

A company issued 10,000 equity shares of Rs. 10 each at a premium of Rs. 3 per share payable Rs. 5 on application, Rs. 5 (including premium) on allotment and the balance on call. All the shares offered were applied for and allotted. All the moneys due on allotment were received except on 200 shares. Call was made. All the amount due thereon was received except on 300 shares. Directors forfeited 200 shares on which both allotment and call money was not received.

Pass the necessary journal entries to record the above and also show how this will appear in the Balance Sheet of the company.

[Madras, 1st M.Com (ICE) (PCMA) Oct. 2009]

[Marathwada, B.Com., April 1987]

**Solution:**

**Journal entries**

Date	Particulars	L.F.	Dr	Cr
			Rs.	Rs.
	Bank A/c (10,000 × Rs. 5) To Share Application A/c [Being application money received in respect of 10,000 shares @ Rs. 5 per share]	Dr	50,000	50,000
	Share Application A/c To Share capital A/c [Being application money transferred to share capital A/c]	Dr	50,000	50,000
	Share Allotment A/c To Securities premium A/c (10,000 × Rs. 3) To Share capital A/c (10,000 × Rs. 2) [Being allotment money due]	Dr	50,000	30,000 20,000
	Bank A/c To Share Allotment A/c [Being allotment money received on 9,800 shares @ Rs. 5 per share]	Dr	49,000	49,000
	Share call A/c To Share capital A/c [Being call money due on 10,000 shares @ Rs. 3 per share]	Dr	30,000	30,000

Bank A/c	Dr	29,100	
To Share call A/c			29,100
[Being call money received on 9,700 shares @ Rs. 3 per share]			
Share Capital A/c (200 × 10)	Dr	2,000	
Securities premium A/c (200 × 3)	Dr	600	
To Share Allotment A/c (200 × 5)			1,000
To Share Call A/c (200 × 3)			600
To Share forfeiture A/c (bal. fig)			1,000
[Being 200 shares forfeited for non-payment of allotment and call money]			

**Particulars to Accounts:**

<b>Share capital:</b>		
Issued capital		1,00,000
10,000 shares of Rs.10 each		
Subscribed and paid up capital:		
9,800 shares of Rs.10 each	98,000	
Calls in arrear (100 × 3)	300	
	<u>97,700</u>	
Forfeited shares a/c	1,000	98,700
<b>Reserves and surplus:</b>		
Securities premium (30,000 – 600)		29,400

**Balance sheet of ... as on...**

	Note No.	Rs.
<b>Equity and Liabilities:</b>		
(i) Shareholders' funds:		
Share capital	1	98,700
Reserves and surplus	2	29,400
(ii) Non-current liabilities		—
(iii) Current liabilities		
Total (i) + (ii) + (iii)		<u>1,28,100</u>
<b>Assets:</b>		
(i) Non-current assets:		
(ii) Current assets:		1,28,100
Cash at Bank		1,28,100
Total (i) + (ii)		<u>1,28,100</u>

Illustration 30  
A Ltd. invited applications for 10,000 shares of Rs. 100 each at a discount of 5% payable as follows:

On application	Rs. 25
On allotment	Rs. 34
On first & final call	Rs. 36

Applications were received for 9,000 shares and all of these were accepted. All moneys due were received except the first and final call on 100 shares which were forfeited. Of the forfeited shares, 50 shares were reissued at the rate of Rs. 90 as fully paid. Show necessary journal entries in the books of the company.

[Periyar, B.Com (CA) Nov.06] [Madurai B.Com, Ap. 2006] [Madras, B.Com (AF) Nov. 2009; Nov. 2008; M.Com., (ICE); Oct 2006; B.Com. Nov 2004; Ap. 2004]

**Solution:**

**Books of A Ltd.  
Journal entries**

Date	Particulars	L.F.	Dr Rs.	Cr Rs.
	Bank A/c <span style="float: right;">Dr</span> To Share Application A/c [Being application money received on 9,000 shares @ Rs. 25 per share]		2,25,000	2,25,000
	Share Application A/c <span style="float: right;">Dr</span> To Share Capital A/c [Being share application money transferred to share capital A/c]		2,25,000	2,25,000
	Share Allotment A/c <span style="float: right;">Dr</span> Discount on issue of shares A/c <span style="float: right;">Dr</span> To Share Capital A/c [Being allotment money due on 9,000 shares]		3,06,000 45,000	3,51,000
	Bank A/c <span style="float: right;">Dr</span> To Share Allotment [Being allotment money received]		3,06,000	3,06,000
	Share first & final call A/c <span style="float: right;">Dr</span> To Share Capital A/c [Being share first & final call amount due]		3,24,000	3,24,000
	Bank A/c <span style="float: right;">Dr</span> To Share first & final call A/c [Share first & final call money received for 8,900]		3,20,400	3,20,400

shares @ Rs. 36 per share]			
Share Capital A/c	Dr	10,000	
To Share first & final call A/c			3,600
To Discount on issue of shares A/c			500
To Forfeited Shares A/c			5,900
[Being 100 shares forfeited for non-payment of first & final call money due (issued previously @ 5% discount)]			
Bank A/c	Dr	4,500	
Discount on issue of shares A/c	Dr	250	
Forfeited Shares A/c	Dr	250	
To Share Capital A/c			5,000
[Being 50 forfeited shares reissued at Rs. 90 each]			
Forfeited Shares A/c	Dr	2,700	
To Capital Reserve A/c			2,700
[Being proportional amount of share forfeiture A/c transferred to capital reserve A/c]			

On 1st April 1989, ABC Ltd. issued 1,00,000 equity shares of Rs. 10 each at Rs. 12 per share payable as to Rs. 5 on application, Rs. 4 on allotment and the balance on 1st July 1989.

The lists closed on 12th April '89 by which date applications for 1,40,000 shares had been received. Of the cash received, Rs. 80,000 was returned and Rs. 1,20,000 was applied to the amount due on allotment, the balance of which was paid on 19th April 1989. All shareholders paid the call due on 1st July 1989 with the exception of one allottee for 1,000 shares. These share were forfeited on

30th Nov. 1989 and reissued as fully paid at Rs. 8 per share on 2nd January 1990.  
Pass journal entries in the books of ABC Ltd.

[Madras, 1st M.Com (Sem-CAIA) Nov. 2004]

**Solution:**

**Books of ABC Ltd.**

**Journal entries**

Date	Particulars	L.F.	Dr	Cr
			Rs.	Rs.
1989				
April 12	Bank A/c <span style="float: right;">Dr</span> To Share Application A/c [Being application money @ Rs. 5 per share on 1,40,000 shares received]		7,00,000	7,00,000
April 19	Share Application A/c <span style="float: right;">Dr</span> To Share Capital A/c [Being transfer of application money on 1,00,000 shares to share capital A/c]		5,00,000	5,00,000
"	Share Application A/c <span style="float: right;">Dr</span> To Bank A/c [Being 16,000 share applications rejected]		80,000	80,000
"	Share Application A/c <span style="float: right;">Dr</span> To Share Allotment A/c [Being 24,000 surplus application money adjusted for allotment]		1,20,000	1,20,000
"	Share Allotment A/c <span style="float: right;">Dr</span> To Share Capital A/c To Securities Premium A/c [Being allotment money due @ Rs.4 per share - Rs. 2 on allotment, Rs. 2 as premium on 1,00,000 shares]		4,00,000	2,00,000 2,00,000
"	Bank A/c <span style="float: right;">Dr</span> To Share Allotment A/c [Being receipt of the balance of allotment money]		2,80,000	2,80,000
July 1	Share Call A/c <span style="float: right;">Dr</span> To Share Capital A/c [Being call money @ Rs. 3 per share due on 1,00,000 shares]		3,00,000	3,00,000
"	Bank A/c <span style="float: right;">Dr</span> To Share Call A/c [Being receipt of call money on 99,000 shares]		2,97,000	2,97,000

1990	Nov. 30	Share Capital A/c (1,000 × 10)	Dr	10,000	
		To Share Call A/c (1,000 × 3)			3,000
		To Forfeited Shares A/c (1,000 × 7)			7,000
		[Being the forfeiture of 1,000 shares of Rs. 10 each for non-payment of call of Rs. 3 per share]			
1990	Jan. 2	Bank A/c (1,000 × 8)	Dr	8,000	
		Forfeited Shares A/c (1,000 × 2)	Dr	2,000	
		To Share Capital A/c (1,000 × 10)			10,000
		[Being all the forfeited shares reissued at Rs. 8 each]			
	"	Forfeited Shares A/c	Dr	5,000	
		To Capital Reserve A/c (7,000 – 2,000)			5,000
		[Being balance in share forfeiture A/c transferred to capital reserve A/c]			

**Illustration**  
 Ambitions Ltd. issued a prospectus, inviting applications for 2,00,000 shares of Rs. 10 each at a premium of Rs. 5 per share, payable as follows:

On application	—	Rs. 2.50 per share
On allotment	—	Rs. 7.50 per share (including premium)
On first call	—	Rs. 4.00 per share
On final call	—	Rs. 1.00 per share.

