

ANSWERS

1. MULTIPLE CHOICE QUESTIONS

1. (3) **Explanation:** According to Prudence Concept of Accounting anticipated expenses and losses should be accounted whereas anticipated incomes and gains should not be accounted. Since premium payable on redemption of debentures is a loss and is known as on the date of allotment of debentures, it should be accounted.
2. (1) **Explanation:** Premium payable on redemption of debentures is a loss and is accounted as on the date of allotment of debentures. Loss on issue of debentures is written off in the year debentures are allotted while Premium on Redemption is a liability and is payable at the time of redemption of debentures.
3. (4) **Explanation:** Loss on Issue of Debentures is an aggregate of Discount on Issue of Debentures and Premium payable on redemption of Debentures. In the present question debentures are issued at discount but are redeemable at par. It means Discount on Issue of Debentures is ₹ 10 per debenture and premium payable on redemption of debentures is nil. Hence, discount on issue of debentures is debited to Discount on Issue of Debentures Account.
4. (3) **Explanation:** Loss on Issue of Debentures is an aggregate of Discount on Issue of Debentures and Premium payable on redemption of Debentures. In the present question, debentures are issued at par means Discount on Issue of Debentures is nil. Hence, premium payable on redemption of debentures is debited to Loss on Issue of Debentures Account.
5. (3) **Explanation:** The Companies Act, 2013 (Section 71(4) along read with Rule) exempts companies from transferring amount to DRR, if the redemption is not in cash, *i.e.*, redemption is by conversion into shares or new debentures.
6. (4) **Explanation:** The Companies Act, 2013 (Section 71(4) read along with rules) requires only an unlisted company, other than NBFC or HFC to transfer at least 10% of the nominal (face) value of outstanding debentures to DRR.
7. (3) **Explanation:** Amount can be transferred to DRR out of profits available for distribution as dividend to the shareholders. Since dividend can be paid out of General Reserve, Dividend Equalisation Reserve and Surplus, *i.e.*, Balance in Statement of Profit & Loss, it can be transferred to DRR.
8. (4) **Explanation:** Amount can be transferred to DRR out of amount that can be paid as dividend to the shareholders. Dividend cannot be paid from Securities Premium and Revaluation Reserve. It can be paid from General Reserve and Surplus, *i.e.*, Balance in Statement of Profit & Loss. Hence, amount, *i.e.*, 10% of the nominal (face) value of Outstanding Debentures can be transferred from General Reserve and Surplus, *i.e.*, Balance in Statement of Profit & Loss.
9. (4) **Explanation:** The Companies Act, 2013 (Section 71(4) read along with rules) requires only an unlisted company, other than NBFC or HFC to transfer at least 10% of the nominal (face) value of outstanding debentures to DRR.
10. (4) **Explanation:** Listed companies are not required to transfer amount to DRR.
11. (1) **Explanation:** Unlisted companies that are not NBFC or HFC are required to transfer to DRR amount that is at least 10% of the nominal (face) value of the outstanding debentures. Hence, it will transfer ₹ 5,00,000 (10% of ₹ 50,00,000) to DRR.
12. (3) **Explanation:** In terms of Section 71(4) of the Companies Act, 2013 only unlisted (Non-NBFCs and HFCs) companies are required to set aside amount to Debentures Redemption Reserve Account at least 10% of the Outstanding Debentures. Other companies are not required to set aside (transfer) profit to Debentures Redemption Reserve (DRR) Account. Hence, a listed company may or may not transfer amount to DRR.
13. (1) **Explanation:** A company required to transfer amount to DRR should transfer at least 10% of the nominal (face) value of the outstanding debentures to DRR. Nominal (Face) Value of the debentures to be redeemed is ₹ 10,00,000. It should have a balance of ₹ 1,00,000 in DRR. Since it has balance in DRR of ₹ 50,000, it should further transfer ₹ 50,000 to DRR.

