

COURSE: II B.COM (CA)

SEMESTER: IV

SUBJECT: Corporate Accounting

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UNIT: 2

SYLLABUS: ISSUE OF PREFERENCE SHARES AND DEBENTURES , REDEMPTION OF PREFERENCE SHARES

Proceeds of a fresh issue of share

It is clearly indicates that amount received from fresh issue of debentures or loans arranged or assets sold cannot be taken into account technically for the redemption of redeemable preference shares.

Capital redemption reserve

It is used to pay up new shares to be allotted to members as fully paid bonus shares. Reduced by means of a reduction of capital.

Redeemable preference shares

It is a type of preference shares . A company issues them to shareholders and later redeems them. This means the company can buy back the shares at a later date.

Minimum fresh issue of shares

At the time of redemption of preference shares , some companies may decide to utilize all the permissible reserves for the redemption and make new issue of shares for any balance amount required.

Preference shares

It is referred to as preferred stock , are shares of a company's stock with dividends that are paid out to shareholders before common stock are issued.

Debentures

Debentures are part of loan capital and the company is liable to pay interest thereon whether it earns profit or not. Debentures include debenture stock, bonds or any other instrument of a company evidencing a debt whether constituting a charge on the assets of the company or not.

ISSUE OF DEBENTURES: Subject to the restrictions imposed by Section 71 of the Companies Act, 2013, a company can issue debentures. Applications for debentures are invited from the public through a prospectus and the applicants are asked to pay the application money along with the applications.

Difference between debentures and shares

Points	Debentures	Shares
Capital	Debenture is a part of loan capital or borrowing	Share capital is an ownership capital.
Status	Debenture holder is creditor of company	Shareholder is the owner of the company
Income	Interest is the income on the investment in debentures	Dividend is the income on investment in shares
Charges or Appropriation	Payment of interest is charge against and is payable even if there is no profit	Payment of dividend is an appropriation of profit and not payable if there is no profit.
Voting rights	Debenture holders do not have any voting rights.	Shareholders generally enjoy the voting rights
Issue at discount	No restriction is imposed on the issue of debentures at discount	Section 53 prohibits the issue of shares at discount
Rate	Rate of interest is fixed	Rate of dividend may vary from year to year for equity shares
Convertibility	Debentures can be convertible	Equity shares can never be convertible

Issue of debentures for cash

Debentures may be issued for cash on a par, a premium or discount. When the debentures are issued for cash, the entire issue price may be received on application itself or the amount may be payable in instalments, such as on application, on allotment and balance in calls. Any premium or discount on the issue of debentures is generally recorded at the time of making allotment.

REDEMPTION OF DEBENTURES

MEANING

Redemption of debentures means repayment of loan due on debentures to the debenture holders. The terms and conditions of redemption are generally given in the prospectus. But irredeemable debentures are perpetual in nature and are redeemable on the happening of a contingency and not otherwise.

METHODS OF REDEMPTION

Redeemable debentures are redeemed either at par or at a premium and following methods of redemption are available to the company to discharge its liability

(1) Lumpsum

The redemption is made in one lumpsum at the expiry of a specified period promised as the redemption date when the debentures were issued.

(2) Annual Instalments or Draw by Lots Under this method, a certain amount of debentures is redeemed at regular intervals, say yearly, during the life of debentures. The amount of annual drawings may or may not be equal.

(3) Conversion into Shares

A company may issue convertible debentures, giving options to the debenture holders to exchange their debentures for equity shares or preference shares in the company.

(4) Purchase of Its Own Debentures In Open Market A company is entitled to purchase its own debentures in open market, i.e., through the stock exchange. When the company purchases its own debentures for immediate cancellation, it leads to automatic redemption. Own debentures may also be purchased by the company for its own investment and same may be reissued in future too.

Sources of Redemption

A company can arrange funds from the following sources

- (a) Out of capital
- (b) Out of profit
- (c) Through conversion

REDEMPTION OUT OF CAPITAL

When debentures are redeemed out of capital, no debenture redemption reserve is created out of profit of the company. Thus, the profit would not be reduced and the same can be utilized in future for the payment of dividend.

