III B.COM
CORPORATE ACCOUNTING

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CORPORATE ACCOUNTING

Part : III
Core course : CC9
Maximum Marks : 100

Instruction Hours : 7
Code No.18K5CO09
No. of Credits : 6

OBJECTIVE : To provide an understanding and knowledge of company accounts and special accounts.

UNIT–I : ISSUE OF SHARES

Company Accounts – Introduction – Legal Provisions Regarding Issue of shares - Applications Allotment – Calls – Forfeiture – Reissue – Premium - Discount – Redemption of Preference Share.

UNIT–II : ISSUE OF DEBENTURES

Issue and Redemption of Debentures – Various Kinds of Debentures – Discount – Premium - Redemption through Sinking Fund.

UNIT–III : FINAL ACCOUNTS OF COMPANIES

Final Accounts of Companies – Profit Prior to Incorporation.

UNIT–IV : HOLDING COMPANIES

Holding Companies Account – Preparation of Consolidated Balance Sheet (Excluding chain holding and cross holding).

UNIT–V : BANKING ACCOUNTS AND INSURANCES COMPANIES

Final Accounts of Banking Companies and Insurance Companies (New Format).

(Theory 20%, Problems 80%)

TEXT BOOK

Corporate Accounting : T. S. Reddy, Dr. A. Murthy, Margham Publications, Chennai

BOOKS FOR REFERENCE

1. R.L.Gupta and Radhasamy : Advanced Accountancy, Sultan Chand & Sons New Delhi.

2. Jain & Narang : Advanced Accountancy, Kalyani Publishers, Chennai.

3. Arulanadam and Raman : Advanced Accountancy, Himalaya Publishing House, New Delhi.

4. Shukla and Grewal : Advanced Accountancy, Sultan Chand & sons New Delhi.

Question Paper Pattern

Maximum marks = 75

Exam Duration Hours : 3 Hours

Part A :10 x 2 = 20 (Two Questions from Each Unit)

Part B :5 x 5 = 25 (Either or Type - One Question from Each Unit)

Part C :3 x 10 = 30 (One Question from Each Unit)

UNIT – 1
ACCOUNTING FOR SHARE CAPITAL

DEFINITION

A company is a voluntary and autonomous association of certain persons with capital divided in to numerous transferable shares formed to carry out a particular purpose in common.

- It is created by following a process of law. It is an artificial person; it is invisible and intangible.
- According to Section 3(1) (i) of the companies Act 1956 defines a company as “company formed and registered under this act or an existing company”.

CHARACTERISTICS OF A COMPANY

- Separate legal entity – It is a distinct legal person existing independent of its members.
- Limited Liability – Liability of the members is limited to the extent of the face value of shares held by them.
- Separation of ownership and management – Though a company is an artificial person yet it acts through human beings who are called directors of the company.

CHARACTERISTICS OF A COMPANY Cont….

- Capital Contribution – Capital is contributed by persons called shareholders in the name of shares and the share capital can be increased or reduced only in accordance with the provisions of the Indian Companies Act.

- Distribution of Profit – Profit is distributed according to the provisions of the articles by the directors.

CHARACTERISTICS OF A COMPANY Cont….

- Transferability of shares – The shares of a company are freely transferrable except in case of a private limited company. Transferability of shares has given perpetual succession to a company.
- Common seal – A company being artificial personality, it acts through natural persons, called directors and its distinct existence is evidenced by a common seal.

KINDS OF COMPANIES

ON THE BASIS OF INCORPORATION

- Chartered company- Companies which are incorporated under a special charter by Royal Charter which lays down objectives, rights, duties etc. Of the companies are known as Chartered companies. For example, East India Company
- Statutory company - Companies which are brought into existence and governed by special Acts of the legislature are known as statutory companies. For example, RBI, LIC, UTI etc.
- Registered company - Companies which are formed and registered under the Companies Act 1956 or registered under the previous companies Act.

KINDS OF COMPANIES Conti….

ON THE BASIS OF LIABILITY

- Limited company- A company in which the liability of each member is limited to the extent of face value of shares held by him such company is called companies limited by shares.
- Guarantee company- Where the liability of the members of a company is limited by Memorandum to a fixed amount which the members undertake to contribute to the assets of the company in case of its winding up, the company is called Guarantee Company.
- Unlimited company- Unlimited companies are companies not having any limit on the liability of its members. In the event of winding up, the members are liable to the full extent of their fortunes to meet the obligations of the company

KINDS OF COMPANIES Conti....

ON THE BAIS OF PUBLIC INVESTMENT

- Private company- A private company means a company which by its articles a) Restricts the transfer of its shares b) Number of members to two hundred c) Prohibits any invitation to the public for any shares d) Prohibits acceptance of deposits from the persons.

- Public company- Public companies are those companies which are not private companies. All the above four restrictions are not imposed on such companies.

SHARE CAPITAL OF THE COMPANY

Capital is essential for a trading concern.

- ✓ A company collects capital by inviting the public to buy its shares through a document known as prospectus. The capital is usually divided into different units with definite value called shares.
- ✓ Section 2(46) of the companies act defines a share as "a share in the share capital of the company and includes stock except where a distinction between stock and share is expressed or implied".
- ✓ A share is not a sum of money but is an interest measured by a sum of money, and made up of various rights contained in the contract. A share is a fractional part of the share capital which forms the basis of ownership in a company.

DIVISIONS OF SHARE CAPITAL

1. **Authorised capital** - The amount of capital with which the company intends to be registered is called Nominal or Registered or Authorised capital. It is the maximum amount which the company is authorised to raise by way of public subscription.

2. **Issued capital** – The part of the authorised capital which is offered to the public for subscription is called issued capital.

3. **Subscribed capital** – It is that part of the issued share capital which is actually taken up by the public. If the whole issued share capital is not subscribed for by the public, the balance of the issued share capital is called unsubscribed share capital.

DIVISIONS OF SHARE CAPITAL

4. **Called up capital** – It is that portion of the subscribed capital which has been called up by the company. The difference between subscribed capital and called up capital is known as uncalled capital

5. **Paid up capital** – It represents the amount received against the calls made on the shares. The unpaid balance of the called up capital is known as calls in arrears.

6. **Reserve capital** – Under Sec 99, Reserve capital is the amount of uncalled capital which the company has, by special resolution, decided not to call up except in the event of winding up of the company; reserve capital is available only to the creditors at the time of winding up of the company. Whereas Capital reserve is the capital profit earned by the business, not by the normal trading concerns. Capital reserve cannot be distributed as dividend to share holders. Eg. Share premium, profit prior to incorporation, forfeited shares a/c.etc.

TYPES OF SHARES

The shares which can be issued by a company are of two types –

- Preference shares and
- Equity shares.

PREFERNCE SHARES

The preference shares are those which have some preferential rights over the other types of shares. A share to be preference share must have two preferential rights:

a. They have a preferential right to be paid dividend during the life time of the company.

b. They have a preferential right to the return of capital when the Company goes in to liquidation.

TYPES OF PREFERENCE SHARES

1. **Cumulative and Non - cumulative Preference shares –** Cumulative preference shares are those its dividend accumulated until it is paid off. The arrears of one year are carried forward to next year. If dividend not to accumulate and carried forward to next year are called non-cumulative preference shares. Preference shares are always cumulative unless otherwise stated.

2. **Convertible and Non-Convertible Preference shares -** The holders of the shares have a right to get their preference shares converted into equity shares within a certain period is called Convertible preference shares. If the preference shares cannot be converted in to equity shares then it is said to be Non- convertible preference shares.

TYPES OF PREFERENCE SHARES Conti…

3. **Participating and Non-participating preference shares -** In addition to the fixed dividend, balance of profit (after meeting equity dividend) shared by some preference shares. Such shares are participating preference shares. The holders of the preference shares are entitled to a fixed dividend and not in the surplus profits; they are called Non- participating preference shares.

4. **Redeemable and Irredeemable preference shares –** If preference shares are returned after a specified period of time to share holders are called redeemable preference shares. If preference shares are not redeemed (it is continue till the winding up) known as irredeemable preference shares.

EQUITY SHARES

Equity shares, with reference to any company limited by shares, are those which are not preference shares [(Sec. 85(2)].

- Equity shares are also known as Ordinary shares.
- Equity share holders will get dividend and repayment of capital after meeting the claims of preference share holders.
- There will be no fixed rate of dividend to be paid to the equity shareholders and its rate may vary from year to year.
- The rate of dividend is determined by the directors of the company.

- SWEAT EQUITY SHARE Sweat equity share means the equity shares issued by a company at a discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights.

- STOCK As per Section 94(1) (c) of the Companies Act, 1956, when all the shares of a company have been fully paid up, they may be converted in to stock if so authorised by the articles of association. It is another type of unit of share capital of a company. Share capital of a company cannot be offered directly in the form of stock. Stock is a consolidation of fully paid shares. It is a set of shares put together in a bundle and stock has no definite value.

ISSUE OF SHARES

When a public limited company gets the certificate of incorporation, it issues a prospectus or a statement in lieu of prospectus inviting public to subscribe to the share capital of the company. That is the invitation is made through a document called prospectus. The prospectus is simply an invitation to an offer but is not an offer.

ISSUE OF SHARES AT DIFFERENT VALUES

Shares may be issued at a price which is termed as:

(i) At par – if the price required to be paid to the company for the share is equal to the nominal value of that share, it is called issue at par, e.g., a Rs. 10 equity share issued at a price of Rs.10

(ii) At a premium – if the price required to be paid to the company for the share is more than the nominal value of that share, it is called at a premium , e.g., a Rs. 10 equity share issued at a price of Rs.15

(iii) At a discount – if the price required to be paid to the company for the share is less than the nominal value of that share, it is called at a discount, e.g., a Rs.10 equity share issued at a price of Rs.8

The company does not receive application equal to the number of shares offered for subscription, there may be two situations:

(i) **Under Subscription** The issue is said to have been under subscribed when the company receives applications for less number of shares than offered to the public for subscription. In this case company is not to face any problem regarding allotment since every applicant will be allotted all the shares applied for. But the company can proceed with allotment provided the subscription for shares is at least equal to the minimum required number of shares termed as minimum subscription.

(ii) **Over Subscription** When shares are issued by well managed and financially strong companies to the public, they often receive more number of application than that they offer through prospectus and intend to allot. This is known as over subscription. In this situation, it becomes necessary to refuse allotment to some applicants. For this the directors make a decision about allotment of shares on a proportionate or an equitable basis to the applicants. It is called pro-rata allotment. In this case no application is fully accepted or fully rejected.

Accounting Treatment of Issue of Shares

Specimen Journal Entries

1.On receipt of application money:

Bank A/c Dr

To Share Application A/c

2. On transferring of application money to capital account

Share application A/c Dr

To Share Capital A/c

(i) Rejection of Excess Application

Share Application A/c Dr

To Bank A/c

(ii) Excess application money adjusted towards sums due on allotment

Shares Application A/c Dr

To Share Allotment A/c

(iii) Premium on issue of shares with share Application:

Share Application A/c. Dr

To Securities Premium A/c

3. On allotment money due:

Share allotment A/c Dr

To Share capital A/c

(i) Premium collected with Allotment money or Calls.:

Share Allotment A/c Dr

Share Call A/c Dr

To Share Capital A/c

To Securities Premium A/c

(ii) Shares Issued at Discount

Share Allotment A/c Dr

Discount on issue of shares A/c Dr

To Share Capital A/c

4. On receipt of allotment money:

Bank A/c Dr

To Share allotment A/c

5. On making first call due:

Share first call A/c Dr

To Share capital A/c

6. On receipt of first call money:

Bank A/c Dr

To Share first call A/c

7. On making second call due:

Share second call A/c Dr

To Share capital A/c

8. On receipt of second call money:

Bank A/c Dr

To Share second call A/c

9.On making final call due:

Share final call A/c Dr

To Share capital A/c

10. On receipt of final call money:

Bank A/c Dr

To Share final call A/c

11. For Forfeiture of Shares

(i)Premium money has been received prior to the forfeiture

Share capital A/c Dr (Amount called up)

To share forfeited A/c (Amount paid)

To unpaid calls A/c (Amount called but not pai**d)**

(ii) Securities Premium not received

Share Capital A/c Dr (no of forfeited shares * amount called up per shares)

Security Premium A/c Dr (to the extent premium not received)

To Calls in Arrears A/c

To Share Forfeiture A/c (amount received towards share received)

(iii)Forfeiture of shares issued at discount

Share capital a/c Dr.

To Share Forfeited A/c

To Discount on Issue of Shares A/c

To Unpaid call A/c

12. Reissue of forfeited shares

Bank A/c (the amount received on reissue) Dr.

Share Forfeited A/c (the amount allowed as discount) Dr.

To Share Capital A/c (paid up amount)

13. Profit transferred to Capital Reserve account.

Share forfeited A/c Dr

To Capital Reserve A/c

In case, only a part of the forfeited shares are reissued and others remain cancelled, the amount forfeited on forfeited shares not reissued will remain in the Shares Forfeited Account. For adjustment of forfeited amount on share reissued will be calculated as:

Amount to be adjusted = Total forfeited amount * No. of shares reissued /Total No. of shares forfeited

(i)When a company maintains calls in arrears account:

Calls in Arrears A/c Dr

To Share allotment

To Particular Call A/c

(ii) For Calls in advance

(a)When calls in advance is to be credited to calls in advance account –

Bank A/c Dr

To Calls in Advance

(b)When Call money becomes due

Calls in Advance A/c Dr

To Particular Call A/c

PROBLEMS

Problem – 1 Under Subscription

The authorised capital of a limited company is Rs. 2,00,000 divided in to 20,000 equity shares of Rs.10 each. Out of these, 15,000 shares have been issued to the public, payable Rs. 2 on application, Rs. 4 on allotment, Rs. 2 on first call and Rs. 2 on second and final call. Pass necessary journal entries and prepare Balance sheet. All amounts have been duly received.

