

ACCOUNTING FOR DEBENTURES (ISSUE AND REDEMPTION OF DEBENTURES)

STUDY NOTES

- **Meaning of Debentures:**

Debenture is a written instrument acknowledging a debt under the common seal of the company. According to section 2(30) of The Companies Act, 2013 'Debenture' includes Debenture Inventory, Bonds and any other securities of a company whether constituting a charge on the assets of the company or not.

- **Meaning of Bond:**

Bond is also an instrument of acknowledgment of debt. The terms 'debentures' and 'Bonds' are now being used inter-changeably.

- **Types of Debentures:**

(From the Point of view of Security)

- **Secured Debentures:** Secured debentures refer to those debentures where a charge is created on the assets of the company for the purpose of payment in case of default. The charge may be fixed or floating.

A fixed charge is created on a specific asset whereas a floating charge is on the general assets of the company.

- **Unsecured Debentures:** Unsecured debentures do not have a specific charge on the assets of the company. However, a floating charge may be created on these debentures by default. Normally, these kinds of debentures are not issued.

From the Point of view of Tenure

- **Redeemable Debentures:** Redeemable debentures are those which are payable on the expiry of the specific period either in lump sum or in Installments during the life time of the company.
- **Irredeemable Debentures:** Irredeemable debentures also known as Perpetual Debentures are those debentures which are repayable on the winding-up of a company or on the expiry of a long period.

From the Point of view of Convertibility

- **Convertible Debentures:** Debentures which are convertible into equity shares or in any other security either at the option of the company or the debenture holders are called convertible debentures. These debentures are either fully convertible or partly convertible.
- **Non-Convertible Debentures:** The debentures which cannot be converted into shares or in any other securities are called nonconvertible debentures.

From Coupon Rate Point of view

- **Specific Coupon Rate Debentures:** These debentures are issued with a specified rate of interest, which is called the coupon rate. The specified rate may either be fixed or floating. The floating interest rate is usually tagged with the bank rate.
- **Zero Coupon Rate Debentures:** These debentures do not carry a specific rate of interest. In order to compensate the investors, such debentures are issued at substantial discount and the difference between the nominal value and the issue price is treated as the amount of interest related to the duration of the debentures.

From the view Point of Registration

- **Registered Debentures:** Registered debentures are those debentures in respect of which all details including names, addresses and particulars of holding of the debenture holders are entered in a register kept by the company.
- **Bearer Debentures:** Bearer debentures are the debentures which can be transferred by way of mere delivery and the company does not keep any record of the debentures.

Interest on debentures is paid to a person who produces the interest coupon attached to such debentures.

● **Issue of Debentures:**

Debentures can be issued at par, at a premium or at a discount. They can also be issued for consideration other than cash or as a collateral security.

➤ **Issue of Debentures for Cash:**

(a) **Issue of debentures at par**

- Debentures are said to be issued at par when their issue price is equal to the face value.

(b) **Issue of Debentures at a Discount**

- When a debenture is issued at a price below its nominal value, it is said to be issued at a discount.
- Discount on issue of debentures to be written off within 12 months of the balance sheet date or the period of operating cycle is shown under 'Other Current Assets' and the part which is to be written off after 12 months of balance sheet is shown under 'Other Non-Current Assets'.
- The Companies Act, 2013 does not impose any restrictions upon the issue of debentures at a discount.

(c) **Debentures issued at Premium:**

- A debenture is said to be issued at a premium when the price charged is more than its nominal value.
- The amount of premium is credited to Securities Premium Reserve account and is shown on the liabilities side of the balance sheet under the head "Reserves and Surplus".

➤ **Issue of Debentures for Consideration other than Cash:**

- (a) Sometimes, a company purchases assets from vendors and issues debentures for consideration thereof. Such issue of debentures is called debentures issued for consideration other than cash. Here also the debentures may be issued at par, at a premium or at a discount.
- (b) Sometimes, a company may purchase the whole business i.e., the assets as well as takeover liabilities of another concern. In such a situation, the purchase consideration will be equal to the value of net assets (Assets - Liabilities) taken over.
- (c) In case of the whole business being taken over, if the amount of debentures issued (purchase consideration) is more than the amount of the net assets taken over, the difference (excess) will be treated as value of goodwill.
- (d) But if the value of debentures (purchase consideration) is less than the value of the net assets taken over, the difference will be credited to Capital Reserve accounts.

➤ **Issue of Debentures as a Collateral Security**

- (a) A collateral security may be defined as a subsidiary or secondary or additional security along with the primary security.
- (b) When a company obtains a loan or overdraft from a bank or any other financial Institution, it may pledge or mortgage some assets as a security against the said loan. But the lending institutions may insist on additional assets as collateral security so that the amount of loan can be realised in full with the help of collateral security.
- (c) In such situation, the company may issue its own debentures to the lenders in addition to some other assets already pledged. Such an issue of debentures is known as 'Debentures issued as Collateral Security'.

- **Terms of Issue of Debentures:**

Redemption of debentures means discharge of liability on account of debentures by repayment made to the debenture holders. Debentures can be redeemed either at par or at a premium.

- (a) Issued at par and redeemable at par
- (b) Issued at discount and redeemable at par
- (c) Issued at a premium and redeemable at par
- (d) Issued at par and redeemable at a premium
- (e) Issued at a discount and redeemable at a premium
- (f) Issued at a premium and redeemable at a premium

- **Interest on Debentures:**

When a company issues debentures, it is under an obligation to pay interest thereon at fixed percentage periodically until debentures are repaid.

Interest payable is calculated at the nominal value of debentures.

Interest on debenture is a charge against the profit of the company and must be paid irrespective of profit. According to Income Tax Act, 1961, a company must deduct income tax at a prescribed rate from the interest payable on debentures. It is called Tax Deducted at Source (TDS).

- **Writing off Discount/Loss on Issue of Debentures:**

Discount or Loss on issue of debentures is a capital loss and is written-off in the year when debentures are issued. Discount or loss can be written-off from securities premium reserve.

In case, capital profit do not exist or are inadequate, the amount should be written off against revenue profits of the year.

- **Redemption of debentures:**

Redemption of debentures means repayment of the amount of debentures on due date.

There are four ways by which the debentures can be redeemed.

- (a) Payment in lump sum.
- (b) Payment in installments.
- (c) Purchase in the open market.
- (d) By conversion into shares or new debentures.

- **Sources of Redemption of debentures:**

A company may source its redemption of debentures either out of capital or out of profits or out of profit and capital. Thus, the amount required for redemption may be arranged:

- (a) From the proceeds of fresh issue of shares or debentures
- (b) Out of capital, that is redemption of debentures without the utilisation of any profits of the company.
- (c) Out of profits, if a company retains a part of divisible profits every year and utilises it for the purpose of redemption of debentures.