Sum No:1 K Ltd issued 75000 equity shares of Rs 10 each and 5000 12% preference shares of Rs 100 each payable as under:

	On equity shares	On preference shares
with application	2	20
on allotment	2	30
on first call	3	50
on second call	3	-

The company received applications for 1,35,000 equity shares and 4,500 preference shares Applications totalling for 10,000 equity shares were rejected, allotment on other applications for equity shares was made on pro-rata basis. All the applications for preference shares were accepted in full. Calls were made on due dates all money were duly received. Show journal entries for the

Sum No:2 (Redemption without fresh issue of shares (or) Redemption out of revenue reserves) Sympcox Ltd., issued 75,000 equity shares of Rs.10 each and 50,000 redeemable preference shares of Rs.100 each all shares being fully called and paid up on 31-03-1992. Profit & Loss account showed undistributed profit of Rs.3,00,000 and general reserve stood at Rs.2,50,000. On 1-4-1992, the directors decided to redeem the existing preference shares at Rs.105 utilising as much profit as required for the purpose. You are required to pass journal entries in the books of the company.

Sum No:3 Redemption of 20,000 preference shares of Rs.100 each was carried out by utilisation of reserves and by issue of 8,000 equity shares of Rs.100 each at Rs.125. How much should be credited to capital redemption reserve a/c?

Sum No:4

Redemption of 10,000 preference shares of Rs.100 each was carried out of reserves and out of the issue of 4,000 shares of Rs.100 each @ Rs.95. What is the amount of capital redemption reserve account that is received?

Sum No:5

The following extract from the balance sheet of Vijay Ltd. as on 31st December 1997 is given to you.

Share capital	Rs.
2,00,000 equity shares of Rs.10 each	20,00,000
2,00,000 6% redeemable preference shares of Rs.10 each	20,00,000
Capital reserve	10,00,000
General reserve	6,00,000
Profit & Loss account	17,00,000

The company exercises its option to redeem the preference shares on 1st Jan. 2010

Sum No:6

The following balances appear in the ledger of a company as on 30.06.2004:

Share capital	Rs.
Equity shares(fully paid up)	6,00,000
Redeemable preference shares(fully paid up)	3,00,000
General reserve	2,00,000
Profit and loss A/c(Cr.balance)	1,25,000
Securities premium A/c	50,000

The company decided to redeem the preference shares at a premium of 10% out of its general reserve and undistributed profits. Give journal relating to redemption of the preference shares.

Sum No:7

The following is the balance sheet of Raman company Ltd. as on 31.12.96.

Liabilities	Rs.	Assets	Rs.
Share capital:			
1000 6% Redeemable preference shares of Rs.100 each fully paid	1,00,000	Fixed assets	3,10,000
20,000 equity shares of Rs.10 each	2,00,000	Cash at bank	1,40,000
Profit & Loss A/c	1,20,000		
Sundry creditors	30,000		
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	4,50,000		4,50,000
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The company resolved to redeem its preference shares at a premium of 2% out of profits. Give necessary journal entries.

Redemption at par out of profits

Sum No:8

The following extract from the balance sheet of Gayathri Co. Ltd., as on 31st Dec. 2008, is given to you:

Share capital :	Rs.
2,00,000 equity shares of Rs.10 each	20,00,000
3,00,000 6% redeemable preference shares of Rs.10 each	30,00,000
Capital reserve	15,00,000
General reserve	9,00,000
Profit and loss a/c	25,50,000

The company exercises its option to redeem the preference shares on 1st Jan. 2009. The company has sufficient cash. Give journal entries to record the redemptions.

