

ANSWERS

1. MULTIPLE CHOICE QUESTIONS

1. (3) **Explanation:** Debenture is loan (Debt) of the company and it is acknowledged by it by issuing Debenture Certificate.
2. (4) **Explanation:** Debentureholders are the persons who have lent amount to the company which is evidenced by the Debenture Certificates issued by the company. Thus, they are the lenders of the company.
3. (3) **Explanation:** The Companies Act, 2013 (Section 53) does not allow issue of shares to public at discount. Such provision does not exist in the Companies Act, 2013 for Issue of Debentures. Thus, debentures can be issued at discount unlike Issue of Shares.
4. (2) **Explanation:** Debentures are more secure than shares as they are secured by registration of charge against assets of the company.
5. (4) **Explanation:** All, except Equity Shares are borrowings of the company.
6. (4) **Explanation:** All except issue of debentures as collateral security, are liabilities of the company from the date they are issued but Debentures issued as collateral security become liability if the company does not pay the borrowed amount for which Debentures are issued as Collateral Security. Also, interest on Debentures issued as Collateral Security is not payable.
7. (3) **Explanation:** Non-current Liabilities are defined in Schedule III of the Companies Act, 2013 to be liabilities which are not current Liabilities. One of the conditions for a liability to be current liability is that it should be payable within 12 months or within the period of Operating Cycle from the date of Balance Sheet.
Debentures are normally payable after the period of 12 months or after the period of Operating Cycle from the date of Balance Sheet. Hence, they are classified or shown in the Equity and Liabilities part of Balance Sheet under the main head Non-current Liabilities and sub-head Long-term Borrowings if they are due for redemption after 12 months or after the period of Operating Cycle from the date of Balance Sheet.
8. (2) **Explanation:** According to **Schedule III of the Companies Act, 2013**, debentures are classified or shown in the Equity and Liabilities part of Balance Sheet under the main head Current Liabilities and sub-head Short-term Borrowings if they are due for redemption within 12 months or within the period of Operating Cycle from the date of Balance Sheet.
9. (2) **Explanation:** Debentures are classified or shown in the Equity and Liabilities part of Balance Sheet under the main head Current Liabilities and sub-head Short-term Borrowings if they are payable within 12 months or within the period of Operating Cycle from the date of Balance Sheet. In the given case, these 9% Debentures are issued to be redeemed within 12 months from the date of Balance Sheet hence they will be shown as Short-term Borrowings under Current Liabilities.
10. (3) **Explanation:** According to Schedule III of the Companies Act, 2013 Current Maturities of Long-term Debts are to be shown under Current Liabilities as Short-term Borrowings. In the given case 8% Debentures of ₹ 10,00,000 out of 8% Debentures of ₹ 40,00,000 are redeemable within 12 months or within the period of Operating Cycle from the date of Balance Sheet, *i.e.*, 31st March, 2022. Thus, these 8% Debentures of ₹ 10,00,000 will be shown as Current Maturities of Long-term Debts under Current Liabilities as Short-term Borrowings.
11. (1) **Explanation:** If a part of debentures out of the debentures shown as Long-term Borrowings becoming due for redemption within 12 months or within the period of Operating Cycle from the date of Balance Sheet is shown as Current Maturities of Long-term Debts under Current Liabilities as Short-term Borrowings while remaining amount of debentures is continued to be shown under Long-term Borrowings.
In the given question, 12% Debentures of ₹ 15,00,000 out of 12% Debentures of ₹ 60,00,000 are redeemable within 12 months or within the period of Operating Cycle from the date of Balance Sheet. Thus, these 12% Debentures of ₹ 15,00,000 will be shown as Current Maturities of Long-term Debts under Current Liabilities and sub-head Short-term Borrowings and balance ₹ 45,00,000 will be shown as Long-term Borrowings under the main head Non-current Liabilities.
12. (3) **Explanation:** Debentures are classified or shown in the Equity and Liabilities part of Balance Sheet under the main head Non-current Liabilities as Long-term Borrowings if they are due for redemption after 12 months or after the period of Operating Cycle from the date of Balance Sheet.
In the given case, the 10% Debentures are redeemable after 12 months or after the period of Operating Cycle from the date of Balance Sheet, *i.e.*, 31st March, 2022.

