

21 Exe Ltd. Purchased assets of the book value 4,00,000 and took over the liabilities of 50,000 from Mohan Bros. It was agreed that he purchase consideration, settled at 3,80,000, be paid by issuing debentures of 100 each. Pass journal entreis if debentures are issued: (a) at par, (b) at a discount of 10% and (c) at a premium of 10%. It was agreed that any fraction of debentures be paid in cash.

Solution:

Case- I

Journal

| Date | Particular | L. F. | Dr. | Cr. |
|------|--|----------|--------------------|----------|
| 1. | Assets A/c Dr. Goodwill A/c Dr. To Liabilities A/c To Mohan Bros A/c (Business purchase of Mohan Bros) | | 4,00,000 30,000 | |
| 2. | Mohan Bros A/c Dr. To 10% Deb. A/c (3800 x 100) (Debentures issued to Mohan Bros at par) | | 3,80,000 | 3,80,000 |

Working Note:

$$\text{Number of Debentures} = \frac{3,80,000}{100} = 3800$$

Case- II

Journal

| Date | Particular | L. F. | Dr. | Cr. |
|------|---|----------|--------------------|--------------------|
| 1. | Assets A/c Dr. Goodwill A/c Dr. To Liabilities A/c To Mohan Bros A/c | | 4,00,000 30,000 | 50,000 3,80,000 |

| | | | | |
|-----------|--|--|----------------------------------|----------------------------|
| | (Business purchase of Mohan Bros) | | | |
| 2. | Mohan Bros A/c Dr. Discount on issue of Deb. A/c (4222 x 10) To 10% Deb. A/c (4222 x 100) To cash A/c (4222 Deb. issued to mohan Bros for 100 each at 10% Dis. & Bal. in cash) | | 3,80,000 42,220 | 42,220 20 |

Working Note:

$$\text{Number of Debentures} = \frac{3,80,000}{90} = 4,222$$

Case- III

Journal

| Date | Particular | L. F. | Dr. | Cr. |
|-------------|--|------------------|----------------------------------|---|
| 1. | Assets A/c Dr. Goodwill A/c Dr. To Liabilities A/c To Mohan Bros A/c (Business purchase of Mohan Bros) | | 4,00,000 30,000 | 50,000 3,80,000 |
| 2. | Mohan Bros A/c To Deb. A/c (3454 x 100) To securities pre. Reserve A/c (3454 x 10) To cash A/c (3454 Deb. issued to Mohan Bros for 100 each of 10% premium and balance in cash) | | 3,80,000 | 3,45,400 34,540 60 |

Working Note:

$$\text{Number of Debentures} = \frac{3,80,000}{110} = 3,454$$

22 Rama Ltd. took over following assets and liabilities of Krishna Ltd. on 1st April, 2019:

| | |
|--------------------------|------------------|
| Land and Building | 50,00,000 |
| Furniture | 10,00,000 |
| Stock | 5,00,000 |
| Creditors | 7,00,000 |

The Purchase consideration of 60,000 was paid by issuing 12% Debentures of 100 each at a premium of 20%.

pass the necessary journal entries for the above in the books of Rama Ltd.

Solution:

Journal

| Date | Particular | L. F. | Dr. | Cr. |
|-------------|---|------------------|------------------|------------------|
| 1. | Land & Building A/c | | 50,00,000 | |
| | Furniture A/c | | 10,00,000 | |
| | Stock A/c | | 5,00,000 | |
| | Goodwill A/c | | 2,00,000 | |
| | To sundry creditors A/c | | | 7,00,000 |
| | To Krishna Ltd. A/c | | | 60,00,000 |
| | (Business purchased) | | | |
| 2. | Krishna Ltd. A/c | | 60,00,000 | |
| | To 12% Deb. A/c (50000 x 100) | | | 50,00,000 |
| | To Securities premium reserve A/c | | | 10,00,000 |
| | (50000 x 20) | | | |
| | (50000 Deb. issued @ 100 each 20% premium) | | | |

Working Note:

$$\begin{aligned}\text{Number of Debentures} &= \frac{\text{Consideration paid to krishna}}{\text{Price of one Debentures}} \\ &= \frac{60,00,000}{120} = 50,000\end{aligned}$$

23 Green Ltd. purchase the assets of strong Ltd. for 40,00,000 and took over liabilities of 7,00,000 for 32,40,000. Payment was made by issuing 10% Debentures of 100 each at a discount if 10%. Pass the necessary Journal entries in the books of Green Ltd.