14. (2) **Explanation:** The Companies Act, 2013 (Section 71(4) read along with Rules) requires a company (except the exempted companies) to invest at least 15% of the nominal (face) value of debentures to be redeemed by 31st March of next year in specified securities on or before 30th April of the current year.
15. (3) **Explanation:** The Companies Act, 2013 (Section 71(4) read along with Rules) exempts All India Financial Institutions from investing in specified securities.
16. (4) **Explanation:** The Companies Act, 2013 prescribes the investment to be made 'on or before 30th April of the current year'. Thus, investment in DRI can be on 30th April, 2021 or any day before that date.
17. (2) **Explanation:** The Companies Act, 2013 requires a company to invest in DRI on or before 30th April of the current year for debentures to be redeemed by 31st March of next year. The company is to redeem debentures on 31st December, 2022 hence, it should invest in DRI on or before 30th April, 2022.
18. (4) **Explanation:** Both the redemptions are by 31st March of the next year. Thus, investment in DRI should be 15% of the total amount of redemption, *i.e.*, 15% of ₹ 15,00,000 (₹ 5,00,000 + ₹ 10,00,000).
19. (4) **Explanation:** Redemption by 31st March 2022 is of ₹ 10,00,000. Thus, investment in DRI should be ₹ 1,50,000, *i.e.*, 15% of ₹ 10,00,000.
20. (1) **Explanation:** Investment in DRI should be 15% of the nominal (face) value of the debentures to be redeemed by 31st March of next year. Thus, it will invest ₹ 15,000 (15% of ₹ 1,00,000) in DRI.
21. (4) **Explanation:** The company is a Banking Company and Banking Companies are exempt from transferring amount to DRR and also from investing in specified securities.
22. (4) **Explanation:** Other Financial Institutions within the meaning of section 2(72) of the Companies Act, 2013 are exempt from investing in specified securities for the purposes of redemption of debentures.
23. (3) **Explanation:** Debentures Redemption Reserve is a specific reserve and can be used for the purposes of redemption of debentures. After the redemption of debentures, it is no longer required. It is, therefore, transferred to General Reserve so that the reserve can be used for any purpose.
24. (1) **Explanation:** The Companies Act, 2013 (Section 71(4) read along with Rules) prescribes that Debentures Redemption Reserve (DRR) should be at least 10% of the nominal (face) value of Outstanding Debentures. Thus, if the reserve amount proportionate to debentures redeemed is not transferred to General Reserve, balance in Debentures Redemption Reserve will be more than 10% of the Outstanding Debentures. Besides Debentures Redemption Reserve is a specific reserve which can be used for the redemption of debentures. Whereas General Reserve can be used for any purpose.
25. (1) **Explanation:** The Companies Act, 2013 (Section 71(4) read along with Rules) does not exempt listed NBFC Companies from investing in specified securities (DRI). Investment is made of Outstanding Value (nominal or face) of the debentures.
26. (3) **Explanation:** The Companies Act, 2013 (Section 71(4) read along with Rules) exempts Unlisted HFCs from investing in specified securities (DRI).
27. (4) **Explanation:** The Companies Act, 2013 (Section 71(4) read along with Rules) does not exempt Unlisted Companies from investing in specified securities (DRI). Since redemption during the year is of ₹ 10,00,000, the company shall invest ₹ 1,50,000 (15% of ₹ 10,00,000) in specified securities.
28. (2) **Explanation:** A company is required to invest in specified securities at least 15% of the amount of debentures to be redeemed by 31st March of next year. Since, total amount of debentures to be redeemed by 31st March, 2022 is ₹ 10,00,000, the company will invest ₹ 1,50,000 (15% of ₹ 10,00,000) on or before 30th April, 2021.
29. (4) **Explanation:** A company is required to invest in specified securities at least 15% of the amount of debentures to be redeemed by 31st March of next year. Since total amount of debentures to be redeemed by 31st March, 2022 is ₹ 7,50,000, the company will invest ₹ 1,12,500 (15% of ₹ 7,50,000) on or before 30th April, 2021.