- **Sinking fund method:**

To meet the redemption of debentures, the company may decide to create a sinking fund and invest adequate amount in marketable securities or bonds of other business entities. Normally, a company ensures that an equal amount is set aside every year to arrange the necessary funds at the time of redemption. This is called Sinking Fund method.

- **Debenture Redemption Reserve:**

- (a) DRR is a reserve created out of profits for redeeming debentures.
- (b) As per the Act, all India financial institutions registered by Reserve Bank of India, banking companies, NFBCs registered with Reserve bank of India, Housing Finance companies registered to the National Housing bank and the companies listed on stock exchange and unlisted companies are exempted from creating Debenture Redemption Reserve and may redeem debentures out of capital.

(c) Whereas for "other unlisted companies", the adequacy of Debenture Redemption Reserve shall be 10 % of the value of the outstanding debentures.

➤ **Debenture redemption investment:**

As per Rule 18(7) of the Companies (Share Capital and Debentures) Rules, 2014, at least 15% of the nominal value of the debentures to be redeemed during the year should be invested on or before 30th April of the year in which the redemption is to be made.

QUESTION BANK

MULTIPLE CHOICE QUESTIONS

- _____ is a written instrument acknowledging a debt under the common seal of the company.
(a) Shares (b) Debentures
(c) Capital (d) Loan
- 10% debenture issued at ₹105 is repayable at ₹110, the face value of debenture being ₹100. Calculate the amount of loss on redemption of debentures:
(a) 10 (b) 5 (c) 15 (d) 25
- Which debentures are also known as perpetual debentures?
(a) Redeemable debentures (b) Irredeemable debentures
(c) Convertible debentures (d) Secured debentures
- Radha Ltd purchased assets of the book value of ₹ 2,20,000 from Sita Ltd and agreed to make the payment of purchase consideration by issuing 20,000, 10% debentures of ₹ 10 each at a premium of 10%. What will be the journal entry for issue of debentures?
(a) Sita Ltd A/c Dr. 2,20,000; To 10% Debentures A/c 2,20,000
(b) Sita Ltd A/c Dr. 2,20,000; To 10% Debentures A/c 2,00,000; To Securities Premium Reserve A/c 20,000
(c) 10% Debentures A/c Dr. 2,00,000; Securities Premium Reserve A/c Dr. 20,000; To Sita Ltd A/c 2,20,000
(d) Radha Ltd A/c Dr. 2,20,000; To 10% Debentures A/c 2,00,000; To Securities Premium Reserve A/c 20,000
- Excess value of net assets over purchase consideration at the time of purchase of business is credited to:
(a) General reserve (b) Capital reserve
(c) Vendor's account (d) Goodwill account.
- If Nimisha ltd. purchased plant worth ₹5,00,000 from Yogita ltd. but agreed to issue 5,250, 10% Debentures of ₹ 100 each to Vendor. The difference in the amount will be adjusted in _____ account.
(a) Capital reserve (b) General reserve
(c) Securities premium reserve (d) Goodwill
- A company issued 10,000, 8% debentures of ₹ 100 each at ₹ 105, redeemable at ₹120. This is the case of _____
(a) Issued at discount and redeemable at par (b) Issued at par and redeemable at premium
(c) Issued at discount and redeemable at premium (d) Issued at premium and redeemable at premium
- If Mohan Ltd issued 1,000; 10% Debentures of ₹100 each at a discount of 5% but redeemable after 4 years at a premium of 6%, loss on issue of Debentures a/c will be debited by ₹ _____.
(a) 12000 (b) 11000
(c) 10000 (d) 6000
- Kishor Ltd issued 20,000, 8% Debentures of 100 each at 10 % premium on 1st April, 2022, redeemable at a premium of 5%. ₹2, 00,000 will be credited to _____ account.
(a) Security premium reserve (b) Premium on redemption of debentures
(c) Capital reserve (d) 9 % debentures

10. Debentures which are transferable by mere delivery are
- (a) Registered debentures (b) First debentures
(c) Bearer debentures (d) Second debentures.
11. A Ltd purchased assets of the value of ₹1,90,000 from B Ltd and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of ₹ 100 each at a discount of 5%. What will be the journal entry for the issue of debentures?
- (a) B Ltd A/c Dr. 1,90,000; Discount on Issue of Debenture A/c Dr. 10,000; To 10% Debentures A/c 2,00,000
(b) A Ltd A/c Dr. 1,90,000; Discount on Issue of Debenture A/c Dr. 10,000; To 10% Debentures A/c 2,00,000
(c) B Ltd A/c Dr. 2,00,000; To 10% Debentures A/c 2,00,000
(d) B Ltd A/c Dr. 2,10,000; To 10% Debentures A/c 2,00,000; To security premium reserve A/c 10,000.
12. A company issued 7500, 10 % Debentures of ₹ 100 each for 10 years are shown in the balance sheet of the company under the head _____.
- (a) Current liability (b) Non - Current liability
(c) Reserve and surplus (d) share capital
13. R Ltd. acquired assets of ₹20,00,000 and took over creditors of ₹2,00,000 from Kaipna Enterprises. R Ltd issued 9% debentures of ₹100 each at par as purchase consideration. The amount of purchase consideration would be ₹ _____.
- (a) 18,00,000 (b) 20,00,000
(c) 22,00,000 (d) 2,00,000
14. Issue of debentures by a company for payment of assets purchased is known as issue of debentures _____.
- (a) for cash (b) as a collateral security
(c) for consideration other than cash (d) for purchase of asset
15. A company issued 1,000, 11% debentures of ₹ 100 each for 5 years, redeemable at ₹ 100 on maturity. This is the case of _____.
- (a) Issued at discount and redeemable at par
(b) Issued at par and redeemable at par
(c) Issued at discount and redeemable at premium
(d) Issued at premium and redeemable at premium
16. XYZ limited issued 4000,12% debentures of ₹100 each at a premium of 5% .the total amount of interest for one year will be:
- (a) 48,000 (b) 58,000 (c) 50,000 (d) 50,400.
17. When debentures are issued at par and redeemable at premium the loss on such an issue is debited to:
- (a) Profit and loss account (b) Debenture application and allotment account
(c) Loss on issue of debentures account (d) Discount on issue of debentures account.
18. Bharat Ltd purchased land and building worth ₹1,50,000, machinery worth ₹1,40,000 and furniture worth ₹10,000 from X Ltd and took over its liabilities of ₹20,000 for a purchase consideration of ₹3,15,000. Bharat Ltd., paid the purchase consideration by issuing 12% debentures of ₹100 each. The difference between net assets taken over and purchase consideration would be ₹ _____ debited to _____ account.
- (a) 35000, goodwill (b) 35000, Capital reserve
(c) 35000, security premium reserve (d) 35000, debenture redemption reserve
19. When debentures are issued at discount and redeemable at a premium which one of the following accounts is debited at the time of issue?
- (a) debentures account
(b) premium on redemption of debentures account
(c) loss on issue of debentures account
(d) None of these.