Applications were received for 3,00,000 shares and allotment was made pro-rata to the applicants of 2,40,000 shares, the remaining applications being refused. Money received in excess on the application was adjusted towards the amount due on allotment.

David, to whom 4,000 shares were allotted, failed to pay allotment money and on his failure to pay the first call, his shares were forfeited. Madan, the holder of 6,000 shares, failed to pay the two calls and so his shares were also forfeited. All these shares were sold to Robert, credited as fully paid for Rs. 8 per share:

Pass journal entries to record the above issue of shares by the company.

**Solution:**

**Ambitions Ltd.  
 Journal Entries**

Date	Particulars	L.F.	Dr	Cr
			Rs.	Rs.
	Bank A/c <span style="float: right;">Dr</span>		7,50,000	
	To Share Application A/c			7,50,000
	[Being the receipt of application money @ Rs. 2.50 on 3,00,000 shares]			



Share Application A/c	Dr	5,00,000	5,00,000
To Share Capital A/c			
[Being the transfer of share application money on 2,00,000 shares to share capital A/c]			
Share Application A/c	Dr	2,50,000	1,00,000
To Share Allotment A/c			1,50,000
To Bank A/c			
[Being the transfer of share application money on 40,000 shares @ Rs. 2.50 to share allotment A/c, and the refund to applicants of 60,000 shares to whom no shares were allotted]			
Share Allotment A/c	Dr	15,00,000	5,00,000
To Share Capital A/c			10,00,000
To Securities Premium A/c			
[Being share allotment money due]			
Bank A/c (See W. N. 1)	Dr	13,72,000	13,72,000
To Share Allotment A/c			
[Being receipt of share allotment money]			
Share first call A/c	Dr	8,00,000	8,00,000
To Share Capital A/c			
[Being first call money due @ Rs. 4 on 2,00,000 shares]			
Bank A/c	Dr	7,60,000	7,60,000
To Share first call A/c			
[Being receipt of first call money on 1,90,000 shares i.e., 2,00,000 minus shares of David and Madan]			
Share Capital A/c	Dr	36,000	
Securities Premium A/c	Dr	20,000	
To Share Allotment A/c			28,000
To Share first call A/c			16,000
To Forfeited Shares A/c			12,000
[Being forfeiture of 4,000 shares held by David for non-payment of allotment money and the first call. Share capital debited @ Rs. 9 per share called up and share premium debited @ Rs. 5 per share]			
Share final call A/c	Dr	1,96,000	
To Share Capital A/c			1,96,000
[Being final call @ Re. 1 per share due on 1,96,000 shares]			
Bank A/c	Dr	1,90,000	
To Share final call A/c			1,90,000
[Being receipt of share final call money on 1,90,000 shares]			
Share Capital A/c	Dr	60,000	
To Share first call A/c			24,000

To Share final call A/c			6,000
To Forfeited Shares A/c			30,000
[Being the forfeiture of 6,000 shares held by Madan for non-payment of two calls]			
Bank A/c			
Forfeited Shares A/c	Dr	80,000	
To Share Capital A/c	Dr	20,000	
[Being the reissue of 10,000 shares to Robert at a discount of Rs. 2 per share]			1,00,000
Forfeited Shares A/c (See W. N. 2)	Dr	22,000	
To Capital Reserve A/c			22,000
[Being transfer of net balance of share forfeiture A/c to capital reserve A/c]			

### Working notes:

#### (1) Calculation of amount received on allotment

Amount due on allotment (2,00,000 × 7.50)		Rs.
		15,00,000
Less: Surplus money on application adjusted to share allotment		1,00,000
		<u>14,00,000</u>
Less: Amount not received on 4,000 shares allotted to David:		
If allotted 2,00,000; shares applied	2,40,000	
	<u>4,800</u>	
If allotted 4,000; shares applied	4,800	
	<u>2,000</u>	
Surplus money on application 800 × 2.50	2,000	
	<u>30,000</u>	
∴ Amount due on allotment = 4,000 × 7.50	30,000	
Less: Surplus on application	2,000	28,000
	<u>13,72,000</u>	
Cash received on allotment		

#### (2) Calculation of amount transferred to capital reserve

Total forfeited money on 10,000 shares:	Rs.
For 4,000 shares forfeited from David :	12,000
For 6,000 shares forfeited from Madan :	30,000
	<u>42,000</u>
Less: Discount allowed on reissue of forfeited shares (10,000 × 2)	20,000
	<u>22,000</u>
Amount transferred to capital reserve	

### Illustration 33

Wye Ltd. issued for public subscription 20,000 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

On first call – Rs. 2 per share  
On second call – Rs. 3 per share

Applications were received for 30,000 shares. Allotment was made pro-rata to the applicants for 24,000 shares, the remaining applications were refused. Money over paid on application was utilised towards sums due on allotment.

Akbar to whom 800 shares were allotted, failed to pay allotment and calls money and Babar to whom 1,000 shares were allotted failed to pay the two calls. These shares were subsequently forfeited after the second call was made. All the forfeited shares were sold to Charles as fully paid up at Rs. 8 per share.

Show the journal entries in the books of Wye Ltd.

[Madras, B.Com (G & AF) Nov. 2010; B.Com (CS) (Old) Nov 2009;  
B.Com (ICE) Ap. 2007 B.Com., Oct. 2003 (2 Times)]

**Solution:**

**Books of Wye Ltd.  
Journal entries**

Date	Particulars	L.F.	Dr Rs.	Cr Rs.
	Bank A/c To Share Application A/c [For application money @ Rs. 2 received on 30,000 shares]	Dr	60,000	60,000
	Share Application A/c To Share Capital A/c [For application @ Rs. 2 each on 20,000 shares credited to share capital A/c]	Dr	40,000	40,000
	Share Application A/c To Share Allotment A/c To Bank A/c [For transferring application money to allotment A/c and return of rejected application money]	Dr	20,000	8,000 12,000
	Share Allotment A/c To Share Capital A/c To Securities Premium A/c [For amount due on allotment Rs. 5 (Rs. 3 for capital and Rs. 2 for premium) on 20,000 shares allotted]		1,00,000	60,000 40,000
	Bank A/c (See W. N. 1) To Share Allotment A/c [For receipt of allotment money except on Akbar's shares]	Dr	88,320	88,320
	Share first call A/c To Share Capital A/c	Dr	40,000	40,000

[For share first call money due on 20,000 shares @ Rs. 2 each]			
Bank A/c			
To Share first call A/c	Dr	36,400	
			36,400
[For receipt of first call money except on shares of Akbar and Babar]			
Share second call A/c			
To Share Capital A/c	Dr	60,000	
			60,000
[For amount due on final call @ Rs. 3 per share on 20,000 shares]			
Bank A/c			
To Share second call A/c	Dr	54,600	
			54,600
[For receipt of second call money on 18,200 shares @ Rs. 3 per share]			
Share Capital A/c (1,800 × 10)	Dr	18,000	
Securities Premium A/c (800 × 2)	Dr	1,600	
To Share Allotment A/c			3,680
To Share first call A/c (1,800 × 2)			3,600
To Share second call A/c (1,800 × 3)			5,400
To Forfeited Shares A/c (bal. fig)			6,920
[For forfeiture of 1,800 shares (both Akbar & Babar's shares) for non payment of allotment and call money]			
Bank A/c	Dr	14,400	
Forfeited shares A/c	Dr	3,600	
To Share Capital A/c			18,000
[For reissue of 1,800 forfeited shares @ Rs. 8 per share]			
Forfeited shares A/c	Dr	3,320	
To Capital Reserve A/c (6,920 – 3,600)			3,320
[For profit on reissue of 1,800 shares transferred to capital reserve]			

Working note:

<b>Calculation of amount received on allotment</b>		1,00,000
Amount due on allotment (20,000 × 5)		
Less: Surplus money on application adjusted to share allotment		8,000
		<u>92,000</u>
Less: Amount not received on 800 shares allotted to Akbar:		
If allotted 20,000; shares applied	24,000	
If allotted 800; share applied	<u>960</u>	

Super star Limited issued a prospectus inviting applications for 50,000 equity share of Rs. 10 each, payable Rs. 5 on application (including Rs. 2 as premium), Rs. 4 on allotment and the balance towards first and final call.

Applications were received for 65,000 shares. Application money received on 5,000 shares was refunded with letters of regret and allotments were made pro-rata to the applicants of 60,000 shares. Money overpaid on applications including premium was adjusted on account of sums due on allotment.

Mr. Satish to whom 700 shares were allotted failed to pay the allotment money and his shares were forfeited by the directors on his subsequent failure to pay the call money.

All the forfeited shares were subsequently sold to Mr. Jagan credited as fully paid for Rs. 9 per share.

You are required to set out the journal entries and the relevant entries in the cash book.