13. (2) **Explanation:** In case of winding up of the company, payment of share capital is made at the last. Thus, share capital will be payable after repayment of debentures.
14. (4) **Explanation:** These Debt instruments do not specify the rate of interest but specify the amount payable on maturity.
15. (3) **Explanation:** Bearer Debentures are the debentures that are not registered in the records of the company in the name of the holder. Thus, these are transferable by mere delivery.
16. (2) **Explanation:** They are termed as Fully Convertible Debentures because cash is not payable to the debentureholders but instead shares or new debentures are issued in lieu of payment.
17. (1) **Explanation:** From the security point of view, Debentures are classified as Secured Debentures and Unsecured Debentures.
18. (4) **Explanation:** Irredeemable Debentures are those debentures that are not repayable during the lifetime of the company and hence are repaid only when the company is wound up. The Companies Act, 2013 does not allow issue of irredeemable debentures.
19. (3) **Explanation:** If issue price of debentures is payable in lump sum, the amount received on application is credited to Debentures Application and Allotment Account because further amount is not receivable from the subscriber.
20. (2) **Explanation:** If issue price of debentures is payable in instalments, the amount received on application is credited to Debentures Application Account because further amount is receivable from the subscriber on allotment and/or calls.
21. (2) **Explanation:** The term 'Charge' means securing the loan by mortgaging specific or all assets towards the loan. It is registered with the Registrar of Companies. A charge may be either Fixed Charge or Floating Charge.
22. (3) **Explanation:** Amount received by the company is more than the nominal (face) value. The amount received in excess of nominal (face) value is premium received. Hence, it is termed as Issue of Debentures at Premium.
23. (4) **Explanation:** Amount received by the company which is less than the nominal (face) value. The amount received that is less than the nominal (face) value of the debentures is discount allowed. Hence, it is termed as Issue of Debentures at Discount.
24. (3) **Explanation:** Entry for issue of debentures as collateral security may or may not be passed by the company. Debentures issued as Collateral Security is disclosed in the financial statements of the company.
25. (2) **Explanation:** Debentures issued as Collateral Security is not a liability of the company. Entry is passed for it with a view to disclose it in the financial statement. Since, accounting is based on Double Entry System of Accounting, Debentures Account is credited with corresponding credit to Debentures Suspense Account.
26. (1) **Explanation:** Purchase consideration is the amount agreed to be paid for taking over the business of another enterprise or for purchase of an asset. It is taken equal to Net Assets, i.e., Sundry Assets less Sundry Liabilities unless agreed otherwise.
27. (2) **Explanation:** The cost of machinery to the company is ₹ 20,00,000. Under Historical Cost Concept, an asset is recorded in the books at the price paid for it. Hence, it will be recorded at ₹ 20,00,000 by passing the Journal entries as follows:

The entries passed for the transaction would be as follows:

Machinery A/c	...Dr.	₹ 19,00,000	
To Vendor of Machinery A/c			₹ 19,00,000
(Purchase of Machinery)			
Vendor of Machinery A/c	...Dr.	₹ 19,00,000	
Machinery A/c	...Dr.	₹ 1,00,000	
To 10% Debentures A/c			₹ 20,00,000
(20,000, 10% Debentures of ₹ 100 each issued to vendor of machinery of ₹ 19,00,000)			

28. (2) **Explanation:** The cost of machinery to the company is ₹ 10,00,000. Under Historical Cost Concept, an asset is recorded in the books at the price paid for it. Hence, it will be recorded at ₹ 10,00,000.
29. (1) **Explanation:** Purchase price [₹ 80,00,000 (i.e., 80,000: No. of Debentures × ₹ 100: Issue Price)] is less than the value of Sundry Assets (₹ 84,00,000), it means ₹ 4,00,000 is Capital Profit which is credited to Capital Reserve Account.