20. ABC took over the assets of ₹ 7,60,000 and liabilities of ₹ 80,000 of Y limited for purchase consideration of ₹ 5,85,000 payable by the issue of 12% debentures of ₹ 100 each at a discount of 10%. The number of debentures to be issued is:
- (a) 6600 (b) 6500 (c) 4500 (d) 5400
21. Premium received on issue of debentures may be utilised for writing off:
- (a) premium allowed on redemption of debentures
 (b) writing off preliminary expenses
 (c) writing off discount allowed on issue of securities
 (d) All of the above.
22. ABC limited issues 10,000, 9% debentures of 100 each at a premium of 5%, redeemed at a premium of 10%, the loss on issue of debentures account will be debited to by:
- (a) ₹10,00,000 (b) ₹1,00,000 (c) ₹10,50,000 (d) ₹1,50,000
23. _____ Debentures are also known as mortgaged debentures.
- (a) Secured debentures (b) Convertible debentures
 (c) Debentures issued as collateral (d) Irredeemable debentures
24. Sunder Ltd purchased sundry assets of ₹ 16,70,000 from Anjali Ltd and took over its liabilities of ₹2,20,000. Sunder Ltd paid the purchase consideration by issuing 10 % debentures of ₹100 each. Number of debentures issued will be _____.
- (a) 16700 debentures (b) 14500 debentures
 (c) 2200 debentures (d) 18900 debentures
25. On April 1, 2021, Z Limited issued ₹ 9,00,000, 10% debentures at a premium of 9%. In passing journal entry ₹ 81,000 will be _____.
- (a) Credited to securities premium reserve account.
 (b) Credited to premium on redemption of debentures account
 (c) Credited to Capital reserve
 (d) Credited to general reserve account
26. Dinesh Limited purchased the assets from Mahesh Limited for ₹ 7,15,000. Dinesh Limited issued 8% debentures of ₹ 100 each at 10% premium against the payment. The number of debentures received by Mahesh Limited will be :
- (a) 6,500 (b) 5,500 (c) 5,000 (d) 6,000
27. What is the nature of premium on redemption of debenture account
- (a) Real account (b) Nominal account (c) Personal account (d) Asset account
28. B Ltd purchased building worth ₹2,00,000, plant and machinery worth ₹60,000 & furniture worth ₹10,000 from A Ltd and took over its creditors of ₹20,000 for a purchase consideration of ₹ 3,50,000. B Ltd paid the purchase consideration by issuing 9% debentures of ₹10 each. What will be the journal entry for purchase of business?
- | | | | |
|-----------------------|-----|----------|----------|
| (a) Building A/c | Dr. | 2,00,000 | |
| Plant & Machinery A/c | Dr. | 60,000 | |
| Furniture A/c | Dr. | 10,000 | |
| To Creditors A/c | | | 20,000 |
| To B Ltd A/c | | | 2,50,000 |
| (b) Building A/c | Dr. | 2,00,000 | |
| Plant & Machinery A/c | Dr. | 60,000 | |
| Furniture A/c | Dr. | 10,000 | |
| Goodwill A/c | Dr. | 1,00,000 | |
| To Creditors A/c | | | 20,000 |
| To B Ltd A/c | | | 3,50,000 |

(c) Building A/c	Dr.	2,00,000	
Plant & Machinery A/c	Dr.	60,000	
Furniture A/c	Dr.	10,000	
Capital reserve A/c	Dr.	1,00,000	
To Creditors A/c			20,000
To B Ltd A/c			3,50,000
(d) Building A/c	Dr.	2,00,000	
Plant & Machinery A/c	Dr.	60,000	
Furniture A/c	Dr.	10,000	
Suspense A/c	Dr.	1,00,000	
To Creditors A/c			20,000
To B Ltd A/c			3,50,000

29. When the number of debentures applied is less than number of debentures offered to public, the issue is said to be:
- (a) Oversubscribed (b) Under subscribed
(c) Fully subscribed (d) At discount.
30. Y Limited Issued 10,000, 10% debentures of ₹ 10 each payable ₹ 4 on application and ₹ 6 on allotment. The public applied for 14,000 debentures. Applications for 9,000 debentures were accepted in full; applications for 2,000 debentures were allotted 1,000 debentures and the remaining applications, were rejected. What journal entry will be passed for transfer of debenture application to share capital?
- (a) Debenture Application A/c Dr. 56,000; To 10% Debentures A/c 40,000; To Debentures Allotment A/c 16,000
(b) Debenture application A/c Dr. 56,000; To 10 % Debentures A/c 56,000
(c) Debenture Application A/c Dr. 56,000; To 10% Debentures A/c 40,000; To Debentures Allotment A/c 4,000 To Bank A/c 12,000
(d) Debenture Application A/c Dr. 56,000; To 10% Debentures A/c 40,000; To bank A/c 16,000
31. Maximum limit on premium on issue of debentures is
- (a) 10% (b) 20%
(c) 15% (d) No limit.
32. XYZ Limited Issued 10,000, 12% debentures of ₹ 100 each payable ₹ 40 on application and ₹ 60 on allotment. The public applied for 14,000 debentures. Applications for 9,000 debentures were accepted in full; applications for 2,000 debentures were allotted 1,000 debentures and the remaining applications, were rejected. How many debentures were rejected?
- (a) 9000 debentures (b) 1000 debentures
(c) 3000 debentures (d) 10000 debentures
33. Debentures that do not carry any charge or security on assets of the company are known as:
- (a) secured debentures (b) unsecured debentures
(c) convertible debentures (d) registered debentures.
34. Mohit Ltd purchased sundry assets of ₹ 6,70,000 from Akash Ltd and took over its liabilities of ₹ 70,000. Mohit Ltd paid the purchase consideration by issuing 9 % debentures of ₹100 each at 10 % premium. Number of debentures issued will be _____.
- (a) 5454 debentures (b) 6000 debentures
(c) 6667 debentures (d) 6700 debentures
35. Debenture is _____.
- (a) Written instrument acknowledging a debt written by its holder.
(b) An oral acknowledgement of debt by a company
(c) A written instrument acknowledging a debt written by its company
(d) None of these.