[Madras, B.Com (CS) (ICE) Oct. 2008]

**Solution:**

**Super star Ltd.**

**Journal entries**

Date	Particulars	L.F.	Dr Rs.	Cr Rs.
	Share Application A/c <span style="float: right;">Dr</span>		3,00,000	
	To Share Capital A/c (50,000 × Rs. 3)			1,50,000
	To Securities Premium A/c (50,000 × Rs. 2)			1,00,000
	To Share Allotment A/c (10,000 × Rs. 5)			50,000
	[Application money transferred to share capital A/c. share premium A/c and surplus to share allotment A/c]			
	Share Allotment A/c <span style="float: right;">Dr</span>		2,00,000	
	To Share Capital A/c			2,00,000
	[Amount due on allotment @ Rs. 4 per share on 50,000 shares as per board's resolution]			
	Share first and final call A/c <span style="float: right;">Dr</span>		1,50,000	
	To Share Capital A/c			1,50,000
	[Amount due on call at Rs. 3 per share on 50,000 shares as per board's resolution]			
	Share capital A/c (700 × Rs. 10) <span style="float: right;">Dr</span>		7,000	
	To Share Allotment A/c			2,100
	To Share first & final call A/c			2,100
	To Forfeited Shares A/c			2,800
	[Forfeiture of 700 shares on account on non-receipt of share allotment and first & final call]			

Forfeited Shares A/c	Dr	2,800	
To Share Capital A/c			700
To Capital Reserve A/c			2,100
[Reissue of shares at a discount of Re. 1 and the balance transferred to capital reserve]			

**Cash book (Bank column only)**

	Rs.		Rs.
To Share Application A/c (65,000 × Rs. 5)	3,25,000	By Share Application A/c (5,000 × Rs. 5)	25,000
To Share Allotment A/c (See W.N.1)	1,47,900	By Balance c/d	6,02,100
To Share first & final call A/c 1,50,000	1,47,900		
To Share Capital A/c (700 @ Rs. 9 per share)	6,300		
	<u>6,27,100</u>		<u>6,27,100</u>
To Balance b/d	6,02,100		

**Working note:**

**(1) Calculation of amount received on allotment:**

Total amount due on allotment (50,000 × Rs. 4)	Rs.	2,00,000
Less: Surplus application money adjusted:		50,000
		<u>1,50,000</u>
Less: Amount not received on 700 shares allotted to Mr. Satish: If allotted 50,000; share applied 60,000 When 700 shares allotted, No. of shares applied : 840 Excess amount received on application 140 × Rs. 5 = 700 ∴ Total amount due on allotment of 700 shares:		
	700 × Rs. 4	2,800
Less: Excess application money adjusted on allotment	700	2,100
Cash received on allotment		<u>1,47,900</u>

**Illustration 35**

Kamakshi Co. Ltd. issued a prospectus inviting applications for 50,000 shares of Rs. 10 each. These shares were issued at par on the following terms:

On application	Rs. 3
On allotment	Rs. 4
On first call	Rs. 2
On final call	Re. 1

Applications were received for 60,000 shares

Allotments were made on the following basis:

- (i) To applicants for 10,000 shares - in full
- (ii) To applicants for 20,000 shares - 15,000 shares

(iii) To applicants for 30,000 shares - 25,000 shares

All excess amount paid on application is to be adjusted against amount due on allotment.

The shares were fully called and paid up except amounts of allotment, first and final call not paid by those who applied for 2,000 shares out of the group applying for 20,000 shares.

All the shares on which calls were not paid were forfeited by the Board of Directors.

1,000 forfeited shares were reissued as fully paid on receipt of Rs. 8 per share.

Show the journal entries in the books of Kamakshi Co. Ltd.

[Madras 1st M.Com (ICCAIA) Nov 2011]

**Solution:**

**Kamakshi Co. Ltd.**

**Journal entries**

Date	Particulars	L.F.	Dr Rs.	Cr Rs.
	Bank A/c To Share Application A/c [Being the application money received on 60,000 shares @ Rs. 3 each]	Dr	1,80,000	1,80,000
	Share Application A/c To Share Capital A/c (50,000 × Rs. 3) To Share allotment A/c (10,000 × Rs. 3) [Being share application money of allotted shares transferred to capital A/c and balance transferred to share allotment A/c]	Dr	1,80,000	1,50,000 30,000
	Share Allotment A/c To Share Capital A/c [Being the allotment money due on 50,000 shares @ Rs. 4 per share]	Dr	2,00,000	2,00,000
	Bank A/c (See W. N. 1) To Share Allotment A/c [Being the receipt of allotment money]	Dr	1,65,500	1,65,500
	Share first call A/c To Share Capital A/c [Being the first call money due on 50,000 shares @ Rs. 2 per share]	Dr	1,00,000	1,00,000
	Bank A/c	Dr	97,000	

To Share first call A/c			97,000
[Being the receipt of first call money except of 1,500 shares]			
Share final call A/c	Dr	50,000	
To Share Capital A/c			50,000
[Being the final call money due on 50,000 shares @ Re. 1 per share]			
Bank A/c	Dr	48,500	
To Share final call A/c			48,500
[Being the receipt of final call money for 48,500 shares @ Re. 1 each]			
Share Capital A/c (1,500 × Rs. 10)	Dr	15,000	
To Share Allotment A/c			4,500
To Share first call A/c (1,500 × Rs. 2)			3,000
To Share final call A/c (1,500 × Re. 1)			1,500
To Forfeited Shares A/c (2,000 × Rs. 3)			6,000
[Being the forfeiture of 1,500 shares for non-payment allotment and first & final call money]			
Bank A/c (1,000 × Rs. 8)	Dr	8,000	
Forfeited Shares A/c (1,000 × Rs. 2)	Dr	2,000	
To Share Capital A/c (1,000 × Rs. 10)			10,000
[Being the reissue of 1,000 forfeited shares @ Rs. 8 per share fully paid]			
Forfeited Shares A/c (See W. N. 2)	Dr	2,000	
To Capital Reserve A/c			2,000
[Balance of share forfeiture relating to 1,000 shares transferred to capital reserve]			

### Working note:

#### (1) Calculation of amount received on allotment

	Rs.	Rs.
Total amount due on allotment		2,00,000
Less: Adjusted excess application money		30,000
		<u>1,70,000</u>
Less: Amount not received on 2,000 shares applied:		
If applied 20,000: shares allotted :	15,000	
	=====	
If applied 2,000: shares allotted : $\left(\frac{2,000}{20,000} \times 15,000\right)$	1,500	
	=====	
Excess application money received $500 \times 3 =$ Rs. 1,500		
Total amount due on allotment of 1,500 shares $1,500 \times 4 =$	6,000	
Less: Excess application money adjusted on allotment	1,500	4,500
Amount received on allotment		<u>1,65,500</u>



**(2) Calculation of amount transferred to capital reserve**

Amount received on forfeiture of 1,500 shares

∴ Proportionate amount for 1,000 shares  $\left( \frac{6,000}{1,500} \times 1,000 \right)$

Less: Discount allowed on reissue @ Rs. 2 per share

Amount transferred to capital reserve

6,000

4,000

2,000

2,000

Rs. 2

# ***Redemption of Preference Shares***

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The Balance Sheet of Exchange Ltd., as on 31-3-2009 was as follows:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
<i>Share Capital :</i>			
50,000 Equity Shares of Rs. 10 each, fully paid	5,00,000	Sundry assets	9,20,000
4,000 Redeemable Preference Shares of Rs. 100 each fully paid	4,00,000	Bank balance	6,00,000
Profit and loss A/c	5,20,000		
Creditors	1,00,000		
	<u>15,20,000</u>		<u>15,20,000</u>

On the above date, the preference shares were redeemed at a premium of 10%. You are required to pass journal entries and give the amended balance sheet.

**Exchange Ltd.  
Journal entries**

Date	Particulars	L. F.	Dr Rs.	Cr Rs.	
31.3.09	Profit & Loss A/c <span style="float: right;">Dr</span>		4,40,000		
	To Capital Redemption Reserve A/c			4,00,000	
	To Premium on Redemption of Pref. Shares A/c			40,000	
	[Being the premium provided out of profit and loss account and reserve created as per Sec. 80 of the Companies Act 1956)				
	Redeemable Preference Share Capital A/c <span style="float: right;">Dr</span>		4,00,000		
	Premium on Redemption of Preference Shares A/c <span style="float: right;">Dr</span>		40,000		
	To Redeemable Preference Shareholders A/c			4,40,000	
	[Being the amount due on redemption transferred to redeemable Preference Shareholders A/c]				
Redeemable Preference Shareholders A/c <span style="float: right;">Dr</span>		4,40,000			
To Bank A/c			4,40,000		
[Being the payment made on redemption]					

**Notes to Accounts:**

**1. Share capital:**

Issued and paid up capital  
50,000 shares of Rs.10 each 5,00,000

**2. Reserves and surplus:**

Capital redemption reserve 4,00,000  
Profit and loss a/c 80,000  
4,80,000

**3. Trade payables:**

Creditors 1,00,000

**4. Tangible assets:**

Sundry assets 9,20,000

**Balance sheet of Exchange Ltd. as on 31<sup>st</sup> Dec. 1997**

	Note No.	Rs.
<b>I. Equity and Liabilities:</b>		
(i) Shareholders' funds:		
Share capital	1	5,00,000
Reserves and surplus	2	4,80,000
(ii) Non-current liabilities		
(iii) Current liabilities		
Trade payables	3	1,00,000
Total (i) + (ii) + (iii)		<u>10,80,000</u>
<b>II. Assets:</b>		
(i) Non-current assets:		
Tangible assets	4	9,20,000
(ii) Current assets:		
Cash at Bank (6,00,000 – 4,40,000)		1,60,000
Total (i) + (ii)		<u>10,80,000</u>

**Redemption at par out of fresh issue**

**Illustration 4**

Modern Fibres Ltd., has part of its share capital as 5,000 Redeemable Preference Shares of Rs. 100 each. When the shares became due for redemption, the company decided that the whole amount will be redeemed out of a fresh issue of equal amount of equity shares of Rs. 10 each.

