

CORPORATE ACCOUNTING

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UNIT-II

Issue and redemption of debentures – methods of redemption of debentures- instalment – cum-interest and Ex-interest – redemption by conversion, sinking fund, insurance policy. Redemption of preference shares- implication of Section 80 and 80A of the Companies Act.

ISSUE OF DEBENTURES

Star Ltd. made the following issues of debentures on 1.4.97

- a. 200 10% debentures of Rs. 100 each to settle a creditor who supplied a machine on credit some time ago at a price of Rs. 18,000.**
- b. 300 10% debentures of Rs. 100 each for cash at a discount of 5%.**
- c. 1,000 10% debentures of Rs. 100 each to the bankers as collateral security for a loan of Rs. 80,000.**

All the above issues are redeemable at par.

Pass journal entries to record the above in the books of the company.

Books of Star Ltd.(Journal)

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr</i>	<i>Cr .</i>
1.4.97			Rs.	Rs.
(a)	<p>Machine Vendor's A/c (200x90) Dr</p> <p>Discount on issue of debentures A/c (200x10) Dr</p> <p style="text-align: right;">To 10% debentures A/c (200x100)</p> <p>[Being issue of 200 debentures of Rs. 100 each at a discount of 10% to settle the A/c of machine supplier)</p>		<p>18,000</p> <p>2,000</p>	<p>20,000</p>
(b)	<p>Bank A/c (300x95) Dr</p> <p>Discount on issue of debentures A/c (300x5) Dr</p> <p style="text-align: right;">To 10% Debentures A/c(300x10)</p> <p>[Being issue of 300 debentures of Rs. 100 each at discount of 5%]</p>		<p>28,500</p> <p>1,500</p>	<p>30,000</p>
(c)	<p>Debentures suspense A/c (1000x100) Dr</p> <p style="text-align: right;">To 10% Debentures A/c (1000x100)</p> <p>[Being 1,000 debentures of Rs. 100 each issued as collateral security to bankers against loan of Rs. 80,000]</p>		<p>1,00,000</p>	<p>1,00,000</p>

ISSUE AND REDEMPTION OF DEBENTURES

Sree Ltd. issued 15,000 8% debentures of Rs. 100 each at a discount of 5% payable after 5 years at a premium of 5%. You are required to show: (i) journal entries at the time of issue and redemption of debentures;

Books of Sree Ltd.(Journal)

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr. Rs.</i>	<i>Cr. Rs.</i>
(B)	<i>On Redemption:</i>			
	(a) 8% Debentures A/c Dr		15,00,000	
	Premium on Red. of Debentures A/c Dr		75,000	
	To Debenture holders A/c			15,75,000
	[Amount payable on redemption of Debentures]			
	(b) Debenture holders A/c Dr		15,75,000	
	To Bank A/c			15,75,000
	[Amount due to debenture holders paid off]			

(ii) Since the debentures are to be redeemed at the end of 5 years, each of these years enjoys the benefit equally. The loss should, therefore, be-written off equally.

$$\text{Loss to be written off annually} = \frac{75,000}{5} = \text{Rs. } 15,000$$

MN Ltd. purchased assets of Rs. 5,00,000 from Sanjay Bros. It issued 5000 6% Debentures of Rs. 100 each fully paid up in satisfaction of their claim. Make journal entries to record these transactions. (ISSUE PRICE IS EQUAL TO PURCHASE PRICE=AT PAR)

Date	Particulars	L.F.	Dr	Cr
	Asset A/c		5,00,000	
	To Sanjay Bros.A/c			5,00,000
	(Being assets purchased from Sanjay Bros.)			
	Sanjay Bros.A/c		5,00,000	
	To 6% Debentures A/c(5000X100)			5,00,000
	(Being issue of 5000 Debentures of Rs.100 each fully			

MN Ltd. purchased assets of Rs. 4,50,000 from Sanjay Bros. It issued 5000 6% Debentures of Rs. 100 each fully paid up in satisfaction of their claim. Make journal entries to record these transactions. (ISSUE PRICE MORE THAN PURCHASE PRICE=DISCOUNT)