36. Aryan Limited took over the assets of ₹ 3,00,000 and liabilities of ₹10,000 from B Ltd for an agreed purchase consideration of ₹ 2,70,000 to be satisfied by issue of 10 % debentures of ₹ 100 at 20% premium. In the journal entry of purchase of business, capital reserve account will be credited by ₹ _____.
- (a) 20,000 (b) 30,000
(c) 27,000 (d) Nil
37. Interest on debenture is calculated on:
- (a) its face value (b) its issue price
(c) its book value (d) its cost price
38. Urja Limited took over the assets of ₹ 30,00,000 and liabilities of ₹1,00,000 from Yamuna Ltd for an agreed purchase consideration of ₹ 27, 00, 000 to be satisfied by issue of 15% debentures of ₹ 10 each at a 20% premium. Number of debentures issued will be _____.
- (a) 250000 debentures (b) 125000 debentures
(c) 2250 debentures (d) 225000 debentures
39. On April 1, 2021, X Limited issued ₹ 9,00,000 10% debentures at a discount of 9%. In passing journal entry ₹ 81,000 will be _____.
- (a) Credited to 10 % debentures account.
(b) Debited to debenture suspense account
(c) Debited to discount on issue of debentures account.
(d) Debited to bank account
40. Debentures issued as collateral security will be _____ to debenture suspense account:
- (a) debited to (b) credited to
(c) added to (d) subtracted from
41. On April 1, 2021, Janki Ltd. Issued 80,000 convertible 9% debentures of ₹100 each at a premium of 10%. Interest is payable on 30th September and 31st March every year. Assuming that the interest is calculated from the date of issue, the amount of interest expenditure on 30th September would be ₹ _____.
- (a) ₹4,00,000 (b) ₹8,00,000 (c) ₹3,60,000 (d) ₹7,20,000
42. A Ltd took over the assets of ₹ 6,60,000 and liabilities of ₹ 80,000 of B Ltd for an agreed purchase consideration of ₹ 6,00,000 payable 10% in cash and the balance by issue of 15% debentures of ₹100 each at 10% discount. The number of debentures to be issued is:
- (a) 6600 (b) 5400 (c) 6000 (d) 4500
43. Debenture interest:
- (a) is payable only in case of profits (b) accumulates in case of losses are inadequate profits
(c) is payable irrespective of profit or loss (d) none of the above.
44. Hansh Ltd issued 50,000, 9% Debentures of 100 each at 5 % premium on 1st April, 2022, redeemable at a premium of 10%. ₹ 5,00,000 will be credited to _____ account.
- (a) Security premium reserve (b) Premium on redemption of debentures
(c) Capital reserve (d) 9 % debentures
45. Debentures issued as collateral security will be _____ account:
- (a) Debited to Statement of Profit and loss (b) Credited to statement of profit and loss
(c) Debited to debenture suspense (d) Shown on asset side of balance sheet
46. Issued 5,000, 9% debentures of ₹ 100 each at a premium of 4%, redeemable at a premium of 10%. In such case ₹ 20,000 will be credited to _____.
- (a) Premium on redemption of debentures account
(b) Capital reserve account
(c) Securities premium reserve account
(d) Statement of profit and loss

47. A Ltd took over the assets of ₹ 6,60,000 and liabilities of ₹ 80,000 of B Ltd for an agreed purchase consideration of ₹ 6,00,000 payable 10% in cash and the balance by issue of 15% debentures of ₹ 100 each at 10% discount. In the entry of purchase of business, the amount of purchase consideration will be credited to _____.
- (a) (a) Ltd (b) B. Ltd
(c) Cash account (d) 15 % debenture account
48. Kishan Ltd issued 30,000, 9% Debentures of 100 each at 10% discount on 1st April, 2022, redeemable at a premium of 10%. The amount to be debited to loss on issue of debentures account will be ₹ _____.
- (a) 3,00,000 (b) 30,00,000 (c) 6,00,000 (d) 2,70,000
49. Collateral security means _____ security:
- (a) primary (b) secondary (c) additional (d) both (b) and (c)
50. A Ltd took over the assets of ₹6,60,000 and liabilities of ₹80,000 of B Ltd for an agreed purchase consideration of ₹6,00,000 payable 10% in cash and the balance by issue of 15% debentures of ₹100 each at 10% discount. In the entry of issue of debentures, 15 % debentures will be credited by ₹ _____.
- (a) ₹ 6,50,000 (b) ₹ 5,80,000 (c) ₹ 6,00,000 (d) ₹ 60,000
51. X Limited Issued 10,000, 12% debentures of ₹100 each payable ₹40 on application and ₹60 on allotment. The public applied for 14,000 debentures. Applications for 9,000 debentures were accepted in full; applications for 2,000 debentures were allotted 1,000 debentures and the remaining applications, were rejected. What amount is received on application?
- (a) 4,00,000 (b) 5,60,000 (c) 3,60,000 (d) 1,20,000
52. Debentures issued by a company indicates the _____
- (a) Short-term Borrowings of the Company (b) Loan from shareholders of the company
(c) The Investment of Equity-Shareholders (d) Long-term Borrowings of the Company
53. Rita Ltd issued 42,000, 7% Debentures of 100 each on 1st April, 2022, redeemable at a premium of 8%. Interest on debentures on 31st March 2023 will be ₹ _____.
- (a) 2,94,000 (b) 3,36,000 (c) 6,30,000 (d) 4,20,000
54. In case of 12 % debentures issued by company, interest payable is _____
- (a) Appropriation of the company's profit
(b) Charged against the company profit
(c) Transferred to general reserve
(d) Transferred to falling fund investment account
55. Anupama Limited purchased assets of the book value of ₹ 4,00,000 from another company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of ₹ 100 each and balance in cash. What will be the journal for purchase of assets?
- (a) Sundry Assets A/c Dr. 4,00,000; To Vendors A/c 4,00,000
(b) Vendors A/c Dr. 4,00,000; To cash A/c 4,00,000
(c) Vendors 2,00,000; cash A/c 2,00,000; To Sundry assets A/c 4,00,000
(d) Sundry Assets A/c Dr. 4,00,000; To Vendors 2,00,000; To cash A/c 2,00,000
56. Which of the below-mentioned statement is false?
- (a) It is common to prefix debentures with the agreed interest rate.
(b) The issue price and redemption value of debentures cannot be different.
(c) Interest on debenture is a charge against profits.
(d) Debentures are long term borrowings.
57. Suruchi Ltd issued 40,000, 9% Debentures of 100 each at 10% discount on 1st April, 2022, redeemable at a premium of 10%. Loss on issue of debentures will be debited by ₹ _____.
- (a) 8,00,000 (b) 3,60,000
(c) 7,60,000 (d) 40,00,000

