

Debenture Redemption

Illustration 1

Jai Bhagwan Ltd. has a balance of Rs.4,00,000 in the Profit & Loss Statement. The company decided to forego the payment of dividend and utilize the profits to repay 12%, Rs.3,50,000 debentures on 30th June 2018 at a premium of 10%. Debenture interest is paid annually on 31st December every year when the accounts are closed. The company has a balance of Rs.2,00,000 in DRR.

Journalize and ignore narration.

Illustration 2

Prakash Ltd. issued Rs.10,00,000, 10% debentures on January 1, 2016. These were to be redeemed on 31st December 2018. For this purpose the company established Sinking Fund: Investments were expected to earn 5% Interest p.a. Sinking Fund table shows that 0.317208 invested annually at 5% amount to Rs.1 in 3 years On 31st December, 2018 the investment was sold for Rs.6,56,000. Interest received and investments are made in multiples of Rs.100. Journalize and ignore narration and debenture interest.

Illustration 3

The following balances appeared in the books of a company as on December 31, 2014

6% Mortgage 10,000 debentures of Rs.100 each; Debenture Redemption Reserve (for redemption of debentures) Rs.10,42,000

Investment Rs.5,28,000, 4% Government Loan purchased at par and 5,60,000 3-1/2% Government paper purchased for Rs.5,42,000

The interest on debentures had been paid up to December 31, 2010. On February 28, 2015 the investments were sold at Rs.90 and Rs.87 respectively, and the debentures were paid off at 101 together with accrued Interest.

Write the ledger accounts concerned. The Debenture Redemption Reserve is non-cumulative.

Illustration 4

Go Ltd. Issued 500, 12% Debentures of Rs.100 each at par on 1st April, 2011, repayable at par after 3 years on 31st March, 2014. The directors decided to take out an insurance policy to provide necessary cash for the redemption of the debentures. The annual premium for the policy payable on 1st April every year was Rs.15,705

You are required to show the journal entries in the books of the company

Illustration 5

Bima Ltd had issued 11% , 5,00,000 debentures of Rs.100 each redeemable on 31st March 2018 at a premium of 5%.

The company offered three options to debenture holders as under

- (i) 13% Preference shares of Rs.10 each at Rs.10.50
- (ii) 14% debentures of Rs.100 at par
- (iii) Redemption in cash

The options were accepted as under:

Option (i) by holders of 1,00,00 debentures.

Option (ii) by holders of 1,00,000 debentures

Option (iii) by holders of 3,00,000 debentures

The company carried out the redemption Pass the necessary journal entries

Illustration 6 (Purchase of debentures for immediate cancellation)

XYZ Ltd. has 5000, 10% debentures of Rs.100 each. The interest on these debentures is paid half yearly on June 30, December 31 every year. The company is not maintaining any sinking fund. On 01-04-2017, the company purchased 500 debentures at Rs95 each cum - interest for immediate cancellation. On 01-10-2017 the company purchased 600 debentures at Rs.90 each ex-interest for immediate cancellation. Journalize.

Illustration 7 (Purchase of Own Debentures as investment)

Sugandha Ltd, issued 10,000 12 % Debentures of Rs.100 each on 1st April 2016. Interest is payable on 30th September and 31st March every year. On 1st July, 2017, the company purchased 1.000 of its Own Debentures at Rs.96 ex-interest as investments. On 1st January, 2018, the company purchased 2000 of its Own Debentures at Rs96 cum interest as investment. On 31st March 2018, the company cancelled all of its Own Debentures and books closes on 31st March every year. Journalize