- 30. (3) Explanation:** The Companies Act, 2013 (Section 71(4) read along with Rules) prescribes that Debentures Redemption Investment (DRI) should be at least 15% of the debentures to be redeemed by 31st March of next year. Thus, the company will invest 15% of ₹ 5,00,000 (Debentures to be redeemed by 31st March, 2022) on or before 30th April, 2021. The company is to redeem debentures of ₹ 5,00,000 again on 30th June, 2022 which falls in the next financial year, *i.e.*, by 31st March, 2023. The investment made on 30th April, 2021 will not be realised and will meet the legal requirement of investment in DRI for the next redemption. After redemption on 30th June, 2022, it will realise the investment.
- 31. (2) Explanation:** A company requiring to transfer amount to DRR should transfer at least 10% of the Outstanding Debentures (in this case ₹ 20,00,000) to DRR Account out of profits available for payment as dividend. Thus, the company will transfer ₹ 2,00,000 to DRR Account before the first redemption on 31st December, 2021. A company is required to invest in DRI an amount at least equal to 15% of the Debentures to be redeemed by 31st March of the next year and the investment should be made on or before 30th April of the current year. In the present case, total redemption of debentures by 31st March, 2022 is ₹ 7,50,000 and therefore, it will invest ₹ 1,12,500 in DRI on or before 30th April, 2021.
- 32. (2) Explanation:** According to the provisions of the Companies Act, 2013, a company is required to have balance in DRR Account at least equal to 10% of the nominal (face) value of Outstanding Debentures. As on 31st March, 2022, outstanding debentures are ₹ 20,00,000 and therefore, it will transfer ₹ 2,00,000 (10% of ₹ 20,00,000) to DRR Account. After redemption of 7,500 Debentures on 31st March, 2022, balance debentures are of ₹ 12,50,000. Thus, the company should have balance in DRR Account of ₹ 1,25,000 (10% of ₹ 12,50,000). Therefore, ₹ 75,000 (₹ 2,00,000 – ₹ 1,25,000) will be transferred to General Reserve on 31st March, 2022, which will leave a balance of ₹ 1,25,000 in DRR Account. After redemption of 12,500 Debentures on 31st July, 2022, the balance amount (₹ 1,25,000) will be transferred to DRR Account.
- 33. (1) Explanation:** Investment in DRI is made on or before 30th April of the current year of an amount at least equal to 15% of the amount of debentures to be redeemed by 31st March of next year. It is also prescribed that investment should not be less than 15% of the debentures to be redeemed by 31st March of the next year. Accordingly, investment in DRI should be made on or before 30th April, 2021 for the debentures to be redeemed by 31st March, 2022. Debentures to be redeemed by 31st March, 2022 are of ₹ 4,00,000. Therefore, investment in DRI will be ₹ 60,000 (15% of ₹ 4,00,000). On or before 30th April, 2022, it should make further investment in DRI of ₹ 30,000 to make the investment equal to 15% of ₹ 6,00,000, *i.e.*, debentures to be redeemed by 31st March, 2023. It will realise investment of ₹ 45,000 on redemption of 3,000 Debentures on 31st July, 2022 and balance on 30th September, 2022.

2. CASE STUDY BASED MCQS

1. A. 4. **Explanation:** Nil, the company is not required to transfer amount to DRR being a listed company.
 B. 2. **Explanation:** ₹ 7,50,000 (*i.e.*, 15% of ₹ 50,00,000).

Note: Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 prescribes that companies that are to redeem debentures, except the companies exempted

Debentures Redemption Investment, shall "Invest an amount not less than 15 per cent of the nominal (face) value of the debentures to be redeemed by 31st March of the next year in specified securities on or before 30th April of the current year."