58. Debenture holders are qualified for _____
- (a) Fixed-rate interest (b) Company's voting rights
(c) Firm's Profits share (d) Fixed dividend
59. What will be the journal entry for the issue of 20,000, 9% debentures of ₹ 100 each as collateral security for bank loan of ₹ 10,00,000?
- (a) Debenture Suspense A/c Dr. 20,00,000
To 9% Debentures A/c 20,00,000
- (b) Debenture Suspense A/c Dr. 10,00,000
To 9% Debentures A/c 10,00,000
- (c) Bank A/c Dr. 10,00,000
To 9% Debentures A/c 10,00,000
- (d) Bank A/c Dr. 20,00,000
To 9% Debentures A/c 20,00,000
60. Which of the following is a false statement?
- (a) A firm can buy its own debentures and shares.
(b) A Company can issue convertible debentures.
(c) A business can issue debentures with voting rights.
(d) An organisation can issue redeemable debentures.
61. Radha Raman Company purchased assets of the book value of ₹ 2,20,000 from Sita Raman company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of ₹ 100 each at a premium of 10%. What amount will be credited to securities premium reserve account?
- (a) 2,00,000 (b) 20,000
(c) 2,20,000 (d) 22,000
62. When 10 % debentures of ₹ 1,00,000 are issued as a collateral security against a loan of ₹ 1,50,000, the entry for issue of debentures will be :
- (a) Debit Debenture Suspense A/c ₹ 1,00,000 and Credit Bank A/c ₹1,00,000
(b) Debit Debenture Suspense A/c ₹ 1,00,000 and Credit 10 % Debentures A/c ₹ 1,00,000.
(c) Debit Cash A/c ₹ 1,50,000 and Credit Bank A/c ₹ 1,50,000
(d) Credit 10 % Debentures ₹ 1,50,000 and debit bank A/c ₹ 1,50,000
63. Debentures can be redeemed _____
- (a) At par or at premium (b) At par or at discount
(c) At discount (d) At profit to company
64. Bita Ltd. obtained Loan of ₹ 2,00,000 from Bank of Baroda and issued 2500, 8% Debentures of 100 each as a collateral security. The amount of long term borrowings to be shown in the balance sheet would be ₹ _____
- (a) 2,00,000 (b) 2,50,000
(c) Nil (d) 4,50,000
65. On April 1, 2021, XY Limited issued ₹ 9,00,000 10% debentures at a discount of 9%. In passing journal entry ₹ _____ will be credited to 10 % debentures account.
- (a) 8,19,000 (b) 9,00,000 (c) 81,000 (d) 9,81,000
66. Zero Coupon Bonds are issued :
- (a) At zero Interest Rate (b) With specified rate of interest
(c) Without specified rate of interest (d) With high rate of interest
67. If Vendor is issued debentures of ₹ 4,40,000 in consideration of assets of ₹ 5,00,000 and liabilities of ₹ 1,00,000, the balance of ₹ 40,000 will be debited to:
- (a) General Reserve Account (b) Capital Reserve Account
(c) Goodwill Account (d) Statement of Profit & Loss

68. Vijay Limited purchased the assets from Bema Limited for ₹54,00,000. Vijay Limited issued 9 % debentures of ₹10 each at 10% discount against the payment. The number of debentures received by Bema Limited will be _____ debentures.
- (a) 54,000 (b) 60,000
(c) 5,40,000 (d) 6,00,000
69. The nature of Debenture Application A/c is _____
- (a) Current Account (b) Nominal Account
(c) Personal Account (d) Real Account
70. Ruchi Ltd issued 42,000, 7% Debentures of 100 each on 1st April, 2021, redeemable at a premium of 8%. Loss on issue of debentures will be debited by ₹ _____.
- (a) 336000 (b) 420000
(c) 294000 (d) Nil
71. _____ do not have a specific charge on the assets of the company. However, a floating charge may be created on these debentures by default.
- (a) Secured debentures (b) Unsecured debentures
(c) Convertible debentures (d) Redeemable debentures
72. Sun Ltd purchased a building for ₹ 5,00,000 payable as 15% in cash and balance by allotment of 10% debentures of ₹ 100 each at a premium of 25%. Number of debentures issued will be :
- (a) 4,250 (b) 4,000 (c) 5,000 (d) 3,400
73. Which of the following statements is false?
- (a) At maturity, debenture holders get back their money.
(b) Debentures can be forfeited for non-payment of call money.
(c) In company's balance sheet, debentures are shown under the head Long term Borrowings.
(d) Interest on debentures is a charge against profits.
74. A company issued 15,000, 9% debentures of ₹ 100 each, redeemable at ₹ 105. This is the case of _____
- (a) Issued at discount and redeemable at par
(b) Issued at par and redeemable at premium
(c) Issued at discount and redeemable at premium
(d) Issued at premium and redeemable at premium
75. Alfa Ltd. obtained Loan of ₹ 10,00,000 from Indian Bank and issued 22000, 9% Debentures of 100 each as Collateral security. The amount of debentures to be shown in the balance sheet under the head long term borrowings would be ₹ _____.
- (a) 10,00,000 (b) 22,00,000
(c) Nil (d) 12,00,000
76. On issue of 9% debentures of ₹ 6,00,000 as a collateral security for bank loan of ₹ 5,00,000; which account is credited?
- (a) 9% Debentures Account (b) Bank Loan Account
(c) Debenture Holdings Account (d) Debenture Suspense Account
77. K K Limited obtained a loan of ₹ 10,00,000 from State Bank of India @ 9% interest. The company issued ₹ 15,00,000, 9% debentures of ₹ 100/- each, in favour of State Bank of India as collateral security. Debenture suspense account will be debited by ₹ _____.
- (a) 10,00,000 (b) 15,00,000
(c) 1,35,000 (d) 25,00,000
78. When a company is liquidated, the debenture holders have a prior right for _____
- (a) Interest on debentures payable (b) Principal amount of debentures
(c) Both principal and interest of debentures (d) None of these

79. M Ltd. issued ₹ 1,00,000, 12% Debentures of ₹ 100 each at a premium of 5% redeemable at a premium of 2%. What will be the journal entry for the same?

- | | | |
|------------------------------------|----------|----------|
| (a) Bank A/c Dr. | 1,05,000 | |
| Loss on Issue of Debenture A/c Dr | 2,000 | |
| To 12% Debenture A/c | | 1,00,000 |
| To Security Premium Reserve | | 5,000 |
| To Premium on Redemption A/c | | 2,000 |
| (b) Bank A/c Dr. | 1,07,000 | |
| To 12% Debenture A/c | | 1,07,000 |
| (c) Bank A/c Dr. | 1,05,000 | |
| Loss on Issue of Debenture A/c Dr. | 2,000 | |
| To 12% Debenture A/c | | 1,00,000 |
| To Security Premium Reserve | | 7,000 |
| (d) Bank A/c Dr. | 1,05,000 | |
| To 12% Debenture A/c | | 1,00,000 |
| To security Premium A/c | | 5,000 |

80. What will be the journal entry for the issue of 12 % Debentures at a discount of 10% to a vendor of machinery for payment of ₹ 9,00,000?

- | | | |
|--|-----------|-----------|
| (a) Vendor A/c Dr. | 9,00,000 | |
| Discount on issue of Debenture A/c Dr. | 1,00,000 | |
| To 12% Debenture | | 10,00,000 |
| (b) Vendor A/c Dr. | 9,00,000 | |
| To 12% Debenture | | 9,00,000 |
| (c) 12 % debenture A/c Dr. | 9,00,000 | |
| To vendor A/c | | 9,00,000 |
| (d) Vendor A/c Dr. | 10,00,000 | |
| To 12% Debenture | | 9,00,000 |
| To Security premium reserve A/c | | 1,00,000 |

81. Debentures of a Company can be issued

- | | |
|------------------------------|---------------------------------------|
| (a) For Cash | (b) For Consideration other than Cash |
| (c) As a Collateral Security | (d) All the above |

82. Lokesh Ltd. has issued 15,000, 9% debentures of ₹20 each at a discount of ₹ 6 per debenture on October 01, 2019. The company has a balance of ₹1,00,000 in securities premium reserve account on the same date. What will be the journal entry to write off discount on issue of debentures?