30. (3) **Explanation:** Discount allowed is ₹ 40,000 (₹ 2 per Debenture) and premium payable on redemption is ₹ 60,000 (₹ 3 per Debenture). Thus, total loss on issue of debentures is ₹ 1,00,000 and is debited to Loss on Issue of Debentures Account. Premium payable on redemption is credited, it being a liability of the company payable at the time of redemption.

Note: Premium payable on redemption of debentures is recognised at the time of issue of debentures following the Prudence Concept of Accounting.

31. (2) **Explanation:** Debentures Account is credited by the nominal (face) value of the debentures. If the amount received is less than its nominal (face) value, it is discount allowed and is debited to Discount on Issue of Debentures Account. Issue price is received on application hence, Debentures Application and Allotment Account would have been credited which is debited on allotment of debentures.

32. (3) **Explanation:** Debentures Account is credited by the nominal (face) value of the debentures. If the amount received is more than its nominal (face) value, it is premium received and is credited to Securities Premium or Securities Premium Reserve Account. Issue price is received on application hence, Debentures Application and Allotment Account would have been credited which is debited on allotment of debentures.

The Journal entry on allotment of Debentures will be:

Debentures Application and Allotment A/c	...Dr.	₹ 15,75,000	
To 10% Debentures A/c			₹ 15,00,000
To Securities Premium or Securities Premium Reserve A/c			₹ 75,000
(15,000, 10% Debentures of ₹ 100 each issued at a premium of 5%)			

33. (4) **Explanation:** As per Prudence Concept or Convention of Conservatism, anticipated losses and expenses are provided whereas anticipated incomes and gains are not. Therefore, when debentures are redeemable at premium, the loss arising (*i.e.*, Premium payable on Issue of Debentures) at the time of redemption is provided at the time of issue of Debentures.

34. (2) **Explanation:** Schedule III of the Companies Act, 2013 prescribes that premium payable on redemption of debentures shown as Long-term Borrowing should be as Other Long-term Liabilities under Non-current Liabilities.

35. (4) **Explanation:** Schedule III of the Companies Act, 2013 prescribes that premium payable on redemption of debentures shown as Current Maturities of Long-term Debts under Short-term Borrowing should be shown under Current Liabilities as Other Current Liabilities.

36. (2) **Explanation:** Discount or Loss on Issue of Debentures is written off in the year it is incurred, *i.e.*, debentures are allotted (As per AS 16, Borrowing Costs). The Companies Act, 2013 (Section 52(2)) allows it to be written off from Securities Premium. If the amount of Securities Premium is not adequate to write off Discount or Loss on Issue of Debentures, then the balance from Statement of Profit & Loss.

37. (4) **Explanation:** Loss on Issue of Debentures is a capital loss for a company that arises on issue of debentures and includes discount on issue and premium payable on redemption of debentures.

38. (3) **Explanation:** Loss on Issue of Debentures is ₹ 6,00,000 (₹ 3,60,000 (Discount) and ₹ 2,40,000 (Premium payable on Redemption)). Hence, Loss on Issue of Debentures Account is debited by ₹ 6,00,000.

Premium (₹ 2,40,000) is payable at the time of redemption hence, is credited to Premium on Redemption of Debentures Account.

Debentures Account is credited by the nominal (face) value of the debentures. Hence, Debentures Account is credited by ₹ 60,00,000.

The company has received ₹ 56,40,000 as Debentures Application and Allotment money. Hence, the account was credited at the time of receipt of Application Money, which is now debited.