Sum No:9

The balance sheet of Wallace Ltd. as on 31st Dec. 2009 was as under:

Liabilities	Rs.	Assets	Rs.
Share capital			
1,000 redeemable preference shares of Rs,100 each	1,00,000	Sundry assets	3,65,000
2,000 equity shares of Rs.100 each fully paid	2,00,000	Bank balance	1,40,000
General reserve	80,000		
Profit and Loss A/c	50,000		
Sundry creditors	75,000		
	5,05,000		5,05,000

On this date, the preference shares were redeemed at par. Journalise and prepare balance sheet after redemption.

Redemption at a premium out of profits

Sum No:10

The balance sheet of Exchange Ltd., as on 31-3-2009 was as follows:

Liabilities	Rs.	Assets	Rs.
Share capital:			
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		
	15,20,000		15,20,000

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.

Sum No:11

The following balance sheet of Raj Ltd. as on 31st Dec. 2009.

Liabilities	Rs.	Assets	Rs.
Share capital:			
50,000 equity shares of Rs.10 each	5,00,000	Sundry assets	6,00,000
2,000 8% redeemable preference Shares of Rs.100 each	2,00,000	Cash at bank	4,40,000
Profit and loss a/c	2,40,000		
Sundry creditors	1,00,000		
	10,40,000		10,40,000

The company resolved to redeem its preference shares at a premium of 20% out of profits. Pass necessary journal entries and show the important ledger accounts and the company's balance sheet after completion of redemption

Redemption at par out of fresh issue

Sum No:12

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.

Sum No:13 Streling Ltd., have part of their share capital in 2,500 6% redeemable preference shares of RS.100 each. The company decided to redeem the preference shares at premium of 10%. The general reserve of the company shows the credit balance of Rs.3,00,000. The directors decided to utilise 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 year's profit and loss appropriation a/c.

Give journal entries to record the above transactions.

Redemption at a premium and fresh issue at premium

Sum No:14

A company has 10,000 9% redeemable preference shares of Rs.100 each fully paid. The company decides to redeem the shares on 31 Dec. 2004 at a premium of 10%.

The company makes the following issues:

- 6,000 equity shares of Rs.100 each at a premium of 10%
- 4,000 8% debentures of Rs.100 each

The issue was fully subscribed and allotments were made. The redemption was duly carried out. The company has sufficient profits. You are required to give the necessary entries.

Redemption at par and fresh issue at premium

Sum No:15

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

Liabilities	Rs.	Assets	Rs.
Equity share capital	10,00,000	sundry assets	14,00,000
Redeemable preference share capital	4,00,000	Bank	5,00,000
P& L a/c	3,00,000		
Sundry creditors	2,00,000		
	19,00,000		19,00,000

On the above date, the preference shares have 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 the journal entries and balance sheet after redemption.

ISSUE OF DEBENTURES

SumNo:16

Timex Lld., issued 1000 , 8%debentures of Rs.100 each. Give appropriate journal entries in the books of the company, if the debenture were issued as follows:

Issued at par, redeemable at par,

- Issued at a discount of 5%, repayable at par.
- Issued at a premium of 10%, repayable at par.
- Issued at par, redeemable at a premium of 10%.
- 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.

Sum No:17

Exel Ltd. Made the following issues of debentures on 1.4.97

1) 200 10% debentures of Rs. 100 each to settle a creditor who supplied a machine on credit some time ago at a price of Rs. 18000.

2) 300 10% debentures of Rs. 100 each for cash at a discount of 5%.

3) 1000 10% debentures of Rs. 100 each to the bankers as collateral security for a loan of Rs. 80000. All the above issues are redeemable at par. Pass journal entries to record the above in the books of the company and show how these items are to be shown when the company's balance sheet is prepared.

Sum No:18

Moon Rays Ltd. Issued 50000 8% debentures of Rs. 10 each to the public at par, to be paid Rs. 4 on application and the balance on allotment. Applications were received for 48000 debentures. Allotment was made to all the applicants and the amount due was received promptly Give journal entries to record the transaction and show how they appear in the balance sheet of the company.