Show the journal entries in the books of the company.

*[Periyar, B.Com., B.Com(CA) Nov. 2005] [Madras, B.Com(CS) (BYA3A) Nov. 2011; B.Com (CS) (ICE) Oct. 2008; B.Com (CS) (SY3B) Ap. 2007]*

**Solution:**

**Modern Fibres Ltd.**

**Journal entries**

Date	Particulars	L. F.	Dr. Rs.	Cr. Rs.
	Bank A/c	Dr	5,00,000	
	To Equity Share Capital A/c			5,00,000
	[Being the issue of 50,000 equity shares of Rs. 10 each for redeeming preference shares as per Board's resolution No..... Dated.....]			
	Redeemable Preference Share Capital A/c	Dr	5,00,000	
	To Redeemable Preference Shareholders A/c			5,00,000
	[Being the amount due to Pref. Shareholders on Redemption of 5,000 Pref. shares of Rs.100 each]			
	Redeemable Preference Shareholders A/c	Dr	5,00,000	
	To Bank A/c			5,00,000
	[Being the payment of amt. due to Pref. Shareholders]			

**Redemption at par and fresh issue at premium****Illustration 7**

On 30th June 1998, the balance sheet of Sandhya Ltd., stood as follows:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Equity share capital	10,00,000	Sundry assets	14,00,000
Redeemable Pref. Share Capital	4,00,000	Bank	5,00,000
P & L A/c	3,00,000		
Sundry Creditors	2,00,000		
	<u>19,00,000</u>		<u>19,00,000</u>

On the above date, the preference shares had to be redeemed. For this purpose, 2,000 equity shares of Rs. 100 each were issued at Rs. 110. The company also issued 8% debentures totalling Rs. 3,00,000. The shares and debentures were immediately subscribed and paid for. The preference shares were duly redeemed. Give journal entries and the balance sheet after redemption.

[Thiruvalluvar B.Com., Nov/Dec. 2009]

[Madras, B.Com(CS) (BYA3A) Ap. 2010; B.Com., (PZ3A) Ap. 2008]

**Solution:**

**Sandhya Ltd.**  
**Journal Entries**

<i>Date</i>	<i>Particulars</i>	<i>L. F.</i>	<i>Dr</i>	<i>Cr</i>
			<i>Rs.</i>	<i>Rs.</i>
30.6.98	Bank A/c	Dr	5,20,000	
	To Equity Share Capital A/c			2,00,000
	To Securities Premium A/c			20,000
	To 8% Debentures A/c			3,00,000
	[Being issue of 2,000 equity shares of Rs. 100 each at a premium of Rs. 10 and Rs. 3,00,000 8% Debentures]			
"	Profit & Loss A/c	Dr	2,00,000	
	To Capital Redemption Reserve A/c			2,00,000
	[Total amount required to redeem Preference			

Redemption

Shares being Rs. 4,00,000 and amount of new shares being Rs. 2,00,000, the balance transferred to Capital Redemption Reserve Account, out of revenue profits]			
Redeemable Preference Share Capital A/c	Dr.	4,00,000	
To Redeemable Preference Shareholders A/c			4,00,000
[Being transfer of amount due to preference shareholders]			
Redeemable Preference Shareholders A/c	Dr	4,00,000	
To Bank A/c			4,00,000
[Being Redemption of Redeemable Pref. Shares]			

**Notes to Accounts:**

<b>1. Share capital:</b>	
Equity share capital	12,00,000
<b>2. Reserves and surplus:</b>	
Securities premium	20,000
Capital redemption reserve	2,00,000
Profit and loss a/c	1,00,000
	3,20,000
<b>3. Long term borrowings:</b>	
8% Debentures	3,00,000
<b>4. Trade payables:</b>	
Creditors	2,00,000
<b>5. Tangible assets:</b>	
Sundry assets	14,00,000

**Balance sheet of Sandhya Ltd. as on 31<sup>st</sup> June 1998**

	Note No.	Rs.
<b>I. Equity and Liabilities:</b>		
(i) Shareholders' funds:		
Share capital	1	12,00,000
Reserves and surplus	2	3,20,000
(ii) Non-current liabilities		
Long term borrowings	3	3,00,000
(iii) Current liabilities		
Trade payables	4	2,00,000
Total (i) + (ii) + (iii)		<u>20,20,000</u>
<b>II. Assets:</b>		
(i) Non-current assets:		
Tangible assets	5	14,00,000
(ii) Current assets:		
Cash at Bank (5,00,000 + 5,20,000 - 4,00,000)		<u>6,20,000</u>
		<u>20,20,000</u>

## Redemption at premium partly out of fresh issue of preference shares and partly out of profits

### Illustration 9

XYZ Ltd. had issued 20,000 equity shares of Rs. 100 each fully paid and 12,000 redeemable preference shares of Rs. 100 each fully paid. On 31st Dec. 1997, the Profit & Loss Account showed an undistributed profit of Rs. 2,00,000 and the General Reserve Account stood at Rs. 5,60,000.

On 1.1.1998, the directors decided to issue 6,000 9% preference shares of Rs. 100 each and to redeem the existing redeemable preference shares at Rs. 110 each utilising as less profits as possible for the purpose.

Pass necessary journal entries to record the above transactions. There was a bank balance of Rs. 8,00,000 on that date.

### Solution:

#### XYX Ltd.

#### Journal Entries

Date	Particulars	L. F.	Dr Rs.	Cr Rs.
	Bank A/c <span style="float: right;">Dr</span>		6,00,000	
	To 9% Preference Share Capital A/c			6,00,000
	[Issue of 6,000 Preference Shares of Rs. 100 each]			
	General Reserve A/c <span style="float: right;">Dr</span>		5,60,000	
	Profit & Loss A/c <span style="float: right;">Dr</span>		40,000	
	To Capital Redemption Reserve A/c			6,00,000
	[Being transfer of amount in excess of fresh issue of Preference Shares for redemption purpose]			
	Redeemable Preference Share Capital A/c <span style="float: right;">Dr</span>		12,00,000	
	Premium on Redemption of Pref. Shares A/c <span style="float: right;">Dr</span>		1,20,000	
	To Redeemable Preference Shareholders			13,20,000
	[Being amount due to Preference Shareholders on redemption]			
	Profit & Loss A/c <span style="float: right;">Dr</span>		1,20,000	
	To Premium on Redemption of Pref. Shares A/c			1,20,000
	[Being premium provided out of P & L A/c in the absence of Securities Premium A/c]			
	Redeemable Preference Shareholders A/c <span style="float: right;">Dr</span>		13,20,000	
	To Bank A/c			13,20,000
	[Being payment made to Redeemable Preference Shareholders on redemption]			



## Restriction for utilisation of P & LA/c. Balance for redemption purpose

### Illustration 12

Meenakshi Ltd. has an issued share capital of 650 7% redeemable preference shares of Rs. 100 each and 4,500 equity shares of Rs. 50 each. The preference shares are redeemable at a premium of  $7\frac{1}{2}\%$  on April 1 1992.

The company's balance sheet as on March 31 1992 was as follows:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
<i>Share Capital:</i>			
Issued 650 7% redeemable preference shares of Rs. 100 each fully paid	65,000	Fixed assets	3,45,000
4,500 equity shares of Rs. 50 each fully paid	2,25,000	Investments	18,500
Profit & Loss A/c	48,000	Balance at bank	31,000
Sundry Creditors	56,500		
	<u>3,94,500</u>		<u>3,94,500</u>

In order to facilitate the redemption of preference shares, the company decided:

- (i) To sell all the investments for Rs. 16,000
- (ii) To finance part of the redemption from company funds, subject to leaving a balance of Rs. 12,000 in the profit and loss account and
- (iii) To issue sufficient equity shares of Rs. 50 each at a premium of Rs. 13 per share to raise the balance of funds required.

The preference shares were redeemed on the due date and the issue of equity shares was fully subscribed.

You are required to prepare:

(i) The necessary journal entries to record the above transactions (including cash) and (ii) the balance sheet after completion of the redemption.