Journal Entries	Dr.	Cr.
1. Bank A/c Dr (15000 shares x Rs.2) To Equity Share Application A/c (Receipt of Application money on 15000 shares @ Rs. 2/ share)	30000	30000
2. Equity Share application A/c Dr To Equity Share Capital A/c (Transfer of application money to share capital)	30000	30000
3. Equity Share allotment A/c Dr (15000 shares x Rs.4) To Equity Share capital A/c (Allotment money due on 15,000 shares @ Rs.4 per share)	60000	60000
4. Bank A/c Dr To Equity Share allotment A/c (Allotment money received)	60000	60000

5. Equity Share first call A/c Dr (15000 shares x Rs.2) **To Equity Share capital A/c** **(First call money due on 15,000 shares @ Rs.2 per share)**	**30000**	**30000**
6. Bank A/c Dr To Equity Share first call A/c (First call money received)	30000	30000
7. Equity Share final call A/c Dr (15000 shares x Rs.2) To Equity Share capital A/c (Final call money due on 15,000 shares @ Rs.2 per share)	30000	30000
8. Bank A/c Dr To Share final call A/c (Final call money received)	30000	30000

Balance Sheet

Liabilities	Amount	Assets	Amount
Authorized Capital 20,000 Equity shares of Rs. 10 each Issued, Subscribed, called up and paid up capital 15,000 Equity shares of Rs. 10 each fully called up	<u>200000</u> 150000	Cash at Bank	150000
	150000		150000

Problem - 2 Over subscription

The Full Health Care Ltd has offered to public for subscription 20000 shares of Rs 100 each payable as Rs 30 per share on application, Rs 30 per share on allotment and the balance on call. Applications were received for 30000 shares. Applications for 5000 shares were rejected all together and application money was returned. Remaining applicants were allotted the offered shares. Their excess application money was adjusted towards some due on allotment. Calls were made and duly received. Make journal entries in the books of the company.

Journal Entries	Dr.	Cr.
1. Bank A/c Dr (30000 shares x Rs.30) To Share Application A/c (Application money received for 30000 shares @ Rs 30 per share)	900000	900000
2. Share Application A/c Dr (30000 shares x Rs.30) To Share Capital A/c (20000 shares x Rs.30) To Bank A/c (5000 shares x Rs.30) Reject & refund To Share Allotment A/c (5000 shares x Rs.30) adjusted with allotment (Application money of 20000 shares transferred to share capital A/c on their allotment. That of 5000 shares returned and of 5000 shares adjusted towards sum due on allotment.	900000	 600000 150000 150000
3. Share Allotment A/c Dr (20000 shares x Rs.30) To Share Capital A/c… (Allotment money due)	600000	 600000

4. Bank A/c Dr (Rs. 600000-150000) look in 2 and 3 entry To Share Allotment A/c. (Allotment money received)	450000	 450000
5. Share First and Final call A/c. Dr (20000 shares x Rs.40) {Rs.100 - 60 (30 app.+ 30 all.) =40} To Share Capital A/c (Call money due)	800000	 800000
6. Bank A/c Dr To Share First and Final call A/c. (Call money received)	800000	 800000

Problem – 3 Issue of shares at Premium

Luxury Cars Ltd. issued 100000 shares of Rs 10 each at a premium of Rs 5 per share, payable as:

On application Rs. 4 (including Rs 2 premium) per share

On allotment Rs 8 (including Rs 3 premium) per share

On call Rs. 3 per share.

Applications were received for 100000 shares and allotment was made to all. Make journal entries.

Journal Entries	Dr.	Cr.
1. Bank A/c Dr. (100000 shares x Rs.4) To Share Application A/c (Amount received for 1,00,000 shares)	400000	 400000
2. Share Application A/c Dr (100000 shares x Rs.4) To Share Capital A/c (100000 shares x Rs.2) To Securities Premium A/c (100000 shares x Rs.2) (Share application money transferred to share capital A/c and securities Premium A/c)	400000	 200000 200000
3. Bank A/c Dr (100000 shares x Rs.8) To Share Allotment A/c (Share allotment money is received on 1,00,000 shares @ Rs 8 per share)	800000	800000

4. Share Allotment A/c Dr (100000 shares x Rs.8) To Share Capital A/c (100000 shares x Rs. 5) To Securities Premium A/c (100000 shares x R.3) (Share allotment money made Due)	800000	 500000 300000
5. Share First and Final Call A/c Dr (100000 shares x Rs.3) To Share Capital A/c (Share call money made due on 1,00,000 shares @ Rs 3 per share.)	300000	 300000
6. Bank A/c Dr (100000 shares x Rs.3) To Share First and Final Call A/c (Share call money received on 1,00,000 shares @ Rs 3 per share.)	300000	 300000

Problem – 4 Issue of Shares at discount

Sri Krishna Agro Chemical Ltd. was registered with a capital of Rs 5000000 divided into 50000 shares of Rs 100 each. It issued 10000 shares at discount of Rs 10 per share, payable as :

Rs 40 per share on application

Rs 30 per share on allotment

Rs 20 per share on call.

Company received applications for 15000 shares. Applicants for 12000 shares were allotted 10000 shares and applications for the remaining shares were sent letters of regret and their application money was returned. Call was made. Allotment and call money was duly received. Make journal entries in the books of the company.

Journal Entries	Dr.	Cr.
1. Bank A/c Dr. (15000 shares x Rs.40) To Share Application A/c (Application money received for 15000 shares @ Rs 40 per Share)	6,00,000	 6,00,000
2. Share Application A/c Dr (15000 shares x Rs.40) To Share Capital A/c (10000 shares x Rs.40) To Share Allotment A/c (2000 shares x Rs.40) 12000-10000 shares To Bank A/c (3000 shares x Rs.40) 15000-12000 shares (Application money of 3000 shares returned and of 2000 shares adjusted towards sum due on allotment)	600000	 400000 80000 120000
3. Share Allotment A/c Dr (10000 shares x Rs.30) Discount on issue of Share A/c Dr (10000 shares x Rs.10) To Share Capital A/c. (Allotment money due)	300000 100000	 400000

4. Bank A/c Dr (Rs.300000-80000) To Share Allotment A/c (Allotment money received)	220000	 220000
5. Share First & Final Call A/c Dr (10000 shares x Rs.20) To Share Capital A/c (Amount due on call)	200000	 200000
6. Bank A/c Dr (10000 shares x Rs.20) To Share First & Final Call A/c (Call money received)	200000	 200000

Problem – 5 Forfeiture of shares

Alpha Ltd. issued 10000 shares of Rs 100 each payable as:

Rs 25 on application.

Rs 25 on allotment

Rs 20 on First call and

Rs 30 on second and final call.

9000 shares were applied for and allotted. All the payments were received with the exception of allotment money, first call and second and final call money on 300 shares allotted to Ganesh. The Board of Directors decided to forfeit these shares. Make journal entry to record transaction relating to forfeiture of shares.

Journal Entry	Dr.	Cr.
1.Share Capital A/c (300 shares × Rs 100) Dr	30000	
To Share forfeited A/c (300 × Rs 25)		7500
To Share allotment A/c (300 × Rs 25)		7500
To Share first call A/c (300 × Rs 20)		6000
To Share second call A/c (300 × Rs 30)		9000
(300 shares of Rs 100 each forfeited due to non payment of allotment money and calls money)		

Problem – 6 Forfeiture of shares issued at premium

The L & T Company Ltd. offered to public for subscription of 50,000 shares of Rs. 20 each at a premium of Rs. 5 per share. The amount was payable as under:

On application Rs. 5 per share

On allotment Rs. 12 per share (Including premium of Rs 5 per share)

On first call Rs. 4 per share

On Second and Final call Rs. 4 per share

Applications were received for all the shares. Allotment was made to all the applicants in full. Mr.A failed to pay allotment and call money on 200 shares held by him. Mr.B was allotted 300 shares. He did not pay the call money. Their shares were forfeited. Make necessary journal entry for the forfeiture only.

Journal Entries	Dr.	Cr.
1. Share Capital A/c (200 shares × Rs. 20) Dr.	4000	
Securities Premium A/c (200 shares × Rs. 5) Dr.	1000	
To Share Forfeited A/c (200 shares × Rs. 5)		1000
To Share Allotment A/c (200 shares × Rs. 12)		2400
To Share First Call A/c (200 shares × Rs. 4)		800
To Share Second and Final call A/c (200 shares × Rs. 4)		800
(Forfeiture of 200 shares held by Mr .A who did not pay allotment and call money).		
2. Share Capital A/c (300 shares × Rs. 20) Dr.	6000	
To Shares forfeited A/c (300 shares x Rs.12)		3600
To Share First Call A/c(300 shares × Rs. 4)		1200
To Share Second Call A/c (300 shares × Rs. 4)		1200
(Forfeiture of 300 shares held by Mr .B)		

Problem – 7 Forfeiture of shares issued at premium

A ltd., issued 2000 shares of Rs.100 each at a premium of 10% payable as follows:

Rs.25 on application

Rs. 35 on allotment (including premium)

Rs.20 on first call

Rs. 30 on final call

1800 shares were applied for and allotted. All money was received except first and final call on 200 shares held by Mr. R. These shares were forfeited. Pass Journal entries and prepare Balance sheet.

Journal Entries	Dr.	Cr.
1. Bank A/c Dr. (1800 shares x Rs.25)	45000	
To Share Application A/c		45000
(Application money received for 1800 shares @ Rs 25 per Share)		
2. Share application A/c Dr (1800 shares x Rs.25)	45000	
To Share Capital A/c		45000
(Transfer of application money to share capital)		
3. Share Allotment A/c Dr (1800 shares x Rs.35)	63000	
To Share Capital A/c (1800 shares x Rs. 25) all.Rs.35- pre.Rs.10		45000
To Securities Premium A/c (1800 shares x R.10)		18000
pre.= Rs.100x10/100		
(Share allotment money made Due)		

4. Bank A/c Dr (1800 shares x Rs.35)	63000	
To Share Allotment A/c		63000
(Allotment money received)		
5. Share first call A/c Dr (1800 shares x Rs.20)	36000	
To Share capital A/c		36000
(First call money due on 1800 shares @ Rs.20 per share)		
6. Bank A/c Dr (1800-200 shares=1600 shares x Rs.20)	32000	
To Share first call A/c		32000
(First call money received)		
7. Share final call A/c Dr (1800 shares x Rs.30)	54000	
To Share capital A/c		54000
(Final call money due on 1800 shares @ Rs.30 per share)		

8. Bank A/c Dr (1800-200 shares=1600 shares x Rs.30) To Share final call A/c (Final call money received)	48000	 48000
9.Share Capital A/c Dr. (200 shares × Rs. 100) To Shares forfeited A/c (200 shares x Rs.50) To Share First Call A/c(200 shares × Rs. 20) To Share Final Call A/c (200 shares × Rs.30) (Forfeiture of 200 shares held by Mr. R)	20000	 10000 4000 6000

Balance Sheet

Liabilities	Amount	Assets	Amount
Authorized Capital	------	Cash at Bank	188000
Issued capital	200000		
2000 shares of Rs.100 each,			
Subscribed capital	180000		
1800 shares of Rs.100 each			
Called up and paid up capital			
1600 shares of Rs. 100 each fully			
called up 160000			
+ share forfeiture 10000	170000		
Reserves & Surplus:			
Share Premium	18000		
	188000		188000

Problem – 8 Forfeiture of shares issued at discount

The S n o w white L t d . invited applications for 200 shares of Rs. 50 each at a discount of 10% payable as follows:

On application Rs. 10 per share

On allotment Rs.20 per share

On call Rs. 15 per share

Whole of the issue was subscribed and paid for except the calls money on 200 shares which were forfeited by the company. Make journal entry for forfeiture of shares.

Journal Entry	Dr.	Cr.
1. Share Capital A/c (200 shares × Rs. 50) Dr.	10000	
To Shares forfeited A/c (200 shares × Rs. 30)		6000
To Discount on Issue of Shares A/c (200 shares × Rs.5)		1000
To Share First and Final call A/c (200 shares × Rs.15)		3000
(Forfeiture of 200 shares of Rs 50 each issued at discount of 10% on non payment of call money)		

Problem – 9 Full Reissue of forfeited shares

Sam Company Ltd. forfeited 200 shares of Rs 10 each, fully called up on which Rs. 7 have been received and final call of Rs. 3 per share remains unpaid. These shares were later on reissued for Rs. 8 per share fully paid up. Make journal entry for recording the forfeiture and reissue of shares.

Journal Entries	Dr.	Cr.
1. Share Capital A/c Dr (200 shares x Rs.10)	2000	
To Shares Forfeited A/c (200 shares x Rs.7)		1400
To Shares Final call A/c (200 shares x Rs.3)		600
(Forfeiture of 200 shares of Rs. 10 each due to non payment of final call of Rs 3 per share)		
2. Bank A/c Dr (200 shares x Rs.8)	1600	
Shares Forfeited A/c Dr (200 shares x Rs.2)	400	
To Share capital A/c (200 shares x Rs. 10)		2000
(Reissue of 200 forfeited shares of Rs 10 each for Rs. 8 per share as fully paid up)		
3. Shares forfeited A/c Dr (Rs.1400-400) 1 & 2 entry	1000	
To Capital Reserve A/c		1000
(The Balance amount in Share Forfeited A/c transferred to Capital Reserve A/c)		

Problem – 10 Partial Reissue of forfeited shares

Good Prospects Ltd., issued 40000 shares of Rs.10 each at a premium of Rs.2 per share. The shares were payable as:

On application Rs. 2 per share

On allotment Rs. 5 per share (including premium)

On first and final call Rs. 5 per share

All the shares were applied for and allotted. All money were received except the first and final call on 1000 shares which were forfeited. 400 of these shares were reissued as fully paid at Rs.8 per share.

Give journal entries and prepare balance sheet.

