

Quadrant II – Notes

Programme: Bachelor of Commerce (Third Year)

Subject: Commerce

Paper Code: UCOD 125

Paper Title: DSE – 7 Accounting II

Unit: Unit III – Redemption of Debentures

Module Name: Redemption of Debentures- Convertible Debentures: Problem-Solution

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Redemption of Debentures by Conversion: When a debenture holder can convert his/her debentures into shares or new debentures after the expiry of a specified period of time, then it is known as redemption of debentures by conversion.

The debentures may be redeemed by converting them into equity shares as per the terms of their issue. The Companies Act prohibits any non-convertible portion of the debentures to be redeemed by conversion. This implies that the debentures will be redeemed by conversion only if they were issued as such and no cash outflow will take place and hence, there is no requirement of creating Debenture Redemption Reserve. Whenever the debentures are redeemed by conversion, the debenture holders have to apply for the same.

Illustration on Redemption of Debentures- Convertible Debentures Method

On 1-1-2015 Starcon ltd. issued 10,000 10% Debentures of Rs. 100 each on a condition that the company could redeem the debentures any time after 5 years at a premium of 4%, **either** by allotment of 11% Preference shares **or** other 11% Debentures **or** payment in cash at the option of debenture holders.

On 1-4-2020 the company gave the notice to the debenture holders of its intention to redeem the debentures.

On 1-8-2020, Holders of 4,000 debenture holders accepted the offer of the 11% Preference shares of Rs. 100 each at a premium of Rs. 30 per share; holders of 4,800 debentures accepted the offer of 11% other Debentures of Rs. 100 each at Rs. 96 per debenture and the rest demanded cash.

You are required to record the journal entries of conversion.

Journal Entries in the Books of Starcon Ltd.

Date of all entries: 1-8-2020 i.e the date of redemption/conversion

Particulars	Debit	Credit
10% Debentures Account (Dr.)	10,00,000	(10,000 X Rs.100)
Premium on redemption of Debentures Account(Dr.)	40,000	(10,00,000 X 4%)
To Debenture holders Account		10,40,000
<i>(Being transfer of amount due on redemption of 10% debentures including premium to debenture holders account)</i>		

Debenture holders Account (Dr.)	4,16,000	(4,000 X Rs.100 + 4,00,000 X 4%)
To 11% Preference Share Capital Account	3,20,000	(3,200 X Rs.100)
To Securities Premium Account	96,000	(3,200 X Rs.30)
<i>(Being issue of 3,200 Preference Shares of Rs.100 at Rs.130 each in exchange of 4,000 Debentures)</i>		
<i>***3,200 preference shares are calculated as 4,16,000/130</i>		

Debenture holders Account (Dr.)	4,99,200	(4,800 X Rs.104)
Discount on issue of 11% Debentures Account (Dr.)	20,800	(5,200 X Rs.4)
To 11% Debentures Account	5,20,000	(5,200 X Rs.100)
<i>(Being issue of 5200, 11% Debentures of Rs.100 at Rs.96 each of 4,800 Debentures)</i>		
<i>***5,200 debentures are calculated as 4,99,200 / Rs.96)</i>		

Debenture holders Account (Dr.)	1,24,800	(1,200 X Rs.104)
To Bank Account Account	1,24,800	(1,200 X Rs.104)
<i>(Being redemption of 1,200 Debentures in cash)</i>		

Securities Premium Account (Dr.)	40,000	
To Premium on redemption of Debentures Account		40,000
<i>(Being Premium on redemption of Debentures adjusted from Securities Premium Account)</i>		

Profit and Loss Appropriation Account	1,20,000	(1,200 X Rs.100)
To Debenture Redemption Reserve Account	1,20,000	(1,200 X Rs.100)
<i>(Being transfer of profits to DRR equal to face value of debentures redeemed in cash)</i>		