Sum No:19

Earth Movers Ltd. Issued 15000 14% debentures of Rs. 100 each for public subscription, at a premium of 10% payable as to Rs. 30 on application, Rs. 50 (including premium) on allotment and the balance in one call. 25000 applications were received. 4000 applications were rejected and debentures were allotted to the remaining applicants pro-rata. Allotment amount was received from all the allotted one of whom paid then call amount due on his 1000 debentures along with allotment money. The call amount was also collected on then due date. You are required to pass necessary journal entries in the company's books.

Sum No:20

Goutham Ltd. Issued 15000 8% debentures of Rs. 100 each at a discount of 5% payable after 5 years at a premium of 5% . You are required to show : (1) journal entries at the time of issue and redemption of debentures; (2) show the "Loss on Issue of debentures A/c " over the period. journalise the following issues:

- a) A company issued 1000 ,6% debentures of Rs. 100 each at a par.
- b) A company issued 1000,6% debentures of Rs. 100 each at 10% premium .
- c) A company issued 1000,6% debentures of Rs. 100 each at 10% discount.
- d) A company issued 1000 ,6% debentures of Rs. 100 each at a par.
- e) A company issued 1000,6% debentures of Rs. 100 each at 10% premium .
- d) A company issued 1000,6% debentures of Rs. 100 each at 10% discount

Sum No:21

Prakash Ltd. issued Rs. 10,00,000, 10% debentures on January 1, 2017. These were to be redeemed on 31st December, 2019. 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, 2019 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.

Sum No:22

Go Ltd. issued 500, 12% Debentures of Rs. 100 each at par on 1st April, 2015, repayable at par after 3 years on 31st March, 2018. 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

Sum No:23

Bima Ltd. had issued 11% 5,00,000 debentures of Rs. 100 each redeemable on 31st March 2019 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 1,00,000 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.

Sum No:24.

Z ltd . redeemed Rs.10000 12% debentures, out of capital by drawing a lot and it has also redeemed Rs. 20,000 10% debentures out of profit by drawing a lot journalise.

SumNo:25

MK Ltd. Issued 4000 6% debentures of Rs. 100 each in 2000 interest payable being on 30th june and 31st December every year. On 30.9.2002, the company purchased 400 debentures at Rs. 97 ex-interest and cancelled immediately. Show journal entry for cancellation of debentures.

Sum No:26

RK Ltd. Has Rs. 50000 10% debentures on 1st January 2001. On 1.3.2002, the company purchased Rs. 10000 debentures at Rs. 98 Cum-interest. The debentures interest is payable half yearly on 30th june and 31st Dec. every year. Show journal entry for purchase and cancellation of debentures.

Sum No:27

Goodwill Ltd. Issues 1000 6% debentures Rs. 100 each. Give journal entries in each of the following cases:

- a) The debentures are issued and redeemable at par.
- b) They are issued at a discount of 6% , but redeemed at par.
- c) They are issued at a premium of 5%, but redeemed at par.
- d) They issued at a discount of 4% but are redeemable at a premium of 5%.

SumNo:28.

Zed Ltd. Issued 1000 9% debentures of Rs. 100 each payable , Rs. 20 on application and the balance on allotment. Applications were received for 1500 debentures out of which applications for 900 were allotted fully. Applicants for 400 debentures were allotted 100 debentures and the remaining were rejected. All sums due were received.

Give journal entries and show how these transaction will be reflected in the balance sheet of the company.

Sum No:29.

Narayanan & Co. Ltd., purchased assets worth Rs. 28,80,000. It issued debentures in satisfaction of the purchase price. Calculate how many debentures will be issued:

- a) In case the debentures are of Rs. 100 each and are issued at a discount of 4% and
 - b) In case the debentures are of Rs. 80 each and are issued at a premium of Rs. 10 per debenture.
- Also, pass the journal entries required for the issue of debentures.

REDEMPTION OF DEBENTURES

Sum No:30

Journalise the following transaction at the time of issue of debentures and redemption of debenture:

- a) Debenture issue at Rs. 95, repayable at Rs. 100
- b) Debenture issue at Rs. 95, repayable at Rs. 105
- c) Debenture issue at Rs. 100, repayable at Rs. 105
- d) Debenture issue at Rs. 95, repayable at Rs. 100

The face value of each debenture Rs.100.