Journal Entries	Dr.	Cr.
1. Bank A/c Dr. (40000 shares x Rs.2) To Share Application A/c (Application money received for 40000 shares @ Rs 2 per Share)	80000	 80000
2. Share application A/c Dr (40000 shares x Rs.2) To Share Capital A/c (Transfer of application money to share capital)	80000	 80000
3. Share Allotment A/c Dr (40000shares x Rs.5) To Share Capital A/c (40000 shares x Rs. 3) To Securities Premium A/c (40000 shares x R.2) (Share allotment money made Due)	200000	 120000 80000

4. Bank A/c Dr (40000shares x Rs.5) To Share Allotment A/c (Allotment money received**)**	200000	 200000
5. Share first & final call A/c Dr (40000shares x Rs.5) To Share capital A/c (First call money due on 40000 shares @ Rs.5 per share)	200000	 200000
6. Bank A/c Dr (40000-1000 shares=39000 shares x Rs.5) To Share first call A/c (First call money received)	195000	 195000
7.Share Capital A/c Dr. (1000 shares × Rs. 10) To Shares forfeited A/c (1000 shares x Rs.5) To Share First & final Call A/c(1000 shares × Rs. 5) (Forfeiture of 1000 shares)	10000	 5000 5000

8. Bank A/c Dr (400 shares x Rs.8) Shares Forfeited A/c Dr (400 shares x Rs.2) To Share capital A/c (400 shares x Rs. 10) (Reissue of 400 forfeited shares of Rs 10 each for Rs. 8 per share as fully paid up)	3200 800	 4000
9. Shares forfeited A/c Dr To Capital Reserve A/c (The Balance amount in Share Forfeited A/c transferred to Capital Reserve A/c)	1200	 1200
Calculation of amount transferred to capital reserve: Amount credited to share forfeiture a/c for 1000 shares Proportionate amount for 400 shares = Rs.5000/1000shares x 400 shares Less : discount on reissue 400 shares x Rs.2 (Rs.10-Rs.8) Amount transferred to capital reserve Amount of share forfeiture of 600 shares not reissued to be shown in Balance sheet	Rs. 2000 800 1200	Rs. 5000 2000 3000

Balance Sheet

Liabilities		Amount	Assets	Amount
Share capital			Cash at Bank	478200
	40000			
-shares forfeited	1000			
	39000			
+ shares reissued	400			
	39400			
shares of Rs. 10 each		394000		
Share Premium		80000		
Capital Reserve		1200		
Share forfeiture		3000		
		478200		478200

Problem - 11 Pro rata allotment - Partial Reissue

A Company issued for public subscription 40,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share payable as under:

On application Rs. 2 per share

On Allotment Rs. 5 per share (including premium)

On first call Rs. 2 per share

On final call Rs. 3 per share

Applications were received for 70,000 Shares. Allotment was made pro-rata to the applicants for 50,000 shares, the remaining applications being refused. Money overpaid on application was applied towards sum due on allotment. A, to whom, 1,500 shares were allotted, failed to pay the allotment and call money. B, to whom 2,000 shares were allotted, failed to pay the two calls. The shares of A and B were subsequently forfeited after the second call was made. 3,000 of the forfeited shares were reissued @ Rs. 8 per share fully paid. The reissued shares included all of A's shares. Pass journal entries in the books of the company to record the above transactions.

Working notes		Rs.
40,000 shares were issued to applicants for 50,000 shares		
Ratio of allotment is 4:5		
A was allotted 1,500 shares so he applied for	1500 shares ×5 /4= 1875 shares	
On Application A paid 1875 shares x Rs. 2 =	Rs. 3750	
1500 shares x Rs.2 =	- Rs. 3000	
Surplus transferred to Share Allotment	Rs. 750	
Total Amount due on allotment = 40,000shares × Rs.5 =		2,00,000
Less: Surplus adjusted from Share Application =		
(50000- 40000 shares)10000shares XRs.2		20,000
Balance amount due =		1,80,000
Less: Arrears from A - 1500 shares x Rs. 5	Rs. 7500	
Less: Surplus Application amount of A adjusted with allotment	Rs. 750	**6750**
Amount received on allotment =		**173250**

Amount due on share First Call = 40,000 shares × Rs.2 =	Rs. 80,000	
Less: Arrears from A & B [(1,500+2,000 shares) × Rs.2] =	7,000	
Hence amount received =	**73,000**	
Amount due on Second and Final Call = 40,000 shares × Rs.3 =	Rs.1,20,000	
Less: Arrears from A & B [(1,500+2,000shares) × Rs. 3] =	10,500	
Amount Received =	**1,09,500**	
Amount Forfeited A balancing figure = Rs. **3750**		
B 2000 shares Rs.5 = Rs.**10000**	Rs.13,750	
Amount forfeited on 3,000 shares [From A Rs. 3,750 =		Rs.3750
And From B (share forfeiture Rs.10,000 ÷ 2,000 shares) × 1,500 shares] =		Rs.7500
		Rs.11250
Less: Discount allowed on re-issue =		Rs. 6000
Balance transferred to Capital Reserve =		Rs.**5250**

Journal Entries	Dr.	Cr.
1. Bank A/c Dr. (70000 shares x Rs.2) To Share Application A/c (Being share application money received on 70,000 shares @ Rs. 2 per share)	1,40,000	 140000
2. Share Application A/c Dr.(70000 shares x Rs.2) To Share Capital A/c (40000 shares x Rs.2) To Share Allotment A/c (10000 shares x Rs.2) 50000-40000shares To Bank A/c (20000 shares x Rs.2) 70000-50000 shares (Being share application money transferred to Share Capital account, Share Allotment account and balance refunded)	1,40,000	 80,000 20,000 40,000

3. Share Allotment A/c Dr. (40000 shares x Rs.5) To Share Capital A/c (40000 shares x Rs.3) To Securities Premium A/c (40000 shares x Rs.2) (Being share allotment money due on 40,000 share@ Rs. 5 per shares, including premium of Rs. 2 per share)	2,00,000	 1,20,000 80,000
4. Bank A/c Dr. (working note) To Share Allotment A/c (Being the amount received on share allotment)	**1,73,250**	 **1,73,250**
5. Share First Call A/c Dr. (40000 shares x Rs.2) To Share Capital A/c (Being share first call money due on 40,000 shares @ Rs. 2 per share)	80000	 80000

6. Bank A/c Dr. (36500 shares x Rs.2) 40000shares – A-1500 + B-2000 shares To Share First Call A/c (40000 shares x Rs.2) (Being share first call money due on 36,500 shares @ Rs. 2 per share)	**73,000**	 **73,000**
7. Share Second and Final Call A/c Dr. (40000 shares x Rs.3) To Share Capital A/c (Being share second and final call money due on 40,000 shares @ Rs. 3 per share)	120000	 120000
8. Bank A/c Dr. (36500 shares x Rs.3) To Share Second and Final Call A/c (Being amount received on 36,500 shares @ Rs. 3 per share)	**109500**	 **109500**

9. Share Capital A/c Dr. (1500 shares x Rs.10)	15000	
Securities Premium A/c Dr. (1500 share x Rs.2)	3000	
To share allotment (working note)		**6750**
To share first call (1500 shares x Rs.2)		3000
To share second Call (1500 shares x Rs.3)		4500
To Share Forfeited A/c (balancing figure)		**3750**
(Being 1,500 shares of A forfeited for non-payment of allotment and calls)		
10. Share Capital A/c Dr. (2000 shares x Rs.10)	20000	
To share first call (2000 shares x Rs.2)		4000
To share second Call (2000 shares x Rs.3)		6000
To Share Forfeited A/c (2000 shares x Rs.5)		**10000**
(Being 2000 shares of B forfeited for non-payment of calls)		

11. Bank A/c Dr.(3000 shares x Rs.8) Share Forfeited A/c (3000 shares x Rs.2) To Share Capital A/c (3000 shares x Rs.10) (Being reissue of 3,000 shares @ Rs. 8 per share as fully paid)	24000 6000	 30000
12. Share Forfeited A/c Dr.(working note) To Capital Reserve A/c (Being the surplus of amount forfeited in respect of shares reissued transferred to Capital Reserve)	**5250**	 **5250**

Balance Sheet

Liabilities		Amount	Assets	Amount
Share capital			Cash at Bank	479750
	40000			
-shares forfeited	3500			
	36500			
+ shares reissued	3000			
	39500			
shares of Rs. 10 each		395000		
Share Premium		77000		
Capital Reserve		5250		
Share forfeiture		2500		
		479750		479750

Problem - 12 Pro rata allotment - Full Reissue

Saara ltd., issued prospectus inviting application for 200000 shares of Rs.10 each at a premium of Rs.5 per share payable as:

On application Rs. 2 .50 per share

On Allotment Rs. 7.50 per share (including premium)

On first call Rs. 4 per share

On final call Rs. 1 per share

Applications were received for 300000 Shares. Allotment was made pro-rata to the applicants for 240000 shares, the remaining applications being refused. Money overpaid on application was applied towards sum due on allotment. David to whom, 4000 shares were allotted, failed to pay the allotment and the first call money, his shares were forfeited. Raj to whom, 6000 shares were allotted, failed to pay the two calls and his shares were forfeited. All of the forfeited shares were reissued @ Rs. 8 per share fully paid to Sam. Pass journal entries in the books of the company to record the above transactions.

Working notes	Rs.	Rs.
Amount due on allotment - 200000 shares x Rs.7.50		1500000
Less: Surplus application adjusted with allotment		100000
(240000 – 200000 shares = 40000 shares x Rs.2.50)		1400000
Less : Amount not received on 4000 shares from David		
If allotted 200000 shares, shares applied was 240000		
Ratio = 200000: 240000 ie., = 5:6		
If allotted 4000 shares, shares applied will be		
4000 shares x 6/5 = 4800 shares		
On application 4000 shares x Rs. 2.50 =	10000	
Application received 4800 shares x Rs.2.50 =	12000	
Surplus money received on application =	2000	
Amount due on allotment 4000 shares x Rs.7.50	30000	
Less : Surplus application money	2000	28000
Amount received on allotment =		1372000

Journal Entries	Dr.	Cr.
1. Bank A/c Dr. (300000 shares x Rs.2.50)	7,50,000	
To Share Application A/c		7,50,000
(Being share application money received on 300000 shares @ Rs. 2.50 per share)		
2. Share Application A/c Dr.(300000 shares x Rs.2.50)	7,50,000	
To Share Capital A/c (200000 shares x Rs.2.50)		5,00,000
To Share Allotment A/c (40000 shares x Rs.2.50)		1.00,000
(240000-200000shares=40000 shares)		
To Bank A/c (60000 shares x Rs.2.50)		1,50,000
(300000-240000 shares = 60000 shares)		
(Being share application money transferred to Share Capital account, Share Allotment account and balance refunded)		

3. Share Allotment A/c Dr. (200000 shares x Rs.7.50) To Share Capital A/c (200000 shares x Rs.2.50) To Securities Premium A/c (200000 shares x Rs.5) (Being share allotment money due on 2,00,000 shares @ Rs.2. 50 per share, including premium of Rs. 5 per share)	15,00,000	 5,00,000 10,00,000
4. Bank A/c Dr. (working note) To Share Allotment A/c (Being the amount received on share allotment)	**13,72,000**	 **13,72,000**
5. Share First Call A/c Dr. (200000 shares x Rs.4) To Share Capital A/c (Being share first call money due on 2,00,000 shares @ Rs. 4 per share)	8,00,000	 8,00,000

6. Bank A/c Dr. (190000 shares x Rs.4) (200000shares – David-4000 + Raj-6000 shares) To Share First Call A/c (190000 shares x Rs.4) (Being share first call money due on 1,90,000 shares @ Rs. 4 per share)	7,60,000	 7,60,000
7. Share Capital A/c Dr. (4000 shares x Rs.9) Rs.10-1(2nd call) Securities Premium A/c Dr. (4000 share x Rs.5) To share allotment (working note) To share first call (4000 shares x Rs.4) To Share Forfeited A/c (balancing figure) (Being 4000 shares of David forfeited for non-payment of allotment and first call)	36,000 20,000	 **28,000** 16,000 12,000

8. Share Final Call A/c Dr. (1,96,000 shares x Rs.1) (200000 shares – 4000 shares of David= 196000 shares) To Share Capital A/c (Being share final call money due on 1,96,000 shares @ Rs. 1 per share)	1,96,000	1,96,000
9. Bank A/c Dr. (1,90,000 shares x Rs.1) (200000 shares – 4000 shares of David + 6000 shares of Raj = 190000 shares) To Share Final Call A/c (Being amount received on 1,90,000 shares @ Rs. 1 per share)	1,90,000	1,90,000
10. Share Capital A/c Dr. (6000 shares x Rs.10) To share first call (6000 shares x Rs.4) To share final Call (6000 shares x Rs.1) To Share Forfeited A/c (6000 shares x Rs.5) (Being 6000 shares of Raj forfeited for non-payment of calls)	60,000	24,000 6,000 30,000

11. Bank A/c Dr.(10,000 shares x Rs.8) (David -4000 shares +Raj -6000 shares = 10,000 shares) Share Forfeited A/c Dr. (10,000 shares x Rs.2) To Share Capital A/c (10,000 shares x Rs.10) (Being reissue of 10,000 shares @ Rs. 8 per share as fully paid)	80,000 20,000	 1,00,000
12. Share Forfeited A/c Dr. (Rs.42000 –Rs.20000) 11^{th} entry To Capital Reserve A/c (David forfeiture - Rs. 12000 + Raj forfeiture Rs. 30000 7^{th} entry 10^{th} entry = Rs.42000) (Being the surplus of amount forfeited in respect of shares reissued transferred to Capital Reserve)	22,000	 22,000

Balance Sheet

Liabilities	Amount	Assets	Amount
Share capital 200000 -shares forfeited 10000 190000 + shares reissued 10000 200000 shares of Rs. 10 each	2000000	Cash at Bank	3002000
Share Premium	980000		
Capital Reserve	22000		
	3002000		3002000

Problem – 13 Pro rata allotment - Assignment

W ltd., issued for public subscription 20000 shares of Rs.10 each at a premium of Rs.2 per share payable as:

On application Rs. 2 per share

On Allotment Rs. 5 per share (including premium)

On first call Rs. 2 per share

On second call Rs. 3 per share

Applications were received for 300000 Shares. Allotment was made pro-rata to the applicants for 24000 shares, the remaining applications being refused. Money overpaid on application was applied towards sum due on allotment. Akbar to whom, 800 shares were allotted, failed to pay the allotment and the calls, and Babar to whom, 1000 shares, failed to pay the two calls and these shares were forfeited. All of the forfeited shares were reissued @ Rs. 8 per share fully paid to Charu. Pass journal entries in the books of the company to record the above transactions and prepare Balance Sheet..

Problem – 14 Pro rata allotment - Assignment

Bajaj Ltd. invited application for 15,000 shares of Rs.10/- each @ a premium of Rs.2. The share amount was payable as follows:

On Application -Rs.4

On Allotment - Rs.4 (including premium)

On First & Final Call - Rs.4

Application was received for 20,000 shares. Applications for 2,000 shares were rejected & allotment was made among the remaining applicants proportionately. A person holding 200 shares did not pay the allotment & call moneys. The directors decided to forfeit these shares. They were reissued as fully paid at Rs.9/- per share. Give journal entries in the books of Bajaj Ltd and prepare balance sheet.

Problem – 15 Issue of shares at discount - Assignment

Amit Ltd. invited applications for 10,000 shares of Rs.100/- each at a discount of 6% payable as follows –

On Application Rs. 25

On Allotment Rs. 34

On First & Final Call Rs. 35

The applications were received for 9,900 shares & all of these were accepted by the Directors. All money due were received except the first and final call on 10 shares which were Forfeited out of these 5 shares were issued at Rs.90/- as fully paid. Pass entries and prepare the Balance sheet.

REDEMPTION OF PREFERENCE SHARES

- To redeem means to repay. Redemption is the process of repaying an obligation as per predetermined terms and conditions.
- All the Preference Shares issued after 15th June 1988 have to be redeemable Preference Shares. The Preference Shares issued prior to that date were required to be redeemed within Ten years from the 15th June 1988.
- At present, any Preference Share issued by any company is required to be redeemable within maximum period of ten years from date of issue.