- | | | |
|--|--------|--------|
| (a) Debenture redemption Reserve A/c Dr. | 90,000 | |
| To Discount on Issue of Debenture A/c | | 90,000 |
| (b) Statement of profit and loss Dr. | 90,000 | |
| To Discount on Issue of Debenture A/c | | 90,000 |
| (c) Securities Premium Reserve A/c Dr. | 45,000 | |
| Statement of profit and loss Dr. | 45,000 | |
| To Discount on Issue of Debenture A/c | | 90,000 |
| (d) Securities Premium Reserve A/c Dr. | 90,000 | |
| To Discount on Issue of Debenture A/c | | 90,000 |

83. Loss on Issue of Debentures is written off

- | | |
|---|---|
| (a) In the year of the issue of debentures | (b) During the life of the debentures |
| (c) Within 3 years of the issue of debentures | (d) In the year of redemption of debentures |

84. Girish Ltd has equity capital of ₹ 85,00,000; 10% preference share capital of ₹ 46,00,000 and 9 % debentures of ₹ 60,0000. Company got liquidated on 31st March 2020. On liquidation of a company, _____ amount will be paid first.
- (a) Preference share capital ₹46,00,000 (b) Equity share capital ₹85,00,000
(c) 9% debentures ₹60,00,000 (d) Dividend on equity shares capital
85. Discount on issue of Debentures ₹6,00,000 is in the nature of _____
- (a) Revenue loss (b) Capital loss
(c) Deferred Revenue Expenditure (d) Revenue profit
86. On 1st April 2020, Moon Limited issued 5,000, 9% debentures of ₹ 100 each at a discount of 10 %. What will be the total amount of interest on debentures for the year ending 31st March 2021?
- (a) 50,000 (b) 54,000 (c) 40,000 (d) 45,000
87. If Vendor of machine is issued debentures of ₹ 80,000 in consideration of net assets of ₹ 1,00,000, the balance of ₹ 20,000 will be credited to :
- (a) Statement of Profit & Loss (b) Goodwill Account
(c) General Reserve Account (d) Capital Reserve Account
88. Universe Ltd. issues 20,000, 10% debentures of ₹ 100 each redeemable at the end of five years at a premium of 6%. For what amount 'Loss on Issue of Debentures Account' will be debited?
- (a) 1,00,000 (b) 1,20,000
(c) 2,00,000 (d) 3,20,000
89. Interest on debentures issued as a collateral security is paid on :
- (a) Nominal value of debentures (b) No interest is paid on such debentures
(c) Face value of debentures (d) Paid up value of debentures
90. Shiva Ltd invited applications for issuing 6000, 12% debentures of ₹100 each at a premium of ₹50 per debenture. The full amount was payable on application. Applications were received for 7,000 debentures. Applications for 1,000 debentures were rejected and application money was refunded. Debentures were allotted to the remaining applicants. The amount of refund to debenture applications rejected would be ₹ _____.
- (a) 1,50,000 (b) 6,00,000 (c) 3,00,000 (d) 3,60,000
91. Issued 5,000, 9% debentures of ₹ 100 each at ₹ 95, redeemable at ₹105. This is the case of _____
- (a) Issued at discount and redeemable at par (b) Issued at par and redeemable at premium
(c) Issued at discount and redeemable at premium (d) Issued at premium and redeemable at premium
92. When debentures are to be redeemed at premium an extra entry has to be made at the time of issue of debentures, which account should be credited for this premium?
- (a) Loss on issue of debentures A/c (b) Premium on redemption of debentures A/c
(c) Cash / Bank a/c (d) Debenture holders A/c
93. Issued 5,000, 10% debentures of ₹100 each at a discount of 2%, redeemable at a premium of 5%. In such case :
- (a) Loss on Issue of debentures will be credited by ₹10,000.
(b) Loss on Issue of debentures will be debited by ₹ 35,000.
(c) Premium on Redemption of debentures will be debited by ₹ 25,000.
(d) Premium on Redemption of debentures will be credited by ₹ 35,000.
94. XYZ Ltd purchased machinery for ₹ 5,50,000 from YQR Ltd. ₹ 55,000 were paid by XYZ Ltd in cash and the balance was paid by issue of 9% debentures of ₹ 1,000 each at 10% premium. How many debentures YQR Ltd received?
- (a) 550 (b) 450 (c) 555 (d) 495
95. Premium on Redemption of Debentures Account is :
- (a) Personal Account (b) Real Account
(c) Nominal Account (d) Liability account

96. Issued 4,000, 12% debentures of ₹ 100 each at a premium of 4%, redeemable at a premium of 10%. In such case _____.
- (a) Loss on Issue will be debited by ₹ 24,000
 (b) Loss on Issue will be debited by ₹ 56,000
 (c) Loss on Issue will be debited by ₹ 40,000
 (d) Premium on Redemption will be credited by ₹ 24,000
97. Discount on Issue of Debentures is restricted to
- (a) 20% (b) 25%
 (c) 10% (d) None of the above
98. The following general entry appears in the book of Harish Ltd.
- | | | |
|--|----------|----------|
| Bank A/c Dr. | 4,75,000 | |
| Loss on Issue of Debentures A/c Dr. | 75,000 | |
| To 9% Debentures A/c | | 5,00,000 |
| To Premium on Redemption of Debentures A/c | | 50,000 |
- Harish Ltd. has issued debentures at a discount of _____
- (a) 15% (b) 5% (c) 10% (d) 20%
99. Rekha Ltd. Purchases assets worth ₹28,80,000 from Bacchan Ltd. and issued Debentures of ₹100 each at a discount of 4% in full satisfaction of the purchase consideration. The number of Debentures issued to Bacchan Ltd is:
- (a) 30,000 (b) 28,800
 (c) 32,000 (d) 40,000
100. Loss on issue of debentures is treated as _____ in the balance sheet of the company.
- (a) Intangible Assets (b) Current Assets
 (c) Revenue Assets (d) Other Non-Current Assets
101. On April 1, 2021, Yusuf Ltd. Issued 40,000 convertible 7% debentures of ₹100 each at a premium of 20%. Interest is payable on 30th September and 31st March every year. Assuming that the interest is calculated from the date of issue, the amount of interest expenditure debited to statement of profit and loss for the year ended 31st March, 2022 will be
- (a) ₹2,80,000 (b) ₹2,33,000 (c) ₹2,56,000 (d) ₹1,40,000
102. Issued 60,000, 9% debentures of ₹75 each at a premium of ₹ 25 per debenture. What amount will be debited to Bank account?
- (a) 45,00,000 (b) 60,00,000 (c) 12,50,000 (d) 30,00,000
103. Kinnari Ltd bought building for ₹ 5,50,000 payable by the issue of 11% debentures of ₹100 each at 10% premium. Number of debentures issued will be _____.
- (a) 2,700 (b) 6,111 (c) 4,000 (d) 5,000
104. P P Ltd purchased machinery from KP Ltd. For ₹ 9, 00,000. The consideration was paid by issue of 10% debentures of ₹ 100 each at a discount of 20%. The debentures account was credited with ₹ _____.
- (a) ₹7,20,000 (b) ₹ 9,00,000 (c) ₹4,50,000 (d) ₹5,00,000
105. Bata Ltd issued 5,000, 10% debentures of Rs 100 each on 1st April, 2021 at a discount of 5 %. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half-yearly on 30th September and 31st March. What will be the journal entry for interest on debentures for the half-year? Books of accounts are closed on 31st March every year.
- (a) Debenture interest A/c Dr 25,000; To debenture holders A/c 25,000
 (b) Debenture interest A/c Dr 50,000; To debenture holders A/c 50,000
 (c) Debenture interest A/c Dr 12,500; To debenture holders A/c 12,500
 (d) Debenture interest A/c Dr 15,000; To debenture holders A/c 15,000