39. (2) **Explanation:**

Debentures Application and Allotment A/c	...Dr.	₹ 26,25,000	
Loss on Issue of Debentures A/c	...Dr.	₹ 1,25,000	
To 10% Debentures A/c			₹ 25,00,000
To Securities Premium A/c			₹ 1,25,000
To Premium on Redemption of Debentures A/c			₹ 1,25,000
(25,000, 10% Debentures of ₹ 100 each issued at 5% premium and redeemable at 5% premium)			

Note: Loss on Issue of Debentures = ₹ 1,25,000 (Premium Payable on Redemption of Debentures)
Premium on Redemption of Debentures = 5% of ₹ 25,00,000 = ₹ 1,25,000.

40. (3) **Explanation:** Loss on Issue of Debentures is a capital loss for a company, which is written off from
 (i) Securities Premium or Securities Premium Reserve,
 (ii) Statement of Profit & Loss,
 in the year it is incurred, i.e., in the year debentures are allotted.
41. (2) **Explanation:** Discount or Loss on Issue of Debentures is written off from Securities Premium and/or Statement of Profit & Loss.
42. (4) **Explanation:** Discount or Loss on Issue of Debentures is written off from Securities Premium (Section 52(2)) of the Companies Act, 2013 and from Statement of Profit & Loss. It is written off in the year it is incurred, i.e., debentures are allotted. (AS 16, Borrowing Cost).
43. (4) **Explanation:** Interest on Debentures is paid before payment of dividend on both equity and preference shares because interest on debentures is a charge against profit of the company.
44. (4) **Explanation:** If Debentures are issued as collateral security, Debentures Suspense Account is debited and Debentures Account is credited with the nominal (face) value of the Debentures. It is neither a liability nor a loss, if the security is not invoked by the lender.
45. (4) **Explanation:** Debentures issued as collateral security is not a liability till the time loan is being repaid along with due interest. Thus, interest is not payable on debentures.
46. (2) **Explanation:** Interest is not payable on debentures issued as collateral security. Hence, GE Ltd. will pay interest on Bank Loan of ₹ 10,00,000, calculated as follows:
 $\text{₹ } 10,00,000 \times 9/100 \times 10/12$, i.e., ₹ 75,000.
47. (3) **Explanation:** If the lender exercises his right to recover the dues from debentures issued as collateral security, means loan amount is reversed (debited), Outstanding Interest Account is reversed (debited) and Debentures Account (Liability) comes into existence. Hence, the entries passed are:

...% Debentures A/c	...Dr.
To Debentures Suspense A/c	
(...% Debentures issued as collateral security reversed)	
Loan A/c	...Dr.
Outstanding Interest A/c	...Dr.
To ...% Debentures A/c	
(Conversion of ...% Debentures issued as collateral security into ...% Debentures Liability)	

48. (2) **Explanation:** Interest Accrued and Due or Outstanding Interest is the amount of interest that has become due for payment but is not paid. Outstanding Interest (whether due or not) on debentures is shown in the Equity and Liabilities part of Balance Sheet under the main head Current Liabilities and sub-head Other Current Liabilities.
49. (1) **Explanation:** Interest Accrued and Due or Outstanding Interest is the amount of interest that has become due for payment but is not paid. Thus, as on 31st March, 2022, Interest Accrued and Due on Debentures would be for six months, i.e., ₹ 1,35,000 ($\text{₹ } 30,00,000 \times 9/100 \times 6/12$).
50. (2) **Explanation:** Interest Accrued but not Due on Debentures as on 31st March, 2022 will be ₹ 80,000 (i.e., $\text{₹ } 24,00,000 \times 10/100 \times 4/12$) because it will be payable in June, 2022.
51. (1) **Explanation:** Balance in Debentures' Interest or Interest on Debentures Account is shown in the Statement of Profit & Loss as Finance Cost, it being interest on borrowing.