METHODS OF REDEMPTION

- ❑ REDEMPTION OUT OF PROCEEDS OF FRESH ISSUE OF SHARES.
- ❑ REDEMPTION OUT OF DIVISIBLE PROFIT

The following are the important provisions regarding the redemption of preference shares which are given under Section 80 of the Companies Act:

1. The shares shall be redeemable only if they are fully paid up. If the shares to be redeemed are partly paid up, they should be made fully paid up before they are redeemed.

2. Shares shall be redeemed either out of profits of the company available for dividends or out of proceeds of fresh issue of shares made for the purpose of redemption.

3. Premium if any, payable on redemption, should be provided out of the profits or out of the share premium account of the company.

4. Where any such shares are redeemed out of profits, an amount equal to face value of shares redeemed must be transferred to capital redemption reserve account.

5. The Capital Redemption Reserve Account can be utilised for issuing fully paid bonus shares to the shareholders.

Capital Redemption Reserve (CRR)

If the preference shares are redeemed out of accumulated profit, it will be necessary to transfer an amount equal to the amount repaid on the redemption to Capital Redemption Reserve Account. If the company issues any fresh shares for redemption purpose, the transferred amount will be the difference between nominal value of shares redeemed and the nominal value of shares issued (i.e. amount transferred to CRR = Nominal value of shares redeemed – Nominal value of shares issued). The capital redemption reserve account can be used for issuing fully paid bonus shares.

The importance of creation of capital redemption reserve account is to

a) protect the interest of creditors and

b) maintain working capital.

Redemption of preference shares involves repayment of capital before paying creditors of the company. It may affect the interest of creditors. In addition to that the working capital of the company will be depleted as a result of outflow of cash due to redemption. The amount is capitalized by creating the capital redemption reserve account. As a result this amount will not be available for distribution of dividend. It helps to protect the interest of creditors and on the other hand it replenishes working capital

Accounting Entries

The redeemable preference shares can be redeemed by

a) the proceeds of a fresh issue of equity shares/ preference shares,

b) the capitalization of undistributed profit i.e. creating capital redemption reserve account, or

c) a combination of both (a) and (b).

i) When new shares are issued at par:

Bank A/c ………………….Dr.

To Share Capital A/c.

ii) When new shares are issued at premium:

Bank A/c ……………………..Dr.

To Share Capital A/c

To Securities Premium A/c

iii) When new shares are issued at a discount:

Bank A/c ………………Dr.

Discount on Issue of Share Capital……….Dr.

To Share Capital A/c.

iv) Conversion of partly paid shares into fully paid shares:

a) Share Call A/c ………..Dr.

To Share Capital A/c

b) Bank A/c ……………..Dr.

To Share Call A/c.

v) When preference shares are redeemed at par:

Redeemable Preference Share Capital A/c ………………Dr.

To Preference shareholders A/c.

vi) When preference shares are redeemed at a premium:

Redeemable Preference Share Capital A/c ………………Dr

Premium of Redemption Preference Share Capital A/c….Dr.

To Preference shareholders A/c.

vii) Adjustment of premium on redemption:

Profit and Loss A/c……………….Dr.

Securities Premium A/c ……………….Dr.

To Premium of Redemption Preference

Share Capital A/c

viii) Transferring the amount to Capital Redemption Reserve Account:

General Reserve A/c …………….Dr.

Profit and Loss A/c …………….Dr.

To Capital Redemption Reserve A/c

ix) Expenses on issue of shares:

Expenses on Issue of shares A/c…………….Dr.

To Bank A/c.

x) When payment is made to preference shareholders:

Preference Shareholders A/c ……………Dr.

To Bank A/c.

xi) When the fully paid bonus shares are issued:

Capital Redemption Reserve A/c ……………. Dr.

General Reserve A/c …………………………..Dr.

Securities Premium A/c …………………………..Dr.

Profit & Loss A/c ……………………………. Dr.

To Bonus to Shareholders A/c

xii) Capitalization of profit:

Bonus to Shareholders A/c ………………Dr.

To Equity share capital A/c

Problem – 1 Redemption out of fresh issue at par

ABC Co. Ltd. had part of its share capital in 2000 preference shares of Rs.10 each fully paid up and these have become due for redemption. The preference share capital was to be redeemed out of a fresh issue of equity shares at par made particularly for this purpose and the general reserve of the company stood at Rs.25,000. Show the journal entries for the above transactions

Journal Entries	Dr.	Cr.
1. Preference share capital A/c Dr. (2000 shares x Rs.10) To Preference shareholders A/c (Being amount payable on redemption of 2000 preference shares)	20,000	20,000
2. Bank A/c Dr. To Equity Share Capital A/c (Being the amount received on issue of 2000 equity shares of Rs.10 each made for the purpose of redemption of Preference shares as per Board's Resolution dated).	20,000	20,000
3. Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid)	20,000	20,000

Problem - 2 Redemption out of fresh issue at par – Assignment

Modern Ltd., has part of its share capital as 5000 Redeemable Preference shares of Rs.100 each. When the share becomes due for redemption the company decides to redeem it out of fresh issue of equal amount of equity shares of RS.10 each. Pass journal entries

Problem - 3 Redemption out of fresh issue at premium

The Producers Ltd.'s Balance sheet shows the following balance's on 31-3-18. 30,000 equity shares of Rs.10 each fully paid; 18,000 10% Redeemable Preference shares of Rs.10 each fully paid; 4000, 15% Redeemable Preference shares of Rs.10 each, Rs.8 paid up. General Reserve Rs.120000; Securities Premium Rs.15,000; Profit Loss Account Rs.80,000 and capital Reserve Rs.20,000. Preference shares are redeemed on 1-4-18 at a premium of Rs.2 per share. For redemption, 4000 equity shares of Rs.10 each are issued at 10% premium. A bonus issue of equity share was made at par, two shares being issued for every five held on that date. Show the journal entries to record the above transactions

Date	Journal Entries	Dr.	Cr.
1.4.2018	1. 10% Preference share capital A/c Dr. (18000 shares x Rs.10) Premium on Redemption of Preference shares capital A/c Dr. (18000 shares xRs.2) To Preference shareholders A/c (Being amount payable on redemption of 18000 preference shares, with premium of Rs. 2).	180000 36000	 216000
1.4.2018	2. Bank A/c Dr. To Equity Share Capital A/c (4000 shares x Rs.10) To Securities Premium A/c (Rs.40000x10/100) (Being the amount received on issue of 4000, Equity shares of Rs.10 each made with premium of 10% for the purpose of redemption of preference shares)	44000	 40000 4000

1.4.2018	3. Securities Premium A/c Dr. (Rs.15000 (given in problem) + Rs.4000 -2nd entry) Profit And Loss A/c Dr.(balancing figure) To Premium on Redemption of Preference shares capital A/c (Being the amount written off against P & L)	19000 17000	 36000
1.4.2018	4. General Reserve A/c Dr.(given in problem) Profit & Loss A/c Dr. (balance) To Capital Redemption Reserve A/c (Pref.sh. Rs.180000-Rs.40000 – equity issue) (Being amount transferred equal to the difference between the nominal value of shares redeemed and proceeds of new issue).	120000 20000	 140000

1.4.2018	5. Preference shareholders A/c Dr. To Bank (Being the amount due to preference shareholders paid)	216000	216000
1.4.2018	6. Capital Redemption Reserve A/c Dr. To Bonus to Shareholders A/c (Being the amount utilized for issue of bonus shares in 5:2 ratio) (30000 shares x2/5=12000 shares xRs.10)	120000	120000
1.4.2018	7. Bonus to Shareholders A/c Dr. To Equity Share capital A/c (Being the amount capitalized by issue of bonus shares)	120000	120000

Problem - 4 Redemption out of fresh issue at premium

A Company has 10000 9% redeemable preference shares of Rs.100 each fully paid. The company decides to redeem the shares on 31.07.2017 at a premium of 10%. The company makes the following issues:

(i) 6000 equity shares of Rs.100 each at a premium of 10%

(ii) 4000 8% debentures of Rs.100 each

The issue was fully subscribed and alterations were made. The redemption was duly carried out. The company has sufficient profits. Give journal entries.

Date	Journal Entries	Dr.	Cr.
31.07.2017	1. Bank A/c Dr. To Equity Share Capital A/c. (6000 shares xRs.100) To Securities premium A/c. (Rs.600000x10/100) (Being 6000 shares of Rs.100 each issued at a premium of 10%)	660000	600000 60000
31.07.2017	2. Bank A/c Dr. (4000 debentures x Rs.100) To 8% Debentures A/c. (Being 4000 debentures issued at Rs.100 each)	400000	400000
31.07.2017	3. Profit & Loss Appropriation A/c. Dr. To Capital Redemption Reserve A/c. {10000shxRs.100=1000000-600000(1st entry)} (Being transfer of required amount from P&L App. to CRR for redemption of Pre.Sh.)	400000	400000

Date	Particulars	Dr.	Cr.
31.07.2017	4. 9% Preference Share Capital A/C. Dr. (10000 shares x Rs.100) Premium on redemption A/c. Dr. (Rs.1000000 x 10/100) To Redeemable Pre. Shareholders A/c. (Being amount due to preference share holders at a premium)	1000000 100000	1100000
31.07.2017	5.Securities Premium A/c. Dr. Profit & Loss Appropriation A/c. Dr.(b.f.) To Premium on Redemption of Preference Shares A/c. (Being transfer of required amount for redemption from premium & P&L)	60000 40000	100000
31.07.2017	6. Redeemable Pref. Sh.holders A/c. Dr. To Bank A/c (Being amount paid to pref. sh.holders)	1100000	1100000

Problem – 5 Redemption at par and fresh issue at premium

Balance sheet of Samy as on 30.06.2018

Liabilities	Amount	Assets	Amount
Equity share capital	1000000	Sundry Assets	1400000
Redeemable pref.sh.cap.	400000	Bank	500000
P&L A/c	300000		
Sundry Creditors	200000		
	1900000		1900000

On the above date, the preference shares had to be redeemed. For this purpose, 2000 equity shares of Rs.100 each were issued at Rs.110. The company also issued 8% debentures Rs.300000. The shares and debentures were immediately subscribed and paid for. The preference shares were duly redeemed. Pass entries and prepare balance sheet.

Date	Journal Entries	Dr.	Cr.
30.6.2018	1. Bank A/c.Dr. To Equity Share Capital(2000 sharesx Rs.100) To Securities Premium(2000 shares xRs.10) To 8% Debentures (given in problem) (Being issue of equity shares & debentures)	520000	 200000 20000 300000
30.6.2018	2.Profit & Loss A/c. Dr. To Capital Redemption Reserve A/c. (Being amount required to redeem pref. Shares transferred Rs.400000(B/s) -Rs.200000(1st entry)	200000	 200000
30.6.2018	3. Redeemable Pref. Share Capital A/c. Dr. To Redeemable Pref. Share holders A/c. (Being amount due to pref.sh.hol. Transferred)	400000	 400000

30.6.2018	**4. Redeemable Pref. Shareholders A/c.Dr.** **To Bank A/c.** **(Being redeemable pref. sh.hold. Paid)**	**400000**	 **400000**

Balance sheet of Samy as on 30.06.2018

Liabilities	**Amount**	**Assets**	**Amount**
Share Capital Equity Share capital 1000000+200000 Reserves & Surplus Securities Premium Capital. Red. Reserve P & L A/c.(300000-200000) Secured Loans 8% Debentures Current Liabilities Sundry Creditors	 1200000 20000 200000 100000 300000 200000	Sundry Assets Bank b/s 500000 + 520000 1020000 - 400000	1400000 620000
	2020000		2020000

Problem – 6 Redemption out of revenue reserves

Sym ltd., issues 75000 equity shares of Rs.10 each and 5000 redeemable preference shares of Rs.100 each all shares being fully called and paid up on 31.3.2019. Profit and loss account showed undistributed profits of Rs.300000 and general reserve stood at Rs.250000. On 1.4.2019 the directors decided to redeem the existing preference shares at Rs.105 utilising as much as profits would be required for the purpose. Pass journal entries.

Date	Journal Entries	Dr.	Cr.
1.4.2019	1. General Reserve A/C. Dr.(given in problem) Profit & Loss A/c. Dr.(balance) To Capital Redemption Reserve A/c. (5000 red. pef. shares x Rs.100) (Being transfer from general reserve and P&La/c. for the purpose of redemption of pref.sh.)	250000 250000	 500000
1.4.2019	2. Redeemable Pref. Share Capital A/c. Dr. Premium on redemption of pref.shares A/c.Dr. {5000 pref.sh. X Rs. 5 (Rs.105 – Rs.100=5)} To Redeemable Pref. Share holders A/c. (Being amount due to pref. sh.hol. Transferred)	500000 25000	 525000

1.4.2019	3. Profit & Loss A/c. Dr. To Premium on red. of Pref. shares A/c. (Being premium provided out of P&L A/c.)	25000	 25000
1.4.2019	4. Redeemable Pref. Sh.holders A/c. Dr. To Bank A/c (Being amount paid to pref. sh.holders)	525000	 525000

Problem - 7 Redemption out of profits - Assignment

The following are the extracts from the balance sheet of Gani ltd.,as on 31.12.2019 is given as :

Share capital:	Rs.
200000 Equity shares of Rs.10 each	2000000
300000 6% redeemable pref.sh Rs.10	3000000
Capital Reserve	1500000
General Reserve	900000
Profit & Loss A/c.	2550000

The company exercises its opinion to redeem the preference shares on 1.1.2020. The company has sufficient cash. Give journal entries.

Problem – 8 Redemption at premium out of profits

Balance sheet of Sun Ltd., as on 31.12.2017

Liabilities	Amount	Assets	Amount
Share capital:		Sundry assets	920000
50000 Equity shares of	500000	Bank	600000
Rs.10 each fully paid			
4000 Redeemable	400000		
Preference shares of			
Rs.100 each fully paid			
Profit and loss A/c.	520000		
Creditors	100000		
	1520000		1520000

On the above date, the preference shares were redeemed at a premium of 10%. Pass entries and prepare balance sheet.