[Madras B.A. Corp. Sep. 19]

**Solution:**

**Meenakshi Ltd.**

**Journal entries**

Date	Particulars	L. F.	Dr	Cr
			Rs.	Rs.
1.4.92	Bank A/c <span style="float: right;">Dr</span>		16,000	
	Profit & Loss A/c <span style="float: right;">Dr</span>		2,500	
	To Investments A/c			18,500
	[Being sale of investments for Rs. 16,000 – Loss on sale debited to Profit & Loss A/c]			
"	Bank A/c <span style="float: right;">Dr</span>		39,690	
	To Equity Share Capital A/c			31,500
	To Securities Premium A/c			8,190
	[Being issue of 630 equity shares of Rs.50 each at a premium Rs. 13 per share vide Board Resolution dated.....]			
"	Profit & Loss A/c <span style="float: right;">Dr</span>		33,500	
	To Capital Redemption Reserve A/c			33,500
	[Being transfer out of profits an amount equal to nominal value of shares redeemed otherwise than out of proceeds of the fresh issue]			
"	7% Redeemable Preference Share Capital A/c <span style="float: right;">Dr</span>		65,000	
	Premium on Redemption A/c <span style="float: right;">Dr</span>		4,875	
	To Redeemable Preference Shareholders A/c			69,875
	[Being amount payable on redemption of 650 shares of Rs. 100 each at premium of 7½ % transferred to preference shareholders]			
"	Securities Premium A/c <span style="float: right;">Dr</span>		4,875	
	To Premium on Redemption A/c			4,875
	[Being premium payable on redemption of preference shares charged to securities premium A/c]			
"	Redeemable Preference Shareholders A/c <span style="float: right;">Dr</span>		69,875	
	To Bank A/c			69,875
	[Payment to preference shareholders on redemption at a premium of 7½ %]			

**Notes to Accounts:**

<b>1. Share capital:</b>	
Issued, subscribed and paid up capital:	
5,130 Equity shares of Rs.50 each	2,56,500
<b>2. Reserves and surplus:</b>	
Securities premium	3,315
Profit and loss a/c	12,000
Capital redemption reserve	33,500
	<u>48,815</u>
<b>3. Trade payables:</b>	
Sundry creditors	56,500
<b>4. Tangible assets:</b>	
Fixed assets	3,45,000

**Balance sheet of Meenakshi Ltd. as on 1.4.1992**

	Note No.	Rs.
<b>I. Equity and Liabilities:</b>		
(i) Shareholders' funds:		
Share capital	1	2,56,500
Reserves and surplus	2	48,815
(ii) Non-current liabilities		
Long term borrowings		
(iii) Current liabilities		
Trade payables	3	56,500
Total (i) + (ii) + (iii)		<u>3,61,815</u>
<b>II. Assets:</b>		
(i) Non-current assets:		
Tangible assets	4	3,45,000
(ii) Current assets:		
Cash at Bank		16,815
Total (i) + (ii)		<u>3,61,815</u>

## Working Notes:

## (i) Calculation of equity shares to be issued:

	Rs.	Rs.
Profit & Loss A/c balance		48,000
Less: Loss on investments to be written off	2,500	
Amount to be retained	12,000	14,500
Available for transfer to capital redemption reserve		33,500
Nominal amount of equity shares to be issued (65,000 – 33,500)		31,500

$$\text{Number of shares to be issued} = \frac{31,500}{50} = 630$$

## (ii)

## Bank A/c

	Rs.		Rs.
To Balance b/d	31,000	By Redeemable	
To Investments A/c	16,000	Pref. Shareholders A/c	69,875
To Equity Share Capital A/c	31,500	By balance c/d	16,815
To Securities Premium A/c	8,190		
	<u>86,690</u>		<u>86,690</u>
To Balance B/d	16,815		

**Unclaimed amount on preference shares redeemed or untraceable shareholders****Illustration 13**

The following is the summarised balance sheet of Bantu Ltd. as on 30th June 1996.

Liabilities	Rs.	Assets	Rs.
<b>Share Capital :</b>		Fixed Assets	2,00,000
<i>Authorised:</i>		Current assets	1,20,000
640 8% redeemable preference shares of Rs. 100 each fully paid up	64,000		
24,000 equity shares of Rs. 10 each fully paid up	<u>2,40,000</u>		
<i>Issued &amp; subscribed:</i>			
560 8% redeemable pref. shares of Rs. 100 each fully paid up	56,000		
16,800 equity shares of Rs. 10 each fully paid up	1,68,000		
Securities Premium A/c	7,000		
Profit & Loss A/c	61,000		
Creditors	28,000		
	<u>3,20,000</u>		<u>3,20,000</u>

### Illustration 15 (Minimum fresh issue of shares at premium)

The Balance sheet of LKs Co. Ltd. as on 31-3-2012 was as follows :

Liabilities	Rs.	Assets	Rs.
20,000 Equity shares of Rs. 10 each fully paid up	2,00,000	Fixed Assets	2,37,500
10% Redeemable Pref. shares of Rs. 100 each fully paidup	1,00,000	Investments	12,500
Securities premium	4,850	Current Assets	95,000
Profit & Loss A/c	60,000	Mis. Expenditure not yet written off	48,750
Current Liabilities	28,900		
	<b>3,93,750</b>		<b>3,93,750</b>

On the above date, it was decided to redeem the preference shares at a premium of 10%. The Directors wish that only the minimum number of fresh equity shares of Rs. 10 each at a premium of 5% be issued to provide for redemption of such preference shares as could not otherwise be redeemed. Give the necessary journal entries and also prepare the Balance sheet after redemption.

**Solution :**

**Working Note :**

**Computation of Minimum fresh issue of shares :**

Assuming Minimum Fresh issue as 'x'

$$\begin{array}{l} \text{Face value} \quad \text{Premium} \quad \text{Securities} \\ \text{of Red. of} + \text{Payable on} = \text{Premium} + \text{P\&L A/c} + x + 0.05x \\ \text{Shares} \quad \text{Redemption} \end{array}$$

$$1,00,000 + 10,000 = 4,850 + 60,00 + x + 0.05x$$

$$1,10,000 = 4,850 + 60,000 + x + 0.05x$$

$$1,10,000 - 4,850 - 60,000 = 1.05x$$

$$45,150 = 1.05x$$

$$x : \frac{45,150}{1.05} = \text{Rs. } 43,000$$

∴ Minimum fresh issue of shares : Rs. 43,000

(or)

$$\text{No. of shares} = \frac{\text{Rs. } 43,000}{10} = 4,300 \text{ shares.}$$

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
	Bank A/c	Dr	45,150	
	To Equity Share Capital A/c (4,300 × 10)			43,000
	To Securities Premium A/c (4,300 × 0.50)			2,150
	[Being issue of 4,300 equity shares of Rs.10 each at a premium of 5%]			
	Profit & Loss A/c	Dr	57,000	
	To Capital Redemption Reserve A/c			57,000
	[Being provision created out of P&L A/c for redemption of Preference shares as required by Sec. 80 of the Companies Act 1956, 1,00,000 – 43,000]			
	Securities Premium A/c	Dr	7,000	
	Profit & Loss A/c	Dr	3,000	
	To Premium on Redemption of Preference Shares A/c			10,000
	[Being premium payable on redemption of Preference shares provided]			
	10% Red. Preference Share Capital A/c	Dr	1,00,000	
	Premium on Redemption of Preferences Shares A/c	Dr	10,000	
	To Redeemable Preference shareholders A/c			1,10,000
	[Being amount payable on redemption of 1,000 preference shares of Rs. 100 each at 10% premium]			
	Redeemable Preference Shareholders A/c	Dr	1,10,000	
	To Bank A/c			1,10,000
	[Being payment of amount due to preference shareholders on account of redemption]			

## Notes to Accounts:

## 1. Share capital:

Paid up capital:

24,300 Equity shares of Rs.10 each

2,43,000

## 2. Reserves and surplus:

Capital redemption reserve

57,000

<b>3. Tangible assets:</b>	
Fixed assets	2,37,500
<b>4. Non- current investments:</b>	
Investments	12,500
<b>5. Other current assets:</b>	
Miscellaneous exp. not yet written off	48,750

**Balance sheet of ... as on ...**

	Note No.	Rs.
<b>I. Equity and Liabilities:</b>		
(i) Shareholders' funds:		
Share capital	1	2,43,000
Reserves and surplus	2	57,000
(ii) Non- current liabilities		
Long term borrowings		28,900
(iii) Current liabilities		
Total (i) + (ii) + (iii)		3,28,900
<b>II. Assets:</b>		
(i) Non- current assets:		
Tangible assets	3	2,37,500
Non- current investments	4	12,500
(ii) Current assets: ( 95,000 + 45,150 -1,10,000)		
Other current assets	5	48,750
Total (i) + (ii)		3,28,900

# **Issue & Redemption of Debentures**

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## ISSUE OF DEBENTURES

### Illustration 1

Timex Ltd., issued 1,000 8% debentures of Rs. 100 each. Give appropriate journal entries in the books of the company, if the debenture were issued as follows:

- (1) Issued at par, redeemable at par,
- (2) Issued at a discount of 5%, repayable at par.
- (3) Issued at a premium of 10%, repayable at par.
- (4) Issued at par, redeemable at a premium of 10%.
- (5) Issued at a discount of 5%, repayable at a premium of 10%.