- C. 2. **Explanation:** Discount or Loss on Issue of Debentures is written off in the year debentures are allotted from Securities Premium and/or Statement of Profit & Loss. Securities Premium does not exist (as per question) and hence, Discount or Loss on Issue of Debentures will be written off from Statement of Profit & Loss. Thus, the entry will be:

Statement of Profit & Loss	...Dr.	₹ 5,00,000	
To Discount on Issue of Debentures A/c			₹ 5,00,000

- D. 3. **Explanation:** Interest earned on the fixed deposit is ₹ 62,500. Therefore, TDS on Interest Earned is ₹ 6,250 (10% of ₹ 62,500). Amount received by CERA Ltd. will be after deduction of TDS and the amount received will be ₹ 8,06,250 (₹ 7,50,000 + ₹ 62,500 – ₹ 6,250). Thus, the Journal entry will be:

Bank A/c	...Dr.	₹ 8,06,250	
TDS Collected (Receivable) A/c	...Dr.	₹ 6,250	
To Debentures Redemption Investment A/c			₹ 7,50,000
To Interest Earned A/c			₹ 62,500

- E. 4. **Explanation:** ₹ 50,00,000 (Nominal (face) Value of Debentures) + ₹ 4,50,000 [(Debentures' Interest: ₹ 50,00,000 × 12/100 × 10/12) – (TDS: ₹ 5,00,000 × 10/100)] = ₹ 54,50,000.
2. A. 1. **Explanation:** Discount or Loss on Issue of Debentures is written off in the year debentures are allotted from Securities Premium and/or Statement of Profit & Loss. Securities Premium is ₹ 16,00,000 and hence, Loss on Issue of Debentures will be written off from Securities Premium to the extent of ₹ 16,00,000 and balance ₹ 4,00,000 from Statement of Profit & Loss.

Thus, the entry will be:

Securities Premium A/c	...Dr.	₹ 16,00,000	
Statement of Profit & Loss	...Dr.	₹ 4,00,000	
To Loss on Issue of Debentures A/c			₹ 20,00,000

- B. 4. **Explanation:** Nil. As per Section 71(4) of the Companies Act, 2013 read with Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014, a banking company is not required to set aside amount to Debentures Redemption Reserve.
- C. 4. **Explanation:** Nil. As per Section 71(4) of the Companies Act, 2013 read with Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 (as amended), a banking company is not required to set aside amount to Debentures Redemption Reserve and invest in specified securities.
- D. 3. **Explanation:** ₹ 80,00,000 (Nominal (Face) Value of Debentures) + ₹ 20,00,000 (Premium on Redemption of Debentures) + ₹ 3,60,000 [(Debentures' Interest: ₹ 80,00,000 × 9/100 × 6/12) – ₹ 36,000 (TDS: ₹ 3,60,000 × 10/100)] = ₹ 1,03,24,000.
3. A. 2. **Explanation:** Amount of DRR required = 10% of Outstanding Debentures
= 10% of ₹ 50,00,000 = ₹ 5,00,000.

- B. 3. **Explanation:** The company has balance in General Reserve (₹ 2,50,000), Dividend Equalisation Reserve (₹ 1,00,000) and Surplus, i.e., Balance in Statement of Profit & Loss (₹ 2,50,000). Balances in all these accounts can be used for payment of dividend. It means these amounts can be transferred to DRR. Hence, the entry is:

General Reserve A/c	...Dr.	₹ 2,50,000	
Dividend Equalisation Reserve A/c	...Dr.	₹ 1,00,000	
Surplus, i.e., Balance in Statement of Profit & Loss A/c	...Dr.	₹ 1,50,000	
To Debentures Redemption Reserve A/c			₹ 5,00,000

- C. 3. **Explanation:** ₹ 7,50,000 (i.e., 15% of ₹ 50,00,000) on or before 30th April, 2021.

Note: Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014 (as amended) prescribes that companies that are to redeem debentures, except the companies exempted from Debentures Redemption Investment, shall

“Invest an amount not less than 15 per cent of the nominal (face) value of the debentures to be redeemed by 31st March of the next year in specified securities on or before 30th April of the current year.”

- D. 1. **Explanation:** ₹ 50,00,000 (Nominal (Face) Value of Debentures) + ₹ 12,50,000 (Premium on Redemption of Debentures) + ₹ 3,75,000 [(Debentures' Interest: ₹ 50,00,000 × 9/100 × 10/12) – ₹ 37,500 (TDS: ₹ 3,75,000 × 10/100)] = ₹ 65,87,500.