52. (1) **Explanation:**

Debentures Application and Allotment A/c	...Dr.	₹ 38,00,000	
Loss on Issue of Debentures A/c	...Dr.	₹ 3,00,000	
To 8% Debentures A/c			₹ 30,00,000
To Premium on Redemption of Debentures A/c			₹ 1,50,000
To Bank A/c			₹ 9,50,000
(30,000, 8% Debentures of ₹ 100 each issued at 5% discount and redeemable at 5% premium and surplus application money refunded)			

Note: Loss on Issue of Debentures = ₹ 1,50,000 (Discount on Issue of Debentures)
 + ₹ 1,50,000 (Premium Payable on Redemption of Debentures)
 Discount On Issue of Debentures = 5% of ₹ 30,00,000 = ₹ 1,50,000
 Premium on Redemption of Debentures = 5% of ₹ 30,00,000 = ₹ 1,50,000.

53. (4) **Explanation:** Debentures offered for subscription are 2,00,000, 9% Debentures of ₹ 100 each at a discount of 5% to subscribe. Thus, a company can appropriate of ₹ 1,42,50,000 [*i.e.*, 75% of (2,00,000 × ₹ 95)] towards allotment of debentures.

54. (3) **Explanation:**

Debentures Allotment A/c (60,000 × ₹ 64)	...Dr.	₹ 38,40,000	
Loss on Issue of Debentures A/c	...Dr.	₹ 6,00,000	
To 9% Debentures A/c (60,000 × ₹ 70)			₹ 42,00,000
To Premium on Redemption of Debentures A/c			₹ 2,40,000
(60,000, 9% Debentures of ₹ 100 each issued at 6% discount and redeemable at 4% premium)			

Note: Loss on Issue of Debentures = ₹ 3,60,000 (Discount on Issue of Debentures) + ₹ 2,40,000 (Premium Payable on Redemption of Debentures) Discount On Issue of Debentures = 6% of ₹ 60,00,000 = ₹ 3,60,000 Premium on Redemption of Debentures = 4% of ₹ 60,00,000 = ₹ 2,40,000.

55. (2) **Explanation:**

Debentures Allotment A/c (25,000 × ₹ 75)	...Dr.	₹ 18,75,000	
Loss on Issue of Debentures A/c (25,000 × ₹ 5)	...Dr.	₹ 1,25,000	
To 10% Debentures A/c (25,000 × ₹ 70)			₹ 17,50,000
To Securities Premium Reserve A/c (25,000 × ₹ 5)			₹ 1,25,000
To Premium on Redemption of Debentures A/c (25,000 × ₹ 5)			₹ 1,25,000
(25,000, 10% Debentures of ₹ 100 each issued at 5% premium and redeemable at 5% premium)			

Note: Loss on Issue of Debentures = ₹ 1,25,000 (Premium Payable on Redemption of Debentures) Premium on Redemption of Debentures = 5% of ₹ 25,00,000 = ₹ 1,25,000.

56. (4) **Explanation:** Security given as additional security (collateral security) is disclosed for knowledge of the users, It is disclosed under Long-term Borrowings).

57. (3) **Explanation:**

Vendor's A/c	...Dr.	₹ 6,86,000	
Discount on Issue of Debentures A/c	...Dr.	₹ 49,000	
To 8% Debentures A/c			₹ 7,00,000
To Bank A/c			₹ 35,000
(Payment made to Vendor by issue of 7,000 [<i>i.e.</i> , ₹ (6,86,000 – 35,000)/₹ 93] 8% Debentures of ₹ 100 each at a discount of 7%)			

58. (2) **Explanation:** Journal entry for acquiring the business of Pie Ltd.

Plant and Machinery A/c	...Dr.	₹ 3,00,000	
Furniture A/c	...Dr.	₹ 1,50,000	
Sundry Debtors A/c	...Dr.	₹ 1,80,000	
Stock A/c	...Dr.	₹ 4,50,000	
To Sundry Creditors A/c			₹ 2,50,000
To Pie Ltd.			₹ 7,80,000
To Capital Reserve A/c (Balancing Figure)			₹ 50,000
(Business purchased from Pie Ltd.)			

