investment in Fixed Deposit (DRI)—₹ 4,50,000 (15% of ₹ 30,00,000); DRI realised on 31st March 2020—₹ 1,50,000; ₹ 1,50,000 on 31st March, 2021; Balance ₹ 1,50,000 on 31st March, 2022. Transfer to General Reserve—₹ 3,00,000 (on 31st March, 2020); ₹ 2,00,000 (on 31st March, 2021) and ₹ 1,00,000 (on 31st March, 2022).
39. Loss on Issue of Debentures written off from Statement of Profit and Loss on 31st March, 2016—₹ 50,000; Amount transferred to DRR on 31st March, 2019—₹ 1,00,000; Investment in DRI on 1st April, 2019—₹ 90,000; Investment realised on 1st May, 2019—₹ 15,000; Investment realised on 1st August, 2019—₹ 30,000; and on 1st January, 2020—₹ 45,000; Amount transferred to General Reserve on 1st January, 2020— ₹ 60,000.
40. Gain (Profit) on Cancellation of Own Debentures—₹ 8,000.
41. Gain (Profit) on Cancellation of Own Debentures—₹ 2,100.
42. Gain (Profit) on Cancellation of Own Debentures—₹ 450.
44. Transfer to DRR—₹ 40,000; Investment in Specified Securities as per Companies Act, 2013 will be ₹ 30,000, *i.e.*, 15% of ₹ 2,00,000.  
Transfer from DRR to General Reserve—₹ 20,000 after each redemption. DRI to be realised at the time of second redemption.
45. Gain (Profit) on Cancellation of Own Debentures—₹ 5,000.
46. Gain (Profit) on Cancellation of Own Debentures—₹ 22,500.
47. Gain (Profit) on Cancellation of Own Debentures—₹ 14,000.
48. Loss on Cancellation of Own Debentures—₹ 5,000.
49. Gain (Profit) on Cancellation of Own debentures, 31st March, 2018—₹ 18,000; 31st March, 2019—₹ 6,000; Loss on Cancellation of Own Debentures (31st March, 2020)—₹ 7,500.
- [Hints:** 1. DRR will be created on 31st March, 2018 of ₹ 45,000.  
2. Debentures Redemption Investment of ₹ 22,500 on or before 30th April, 2017 which shall be retained up to 31st March, 2020 and realised on that date.]  
3. Every year after redemption of debentures ₹ 15,000 will be transferred from DRR to General Reserve.]



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