You are also required to show how the items concerned appear in the Balance sheet in each of the above cases.

*[Madurai, B.Com., Ap 2003] [Madras, B.Com(CS) (SY3B) Nov. 2000  
M.Com (ICE) (PBC) Ap. 2007; 1st M.Com (CAIA), Nov. 2000]*

**Solution:**

**Books of Timex Ltd.**

### Journal

Date	Particulars	L. F.	Dr	Cr
			Rs.	Rs.
(1)	Bank A/c <span style="float: right;">Dr</span> To 8% Debentures A/c [Being issue of 1,000 debentures of Rs. 100 each at par, repayable at par]		1,00,000	1,00,000

Issue & Redemption		Particulars	L. F.	Dr	Cr
Date				Rs.	Rs.
(2)	Bank A/c	Dr		95,000	
	Discount on issue of debentures A/c	Dr		5,000	
	To 8% Debentures A/c				1,00,000
	[Being issue of 1,000 debentures of Rs. 100 each at 5% discount, repayable at par]				
(3)	Bank A/c	Dr		1,10,000	
	To 8% Debentures A/c				1,00,000
	To Securities Premium A/c				10,000
	[Being issue of 1,000 debentures of Rs. 100 each at 10% premium, repayable at par]				
(4)	Bank A/c	Dr		1,00,000	
	Loss on issue of debentures A/c	Dr		10,000	
	To 8% Debentures A/c				1,00,000
	To Premium on redemption of debentures A/c				10,000
	[Being issue of 1,000 debentures of Rs. 100 each at par, repayable at premium of 10%]				
(5)	Bank A/c	Dr		95,000	
	Discount on issue of debentures A/c	Dr		5,000	
	Loss on issue of debentures A/c	Dr		10,000	
	To 8% Debentures A/c				1,00,000
	To Premium on redemption of debentures A/c				10,000
	[Being issue of 1,000 debentures of Rs. 100 each at 5% discount, repayable at 10% premium]				

(1) Balance sheet of Timex Ltd. (includes)

	Rs.
<b>Liabilities</b>	
<i>Non – Current liabilities:</i>	
Long term borrowings:	
8% Debentures	1,00,000
	Rs.
<b>Assets</b>	
<i>Current assets:</i>	
Cash at bank	1,00,000

(2) Balance sheet of Timex Ltd. (includes)

	Rs.
<b>Liabilities</b>	
<i>Non – Current liabilities:</i>	
Long term borrowings:	
8% Debentures	1,00,000
	Rs.
<b>Assets</b>	
<i>Current assets:</i>	
Cash at bank	95,000
<i>Other current assets:</i>	
Discount on issue of debentures	5,000

- Give journal entries in the books of 'A' Co. Ltd., if
- It purchased assets of Rs. 5,00,000 and agreed to pay the price by issuing 9% debentures of Rs. 100 each at premium of 25%.
  - It purchased assets of Rs. 3,00,000 and acquired liabilities of Rs. 30,000. It issued 8% debentures of Rs. 100 each at a discount of 10% to satisfy the net purchase price.
  - It purchased assets and liabilities of a firm for Rs. 4,00,000. The assets acquired were valued at Rs. 6,00,000 and the liabilities taken over were Rs. 2,40,000. The purchased price is to be satisfied by issue of 10% debentures of Rs. 100 each at par.

**Solution:**

**Books of 'A' Co., Ltd.  
Journal entries**

Date	Particulars	L.F.	Dr Rs.	Cr Rs.
	(a) Sundry assets A/c <span style="float: right;">Dr</span>		5,00,000	
	To 9% Debentures A/c			4,00,000
	To Securities Premium A/c			1,00,000
	[Being issue of 4,000 debenture of Rs. 100 each at premium of 25% to settle the purchase price of assets]			
	(b) Assets A/c <span style="float: right;">Dr</span>		3,00,000	
	To Liabilities A/c			30,000
	To Vendors A/c			2,70,000
	[Being assets and liabilities acquired and the net amount payable to the vendors]			
	Vendor's A/c <span style="float: right;">Dr</span>		2,70,000	
	Discount on issue of debentures A/c <span style="float: right;">Dr</span>		30,000	
	To 8% Debentures A/c			3,00,000
	[Being settlement of vendors by issue of 3,000 debentures of Rs. 100 each at discount of 10%]			
	(c) Assets A/c <span style="float: right;">Dr</span>		6,00,000	
	Goodwill A/c (bal. fig) <span style="float: right;">Dr</span>		40,000	
	To Liabilities A/c			2,40,000
	To Vendors A/c			4,00,000
	[Being assets and liabilities acquired and the amount payable to vendors including goodwill]			

4.21

	Dr		4,00,000
Vendors A/c			
To 10% Debentures A/c			4,00,000
[Being payment to vendors in the form of 4,000 debentures of Rs. 100 each at par]			

**Working notes:**

(a) Purchase price Rs. 5,00,000

$$\text{Issue price of debenture} = 100 + 25 = 125$$

$$\therefore \text{No. of debentures to be issued} = \frac{5,00,000}{125} = 4,000$$

$$\text{Face value of debenture} = 4,000 \times 100 = 4,00,000$$

$$(b) \text{Purchase price} = 3,00,000 - 30,000 = 2,70,000$$

$$\text{Issue price of debentures} = 100 - 10 = 90$$

$$\therefore \text{No. of debentures to be issued} = \frac{2,70,000}{90} = 3,000$$

$$\text{Face value of debentures} = 3,000 \times 100 = 3,00,000$$

$$\text{Discount on issue of debentures} = 3,000 \times 10 = 30,000$$

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

*[Madras, B.Com (G & AF) Nov. 2011; B.Com. (A.F) Nov. 2008]*

**Solution:**

*(a) Fluctuating instalment method*

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

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

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

Statement showing discount to be written off

Year	Amount used	Ratio	Discount to be written off	Rs.
1	2,00,000	5	$12,000 \times \frac{5}{15} =$	4,000
2	1,60,000	4	$12,000 \times \frac{4}{15} =$	3,200
3	1,20,000	3	$12,000 \times \frac{3}{15} =$	2,400
4	80,000	2	$12,000 \times \frac{2}{15} =$	1,600
5	40,000	1	$12,000 \times \frac{1}{15} =$	800
		<u>15</u>		<u>12,000</u>

(b) Fixed instalment method:

Discount amount

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

Discount to be written off each year

$$= \frac{12,000}{5} = \text{Rs. } 2,400.$$

Dec. 31	Income-Tax payable A/c To Bank A/c [Being the deposit of Income-tax interest with the Govt.]	D	600
Dec. 31	Profit & Loss A/c To Debenture Interest A/c [Being the transfer of Debenture interest to P&L A/c.]	Dr	12,000

## REDEMPTION OF DEBENTURES

### *Redemption by conversion*

#### **Illustration 12**

On 1.4.1997, Rama Ltd. issued 2,500 8% debentures of Rs. 100 each at 5% discount. Holders of the debentures have 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 31.3.98, holders of 500 debentures notified their intention to exercise the option.

Show the necessary journal entries in the company's books relating to issue and conversion of the debentures. Also show how the items affected would appear in the company's Balance Sheet.

**[Madras, 1st M.Com (ICE), Oct. 2005]**

## REDEMPTION OF DEBENTURES

### *Redemption by conversion*

#### **Illustration 12**

On 1.4.1997, Rama Ltd. issued 2,500 8% debentures of Rs. 100 each at 5% discount. Holders of the debentures have 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 31.3.98, holders of 500 debentures notified their intention to exercise the option.

Show the necessary journal entries in the company's books relating to issue and conversion of the debentures. Also show how the items affected would appear in the company's Balance Sheet.

*[Madras. 1st M.Com (ICE). Oct. 2005]*



**Books of Rama Ltd.  
Journal**

Date	Particulars	L.F.	Dr	Cr
			Rs.	Rs.
1997	Bank A/c	Dr	2,37,500	
Apr. 1	Discount on issue of debentures A/c To 8% debentures A/c [Being issue of 2,500 debentures of Rs. 100 each at 5% discount]	Dr	12,500	2,50,000
1998	8% debentures A/c	Dr	50,000	
March 31	To Discount on issue of debentures To Equity share capital A/c To Securities Premium A/c [Being conversion of 500 debentures of Rs. 100 each issued at a discount of 5% into 380 equity shares of Rs. 100 each at a premium of Rs. 25 per share]			2,500 38,000 9,500

**Balance sheet of Rama Ltd. ( includes )**

Liabilities	Rs.
<b>Shareholder's funds:</b>	
<b>Share capital:</b>	
380 equity shares of Rs.100 each	38,000
<b>Reserves &amp; surplus:</b>	
Securities premium	9,500
<b>Non-current liabilities:</b>	
Long term borrowings:	
2,000 8% Debentures of Rs.100 each	2,00,000
<b>Assets</b>	Rs.
<b>Other current assets:</b>	
Discount on issue of debentures ( 12,500 – 2,500)	10,000

**Working notes: Calculation of shares to be issued**

Since conversion is not at the end of any specified period for redemption, actual cash collected on the issue of debentures alone should be converted.