Journal entry for allotment of Debentures:

Pie Ltd.	...Dr.	₹ 7,80,000	
Discount on Issue of Debentures A/c	...Dr.	₹ 40,000	
To 9% Debentures A/c			₹ 8,00,000
To Bank A/c			₹ 20,000

(Payment made to Pie Ltd. by issue of 8,000, 9% Debentures of ₹ 100 each at a discount of 5% and balance by cheque)

2. CASE STUDY BASED MCQS

1. A. 2. **Explanation:** No. of Debentures to be Issued = Amount due to Orient Ltd.*/ Issue Price of Debenture**
= ₹ 51,00,000/₹ 120 = 42,500.

*Amount Due to Orient Ltd. = ₹ 82,00,000 – ₹ 31,00,000 (By Cheque)
= ₹ 51,00,000.

**Issue Price of Debentures = ₹ 100 + ₹ 20 (i.e., ₹ 100 × 20/100) = ₹ 120.

B. 4. Explanation:	₹	₹
<i>Purchase Consideration:</i>		82,00,000
<i>Less:</i> Plant and Machinery A/c	30,00,000	
Sundry Debtors A/c	18,00,000	
Stock A/c	45,00,000	
Furniture A/c	<u>15,00,000</u>	<u>1,08,00,000</u>
		26,00,000
Sundry Creditors A/c		<u>25,00,000</u>
Balance Capital Reserve		<u><u>1,00,000</u></u>

C. 3. Explanation:	₹	₹
Orient Ltd.	...Dr.	82,00,000
Loss on Issue of Debentures A/c	...Dr.	10,62,500
To 10% Debentures A/c		42,50,000
To Securities Premium A/c		8,50,000
To Premium on Redemption of Debentures A/c		10,62,500
To Bank A/c		31,00,000

D. 3. Explanation:	₹	₹
Securities Premium A/c	...Dr.	8,50,000
Statement of Profit & Loss	...Dr.	2,12,500
To Loss on Issue of Debentures A/c		10,62,500

2. A. 3. **Explanation:** No. of Debentures to be Issued = (Funds to be Raised – Retained Earnings)/Issue Price of Debenture*
= (₹ 75,00,000 – ₹ 35,00,000)/₹ 125 = 32,000.

*Issue Price of Debentures = ₹ 100 + ₹ 25 (i.e., ₹ 100 × 25/100) = ₹ 125.

- B. 4. **Explanation:** Debentures Application and Allotment A/c amount received was ₹ 75,00,000 (60,000 × ₹ 125), Number of Debentures issued and allotted are 32,000. Therefore, Securities Premium received is ₹ 8,00,000 (32,000 × ₹ 25), which is credited to Securities Premium Account. Balance Application Money, i.e., ₹ 35,00,000 will be refunded and hence, credited to Bank Account. Debentures are redeemable at a premium of ₹ 30. Hence, ₹ 9,60,000 will be debited to Loss on Issue of Debentures Account and credited to Premium on Redemption of Preference Shares Account. Hence, the entry at serial 4 is correct.
- C. 2. **Explanation:** Prudence Concept requires that anticipated losses be accounted while anticipated incomes and gains are not. Premium payable on redemption of debentures is known at the time of issue of debentures. Thus, following the concept, Premium Payable on redemption of debentures is accounted at the time of allotment of debentures by debiting Loss on Issue of Debentures Account due to Prudence Concept.
- D. 1. **Explanation:** Loss on Issue of Debentures is written off in the year the debentures are allotted from Securities Premium and Statement of Profit & Loss. Since Securities Premium has a balance of ₹ 8,00,000, Loss on Issue of Debentures to the extent of ₹ 8,00,000 is written off from Securities Premium and balance ₹ 1,60,000 is written off from Statement of Profit & Loss.