Date	Journal Entries	Dr.	Cr.
31.12.2017	1. Profit & Loss A/c. Dr. To Capital Redemption Reserve A/c.(given) To Premium on redemption of pref.shares (Rs. 400000x10/100) (Being transfer from P&La/c. for the purpose of redemption of pref.sh.)	440000	 400000 40000
31.12.2017	2. Redeemable Pref. Share Capital A/c. Dr. Premium on redemption of pref.shares A/c.Dr. To Redeemable Pref. Share holders A/c. (Being amount due to pref. sh.hol. Transferred)	400000 40000	 440000
31.12.2017	3. Redeemable Pref. Sh.holders A/c. Dr. To Bank A/c (Being amount paid to pref. sh.holders)	440000	 440000

Balance sheet of Sun Ltd., as on 31.12.2017

Liabilities	Amount	Assets	Amount
Share capital:		Sundry assets	920000
50000 Equity shares of	500000	Bank	160000
Rs.10 each fully paid		(Rs.600000-440000)	
Reserves & Surplus:			
Capital Red. Reserve	400000		
Profit and loss A/c.	80000		
(Rs.520000-440000)			
Current liabilities:			
Creditors	100000		
	1080000		1080000

Problem – 9 Redemption at premium partly out of profits and partly out of fresh issue

Moon Ltd., have part of their share capital in 2500 6% redeemable preference shares of Rs.100 each. The company decided to redeem the preference shares at a premium of 10%. The general reserve of the company shows a credit balance of Rs.300000. The directors decide to utilize 60% of the reserve in redeeming the preference shares and the balance is to be met from the proceeds of fresh issue of sufficient number of shares of Rs.10 each. The premium is to be met from the years profit and loss appropriation account. Give journal entries.

Journal Entries	Dr.	Cr.
1. General Reserve A/c. Dr.(Rs.300000x60/100)	180000	
To Capital Redemption Reserve A/c.		180000
(Being CRR created out of general reserve 6% for redemption of preference shares)		
2. Bank A/c. Dr.(2500shares x Rs.100 = 250000-180000)	70000	
To Equity Share Capital A/c(Rs.70000/Rs.10=7000 shares)		70000
(Being 7000 equity shares of Rs.10 each issued for redemption of preference shares)		
3. Redeemable Preference Share Capital A/c. Dr.	250000	
Premium on redemption of preference shares A/c.Dr. (Rs.250000x10/100)	25000	
To Redeemable preference shareholders A/c.		275000
(Being amount payable to the redeemable preference share holders)		

4. Profit & Loss Appropriation A/c. Dr. To Premium on preference shares A/c. (Rs.250000x10/100) (Being premium provided out of Profit and loss appropriation account for redemption of preference shares)	25000	 25000
5. Redeemable preference share holders A/c. Dr. To Bank A/c (Being amount paid to the redeemable preference shareholders on redemption)	275000	 275000

Problem – 10 Issue of Bonus Shares

Swan ltd., issued 8000 9% redeemable preference shares of Rs.100 each at par on 1.7.2010, redeemable at the option of the company on or after 30.6.2016 partly or fully. Redemption were made out of profits as follows:

(i) 1200 shares on 30.6.2016 at par

(ii) 1600 shares on 31.12.2016 at 10% premium

(iii) Remaining shares on 30.6.2017 at a premium of 5%by making a fresh issue of 40000 equity shares of Rs.10 each at a premium of Re.1 each.

On 30.6.2017 the company also decided to capitalise 50% of its capital redemption reserve by issuing bonus shares of Rs.10 each fully paid at a premium of Rs.2.50 per share. Pass journal entries.

Date	Journal Entries	Dr.	Cr.
30.6.2016	1. Profit & Loss A/c. Dr.(1200 shares x Rs.100) To Capital redemption reserve A/c (Being transfer of profits equal to sum required for redemption)	120000	120000
30.6.2016	2. 9% Redeemable Preference Share Capital A/c. Dr. To Redeemable preference shareholders A/c. (Being amount payable to the redeemable preference share holders)	120000	120000
30.6.2016	3. Redeemable preference share holders A/c. Dr. To Bank A/c (Being amount paid to the redeemable preference shareholders on redemption)	120000	120000

31.12.2016	4. Profit & Loss A/c. Dr. To Capital Redemption Reserve A/c. (1600 shares x Rs.100) To Premium on redemption of pref.shares (Rs. 160000x10/100) (Being transfer from P&La/c. for the purpose of redemption of pref.sh.)	176000	 160000 16000
31.12.2016	5. 9% Redeemable Preference Share Capital A/c.Dr. Premium on redemption of pref.shares A/c.Dr. To Redeemable preference shareholders A/c. (Being amount payable to the redeemable preference share holders)	160000 16000	 176000
31.12.2016	6. Redeemable preference share holders A/c. Dr. To Bank A/c (Being amount paid to the redeemable preference shareholders on redemption)	176000	 176000

30.6.2017	7. Bank A/c.Dr. To Equity share capital A/c(40000 shares xRs.10) To Securities premium A/c (40000shares x Re.1) (Being issue of equity shares at a premium of Re.1)	440000	 400000 40000
30.6.2017	8. Profit & Loss A/c. Dr. (8000 shares -1200 shares- 1600 shares = 5200 shares) {5200 shares x Rs.100=Rs.520000-Rs.400000(7th entry)} To Capital redemption reserve A/c (Being transfer of profits equal to sum required for redemption)	120000	 120000
30.6.2017	9.9%Redeemable Preference Share Capital A/c. Dr. Premium on redemption of pref. shares A/c.Dr. (Rs.520000x5/100) To Redeemable preference shareholders A/c. (Being amount payable to the redeemable preference share holders)	520000 26000	 546000

30.6.2017	10. Securities premium A/c. Dr. To Premium on preference shares A/c. (Being premium on redemption of preference Shares set off against securities premium)	26000	26000
30.6.2017	11. Redeemable preference share holders A/c. Dr. To Bank A/c (Being amount paid to the redeemable preference shareholders on redemption)	546000	546000
30.6.2017	12. Capital redemption reserve A/c.Dr. To Bonus to shareholders A/c. (working note) (Being application of 50% of capital redemption reserve for issue of bonus shares)	200000	200000

30.6.2017	13. Bonus to shareholders A/c. Dr. To Equity share capital A/c.(16000 shares xRs.10) {Rs.200000/Rs.12.50 (Rs.10+pre . Rs.2.50) = 16000shares} To Securities premium A/c.(16000 sharesxRs.2.50) (Being issue of 16000 bonus shares at Rs.10 each at a premium of Rs.2.50 per share)	200000	 160000 40000
	<u>Working note:</u> Transfer to CRR on 30.6.2016 Transfer to CRR on 31.12.2016 Transfer to CRR on 30.6.2017 Total Bonus at 50% of Capital redemption reserve = Rs. 400000x50/100=Rs.200000	Rs. 120000 160000 <u>120000</u> <u>400000</u>	

Problem – 11 Issue of Bonus Shares

Balance sheet of Hari Ltd., as on 30.06.2013

Liabilities	Amount	Assets	Amount
Share capital :		Fixed Assets	1000000
30000 6% Redeemable	300000	Investments	210000
Preference Shares of Rs. 10		Current Assets:	
each fully paid		Stock	440000
60000 Equity Shares of Rs.10	600000	Debtors	160000
each fully paid		Cash at Bank	220000
Securities Premium	290000		
General reserve	400000		
Profit & Loss A/c.	245000		
Sundry Creditors	195000		
	2030000		2030000

The company exercised its option to redeem, on 1.7.2013, the whole of the Preference shares at a premium of 5%. To assist in financing the redemption, all the investments were sold, realizing Rs.195000. On 1.9.2013, the company made a bonus issue of seven equity shares fully paid for every six equity shares held on that date.

The appropriate resolutions were passed and the above transactions were duly completed. Show journal entries and prepare balance sheet.

Date	Journal Entries	Dr.	Cr.
1.7.2013	1. Bank A/c. Dr.(given in problem) Profit & Loss A/c. Dr. (bal.fig.) To Investments A/c. (Being sale of investments for Rs.195000 and loss debited to P & L A/c.)	195000 15000	 210000
1.7.2013	2 .6%Redeemable Preference Share Capital A/c. Dr. Premium on redemption of pref. shares A/c.Dr. (Rs.300000x5/100) To Redeemable preference shareholders A/c. (Being amount payable to the redeemable preference share holders)	300000 15000	 315000
1.7.2013	3. General Reserve A/c. Dr. To Capital Redemption Reserve A/c. (Being transfer from General Reserve a/c. for the purpose of redemption of pref.sh.)	300000	 300000

1.7.2013	4. Securities premium A/c. Dr. To Premium on preference shares A/c. (Being premium on redemption of preference Shares set off against securities premium)	15000	 15000
1.7.2013	5.Redeemable preference share holders A/c. Dr. To Bank A/c (Being amount paid to the redeemable preference shareholders on redemption)	315000	 315000
1.9.2013	6. Capital redemption reserve A/c.Dr.(given) General Reserve A/c.Dr.(Rs.400000-300000) Securities Premium A/c. Dr.(working note) Profit & Loss A/c.Dr.(balancing figure) To Bonus to shareholders A/c. (working note) (Being amount appropriated to issue bonus shares)	300000 100000 275000 25000	 700000

1.9.2013	7. Bonus to shareholders A/c. Dr. To Equity share capital A/c.(70000 shares xRs.10) (Being issue of 70000 bonus shares at Rs.10 each)	700000	700000
	<u>Working notes:</u> Bonus Issue: 60000 equity shares x7/6 = 70000 shares x Rs.10 = Rs.700000		

Securities Premium A/c.

To Premium on redemption A/c. **To Bonus to shareholders A/c.** **(balancing figure)**	**15000** **275000**	**By balance b/d**	**290000**
	290000		290000

Profit &Loss A/c

To Investment A/c	15000	By Balance b/d	245000
To Bonus to shareholders A/c	25000		
ToBalance c/d(balancing figure)	205000		
	245000		245000

By Balance b/d 2050000

Bank A/c

To Balance b/d	220000	By Redeemable pref.sh.hol. A/c.	315000
To investments A/c	195000	By Balance c/d	100000
	415000		415000

To Balance b/d 100000

Balance Sheet of Hari as on 30.6.2013

Liabilities	Amount	Assets	Amount
Share capital:		Fixed assets	1000000
60000+70000 Equity shares	1300000	Current Assets:	
of Rs.10 each fully paid		Bank	100000
Reserves & Surplus:		Stock	440000
Profit and loss A/c.	205000	Debtors	160000
Current liabilities:			
Creditors	195000		
	1700000		1700000

Problem – 12 Issue of Bonus Shares - Assignment

The preference shares were redeemed on April 1, 2008 at a premium of Rs.5.00 per share, the whereabouts of the holders of 1500 such shares not being known. At the same time, a bonus issue of equity share was made at par, one share being issued for every four equity shares held. Show the journal entries to record the above transactions and the Balance sheet as it would appear after the redemption. The following is the balance sheet of Black & White Co. Ltd. as at 31st March, 2008.

Liabilities	Amount	Assets	Amount
Issued & Subscribed Capital: 40,000 Equity shares of Rs.10 each fully paid 18,000, 8% Preference shares of Rs.10 each fully paid **Reserves & Surplus:** Profit & Loss Account **Current Liabilities:** Sundry Creditors	400000 180000 480000 40000	Fixed Assets Current Assets	700000 400000
	1100000		1100000

Problem – 13 Redemption of Preference Shares – Assignment

Ketan Ltd. had 6000, 9% redeemable Preference Shares of Rs.50/- each fully paid. The company decides to redeem the shares at a premium of 10%. The company makes the following issues for the purpose of redemption.

a) 25,000 Equity Shares of Rs.10/- each at a premium of 10%.

b) 3,000, 9% Debenture of Rs.100/- each at a premium of Rs.10/- each.

The company has a General Reserve of Rs.3,75,000/- and Securities Premium of Rs.50,000/-. Pass journal entries to record above transactions.

UNIT - II
ISSUE AND REDEMPTION OF DEBENTURES

A Debenture is a unit of loan amount. When a company intends to raise the loan amount from the public it issues debentures. A person holding debenture or debentures is called a debenture holder. A debenture is a document issued under the seal of the company. It is an acknowledgment of the loan received by the company equal to the nominal value of the debenture. It bears the date of redemption and rate and mode of payment of interest. A debenture holder is the creditor of the company. As per section 2(12) of Companies Act 1956, “Debenture includes debenture stock, bond and any other securities of the company whether constituting a charge on the company’s assets or not”

Features

A Debenture has the following basic features:-

(a) It is document which creates or acknowledges a debt.

(b) It is in the form of certificate issued under the seal of the company.

(c) It usually shows the amount & date of repayment of the loan.

(d) If shows the rate of interest & date of interest payment.

(e) Normally debentures are secured & issued against the assets of the company.

Types of Debentures

1. From Security point of view

(i) **Secured or Mortgage Debentures:** These are the debentures that are secured by a charge on the assets of the company. These are also called mortgage debentures. The holders of secured debentures have the right to recover their principal amount with the unpaid amount of interest on such debentures out of the assets mortgaged by the company. In India, debentures must be secured. Secured debentures can be of two types:

(a) First mortgage debentures: The holders of such debentures have a first claim on the assets charged.

(b) Second mortgage debentures: The holders of such debentures have a second claim on the assets charged.

(ii) **Unsecured Debentures: Debentures which do not carry any security with regard to the** principal amount or unpaid interest are called unsecured debentures. These are called simple debentures.

2. On the basis of Redemption

(i) **Redeemable Debentures :** These are the debentures which are issued for a fixed period. The principal amount of such debentures is paid off to the debenture holders on the expiry of such period. These can be redeemed by annual drawings or by purchasing from the open market.

(ii) **Non-redeemable Debentures :** These are the debentures which are not redeemed in the life time of the company. Such debentures are paid back only when the company goes into liquidation.

3. On the basis of Records

(i) **Registered Debentures:** These are the debentures that are registered with the company. The amount of such debentures is payable only to those debenture holders whose name appears in the register of the company.

(ii) **Bearer Debentures:** These are the debentures which are not recorded in a register of the company. Such debentures are transferrable merely by delivery. Holder of these debentures is entitled to get the interest.

4. On the basis of Convertibility

(i) **Convertible Debentures:** These are the debentures that can be converted into shares of the company on the expiry of pre decided period. The term and conditions of conversion are generally announced at the time of issue of debentures.

(ii) **Non-convertible Debentures :** The debenture holders of such debentures cannot convert their debentures into shares of the company.

5. On the basis of Priority

(i) **First Debentures:** These debentures are redeemed before other debentures.

(ii) **Second Debentures :** These debentures are redeemed after the redemption of first debentures The procedure of issue of debentures by a company is similar to that of the issue of shares. A Prospectus is issued, applications are invited, and letters of allotment are issued. On rejection of applications, application money is refunded. In case of partial allotment, excess application money may be adjusted towards subsequent calls.