Face value of 500 debentures	=	500 × 10	=	50,000
<b>Less:</b> Discount allowed at the time of issue	=	5,000 × $\frac{5}{100}$	=	2,500
Amount collected on the debentures which are to be converted				<u>47,500</u>
<b>Add:</b> Face value of equity share		Rs. 100		
Premium		25		
Issue price per share		<u>125</u>		

## Redemption in instalments

### Illustration 14

Rashid Ltd. has Rs. 10,00,000 8% debentures outstanding on 1.1.96. The company has been redeeming every year on January 1st Rs. 1,00,000 debentures by drawings by lot, at par. Give necessary journal entries:

- If the redemption is out of profits
- If the redemption is out of capital.

[Madras, B.Com (CS) (BYA3A) Ap. 2012;  
1st M.Com (CAIA-Sem) Ap. 2004

**Solution:**

- If the redemption out of profits**

**Books of Rashid Ltd.**

**Journal**

Date	Particulars	L.F.	Dr	Cr
1.1.96	8% Debentures A/c To Bank A/c [Being redemption of debentures out of profits]	Dr	Rs. 1,00,000	Rs. 1,00,000
	Profit & Loss Appropriation A/c To Debenture redemption reserve A/c [Being transfer of revenue profit to debenture redemption reserve]	Dr	1,00,000	1,00,000

(b)

If the redemption is out of capital

Books of Rashid Ltd.

Journal

Date	Particulars	L.F.	Dr Rs.	Cr Rs.
1.1.96	8% Debentures A/c To Bank A/c [Being redemption of debentures out of capital]	Dr	1,00,000	1,00,000

**Illustration 15 (Redemption out of Profits)**

G Ltd. issued 2,000 12% Debentures of Rs. 100 each on 1-1-98 at a discount of 10%, redeemable at 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).

**Solution :**

Books of G Ltd.

Journal Entries

Date	Particulars	L.F.	Dr Rs.	Cr Rs.
1998 Jan. 1	Bank A/c Discount on issue of Debentures A/c Loss on issue of Debentures A/c To 12% Debentures A/c (2,000 × 100) To Premium on Redemption of Debentures A/c [Being the issue of debentures at a discount of 10% and redeemable at 10% premium]	Dr Dr Dr	1,80,000 20,000 30,000	2,00,000 30,000
Dec. 31	12% Debentures A/c Premium on Redemption of Debentures A/c To Debentureholders A/c [Being the amount due on redemption]	Dr Dr	50,000 7,500	57,500
Dec. 31	Debentureholders A/c To Bank A/c [Being the payment made]	Dr	57,500	57,500
Dec. 31	Profit & Loss Appropriation A/c To Debenture Redemption Reserve A/c [Being the transfer of profit equal to the nominal value of debentures redeemed]	Dr	50,000	50,000

Issue & Redemption				
1999	12% Debentures A/c	Dr	50,000	
	Premium on Redemption of Debentures A/c	Dr	7,500	
	To Debentureholders A/c			57,500
	[Being the amount due on redemption]			
1999	Debentureholders A/c	Dr	57,500	
	To Bank A/c			57,500
	[Being the payment made]			
1999	Profit & Loss Appropriation A/c	Dr	50,000	
	To Debenture Redemption Reserve A/c			50,000
	[Being the transfer of Profits equal to the nominal value of debentures redeemed]			
2000	12% Debentures A/c	Dr	50,000	
Dec.31	Premium on Redemption of Debentures A/c	Dr	7,500	
	To Debentureholders A/c			57,500
	[Being the amount due on redemption]			
Dec. 31	Debentureholders A/c	Dr	57,500	
	To Bank A/c			57,500
	[Being the payment made]			
Dec. 31	Profit & Loss Appropriation A/c	Dr	50,000	
	To Debenture Redemption Reserve A/c			50,000
	[Being the transfer of Profits equal to the nominal value of debentures redeemed]			
2001	12% Debentures A/c	Dr	50,000	
Dec. 31	Premium on Redemption of Debentures A/c	Dr	7,500	
	To Debentureholders A/c			57,500
	[Being the amount due on redemption]			
Dec. 31	Debentureholders A/c	Dr	57,500	
	To Bank A/c			57,500
	[Being the payment made]			
	Profit & Loss Appropriation A/c	Dr	50,000	
	To Debenture Redemption Reserve A/c			50,000
	[Being the transfer of Profits equal to the nominal value of debentures redeemed]			
	Debenture Redemption Reserve A/c	Dr	2,00,000	
	To General Reserve A/c			2,00,000
	[Being the transfer of the balance of D.R.R. A/c to G.R.]			

## Open Market Buying Method

### Illustration 17

Krishna Ltd. which had Rs. 50,00,000 10% debentures outstanding, made following purchases in the open market for immediate cancellation:

1.4.1997 1,000 debentures of Rs. 100 each at Rs. 99

1.9.1997 2,000 debentures of Rs. 100 each at Rs. 97.

You are required to give the journal entries for purchase and cancellation the debentures.

- (a) If the above purchase rates are 'Ex-interest'  
 (b) If the above purchase rates are 'Cum-interest'. Assume that interest payable every year on 30th June and 31st December.

*[Madras, 1st M.Com., (ICCAIA) Ap. 2010; B.Com (PZ3A) Nov. 2007; B.Com., (Old) Oct. 2002]*

### Solution:

- (a) If the purchase rates given are 'ex-interest'

#### Books of Krishna Ltd.

#### Journal

Date	Particulars	L.F.	Dr	Cr
			Rs.	Rs.
1.4.97	10% Debentures A/c <span style="float: right;">Dr</span>		1,00,000	
	Debenture Interest A/c $\left(1,00,000 \times \frac{10}{100} \times \frac{3}{12}\right)$ <span style="float: right;">Dr</span>		2,500	
	To Bank A/c $(1,000 \times 99 + 2,500)$			1,01,500
	To Profit on cancellation of debentures A/c			1,000
	[Being purchase and cancellation of 1,000 debentures of Rs. 100 each at Rs. 99 ex-interest and the profit thereon]			
1.9.97	10% Debentures A/c <span style="float: right;">Dr</span>		2,00,000	
	Debenture Interest A/c $\left(2,00,000 \times \frac{10}{100} \times \frac{2}{12}\right)$ <span style="float: right;">Dr</span>		3,333	
	To Bank A/c $(2,000 \times 97 + 3,333)$			1,97,333
	To Profit on cancellation of debentures			6,000
	[Being purchase and cancellation of 2,000 own debentures of Rs. 100 each at Rs. 97 ex-interest and profit thereon]			

If the purchase rates given are 'cum-interest'

Books of Krishna Ltd.

Journal

Date	Particulars	L.F.	Dr	Cr
			Rs.	Rs.
1.4.97	10% Debentures A/c	Dr	1,00,000	
	Debenture Interest A/c $\left(1,00,000 \times \frac{10}{100} \times \frac{3}{12}\right)$	Dr	2,500	
	To Bank A/c (100 × 99)			99,000
	To Profit on cancellation of debentures [Being purchase and cancellation of 1,000 own debentures of Rs. 100 each at Rs. 99 'cum-interest' and the profit thereon]			3,500
1.9.97	10% Debentures A/c	Dr	2,00,000	
	Debenture Interest A/c $\left(2,00,000 \times \frac{10}{100} \times \frac{2}{12}\right)$	Dr	3,333	
	To Bank A/c (2,000 × 97)			1,94,000
	To Profit on cancellation of debentures A/c [Being purchase and cancellation of 2,000 own debentures of Rs. 100 each at 97 'cum-interest' and profit thereon]			9,333

Note: Profit on cancellation of debentures can be credited to capital reserve since it is a profit of capital nature

## Sinking Fund Method

### Illustration 23

On 1-1-98, Y Ltd., issues 4,000 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 realise 4% net. Sinking fund tables show that 0.235490 amounts to Rs. 1 @ 4% in four years. Investments were made in multiples of hundred only.

On 31-12-2001, the balance at bank was Rs. 1,18,000 and the investments realised Rs. 3,13,600. The debentures were paid off. Give journal entries and show ledger accounts (Except for debenture interest).