3. A. 4. **Explanation:** 10,000, 9% Debentures are issued as Collateral Security. As a result, 9% Debentures Account will be credited. In order to complete the double entry, Debentures Suspense Account is debited.
- B. 2. **Explanation:** Purchase Consideration = No. of Debentures Issued × Issue Price = 15,000 × ₹ 90 = ₹ 13,50,000.
- C. 3. **Explanation:**
- $$\begin{aligned}\text{Purchase Consideration} &= \text{No. of Debentures Issued} \times \text{Issue Price} \\ &= 15,000 \times ₹ 90 = ₹ 13,50,000.\end{aligned}$$
- $$\begin{aligned}\text{Net Assets} &= \text{Agreed Value of Sundry Assets} - \text{Agreed Value of Sundry Liabilities} \\ &= ₹ (8,00,000 + 3,00,000 + 2,00,000 + 1,40,000 + 1,00,000) - ₹ 60,000 \\ &= ₹ 14,80,000.\end{aligned}$$
- $$\begin{aligned}\text{Capital Reserve} &= \text{Net Assets} - \text{Purchase Consideration} \\ &= ₹ 14,80,000 - ₹ 13,50,000 = ₹ 1,30,000.\end{aligned}$$
- D. 3. **Explanation:** Finance Costs = ₹ 72,000 (Interest on Bank loan) + ₹ 1,80,000 (Interest on Debentures) + ₹ 3,20,000 (Loss on Issue of Debentures written off) = ₹ 5,72,000.

3. SEQUENCE BASED MCQS

1. 3. **Explanation:** Discount or Loss on Issue of Debentures is written off from Securities Premium Reserve and thereafter from Statement of Profit & Loss.
2. 1. **Explanation:** When Debentures amount is received in two instalments:
- D. *On receipt of application money:*
- | | |
|------------------------------|--------|
| Bank A/c | ...Dr. |
| To Debenture Application A/c | |
- C. *For adjustment of applications money on allotment:*
- | | |
|---------------------------|--------|
| Debenture Application A/c | ...Dr. |
| To Debentures A/c | |
- B. *For allotment money due:*
- | | |
|-------------------------|--------|
| Debenture Allotment A/c | ...Dr. |
| To Debentures A/c | |
- C. *On receipt of allotment money:*
- | | |
|----------------------------|--------|
| Bank A/c | ...Dr. |
| To Debenture Allotment A/c | |
3. 4. **Explanation:**
- B. *When interest is due:*
- | | |
|---------------------------|--------|
| Debenture Interest A/c | ...Dr. |
| To Income Tax Payable A/c | |
| To Debentureholders A/c | |
- C. *For payment of interest to debentureholders:*
- | | |
|----------------------|--------|
| Debentureholders A/c | ...Dr. |
| To Bank A/c | |
- D. *On transfer debenture Interest Account to statement of Profit & Loss:*
- | | |
|----------------------------|--------|
| Statement of Profit & Loss | ...Dr. |
| To Debenture Interest A/c | |
- A. *On payment of tax deducted at source to the Government:*
- | | |
|------------------------|--------|
| Income Tax Payable A/c | ...Dr. |
| To Bank A/c | |

4. MATCHING QUESTIONS

1. 2. **Explanation:**

- A. Debentures which are almost risk free if they are Secured Debentures [List II, Option (III)].
- B. Debentures that are not repayable during the life of the company are termed as Perpetual Debentures [List II, Option (V)].
- C. Debentures that are not convertible into shares or new debentures are termed as Non-convertible Debentures [List II, Option (IV)].
- D. Debentures in this case requires execution of a transfer deed matches with Registered Debentures since in the records of the company debentures are in the name of a person [List II, Option (I)].
- E. Debentures that are repayable by the company on maturity are termed as Redeemable Debentures [List II, Option (II)].