Difference between Shares and Debentures.

Shares	Debentures
1. Amount collected through shares Constitute capital of the company.	1.Amount collected through debentures Constitute borrowed fund of the company.
2. A shareholder is a member of the company.	2. A debenture holder is only a creditor.
3. A shareholder gets a share in the profits called dividend.	3. A debenture holder receives interest at a fixed rate.
4. A shareholder is entitled to vote at meetings.	4. A debenture holder is not entitled to Vote
5. Share capital is an ownership capital.	5. Debentures capital is creditorship capital i.e. borrowing.

Difference between Shares and Debentures.

Shares	Debentures
6. Share capital is not returnable in the life time of the company. However, the redeemable preference shares are refunded during the life-time of the company. 7. Dividend depends on the profit of the company. 8. Shares are unsecured. 9. In the event of winding up of the company shareholders are the last person in re-fund of their capital	6. Debenture capital returnable during the lifetime of the company. The exception is the irredeemable debentures which are not redeemable during the life-time of the company 7. Interest is paid on debentures & it is a charge on the revenue of the company 8. Debentures are generally secured. 9. Debenture holder being the creditors are paid prior to the shareholders. If secured they have priority even over the unsecured creditors.

Issue of Debenture takes various forms

1. Debentures issued for cash
2. Debentures issued for consideration other than cash
3. Debentures issued as collateral security.
4. Debentures may be issued

(i) At par, (ii) At premium, and (iii) At discount

Accounting treatment of issue of debentures *for cash*

1. Debentures issued for cash at par:

(i)Application money is received

Bank A/c Dr

To Debentures Application A/c

(Application money received for Debentures)

(ii) Transfer of debentures application money to debentures account on their allotment

Debentures Application A/c Dr

To Debentures A/c

(Application money transferred to debenture account on allotment)

(iii) Money due on allotment

Debentures Allotment A/c Dr

To Debentures A/c

(Allotment money made due)

(iv) Money due on allotment is received

Bank A/c Dr

To Debentures Allotment A/c

(Receipt of Debenture allotment money)

(v) First and final call is made

Debentures First and Final call A/c Dr

To Debentures A/c

(First and Final call money made due on .... debentures)

(vi) Debentures First and Final call money is received

Bank A/c Dr

To Debentures First and Final call A/c

(Receipt of Amount due on call)

Problem - 1 Issue of debentures or cash

Assignment

Star India Ltd. issued 5000 8% Debentures of Rs. 100 each payable as follows

Rs 20 on Application

Rs 30 on Allotment

Rs. 50 on First and Final call

All the debentures were applied for and allotted. All the calls were duly received. Make necessary journal entries in the books of the company.

Problem - 2 Issue of debentures for cash Assignment

A company has issued 5000 10% Debentures of Rs 100 each at a premium of 20% payable as

Rs .60 on application

Rs. 60 on allotment (including premium)

All the debentures were subscribed for and money was duly received. Make journal entries.

Problem – 3 Issue of debentures for cash Assignment

A company has issued 2000 9% debentures of Rs 100 each at a discount of 10% payable as

Rs. 40 on application,

Rs. 50 on allotment

Make necessary journal entries.

Issue of Debentures for consideration other than cash

Accounting Treatment:

1. **Purchase of Assets**

Sundry Assets A/c Dr (Individually)

To Vendors A/c

2. **Allotment of debentures**

(i) **At par**

Vendors' A/c Dr

To Debentures A/c

(ii) **At discount**

Vendors' A/c Dr

Debentures Discount A/c Dr

To Debentures A/c

Problem – 4 Issue price and condition for redemption

VG. Electronics Ltd. purchased machinery for Rs 198000 and issued 9% debentures of Rs 100 each to the vendors. Make journal entries if the debentures were issued

(a) at par

(b) at a premium of Rs 10

(c) at a discount of Rs 10

Journal Entries	Dr.	Cr.
1. Machinery A/c Dr. To Vendors A/c (Being machinery purchased)	198000	 198000
2. Vendors A/c Dr To 9% Debentures A/c (Rs.198000/Rs.100=1980 deb.) (Being 1980 debentures of Rs. 100 each issued to vendors)	198000	 198000
3. Vendors A/c Dr To 9% Debentures A/c(Rs.198000x10/110) To Securities Premium A/c (Rs.180000x10/100) (Being 1800 debentures issued at a premium of Rs. 10 per debenture)	198000	 180000 18000

4. Vendors A/c Dr	198000	
Discount on issue of debentures .A/c Dr.	22000	
(bal.fig.)		
To 9% Debentures A/c (2200 deb.xRs.100)		220000
(Rs.198000x90/100= 2200 debentures)		
(Being 2200 debentures issued at a		
discount of Rs. 10 per debenture)		

Issue of Debentures with conditions Stipulated to their Redemption - Journal entry

(i) Issued at par redeemable at par

Bank A/c Dr

To Debentures Account

(ii) Issued at discount and redeemable at par

Bank A/c Dr

Discount on issue of Debentures A/c Dr

To Debentures A/c

(iii) Issued at premium redeemable at par

Bank A/c Dr

To Debentures A/c

To Securities Premium A/c

(iv) Issued at par, redeemable at premium

Bank A/c Dr

Loss on Issue of Debentures A/c Dr

To Debentures A/c

To Premium on Redemption of Debenture A/c

(v) Issued at discount and redeemable at premium

Bank A/c Dr

Discount on Issue of Debentures A/c Dr

Loss on Issue of Debentures A/c Dr

To Debentures A/c

To Premium on Redemption of Debenture A/c

Problem – 5 Issue price and condition for redemption

Make journal entries if 200 debentures of Rs 500 each have been issued as:

(i) Issued at Rs 500, redeemable at Rs 500

(ii) Issue at Rs 450; redeemable at Rs 500

(iii) Issued at Rs 550; redeemable at Rs 500

(iv) Issued at Rs 500; redeemable at Rs 550

(v) Issued at Rs 450; redeemable at Rs 550

Journal Entries	Dr.	Cr.
1. Bank A/c Dr(200 deb. x Rs.500)	100000	
To Debentures A/c		100000
(Being Issue of 200 debentures @ Rs. 500 each)		
2. Bank A/c. Dr. (200 deb. x Rs.450)	90000	
Discount on issue of Debentures A/c Dr. (200 deb.xRs.50)	10000	
To Debentures A/c.(200 deb.xRs.500)		100000
(Being Issue of 200 debentures @ Rs.50 each at Rs.450)		
3. Bank A/c Dr. (200 deb. x Rs.550)	110000	
To Debentures A/c (200 deb. x Rs.500)		100000
To Securities Premium A/c. (200 deb. x Rs.50)		10000
(Being Issue of 200 debentures of Rs. 500 each at Rs.550)		

4. Bank A/c Dr (200 deb. x Rs.500) **Loss on Issue of Debentures A/c Dr. (bal.fig)** **To Debentures A/c.(200 deb. x Rs.500)** **To redemption of debentures A/c (200 deb.xRs.50)** **(Being Issue of 200 debentures of 500 each at Rs.550)**	**100000** **10000**	 **100000** **10000**
5. Bank A/c Dr (200 deb.xRs.450) Loss on Issue of Debentures A/c Dr.(bal.fig.) Discount on issue of Debentures A/c. Dr. (200 deb.xRs.50) To Debentures A/c.(200 deb. x Rs.500) To Premium on Redemption of debentures A/c (200 deb. xRs.50) (Being Issue of 200 debentures of 500 each at Rs.450 repayable at Rs.550)	90000 10000 10000	 100000 10000

Problem - 6 Issue price and condition for redemption

Assignment

City Enterprises Ltd., Issued 1000 debentures of Rs. 100/- each. You are asked to give journal entries on issue if.

1. The debentures are issued at par and redeemable at par.
2. Debentures are issued at discount of 5% but redeemable at par.
3. Debentures are issued at a premium of 5% but redeemable at a par.
4. Debentures are issued at a discount of 5% but redeemable at a premium of 5%.
5. Debenture issued at par but redeemable at 10% premium.

Redemption of Debentures

1. Redemption without provision

(a) Redemption on specified due date

- Redemption out of profits
- Redemption out of capital

(b) Redemption in installments

- Drawing by lots
- Open market buying

- **Cum-Interest Price :** When the interest accrued from the last due date of interest to the date of transaction is included in the price quoted, it is called Cum-Interest price which is the total amount paid for the purchase of debentures.
- **Ex-Interest Price :** When the interest accrued from the last due date of interest to the date of transaction is not included in the price quoted, it is called Ex-interest price or Real Price.

© Redemption by conversion

- ❖ Conversion before the date of redemption
- ❖ Conversion on date of redemption

2.Redemption out of provision

- ▪ Sinking fund method

✓ Redemption on specified date

✓ Redemption at company's option

- ▪ Insurance policy method

Problem - 7 Redemption by conversion

On 1.4.2017 Ram ltd., issued 2500 8% debentures of Rs.100 each at a discount of 5%. Holders of the debentures have the option to convert their holdings into equity shares of Rs.100 each at a premium of Rs.25 per share at any time within 3 years.

On 31.3.2018 holders of 500 debentures notified their intention to exercise the option. Give entries and show how the items appear in the company's balance sheet.

Date	Journal Entries	Dr.	Cr.
1.4.2017	1. Bank A/c Dr.(Rs.250000x95/100)	237500	
	Discount on issue of debentures A/c Dr.	12500	
	(Rs.250000x5/100)		
	To 8% debentures A/c		250000
	(2500 deb. x Rs.100)		
	(Being issue of debentures at discount)		
31.3.2018	2. 8% Debentures A/c Dr.(500 deb.xRs.100)	50000	
	To Discount on issue of debentures A/c		2500
	(Rs.50000x5/100)		
	To equity share capital (working note)		38000
	To Securities premium (380 shares xRs.25)		9500
	(Being conversion of debentures)		

Working note:

		Rs.
Face value of deb.	500 deb.xRs.100 =	50000
Less : Discount Rs.50000x5/100	=	2500
Amount collected to be converted	=	47500
Face value of equity share	=	100
Add: Premium	=	25
Issue price per share	=	125

No. of shares to be issued =47500/125 = 380 shares

Face value of shares = 380 shares x Rs.100= Rs.38000

Balance sheet of Ram ltd.,

Liabilities	Amount	Assets	Amount
Share capital 380 equity shares of Rs.100 each	38000	Miscellaneous expenditure Discount on issue of debentures (12500-2500)	10000
Reserves & Surplus Share premium	9500		
Secured loans 2500-500=2000 8% Debentures of Rs.100 each	200000		

Problem - 8 Redemption by conversion

Assignment

S ltd., issued Rs.500000 10% debentures of Rs.100 each at a discount of Rs.10 each at par after the expiry of 2 year. The due date for redemption of the debentures at par is at the end of the 10^{th} year. Find out the number shares the debenture holder gets and pass entries.

(a) If he converts his 200 shares at the end of second year from the date of issue.

(b) If he converts his 200 debentures at the end of 10^{th} year on agreed date of the redemption.

Problem - 9 Redemption in installments

Rasi ltd., has Rs.1000000 8% debentures outstanding on 1.1.2016. The company has been redeeming every year on January 1st Rs.100000 debentures by drawing lot, at par. Give journal entries :

(i) If the redemption is out of profits

(ii) If the redemption is out of capital

Date	Journal Entries	Dr.	Cr.
1.1.2016 (i)	1. 8% Debentures A/c Dr. To Bank A/c (Being redemption of debentures out of profits)	100000	100000
31.3.2018	2. Profit & Loss Appropriation A/c Dr. To Debenture redemption reserve A/c (Being transfer of revenue profit to DRR)	100000	100000
1.1.2016 (ii)	1. 8% Debentures A/c Dr. To Bank A/c (Being redemption of debentures out of capital)	100000	100000

Problem - 10 Redemption out of profits

G ltd., issued 2000 12% Debentures of Rs.100 each on 1.1.2015 at a discount of 10% redeemable at a premium of 15% in equal annual drawings in 4 years out of profits.

Give journal entries both at the time of issue and redemption of debentures. Ignore the treatment of loss on issue of debentures and interest.

Date	Journal Entries	Dr.	Cr.
1.1.2015	1. Bank A/c Dr (Rs.200000 –Rs.20000) Discount on issue of Debentures A/c. Dr. (Rs. 200000 x10/100) Loss on Issue of Debentures A/c Dr.(bal.fig.) To 12% Debentures A/c.(2000 deb. x Rs.100) To Premium on Redemption of debentures A/c (R.200000 x 15/100) (Being Issue of 2000 debentures of Rs.100 each)	180000 20000 30000	 200000 30000
31.12.2015	2. 12% Debentures A/c Dr.(Rs.200000/4) Premium on redemption of debentures A/c Dr. (Rs.50000x15/100) To Debenture holders A/c (Being the amount due on redemption)	50000 7500	 57500

31.12.2015	3. Debenture holders A/c Dr. To Bank A/c (Being payment made)	57500	 57500
31.12.2015	4. Profit & Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profits to DRR)	50000	 50000
31.12.2016	5. 12% Debentures A/c Dr.(Rs.200000/4) Premium on redem. of debentures A/c Dr. To Debenture holders A/c (Being the amount due on redemption)	50000 7500	 57500
31.12.2016	6. Debenture holders A/c Dr. To Bank A/c (Being payment made)	57500	 57500

31.12.2016	7. Profit & Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profits to DRR)	50000	 50000
31.12.2017	8. 12% Debentures A/c Dr.(Rs.200000/4) Premium on redem. of debentures A/c Dr. To Debenture holders A/c (Being the amount due on redemption)	50000 7500	 57500
31.12.2017	9. Debenture holders A/c Dr. To Bank A/c (Being payment made)	57500	 57500
31.12.2017	10. Profit & Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profits to DRR)	50000	 50000

31.12.2018	11. 12% Debentures A/c Dr.(Rs.200000/4) Premium on redem. of debentures A/c Dr. To Debenture holders A/c (Being the amount due on redemption)	50000 7500	 57500
31.12.2018	12. Debenture holders A/c Dr. To Bank A/c (Being payment made)	57500	 57500
31.12.2018	13. Profit & Loss Appropriation A/c Dr. To Debenture Redemption Reserve A/c (Being transfer of profits to DRR)	50000	 50000
31.12.2018	14. Debenture Redemption Reserve A/c Dr. To General Reserve A/c. (Being transfer of DRR to general reserve)	200000	 200000

Problem - 11 Open market buying method

Krish ltd., had Rs.5000000 10% debentures outstanding, made the following purchases in the open market for immediate cancellation:

1.4.2017 1000 debentures of Rs.100 each at Rs.99

1.9.2017 2000 debentures of Rs.100 each at Rs.97

Pass journal entries for the purchase and the cancellation of the debentures:

(i) if the above purchase rates are ‘Ex-interest’

(ii) if the above purchase rates are ‘Cum-interest’. Assume that the interest is payable every year on 30th June and 31st December

Date	Journal Entries	Dr.	Cr.
1.4.2017 (i)	1. 10% Debentures A/c Dr.(1000deb.xRs.100) Debenture interest A/c Dr. (Rs.100000x10/100x3/12- Jan.Feb.Mar.) To Bank A/c (1000 debxRs.99 + Rs.2500) To Profit on cancellation of deb.A/c(b.f) (Being purchase and cancellation of 1000 debentures at ex interest)	100000 2500	101500 1000
1.9.2017	2. 10% Debentures A/c Dr.(2000deb.xRs.100) Debenture interest A/c Dr. (Rs.200000x10/100x2/12 –Jul.Aug.) To Bank A/c (2000 debxRs.97 + Rs.3333) To Profit on cancellation of deb.A/c(b.f) (Being purchase and cancellation of 2000 debentures at ex interest)	200000 3333	197333 6000

1.4.2017 (ii)	1. 10% Debentures A/c Dr.(1000deb.xRs.100) Debenture interest A/c Dr. (Rs.100000x10/100x3/12) To Bank A/c (1000 debxRs.99) To Profit on cancellation of deb.A/c(b.f) (Being purchase and cancellation of 1000 debentures at cum interest)	100000 2500	99000 3500
1.9.2017	2. 10% Debentures A/c Dr.(2000deb.xRs.100) Debenture interest A/c Dr. (Rs.200000x10/100x2/12) To Bank A/c (2000 debxRs.97) To Profit on cancellation of deb.A/c(b.f) (Being purchase and cancellation of 2000 debentures at cum interest)	200000 3333	194000 9333

Problem - 12 Open market buying method

Mani Ltd., which has Rs.1000000 8% debentures of Rs.100 each outstanding on1.1.2016 on which interest is payable on 30th June and on 31st December each year is permitted to purchase its own debentures in the open market and cancel them or retain them or resell them at its option.