**Solution :**

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
1-1-98	Bank A/c (4,000 × 100) <span style="float: right;">Dr</span>		4,00,000	
	Loss on issue of Debentures A/c <span style="float: right;">Dr</span>		20,000	
	To 12% Debentures A/c			4,00,000
	To Premium on Redemption of Debentures A/c			20,000
	[Being the issue of 4,000 10% debentures of Rs. 100 each at Par, redeemable at a premium of 5%]			
31-12-98	Profit & Loss Appropriation A/c <span style="float: right;">Dr</span>		98,906	
	To Sinking Fund A/c (4,20,000 × 0.235490)			98,906
	[Being the annual sum required to provide for the redemption of Debentures]			
31-12-98	Sinking fund Investment A/c <span style="float: right;">Dr</span>		99,000	
	To Bank A/c			99,000
	[Being the investment made to the nearest hundred rupees]			
31-12-99	Bank A/c (99,000 × 4%)		3,960	
	To Interest on Sinking fund Investment A/c			3,960
	[Being interest received on S.F.I.]			
31-12-99	Interest on S.F. Investment A/c <span style="float: right;">Dr</span>		3,960	
	To Sinking fund A/c			3,960
	[Being the transfer of Interest on S.F. I to S.F. A/c]			

31-12-99	Profits & Loss Appropriation A/c	Dr	98,906	
	To Sinking Fund A/c			98,906
	[Being the annual sum set a side for redemption]			
"	Sinking Fund Investment A/c	Dr	1,02,900	
	To Bank A/c (98,906 + 3,960)			1,02,900
	[Being the sum invested (annual investment plus interest) to the nearest hundred rupees)			
31-12-2000	Bank A/c (99,000 + 1,02,900) × 4%	Dr	8,076	
	To Interest on S.F. Investment A/c			8,076
	[Being interest received on S.F.I.]			
"	Interest on S.F. Investment A/c	Dr	8,076	
	To Sinking Fund A/c			8,076
	[Being interest on S.F.I. transferred to S.F. A/c]			
"	Profit & Loss Appropriation A/c	Dr	98,906	
	To Sinking Fund A/c			98,906
	[Being the annual sum set aside for redemption]			
"	Sinking Fund Investment A/c	Dr	1,07,000	
	To Bank A/c (98,906 + 8,076)			1,07,000
	[Being the sum invested, the annual instalment plus interest]			
31-12-2001	Bank A/c (99,000+1,02,900+1,07,000) × 4%	Dr	12,356	
	To Interest on S.F. Investment A/c			12,356
	[Being interest received on S.F.I.]			
"	Interest on S.F. Investment A/c	Dr	12,356	
	To Sinking Fund A/c			12,356
	[Being the transfer of interest on SFI to S.F. A/c]			
"	Profit & Loss Appropriation A/c	Dr	98,906	
	To Sinking Fund A/c			98,906
	[Being the annual investment set aside for redemption]			
"	Bank A/c	Dr	3,13,600	
	To Sinking Fund Investment A/c			3,13,600
	[Being S.F. Investments sold to pay off 12% Debentures]			



31-12-2001	12% Debentures A/c	Dr	4,00,000	
	Premium on redemption of Debentures A/c	Dr	20,000	
	To Debentureholders A/c			4,20,000
	[Being the amount due to debentureholders]			
"	Debentureholders A/c	Dr	4,20,000	
	To Bank A/c			4,20,000
	[Being the payment made to debentureholders]			
"	Sinking Fund Investments A/c	Dr	4,700	
	To Sinking Fund A/c			4,700
	[Being the profit sale of S.F.I. transferred to S.F. A/c]			
"	Sinking Fund A/c	Dr	20,000	
	To Loss on issue of Debentures A/c			20,000
	[Being the Loss on issue of debentures written off against Sinking Fund]			
	Sinking Fund A/c	Dr	4,04,716	
	To General Reserve A/c			4,04,716
	[Being the Sinking Fund a/c Balance transferred to General Reserve]			

**Ledger Accounts**  
**Sinking Fund A/c**

		Rs.			Rs.
31-12-98	To Balance c/d	98,906	31-12-98	By P&L App. A/c	98,906
		<u>98,906</u>			<u>98,906</u>
31-12-99	To Balance c/d	2,01,772	1-1-99	By Balance b/d	98,906
				By Interest on S.F.I. A/c	3,960
		<u>2,01,772</u>		By PL App. A/c	98,906
					<u>2,01,772</u>
			1-1-2000	By Balance b/d	2,01,772

31-12-2000	To Balance c/d	3,08,754			4.54
				By Interest on S.F.I. A/c	8,076
				By P&L App. A/c	98,906
		3,08,754			3,08,754
31-12-2001	To Loss on issue of Debenture A/c	20,000	1-1-2001	By Balance b/d	3,08,754
				By Interest on S.F.I. A/c	12,306
"	To General Reserve A/c (Tr.)	4,04,716		By P&L App. A/c	98,906
				By Sinking Fund Investment A/c - Profit on Sale	4,700
		4,24,716			4,24,716

**Sinking Fund Investment A/c**

		Rs.			Rs.
31-12-98	To Bank A/c	99,000	31-12-98	By Balance c/d	99,000
		99,000			99,000
1-1-99	To Balance b/d	99,000	31-12-99	By Balance c/d	2,01,900
31-12-99	To Bank A/c	1,02,900			
					2,01,900
		2,01,900			
1-1-2000	To Balance b/d	2,01,900	31-12-2000	By Balance c/d	3,08,900
31-12-2000	To Bank A/c	1,07,000			
					3,08,900
		3,08,900			
1-1-2001	To Balance b/d	3,08,900	31-12-2001	By Bank A/c	3,13,600
31-12-2001	To Sinking Fund A/c - Profit on Sale (Tr.)	4,700			
					3,13,600
		3,13,600			

**Interest on Sinking Fund Investment A/c**

		Rs.			Rs.
31-12-99	To Sinking Fund A/c	3,960	31-12-99	By Bank A/c	3,960
		<u>3,960</u>			<u>3,960</u>
31-12-2000	To Sinking Fund A/c	8,076	31-12-2000	By Bank A/c	8,076
		<u>8,076</u>			<u>8,076</u>
31-12-2001	To Sinking Fund A/c	12,356	31-12-2001	By Bank A/c	12,356
		<u>12,356</u>			<u>12,356</u>

**12% Debentures A/c**

		Rs.			Rs.
31-12-98	To Balance c/d	4,00,000	1-1-98	By Bank A/c	4,00,000
		<u>4,00,000</u>			<u>4,00,000</u>
31-12-99	To Balance c/d	4,00,000	1-1-99	By Balance b/d	4,00,000
		<u>4,00,000</u>			<u>4,00,000</u>
31-12-2000	To Balance c/d	4,00,000	1-1-2000	By Balance b/d	4,00,000
		<u>4,00,000</u>			<u>4,00,000</u>
31-12-2001	To Debenture holders A/c	4,00,000	1-1-2001	By Balance b/d	4,00,000
		<u>4,00,000</u>			<u>4,00,000</u>

### Debentureholders A/c

		Rs.			Rs.
31-12-01	To Bank A/c	4,20,000	31-12-01	By 12% Debentures A/c By Premium on Redemption of Debentures A/c	4,00,000   20,000
		4,20,000			4,20,00

## Insurance Policy Method

### Illustration 29

Zil Zil Co. Ltd. issued 1,000 12% Debentures of Rs. 100 each at Par on 1-4-98, repayable at par after 3 years on 31-3-2001. The directors decided to take out an insurance policy to provide necessary cash for the redemption of the debentures. The annual premium of the policy, payable on 1st April every year was Rs. 31,410.

You are required to show the journal entries in the books of the company relating to the issue and redemption of debentures.

2,51,250

Solution :

Books of Zil Zil Ltd.

Journal Entries

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
1-4-98	Bank A/c (1,000 × 100) To 12% Debentures A/c [Allotment of 1,000 12% Debentures of Rs. 100 each]	Dr	1,00,000	1,00,000
"	Debenture Redemption Policy A/c To Bank A/c [Payment of annual premium for the policy taken out to provide cash for redemption of debentures]	Dr	31,410	31,410
31-3-99	Profit & Loss App. A/c To Debenture Redemption Fund A/c [Transfer of Profit to D.R.F. A/c]	Dr	31,410	31,410
1-4-99	Debenture Redemption Policy Ac To Bank A/c [Payment of annual premium for the Policy taken out to provide cash for redemption]	Dr	31,410	31,410
31-3-2000	Profit & Loss App. A/c To Debenture Redemption Fund A/c [Transfer of Profit to D.R.F. A/c]	Dr Dr	31,410	31,410
1-4-2000	Debenture Redemption Policy A/c To Bank A/c [Payment of annual premium for the policy taken out to provide cash for redemption]	Dr	31,410	31,410
31-3-2001	Profit & Loss App. A/c To Debenture Redemption Fund A/c [Transfer of Profit to D.R.F. A/c]	Dr	31,410	31,410
	Bank A/c To Debenture Redemption Policy A/c [Receipt of Policy amount on maturity]	Dr	1,00,000	1,00,000

Debenture Redemption Policy A/c (1,00,000 – 93,420)	Dr	5,770	
To Debenture Redemption Fund A/c			5,770
[Transfer of accumulated interest on the policy to Debenture Redemption Fund A/c]			
12% Debentures A/c	Dr	1,00,000	
To Debentureholders A/c			1,00,000
[Amount due on redemption]			
Debentureholders A/c	Dr	1,00,000	
To Bank A/c			1,00,000
[Payment made for the amount due]			
Debenture Redemption Fund A/c	Dr	1,00,000	
To General Reserve A/c			1,00,000
[Transfer of the balance of D.R.F. A/c to G.R.]			