2. 4. **Explanation:**

- A. Redeemable and Irredeemable Debentures are categorised based on Redemption of Debentures [List II, Option (III)].
- B. Convertible and Non-convertible Debentures are categorised based on Convertibility of Debentures [List II, Option (IV)].
- C. Registered and Bearer Debentures are categorised based on Registration of Debentures [List II, Option (I)].
- D. Secured and Unsecured Debentures are categorised based on Security of Debentures [List II, Option (II)].

3. 4. **Explanation:**

- A. A company can issue debentures for both Cash and for consideration other than cash [List II, Option (III)].
- B. When Debentures are issued as subsidiary or secondary or additional security besides the primary security, it is termed as Collateral Security [List II, Option (IV)].

4. 2. **Explanation:**

- A. Purchase consideration less than the net worth is credited to Capital Reserve [List II, Option (II)].
- B. Debentures reissued at value more than the nominal (face) value, the excess amount is securities premium [List II, Option (III)].
- C. Purchase consideration more than the net worth is debited to Goodwill Account [List II, Option (I)].

5. 2. **Explanation:**

- A. X Ltd. took over assets of ₹ 8,00,000 and acquired liabilities of ₹ 1,50,000 from Y Ltd for ₹ 7,50,000. Balancing amount is Goodwill (₹ 1,00,000) [(List II, Option (II))].
- B. M Ltd. acquired assets of ₹ 25,00,000 and Liabilities of ₹ 24,00,000 from N Ltd. Balancing amount is purchase consideration (₹ 1,00,000) [(List II, Option (III))].
- C. Z Ltd. acquired assets of ₹ 12,00,000 and liabilities of ₹ 3,00,000 of B Ltd for ₹ 8,00,000. Balancing amount is Capital Reserve (₹ 1,00,000) [List II, Option (I)].

6. 4. **Explanation:**

- A. Issue Price of Debentures = ₹ 50 + ₹ 10 = ₹ 60 ($₹ 50 \times 20/100 = ₹ 10$)
Number of Debentures = Amount due to Vendor/Issue Price of Debenture
= ₹ 24,00,000/₹ 60 = 40,000 Debentures [List II, Option (IV)].
- B. Issue Price of Debentures = ₹ 50 – ₹ 10 = ₹ 40 ($₹ 50 \times 20/100 = ₹ 10$)
Number of Debentures = Amount due to Vendor/Issue Price of Debenture
= ₹ 24,00,000/₹ 40 = 60,000 Debentures [List II, Option (I)].

5. COMBINATION WITH SINGLE ANSWER QUESTIONS

1. 4. **Explanation:** A company can purchase its own debentures for investment purpose. However, it cannot issue debentures with voting rights and a company can make preferential allotment of debentures.
2. 2. **Explanation:** If a company issues debentures as collateral security, liability on account of debentures is not created. It is created only when company fails to repay the loan. A company can issue unsecured debentures. Debentures cannot be issued with voting rights. Interest is payable on the nominal (face) value of the debentures.
3. 4. **Explanation:** Zero-Coupon Bond is a debt security that does not pay interest but instead trades at a deep discount, rendering a profit at maturity, when the bond is redeemed for its full-face value. It does not carry any interest rate. It is not necessary that Deep Discount Bonds are issued at a premium. Interest is payable on the nominal (face) value of the debentures.
4. 4. **Explanation:** It is correct that debenture interest is a charge against profits and interest rate is pre-fixed to debenture. It is not correct that debenture cannot be forfeited for nonpayment of debenture (*i.e.*, it can be forfeited) and issue price and redeemable value cannot differ.
5. 4. **Explanation:** It is not a proper business position that debentures issued at par or at discount be redeemable at discount. Subscribers to such an issue will be hard to find.
6. 1. **Explanation:** Debentures are not normally redeemable at discount, it being not a situation where subscribers will come forward to subscribe.