MN Ltd. Journal entries

Date	Particulars	L.F.	Dr	Cr
1	Asset A/c		4,50,000	
	To Sanjay Bros.A/c			4,50,000
	(Being assets purchased from Sanjay Bros.)			
2	Sanjay Bros.A/c (5000x90)		4,50,000	
	Discount on Debentures A/c(5000x10)		50,000	
	To 6% Debentures A/c(5000x100)			5,00,000
	(Being issue of 5000 Debentures of Rs.100 each fully			

MN Ltd. purchased assets of Rs. 5,25,000 from Sanjay Bros. It issued 5000 6% Debentures of Rs. 100 each fully paid up in satisfaction of their claim. Make journal entries to record these transactions. (ISSUE PRICE LESS THAN PURCHASE PRICE=PREMIUM)

Date	Particulars	L.F.	Dr	Cr
1	Asset A/c		5,25,000	
	To Sanjay Bros.A/c			5,25,000
	(Being assets purchased from Sanjay Bros.)			
2	Sanjay Bros.A/c (5000x105)		5,25,000	
	To 6% Debentures A/c(5000x100)			5,00,000
	To Debentures premium a/c(5000x5)			25,000
	(Being issue of 5000 Debentures of Rs.100 each fully			

OTHER THAN CASH

Raju Ltd. purchased the business of mani Bros, for Rs. 54,00,000 payable in fully paid 8% debentures of Rs. 100 each. What entries will be made in the books of Raju Ltd., if such issue is

- (a) at par $(54,00,000/100)=540000$
- (b) (b).at a premium of 20% and $(54,00,000/120=450000)$
- (c) at a discount of 10% ? $(54,00,000/90=600000)$

Solution Raju Ltd. Journal entries

Date	Particulars	L.F.	Rs.	Rs.
1.	Sundry Assets A/c Dr		54,00,000	
	To Mani Bros. A/c			54,00,000
	[Being purchase of business]			
(II)	(a) When debentures are issued at par:			
	Mani Bros. A/c Dr		54,00,000	
	To 8% Debentures A/c (54000x100)			54,00,000
	[Being issue of fully paid debentures of Rs. 100 each to the vendors]			
	(b) When debentures are issued at premium:			
	Mani Bros. A/c Dr		54,00,000	
	To 8% Debentures A/c (45,000 x 100)			45,00,000
	To Debenture Premium A/c (45,000x 20)			9,00,000
	[Being issue of 45,000 fully paid debentures of Rs. 100 each at a premium of 20%]			
	(c) When debentures are issued at discount: *			
	Mani Bros. A/c Dr		54,00,000	
	Discount on issue of debentures A/c (60000x10)Dr		6,00,000	
	To 8% Debentures A/c(60000x100)			60,00,000
	[Issue of 60,000 fully paid debentures of Rs. 100 each at a discount of 10%]			

REDEMPTION IN INSTALMENTS

James Co. Ltd. issued 2,000 8% debentures of Rs. 100 each at a discount of 6%. The debentures are repayable by annual drawings at the end of each year, from the first year onwards at the rate of Rs. 40,000 per year. You are required to ascertain the discount amount to be written off each year under (a) fluctuating instalment method (b) fixed instalment method

(a) Fluctuating instalment method

$$\text{Discount to be written off} = 2,00,000 \times \frac{6}{100} = \text{Rs. } 12,000$$

If Rs. 40,000 is repayable at the end of each year from the first year onwards, the amount utilised by the company each year will be as follows:

1st year - Rs. 2,00,000, 2nd year - Rs. 1,60,000, 3rd year - Rs. 1,20,000, 4th year - Rs. 80,000 and 5th year - Rs. 40,000.

(b) Fixed instalment method

$$\text{Discount amount} = 2,00,000 \times \frac{6}{100} = \text{Rs. } 12,000$$

$$\text{Discount to be written off each year} = \frac{12,000}{5} = \text{Rs. } 2,400$$

Statement showing discount to be written off

<i>Year</i>	<i>Amount</i>	<i>Ratio</i>	<i>Discount to be written off</i>		Rs.
1	2,00,000	5	$12,000 \times \frac{5}{15}$	=	4000
2	1,60,000	4	$12,000 \times \frac{4}{15}$	=	3200
3	1,20,000	3	$12,000 \times \frac{3}{15}$	=	2400
4	80,000	2	$12,000 \times \frac{2}{15}$	=	1600
5	40,000	1	$12,000 \times \frac{1}{15}$	=	800
		15		=	12,000