The company made the following purchase in the open market on 1.4.2016. 500 debentures at Rs.97 ex-interest. Give journal entries if

(i) The debentures were cancelled on the same day

(ii) The debentures were retained till 1.7.2016 on which they were cancelled.

Date	Journal Entries	Dr.	Cr.
1.4.2016 (i)	1. 8% Debentures A/c Dr.(500deb.xRs.100) Debenture interest A/c Dr. (Rs.50000x8/100x3/12- Jan.Feb.Mar.) To Bank A/c (500 debxRs.97+ Rs.1000) To Profit on cancellation of deb.A/c(b.f) (Being purchase and cancellation of 500 own debentures at ex interest)	50000 1000	 49500 1500
1.4.2016 (ii)	2. Own Debentures A/c Dr.(500deb.xRs.97) Debenture interest A/c Dr. To Bank A/c (Being purchase of 500 own debentures at ex interest)	48500 1000	 49500

30.6.2016	1. Debenture interest A/c Dr. (Rs.1000000x8/100x6/12-Jan-June- Rs.1000) To Bank A/c To interest on own debentures (500 deb.xRs.100x8/100x3/12-Jan-Mar.) (Being interest paid for own debentures)	39000	 38000 1000
1.7.2016	2. 8% Debentures A/c Dr.(500deb.xRs.100) To Own Debenture interest A/c Dr. (500 deb. xRs.97) To Profit on cancellation of deb.A/c(b.f) (Being cancellation of 500 own debentures)	50000	 48500 1500

Problem - 13 Open market buying method

On 1.1.2017 Zee ltd., issued 1000 12% debentures of Rs.100 each at Rs.95. The terms provided that beginning with 2018 Rs.20000 of the debentures should be redeemed either by drawings at par or by purchase in the open market every year.

The company writes off Rs. 1000 from the discount on debentures every year. In 2018 the debentures to be redeemed were unpaid at the end of the year by drawings.

On 31.12.2019 the company purchased for cancellation 200 debentures at Rs.95, the expenses being Rs.100, interest is payable yearly. Give journal entries and show the balance sheet.

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Date	Journal Entries	Dr.	Cr.
1.1.2017	1. Bank A/c Dr.(1000 deb.x Rs.95) Discount on issue of Debenture A/c Dr. (1000 deb. x Rs.5) (Rs.100-95) To 12% Debentures A/c(1000 debxRs.100) (Being issue of 1000 debentures at discount)	95000 5000	100000
31.12.2017	2. Debenture interest A/c Dr. To Bank A/c (Rs.100000x12/100) (Being payment interest for one year)	12000	12000
31.12.2017	3. Profit & Loss A/c Dr. To Discount on issue of debentures A/c To Debenture interest A/c (Being discount written off and interest transferred to profit & loss a/c)	13000	1000 12000

31.12.2018	4. Debenture interest A/c Dr. To Bank A/c (Rs.100000x12/100) (Being payment interest for one year)	12000	 12000
31.12.2018	5. 12% Debentures A/c Dr. (given) To Bank A/c (Being redemption of debentures by drawings)	20000	 20000
31.12.2018	6. Profit & Loss A/c Dr. To Discount on issue of debentures A/c To Debenture interest A/c (Rs. 100000x12/100) (Being discount written off and interest transferred to profit & loss a/c)	13000	 1000 12000

31.12.2019	7. Debenture interest A/c Dr.(Rs.80000x12/100) (Rs.100000-Rs.20000=Rs.80000) To Bank A/c (Being payment interest for one year)	9600	 9600
31.12.2019	8. 12% Debentures A/c Dr. (given) To Bank A/c (200 deb.xRs.95+Rs.100-exp) To Profit on cancellation of debentures A/c(b.f.) (Being purchase and cancellation of debentures)	20000	 19100 900
31.12.2019	9. Profit & Loss A/c Dr. To Discount on issue of debentures A/c To Debenture interest A/c(Rs.80000x12/100) (Being discount written off and interest transferred to profit & loss a/c)	10600	 1000 9600

31.12.2019	10. Profit on cancellation of debentures A/c Dr. To Capital Reserve A/c (Being capital profit on cancellation of own debentures)	900	900

Balance sheet of Zee ltd.,

Liabilities	Amount	Assets	Amount
Reserves & Surplus: Capital reserve Secured Loans: 12% Debentures (Rs.100000-20000-20000)	 900 60000	Miscellaneous expenditure : Discount on issue of Debentures (Rs.5000-1000-1000-1000)	 2000

Problem - 14 Open market buying method

Bhim ltd., has Rs.300000 12% debentures on 1.4.2018. There is no sinking fund redemption of debentures. Interest is payable on 31st March each year.

(i) On 1.5.2018, Rs.20000 own debentures are purchased at Rs.94 by the company and immediately cancelled.

(ii) On 1.8.2018, Rs.50000 own debentures are purchased at Rs.95 and held as investment (Ex-interest)

(iii) On 1.12.2018,Rs.60000 own debentures are purchased at Rs.96 held as investment (Cum-interest)

(iv) On 31.3.2019, own debentures kept as investment are cancelled.

Show journal entries in the books of the company on date of closing 31st March.

Date	Journal Entries	Dr.	Cr.
1.5.2018 (i)	1. 12% Debentures A/c Dr.(given) Debenture interest A/c Dr. (Rs.20000x12/100x1/12- April) To Bank A/c (200 deb. x Rs.94) (Rs.20000/100=200deb.) To Profit on cancellation of deb.A/c(b.f) (Being purchase and cancellation of debentures)	20000 200	18800 1400
1.8.2018 (ii)	2. Own Debentures A/c Dr.(500deb.xRs.95) Debenture interest A/c Dr. (Rs.50000x12/100x4/12-Apr.May,Jun.July) To Bank A/c (Being purchase of 500 own debentures as investment at ex interest)	47500 2000	49500

1.12.2018 (iii)	3. Own Debentures A/c Dr. Debenture interest A/c Dr. (Rs.60000x12/100x8/12- April to Nov.) To Bank A/c (600 deb. x Rs.96) (Rs.60000/100=600deb.) (Being purchase of own debentures at cum interest)	52800 4800	 57600
31.3.2019 (iv)	4. Interest on Debentures A/c Dr. To Bank A/c (Rs.170000x12/100) (Rs.300000-Rs.20000-50000-60000=170000) To interest on own debentures A/c (Rs.50000x12/100x8/12-Aug-March)= Rs.4000 (Rs.60000x12/100x4/12-Dec-March)= Rs.2400 (Being payment of interest to outsiders and credited interest on own debentures)	26800	 20400 6400

31.3.2019	5. 12% Debentures A/c Dr.(Rs.50000+60000) To Own Debenture interest A/c (Rs.47500 +Rs.52800) To Profit on redemption of deb.A/c(b.f) (Being own debentures cancelled)	110000	 100300 9700
31.3.2019	6. Profit on redemption of Debentures A/c Dr. To Capital reserve A/c (Rs.1400+Rs.9700) (Being profit on cancellation transferred)	11100	 11100
31.3.2019	7.Profit & Loss A/c Dr.(Rs.200+2000+4800+26800) To Debenture interest A/c (Being interest on debentures transferred to P & L a/c)	33800	 33800
31.3.2019	8. Interest on own debentures A/c Dr. To Profit & Loss A/c (4th entry) (Being interest on own debentures transferred to P & L a/c)	6400	 6400

Problem - 15 Open market buying method - Assignment

On 31.3.2018, Arun ltd's Balance sheet showed 10000, 12% debentures of Rs.100 each outstanding. Interest on debentures is payable on 30^{th} sep. and 31^{st} March every year. On 1.8.2018, the company purchased 500 of its own debentures at Rs.97 ex-interest.

Pass journal entries for the purchase and disposal of own debentures in each one of the following cases:

(i) The company cancels all of its own debentures on 1.3.2019

(ii) The company resells all its own debentures at Rs.105 cum-interest on 1.3.2019.

Also show journal entries relating to debenture interest and interest on own debentures as on 31^{st} March for case (i) mentioned above.

What Is a Sinking Fund?

A sinking fund is a fund containing money set aside or saved to pay off a debt or bond. A company that issues debt will need to pay that debt off in the future, and the sinking fund helps to soften the hardship of a large outlay of revenue. A sinking fund is established so the company can contribute to the fund in the years leading up to the bond's maturity.

How is sinking fund created?

A sinking fund is a type of fund that is created and set up purposely for repaying debt. The owner of the account sets aside a certain amount of money regularly and uses it only for a specific purpose. Often, it is used by corporations for bonds and deposits money to buy back issued bonds. Sinking fund created for the purpose of redemption of debentures are also known as debenture redemption fund.

What is a Debenture Redemption Reserve?

A debenture redemption reserve (DRR) is a provision stating that any Indian corporation that issues debentures must create a debenture redemption service in an effort to protect investors from the possibility of a company defaulting. This provision was tacked onto the Indian Companies Act of 1956, in an amendment introduced in the year 2000.

Sinking Fund Method

Entries at the end of first year

(i) For transfer of profits

Profit and Loss Appropriation a/c Dr.

To Sinking Fund a/c

(ii) For making Investments

Sinking Fund Investment a/c Dr.

To Bank a/c

At the end of second year

(iii) For receiving of interest on Sinking Fund Investments

Bank a/c Dr.

To Interest on Sinking Fund Investment a/c

(iv) For interest received transferred to sinking fund

Interest on Sinking Fund Investment a/c Dr.

To Sinking Fund A/c

(v) For transfer of profits to Sinking fund

Profit and Loss Appropriation a/c Dr.

To Sinking Fund A/c

(vi) For purchase of investments

Sinking Fund Investment a/c Dr.

To Bank a/c

Note : At the end of 3^{rd} , 4^{th} year etc., journal entries no. (iii), (iv), (v) and (vi) will be repeated

At the end of the last year when debentures are redeemed journal entries no. (iii), (iv), (v) will be repeated and the fowling entries will be passed

(vii) For sale of Investment

Bank a/c Dr.

Sinking Fund A/c Dr (Loss on sale of investments)

To Sinking Fund Investment a/c

(viii) On redemption of debenture at par,

Debenture a/c Dr.

To Debenture holders a/c

(xi) In case the debenture are redeemed at premium,

Debenture a/c Dr.

Debenture Redemption Premium a/c Dr.

To Debenture holders a/c

(x) Amount due to debenture holders paid :

Debenture holders a/c Dr.

To Bank a/c

(xi) For Closing Sinking fund Account

Sinking Fund Dr.

To General Reserve a/c

Problem - 16 Sinking Fund Method

On 1st January 06 S Ltd. issued 2000, 10% debentures of Rs.100 each @ 5% premiums, redeemable at par. The company decided to set aside every year a sum of Rs.63440 to be invested in 5% Govt. securities. The investments were sold at Rs.130200 at the end of third year and debentures were redeemed. Give journal entries and prepare ledger in the books of S Ltd.