Sum No:31.

X Ltd. Issued 5000 8% debentures of Rs. 10 each at par on 1.4.2000 which are repayable at 10% premium at the end of 4 years. Give journal entries for issue and redemption if a) The redemption is out of profits. b) The redemption is out of capital.

REDEMPTION BY CONVERSION

Sum No:32

On 1.4.1997, Rama Ltd. Issued 2500 8% debentures of Rs. 100 each at 5% discount. Holders of the debentures have option to convert their holding 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.

Sum No: 33

S Ltd. Issued Rs. 500000 10% debentures of Rs.100 each at a discount of 10%. The debentureholders have an option to convert them into equity shares of Rs. 100 each at par after the expiry of 2 years. The due date for redemption of the debentures at par is at the end of the 10th year. You are required to find out the No. of shares a debenture holder gets and also give the necessary journal entries.

- a) If he converts his 200 debentures at the end of the second year from the date of issue;
- b) If he converts his 200 debentures at the end of Tenth year, on the agreed date of the redemption.

Sum No: 34

Estern plastics Ltd. Issued fully convertible 10% debentures of Rs. 100 each for Rs. 10,00,000. The following were the terms of issue:

- a) Date of issue January 1, 1993.
 - b) 60% of the debentures issued will be converted into equity shares of Rs. 10 each at a premium of 20% on 31.12.95.
 - c) Balance of 40% of the debentures will be converted into equity shares of Rs. 10 each at a premium of Rs. 6 per share on 31.12.96.
- pass journal entries in the books of the company for conversion of the debentures.

Sum No: 35

Balaji Ltd. Issued 5000 12% debentures of Rs.100 each at a discount of 10% holders being given the right to exercise the option of converting the debentures into 15% preference shares of Rs. 100 each at a premium of 10% before the redemption date.

Holders of 1650 debentures expressed their willingness to exercise the option to convert their debentures into preference shares. Ascertain the number and amount of preference shares to be issued and give necessary journal entries for the issue and conversion of the debentures.

Sum No: 36

On 1.1. 92, 'A' Ltd. , issued 200 5% debentures of Rs. 1000 at Rs. 950 each. Debenture holders had an option to convert their holdings into 6% preference shares of Rs. 100 each at a premium of Rs. 25 per share. On 31.12.92, one year's interest had accrued on these debentures which was not paid. A holder of 20 debentures notified his intention to convert his holding into 6% preference shares. Journalise the above transaction and draw the company's balance sheet as at 31.12.92, assuming no other transaction took place.

Sum No: 37

On 1.7.91, solvents Ltd. Issued, 400 7% debentures of Rs. 1000 each at Rs.950. The debenture holders were given option to convert their holdings into 8% preference shares of Rs. 100 each at a premium of Rs.20 per share any time after 2 years. On 1.7.93, holders of 60 debentures exercised their option of conversion. Show the journal entries for issue and conversion of the debentures, ignoring interest. Also give relevant extracts from the company's balance sheet, after the conversion.

REDEMPTION IN INSTALMENTS**Sum No: 38**

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:

- a) if the redemption is out of profits

b) If the redemption is out of capital.

OPEN MARKET BUYING METHOD

Sum No: 39

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

1.4.1997 1000 debentures of Rs. 100 each at Rs. 99

1.9.1997 2000 debentures of Rs. 100 each at Rs. 97

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

If the above purchase rates are 'Ex-interest'

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

Sum No: 40

Mohith Ltd. which has Rs. 10,00,000 8% debentures of Rs. 100 each outstanding on 1.1.96 on which interest is payable on 30th June and 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 1.4.96 500 debentures at Rs. 97 ex-interest.

Give appropriate journal entries, if

The debentures were cancelled on the same day;

The debentures were retained till 1.7.96 on which date they were cancelled.

Books referred : Corporate Accounting by T.S.Reddy & Moorthy