106. Lakshmi Ltd invited applications for issuing 3000, 12% debentures of ₹100 each at a premium of ₹50 per debenture. The full amount was payable on application. Applications were received for 4,000 debentures. Applications for 1,000 debentures were rejected and application money was refunded. Debentures were allotted to the remaining applicants. The amount of securities premium reserve would be ₹ _____.
- (a) 1,50,000 (b) 6,00,000 (c) 3,00,000 (d) 60,000
107. X Ltd purchased machinery for ₹5,50,000 from Y Ltd. ₹55,000 were paid by X Ltd in cash and the balance was paid by issue of 9 % debentures of ₹1,000 each at 10% premium redeemable after 3 years. What amount will be credited to security premium reserve account?
- (a) 55000 (b) 45000 (c) 55500 (d) 49500
108. Rohit Ltd. has issued 50,000, 8% debentures of ₹100 each at a discount of 9% on July 1, 2019. The company has balance of ₹ 5,00,000 in securities premium reserve. What will be the journal entry to write-off discount/Loss on issue of debentures, if the debentures are redeemable after 5 years at a premium of 7%?
- | | | |
|--|----------|----------|
| (a) Securities premium reserve account Dr | 5,00,000 | |
| Statement of profit and loss Dr | 3,00,000 | |
| To Loss on issue of debentures account | | 8,00,000 |
| (b) Securities premium reserve account Dr | 8,00,000 | |
| To Loss on issue of debentures account | | 8,00,000 |
| (c) Statement of profit and loss Dr | 8,00,000 | |
| To Loss on issue of debentures account | | 8,00,000 |
| (d) Securities premium reserve account Dr. | 3,00,000 | |
| Statement of profit and loss Dr. | 5,00,000 | |
| To Loss on issue of debentures account | | 8,00,000 |
109. Premium on redemption of debenture is _____
- (a) Asset account (b) Income account
(c) Liability account (d) Expense account
110. SV Ltd. has issued 15,00,000, 9% debentures of ₹ 20 each at a discount of ₹ 6 per debenture on October 01, 2019. The company has a balance of ₹ 1,00,000 in securities premium reserve account on the same date. What will be the journal entry to write off discount on issue of debentures?
- | | | |
|--|----------|----------|
| (a) Securities premium reserve account Dr. | 90,000 | |
| To Loss on issue of debentures account | | 90,000 |
| (b) Statement of profit and loss Dr. | 90,000 | |
| To Loss on issue of debentures account | | 90,000 |
| (c) Securities premium reserve account Dr. | 1,00,000 | |
| To Loss on issue of debentures account | | 1,00,000 |
| (d) Statement of profit and loss Dr. | 1,00,000 | |
| To Loss on issue of debentures account | | 1,00,000 |
111. After redemption of debentures. The balance of Debenture redemption Reserve is transferred to _____ account.
- (a) General reserve account (b) Capital reserve account
(c) Statement of profit and loss (d) All of these
112. An unlisted housing finance company is to redeem 3000, 9 % debentures of ₹ 10 each on 31st December ,2022, the company should invest in specified securities on or before _____.
- (a) 30 April 2021 (b) 31st December 2021
(c) 30th April, 2022 (d) 31st December 2022
113. At what % Banking companies are required to transfer to DRR?
- (a) 10% (b) 50%
(c) 25% (d) No DRR required

114. At what % All India Financial Institutions regulated by RBI are required to transfer to DRR?
 (a) 10% (b) 50% (c) 25% (d) No DRR required
115. At what % listed companies (other than AIFI and Banking companies) are required to transfer to DRR?
 (a) 10% (b) 50 % (c) 25 (d) No DRR required
116. At what % unlisted companies (other than AIFI and Banking companies) are required to transfer to DRR?
 (a) 10% (b) 50% (c) 25% (d) No DRR required
117. At what % other unlisted companies (other than NBFCs and HFCs) are required to transfer to DRR?
 (a) 10% (b) 50% (c) 25% (d) No DRR required
118. NBFCs (listed company) registered with RBI are required to transfer _____% to Debenture Redemption Investment.
 (a) 10% (b) 15 % (c) 25 (d) 50%
119. HFCs (listed company) registered with National housing Bank are required to transfer _____% to Debenture Redemption Investment.
 (a) 10% (b) 15% (c) 25 % (d) 50%
120. Other unlisted companies, other than NBFCs and HFCs are required to transfer _____% to Debenture Redemption Investment.
 (a) 10% (b) 15% (c) 25% (d) 50%
121. All India financial institutions regulated by RBI are required to transfer _____% to Debenture Redemption Investment.
 (a) 10% (b) 15% (c) 25% (d) No DRI required
122. Banking companies are required to transfer _____% to Debenture Redemption Investment.
 (a) 10% (b) 15% (c) 25% (d) No DRI required
123. NBFCs (unlisted company) registered with RBI are required to transfer _____% to Debenture Redemption Investment.
 (a) 10% (b) 15% (c) 25% (d) No DRI required
124. HFCs (unlisted company) registered with National housing Bank are required to transfer _____% to Debenture Redemption Investment.
 (a) 10% (b) 15% (c) 25% (d) No DRI required

INPUT-TEXT BASED MCQs

Read the following text and answer the following questions (125 to 129) on the basis of the same:

Rama limited company issued 8,000 debenture of ₹100 each at a discount of 10% payable as ₹10 on Application, ₹30 on Allotment, ₹40 on First Call and ₹10 on Final Call. All the amounts were duly received:

You have to calculate—

125. Amount received on issue of debentures :
 (a) ₹80,000 (b) ₹2,49,000 (c) ₹2,40,000 (d) None of these
126. Amount received on first call :
 (a) ₹3,20,000 (b) ₹80,000 (c) ₹2,40,000 (d) ₹2,20,000
127. At the time of issue of debentures, the amount of 10% discount will be:
 (a) ₹24,000 (b) ₹ 80,000 (c) ₹40,000 (d) ₹60,000
128. Amount received on final call will be:
 (a) 2,40,000 (b) ₹2,20,000 (c) ₹8,00,000 (d) ₹80,000
129. Amount received on debenture allotment:
 (a) ₹80,000 (b) ₹32,000 (c) ₹8,20,000 (d) ₹2,40,000

ANSWERS

Multiple Choice Questions

1. (b) 2. (a) 3. (b) 4. (b) 5. (b) 6. (d) 7. (d) 8. (b) 9. (a) 10. (c)
 11. (a) 12. (b) 13. (a) 14. (c) 15. (b) 16. (a) 17. (c) 18. (a) 19. (c) 20. (b)
 21. (d) 22. (b) 23. (a) 24. (b) 25. (a) 26. (a) 27. (c) 28. (b) 29. (b) 30. (c)
 31. (d) 32. (c) 33. (b) 34. (a) 35. (c) 36. (a) 37. (a) 38. (d) 39. (c) 40. (a)
 41. (c) 42. (c) 43. (c) 44. (b) 45. (c) 46. (c) 47. (b) 48. (c) 49. (d) 50. (c)
 51. (b) 52. (d) 53. (a) 54. (b) 55. (d) 56. (b) 57. (a) 58. (a) 59. (a) 60. (c)
 61. (b) 62. (b) 63. (a) 64. (a) 65. (b) 66. (c) 67. (c) 68. (d) 69. (c) 70. (a)
 71. (b) 72. (d) 73. (b) 74. (b) 75. (c) 76. (a) 77. (b) 78. (c) 79. (a) 80. (a)
 81. (d) 82. (d) 83. (a) 84. (c) 85. (b) 86. (d) 87. (d) 88. (b) 89. (b) 90. (a)
 91. (c) 92. (b) 93. (b) 94. (b) 95. (a) 96. (c) 97. (d) 98. (b) 99. (a) 100. (d)
 101. (a) 102. (b) 103. (d) 104. (b) 105. (a) 106. (a) 107. (b) 108. (a) 109. (c) 110. (a)
 111. (a) 112. (c) 113. (d) 114. (d) 115. (d) 116. (d) 117. (a) 118. (b) 119. (b) 120. (b)
 121. (d) 122. (d) 123. (d) 124. (d)

Input-Text Based MCQs

125. (a) 126. (a) 127. (b) 128. (d) 129. (d)

HINTS TO SOME SELECTED QUESTIONS

8. Discount ₹ 5 + Premium on redemption ₹ 6 = $11 \times 1,000 = ₹11,000$
9. Security premium reserve = $20,00,000 \times \frac{10}{100} = 2,00,000$.
13. The amount of purchase consideration will be equal to the value of net assets taken over. i.e., (Assets - Liabilities).
16. Interest on debentures = $4,00,000 \times \frac{12}{100} = 48,000$
18. In case of the whole business being taken over, if the amount of debentures issued is more than the amount of the net assets taken over, the difference (excess) will be treated as value of goodwill and the same will be debited.
20. Number of debentures issued = $\frac{\text{purchase consideration}}{\text{issue price}} = \frac{5,85,000}{90} = 6,500$.
22. $10 \times 10,000 = 1,00,000$.
24. Purchase consideration: $16,70,000 - 2,20,000 = 14,50,000$. Number of debentures = $\frac{\text{purchase consideration}}{\text{issue price}} = \frac{1,450,000}{100} = 14,500$.
32. Number of debentures rejected = $14,000 - 9,000 - 2,000 = 3,000$.
34. Purchase consideration: $6,70,000 - 70,000 = 6,00,000$. Number of debentures = $\frac{\text{purchase consideration}}{\text{issue price}} = \frac{6,00,000}{110} = 5,454$ debentures.
36. Net assets taken over = $3,00,000 - 10,000 = 2,90,000$. Purchase consideration = 2,70,000. Difference = $2,90,000 - 2,70,000 = 20,000$. If the amount of purchase consideration is less than the amount of the net assets taken over, the difference will be credited to capital reserve.
38. No of debentures issued = $\frac{\text{PC}}{\text{issue price}} = \frac{27,00,000}{12} = 2,25,000$.
41. Interest on debentures = $80,00,000 \times \frac{9}{100} \times \frac{6}{12} = 3,60,000$.

42. Number of debentures = purchase consideration / issue price = $\frac{5,40,000}{90} = 6,000$ debentures.
44. Redeemable at 10% premium. So premium on redemption is ₹ 5,00,000 credited to premium on redemption of debentures account.
48. Loss on issue of debentures = 10% discount on issue + 10 % premium on redemption.
50. $6,00,000 - 60,000$ cash paid being 10% = 5,40,000. Debentures = $\frac{5,40,000}{90} = 6,000$ debentures. 15 % debentures = $6,000 \times 100 = 6,00,000$.
53. Interest on debentures = $42,00,000 \times \frac{7}{100} = 2,94,000$.
57. Loss on issue of debentures = discount on issue of debentures + premium on redemption of debentures.
64. 2,500 debentures issued as collateral are not shown in the balance sheet with long term borrowings.
65. 9% debentures are credited at face value.
68. Number of debentures = $\frac{54,00,000}{9} = 6,00,000$.
70. Premium on redemption of debentures = loss on issue of debentures = $4,20,000 \times \frac{8}{100} = 3,36,000$.
75. Debentures issued as collateral are not shown in the balance sheet with long term borrowings.
84. On liquidation of a company, debentures are repaid before preference and equity capital
90. 1000 debentures rejected \times ₹ 150 amount received per debenture = ₹ 1,50,000.
94. $5,50,000 - 55,000$ cash paid = ₹ 4,95,000 paid by issue of debentures. Number of debentures = $4, \frac{95,000}{1100} = 450$ debentures.
98. Premium on redemption of debenture is 50,000 which is 10 % of debentures of ₹ 5,00,000. As loss on issue of debentures is debited with ₹75,000, remaining amount ₹ 25,000 would be of discount on issue of debentures, which is 5% of ₹5,00,000 debentures.
99. Number of debentures = $\frac{28,80,000}{96} = 30,000$
101. Interest on debentures = $40,00,000 \times \frac{7}{100} = 2,80,000$
102. 60,000 debentures \times issue price ₹ 100 (75+25)
105. Interest on debenture for 6 months will be calculated.
106. 3000 debentures allotted \times ₹ 50 premium amount = ₹1,50,000.
107. $5,50,000 - 55,000$ cash paid = ₹ 4,95,000 paid by issue of debentures. Number of debentures = $\frac{4,95,000}{1100} = 450$.
Security premium = $450 \times 100 = 45,000$.