Date	Journal Entries	Dr.	Cr.
01.01.06	1. Bank A/c Dr. To 10% Debentures A/c (2000 deb.xRs.100) To Securities premium A/c (Rs.200000x5/100) [Being 2000, 10% debentures of Rs.100 each issued @ 5% premium]	210,000	 200,000 10,000
31.12.06 1 year	2. Profit and appropriation A/c Dr. To Sinking Fund A/c [Being amount set aside from profit for redemption of debentures]	63,440	 63,440
31.12.06	3. Sinking fund investment A/c Dr. To Bank A/c [Being 5% Govt. securities purchased out of Sinking fund]	63,440	 63,440

31.12.07 2 year	4. Bank A/c Dr. (Rs.63440x5/100) To Interest on Sinking Fund Investment [Being interest @ 5% received on Sinking fund investment]	3172	3172
31.12.07	5. Interest on Sinking fund investment A/c Dr. To Sinking Fund A/c [Being interest received on Sinking fund investment transferred to Sinking fund]	3172	3172
31.12.07	6. Profit and Loss appropriation A/c Dr. To Sinking Fund A/c [Being amount set aside from profit for redemption of debentures]	63,440	63,440

31.12.07	7. Sinking fund investment A/c Dr. (63440 + 3172) To Bank A/c [Being 5% Govt. securities purchased out of Sinking fund]	66,612	66,612
31.12.08. 3 year	8. Bank A/c Dr. (130052 x 5/100) (63440+66612) To Interest on Sinking Fund Investment A/c [Being interest received on Sinking fund investment]	6503	6503
31.12.08	9. Interest on Sinking fund investment A/c Dr. To Sinking Fund A/c [Being interest on Sinking fund investment transferred to Sinking fund]	6503	6503
31.12.08	10. Profit and appropriation A/c Dr. To Sinking Fund A/c [Being amount set aside from profit for redemption of debentures]	63,440	63,440

31.12.08	11. Bank A/c Dr. To Sinking fund investment A/c To Sinking fund A/c [Being amount received on sale of Sinking fund investment of profit]	130,200	 130,052 148
31.12.08	12. 10% Debenture A/c Dr. To Debenture holder's A/c [Being 10% debenture due for redemption]	200,000	200,000
31.12.08	13. Debenture holder's A/c Dr. To Bank A/c [Being amount paid to debenture holders]	200,000	200,000
31.12.08	14. Sinking fund A/c Dr. To General Reserve A/c [Being balance in Sinking fund transferred on redemption of debentures]	200,143	200,143

Sinking Fund Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.06	To balance c/d	63440	31.12.06	By P & L App. A/c	63440
		63440			63440
31.12.07	To balance c/d	130052	1.1.07	By balance b/d	63440
			31.12.07	By interest on SFI A/c	3172
			31.12.07	By P & L App. A/c	63440
		130052			130052
31.12.08	To General Reserve A/c (balancing figure)	200143	1.1.08	By balance b/d	130052
			31.12.08	By interest on SFI A/c	6503
			31.12.08	By P & L App. A/c	63440
			31.12.08	By sinking fund inv. A/c	148
		200143			200143

Sinking Fund Investment Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.06	To bank A/c	63440	31.12.06	By balance c/d	63440
		63440			63440
1.1.07	To balance b/d	63440	31.12.07	By balance c/d	130052
31.12.07	To bank A/c	66612			
		130052			130052
1.1.08	To balance b/d	130052	31.12.08	By bank A/c	130200
31.12.08	To Sinking fund A/c (b.f.) profit	148			
		130200			130200

Interest on Sinking Fund Investment Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.07	To sinking fund A/c	3172	31.12.07	By bank A/c	3172
		3172			3172
31.12.08	To sinking fund A/c	6503	31.12.08	By bank A/c	6503
		6503			6503

10% Debentures Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.06	To balance c/d	200000	1.1.06	By bank A/c	200000
		200000			200000
31.12.07	To balance c/d	200000	1.1.07	By balance b/d	200000
		200000			200000
31.12.08	To debenture holders A/c	200000	1.1.08	By balance b/d	200000
		200000			200000

Debenture holders Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.08	To bank A/c	200000	31.12.08	By 10% debentures A/c	200000
		200000			200000

Problem - 17 Sinking Fund Method

On 1.1.2008 Y ltd., issued 4000 12% Debentures of Rs.100 each repayable at the end of four years at a premium of 5% It has been decided to institute a Sinking Fund for the purpose, the investments being expected to realize 4% net. Sinking Fund tables show that 0.235490 amounts to Re.1 @ 4% in four years. Investments were made in multiples of hundred only.

On 31.12.2011 the balance at bank was Rs.118000 and the investments realized Rs.313600.The debentures were paid off. Give journal entries and show ledger accounts.

Date	Journal Entries	Dr.	Cr.
01.01.08	1. Bank A/c Dr. (4000 deb.x Rs.100) Loss on issue of debentures A/c Dr.(bal.fig.) To 12% Debentures A/c (4000 deb.xRs.100) To Premium on redemption of debentures A/c (Rs.400000x5/100) [Being 4000, 12% debentures of Rs.100 each issued @ 5% premium]	400000 20000	 400000 20,000
31.12.08 1 year	2. Profit and appropriation A/c Dr. To Sinking Fund A/c (Rs.420000x0.235490=98905.8) [Being amount set aside from profit for redemption of debentures]	98906	 98906
31.12.08	3. Sinking fund investment A/c Dr. To Bank A/c [Being investment made to nearest hundred rupees]	99000	 99000

31.12.09 2 year	4. Bank A/c Dr. (Rs.99000x4/100) To Interest on Sinking Fund Investment [Being interest @ 4% received on Sinking fund investment]	3960	 3960
31.12.09	5. Interest on Sinking fund investment A/c Dr. To Sinking Fund A/c [Being interest received on Sinking fund investment transferred to Sinking fund]	3960	 3960
31.12.09	6. Profit and Loss appropriation A/c Dr. To Sinking Fund A/c [Being amount set aside from profit for redemption of debentures]	98906	 98906

31.12.09	7. Sinking fund investment A/c Dr. (98906 + 3960) To Bank A/c [Being investment made to nearest hundred rupees]	102900	 102900
31.12.10 3 year	8. Bank A/c Dr. (99000+102900)x4/100 To Interest on Sinking Fund Investment A/c [Being interest received on Sinking fund investment]	8706	 8706
31.12.10	9. Interest on Sinking fund investment A/c Dr. To Sinking Fund A/c [Being interest on Sinking fund investment transferred to Sinking fund]	8706	 8706
31.12.10	10. Profit and appropriation A/c Dr. To Sinking Fund A/c [Being amount set aside from profit for redemption of debentures]	98906	 98906

31.12.10	11. Sinking fund investment A/c Dr. (98906 + 8076) To Bank A/c [Being investment made to nearest hundred rupees]	107000	107000
31.12.11 4 year	12. Bank A/c Dr. (99000+102900+107000)x4/100 To Interest on Sinking Fund Investment A/c [Being interest received on Sinking fund investment]	12356	12356
31.12.11	13. Interest on Sinking fund investment A/c Dr. To Sinking Fund A/c [Being interest on Sinking fund investment transferred to Sinking fund]	12356	12356
31.12.11	14. Profit and appropriation A/c Dr. To Sinking Fund A/c [Being amount set aside from profit for redemption of debentures]	98906	98906

31.12.11	15. Bank A/c Dr. (given in problem) To Sinking fund investment A/c [Being amount received on sale of Sinking fund investment]	313600	313600
31.12.11	16. 12% Debenture A/c Dr. Premium on redemption of debentures A/c Dr. To Debenture holder's A/c [Being 12% debenture due for redemption]	400000 20000	420000
31.12.11	17. Debenture holder's A/c Dr. To Bank A/c [Being amount paid to debenture holders]	420000	420000

31.12.11	18. Sinking fund investment A/c Dr. To Sinking fund A/c [Being profit on sale of Sinking fund investment transferred to sinking fund account]	4700	4700
31.12.11	19. Sinking Fund A/c Dr. To Loss on issue of Debentures A/c [Being loss on issue of debenture written off against sinking fund]	20000	20000
31.12.11	20. Sinking Fund A/c Dr. To General Reserve A/c [Being sinking fund balance transferred to general reserve]	404716	404716

Sinking Fund Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.08	To balance c/d	98906	31.12.08	By P & L App. A/c	98906
		98906			98906
31.12.09	To balance c/d	201772	1.1.09	By balance b/d	98906
			31.12.09	By interest on SFI A/c	3960
			31.12.09	By P & L App. A/c	98906
		201772			201772
31.12.10	To balance c/d	308754	1.1.10	By balance b/d	201772
			31.12.10	By interest on SFI A/c	8076
			31.12.10	By P & L App. A/c	98906
		308754			308754
31.12.11	To loss on issue of debentures A/c	20000	1.1.11	By balance b/d	308754
31.12.11	To General Reserve A/c (b.f.)	404716	31.12.11	By interest on SFI A/c	12306
			31.12.11	By P & L App. A/c	98906
			31.12.11	By Sinking F.I A/c - Profit	4700
		424716			424716

Sinking Fund Investment Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.08	To bank A/c	99000	31.12.08	By balance c/d	99000
		99000			99000
1.1.09	To balance b/d	99000	31.12.09	By balance c/d	201900
31.12.09	To bank A/c	102900			
		201900			201900
1.2.10	To balance b/d	201900	31.12.10	By balance c/d	308900
31.12.10	To bank A/c	107000			
		308900			308900
1.1.11	To balance b/d	308900	31.12.08	By bank A/c	313600
31.12.11	To Sinking fund A/c Profit (balancing figure)	4700			
		313600			313600

Interest on Sinking Fund Investment Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.09	To sinking fund A/c	3960	31.12.09	By bank A/c	3960
		3960			3960
31.12.10	To sinking fund A/c	8076	31.12.10	By bank A/c	8076
		8076			8076
31.12.11	To sinking fund A/c	12356	31.12.11	By bank A/c	12356
		12356			12356

Debenture holders Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.11	To bank A/c	420000	31.12.11	By 12% debentures A/c	400000
			31.12.11	By premium on redemption of debentures A/c	20000
		420000			420000

12% Debentures Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.08	To balance c/d	400000	31.12.08	By bank A/c	400000
		400000			400000
31.12.09	To balance c/d	400000	31.12.09	By balance b/d	400000
		400000			400000
31.12.10	To balance c/d	400000	31.12.10	By balance b/d	400000
		400000			400000
31.12.11	To debenture holders A/c	400000	31.12.11	By balance b/d	400000
		400000			400000

Problem - 18 Sinking Fund Method Assignment

Sai ltd., issued 6% debentures for Rs.1200000 on 1.1.2014. It was provided in the debenture trust deed that the debentures are repayable at the end of 2016 with a premium of 10%. A sinking fund was set up to provide cash for the redemption on the due date. The amounts set aside annually are to be invested in 5% government bonds. Sinking fund table shows that 0.31720856 at 5% compounded interest in 3 years will become Re.1.

Pass journal entries and write up ledger accounts. Calculations may be made to the nearest rupee.

Problem - 19 Sinking Fund Method

A ltd., had issued 2000 6% debentures of Rs.100 each on 1.1.2010.Interest was payable half yearly on 30th June and 31st December each year. They were repayable at par on 31.12.2019 with the option to redeem them at any time after 31.12.2014 at Rs.103. On 1.1.2015 the balance in the debenture redemption fund account stood at Rs.107000 which was invested outside. On 30.6.2015 a notice was given for redemption of the above debentures with the option to receive one new 9% debenture of Rs.100 each at Rs.98 and Rs.5 in cash for each 6% debentures in place of Rs.103 in cash.

The holders of 1800 debentures exercised this option and the remaining were paid cash. The company sold the investments costing Rs.72000 for Rs.87400. The company completed the redemption. Give necessary ledger accounts affected by the above transaction ignoring interest payments.

6% Debentures Account

Date	Particulars	Amount	Date	Particulars	Amount
30.06.15	To debenture holders A/c	200000	1.1.15	By balance b/d	200000
		200000			200000

Debenture holders Account

Date	Particulars	Amount	Date	Particulars	Amount
30.06.15	To 9% debentures A/c (1800 deb.xRs.98)	176400	30.06.15	By 6% debentures A/c	200000
30.06.15	To bank A/c (1800 deb. x Rs.5)	9000	30.06.15	By premium on redemption of debentures A/c (2000 deb.xRs.3) Rs.103-100=Rs.3	6000
30.06.15	To bank A/c (2000-1800 deb. = 200 debxRs.103)	20600			
		206000			206000

Debenture Redemption Fund Account

Date	Particulars	Amount	Date	Particulars	Amount
30.06.15	To premium on redemption of debentures A/c (2000 deb.xRs.3)	6000	1.1.15	By balance b/d	107000
30.06.15	To discount on issue of debentures A/c (1800 deb.xRs.2) (Rs.100- 98=Rs.2)	3600	30.06.15	By debenture redemption fund investment A/c (Rs.87400-72000)	15400
30.06.15	To General reserve A/c. (balancing figure)	112800			
		122400			122400

Premium on Redemption of Debentures Account

Date	Particulars	Amount	Date	Particulars	Amount
30.06.15	To debenture holders A/c (2000 deb.xRs.3)	6000	30.06.15	By debenture redemption fund	6000
		6000			6000

Debenture Redemption Fund Investments Account

Date	Particulars	Amount	Date	Particulars	Amount
1.1.15	To balance b/d	107000	30.06.15	By bank A/c - sale	87400
30.06.15	To debenture redemption fund A/c (profit on sale)	15400	30.06.15	By investments A/c (balancing figure)	35000
		122400			122400

9% Debentures Account

Date	Particulars	Amount	Date	Particulars	Amount
30.06.15	To balance c/d	180000	30.06.15	By debenture holders A/c	176400
			30.06.15	By discount on issue of debentures A/c(1800 deb. xRs.2)	3600
		180000			180000

Discount on issue of debentures Account

Date	Particulars	Amount	Date	Particulars	Amount
30.06.15	To 9% debentures A/c	3600	30.06.15	By debenture redemption fund A/c (transfer)	3600
		3600			3600

Problem - 20 Sinking Fund Method

Blue star ltd., Rs.400000 debenture redemption fund in its books on 31.12.2014. The fund was invested in Rs.500000 (nominal value)Port Trust Bonds. On that day, the debentures account showed a balance of Rs.1500000. The company sold Rs.300000 nominal value investments at 84% for the purpose of redeeming Rs.250000 debentures at Rs.100.50. Show ledger accounts.

Debenture Redemption Fund Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.14	To debentures holders A/c (Rs. 250000 deb.x .50/100)	1250	31.12.14	By balance b/d	400000
31.12.14	To General reserve A/c. (transfer)	250000	31.12.14	By debenture redemption fund investment A/c (transfer)	12000
31.12.14	To balance c/d (b.f.)	160750			
		412000			412000
			1.1.15	By balance b/d	160750

Debenture Redemption Fund Investments Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.14	To balance b/d	400000	31.12.14	By bank A/c – sale (Rs.300000x84/100)	252000
31.12.14	To debenture redemption fund A/c (profit on sale) Rs.252000-240000 (300000x400000/500000)	12000	31.12.14	By balance c/d (b.f.)	160000
		412000			412000
1.1.15	By balance b/d	160000			

Debentures Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.14	To debenture holders A/c	250000	31.12.14	By balance b/d	1500000
31.12.14	To balance c/d	1250000			
		1500000			1500000
			1.1.15	By balance b/d	1250000

Debenture holders Account

Date	Particulars	Amount	Date	Particulars	Amount
31.12.14	To bank A/c	251250	31.12.14	By debentures A/c	250000
			31.12.14	By debenture redemption fund A/c	1250
		251250			251250

Problem - 21 Sinking Fund Method Assignment

Shiwani Ltd. issued 10,00,000, 7 % debenture of Rs. 100 each on 1.4.2001 redeemable after four years. It has been decided to create Debenture Redemption Reserve for this purpose. The Sinking Fund Table shows that Re. 0.221926 invested in 8 % Government Securities will amount to Re. 1 in 4 years. On March 31, 2005 the balance at bank was Rs. 5,00,00,000. The debentures were redeemed according to the terms of offer document. You are required to prepare ledger accounts till the debenture are redeemed.

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