4. A. 3. **Explanation:** Instead of declaring dividend, the company decided to redeem the debentures is redemption out of profit alone. Therefore, an amount equal to the nominal (face) value of debentures outstanding, *i.e.*, ₹ 25,00,000 is transferred to DRR.

B. 3. **Explanation:** Both General Reserve (₹ 10,00,000) and Statement of Profit & Loss (₹ 18,00,000) can be used for payment of dividend and therefore can be transferred to DRR. Hence, the Journal entry is:

General Reserve A/c	...Dr.	₹ 10,00,000	
Surplus, <i>i.e.</i> , Balance in Statement of Profit & Loss A/c	...Dr.	₹ 15,00,000	
To Debentures Redemption Reserve A/c			₹ 25,00,000

C. 2. **Explanation:** ₹ 3,75,000 (*i.e.*, 15% of ₹ 25,00,000) on or before 30th April, 2021, Since the debentures are to be redeemed on 31st March, 2022.

D. 4. **Explanation:** Interest earned on the fixed deposit is ₹ 33,750. Therefore, TDS on Interest Earned is ₹ 3,375 (10% of ₹ 33,750). Amount received by the company will be after deduction of TDS and the amount received will be ₹ 4,05,375 (₹ 3,75,000 + ₹ 33,750 – ₹ 3,375). Thus, the Journal entry will be:

Bank A/c	...Dr.	₹ 4,05,375	
TDS Collected (Receivable) A/c	...Dr.	₹ 3,375	
To Debentures Redemption Investment A/c			₹ 3,75,000
To Interest Earned A/c			₹ 33,750

3. SEQUENCE BASED MCQS

1. 4. **Explanation:**

- A. First stage is to incorporate a company.
- D. Issue of debentures is the next stage because unless they are issued, they cannot be redeemed.
- C. Next stage is to invest in DRI. After issue of Debentures there are two stages (1) to transfer amount to DRR, and (2) invest in DRI. Amount can be transferred to DRR on any day before the date of redemption but investment in specified securities can be made on or before 30th April of the current year.
- B. Next stage is to transfer profit to DRR.
- E. After meeting the legal requirements, last stage is to pay the amount to debentureholders.

2. 2. **Explanation:**

- A. First stage is to incorporate a company.
- B. Issue of shares to the promoters who undertake to subscribe the specified shares.
- D. Next stage is to issue debentures because unless they are issued, they cannot be redeemed.
- C. On issue of debentures amount against the debentures issued will be received.
- E. Debentures are redeemable as per the terms of issue of debentures thus, it is the last stage.

3. 3. **Explanation:**

- A. Issue of Debentures is the first stage because unless they are issued, they cannot be redeemed.
- B. When debentures are issued amount will be received against the issue.
- D. In redemption of debentures by draw of lots, debentures that will be redeemed are determined.
- C. Investment is to be made on or before 30th April of the current year.
- E. Before redemption amount is transferred to DRR.

4. 1. Explanation:

- A. Issue of Debentures is the first stage because unless they are issued, they cannot be redeemed.
- B. Investment is to be made on or before 30th April of the current year.
- C. Before redemption amount is transferred to DRR.
- E. On redemption of debentures, investment in DRI is realised.
- D. After redemption, amount (proportionate or full, as the case is) is transferred from DRR to General Reserve.

5. 2. Explanation:

- A. Incorporation of a company is the first stage because unless it is incorporated debentures cannot be issued.
- B. Before the debentures are issued, prospectus is issued inviting subscription and detailing the terms of issue of debentures.
- C. After issue of prospectus, debentures are issued.
- D. Investment is to be made on or before 30th April of the current year.
- E. Before redemption amount is transferred to DRR.

4. MATCHING QUESTIONS

1. 2. 2. 3. 3. 1. 4. 3. 5. 1. 6. 4. 7. 2. 8. 3. 9. 1. 10. 4.

5. COMBINATION WITH SINGLE ANSWER QUESTIONS

1. 1. 2. 2. 3. 4. 4. 3. 5. 2. 6. 2. 7. 1. 8. 1. 9. 2. 10. 3.