Solution: Journal

| Date | Particular | L. F. | Dr. | Cr. |
|-------------|---|------------------|-------------------------------------|--|
| 1 | Assets A/c To sundry Liabilities A/c To strong Ltd. To capital reserve A/c (Business Purchased) | | 40,00,000 | 7,00,000 32,40,000 60,000 |
| 2. | STRONG LTD. A/C (36000 X 10) DIS. ON ISSUE OF DEB. A/C TO 10% DEB. A/C (36000 X 100) (36000 DEB. ISSUED @ 100 EACH AT 10% DIS. AS CONSIDERATION) | | 32,40,000 3,60,000 | 36,00,000 |

Working Note:

$$\text{Number of Debentures} = \frac{32,40,000}{90} = 36,000$$

24 Anthony Ltd. issued 20,000, 9% Debenture of 100 each at 10% discount to mithoo Ltd. from whom Assets of 23,50,000 and Liabilities of 6,00,000 were taken over. Pass entries in the books of Anthony Ltd. if these debentures were to be redeemed at 5% premium.

Solution:

Case- I

Journal

| Date | Particular | L. F. | Dr. | Cr. |
|------|---|----------|-----------------------|------------------------|
| 1. | Assets A/c Dr. Goodwill A/c Dr. To Liabilities A/c To Mithoo Ltd. A/c (Business purchase of mithoo Ltd. comprising Assets & Liabilities) | | 23,50,000 50,000 | 60,00,000 18,00,000 |
| 2. | Mohan Bros A/c Dr. Loss on issue of Deb. A/c (2000000 x 10% x 5%) To 9% Deb. A/c (20000 x 100) To premium on redemption of Deb. A/c | | 18,00,000 3,00,000 | 20,00,000 1,00,000 |

| | | | | |
|--|--|--|--|--|
| | (Debentures issued to mithoo Ltd. at discount redeemable of premium) | | | |
|--|--|--|--|--|

Working Note:

$$\text{Number of Debentures} = \frac{18,00,000}{90} = 20,000$$

25 Neeraj Ltd. took over business of Ajay Enterprises on 1-04-2020. The details of the agreement regarding the assets and liabilities to be taken over are:

| Particular | Book value | Agreed value |
|-----------------------------|------------------|------------------|
| Building | 20,00,000 | 35,00,000 |
| Plant and Machinery | 12,00,000 | 8,00,000 |
| Stock | 4,00,000 | 4,00,000 |
| Trade receivables | 5,00,000 | 4,00,000 |
| Creditors | 2,00,000 | 3,00,000 |
| Outstanding Expenses | 50,000 | 1,00,000 |

It was decided to pay for purchase consideration as 7,00,000 through cheque and balance by issue of 2,00,000, 9% Debentures of 20 each at a premium of 25% journalize.

Solution:

Journal

| Date | Particular | L. F. | Dr. | Cr. |
|------|------------|----------|-----|-----|
|------|------------|----------|-----|-----|

| | | | | |
|----|--|-----|-----------|-----------|
| 1. | Building A/c | Dr. | 35,00,000 | |
| | Plant & Machinery A/c | Dr. | 8,00,000 | |
| | Stock A/c | Dr. | 4,00,000 | |
| | Trade Receivable A/c | Dr. | 4,00,000 | |
| | Goodwill A/c | Dr. | 10,00,000 | |
| | To Sundry creditors A/c | | | 3,00,000 |
| | To outstanding expenses A/c | | | 1,00,000 |
| | To Ajay Enterprises A/c | | | 57,00,000 |
| | (Business purchase of Ajay enterprises comprising Assets & Liabilities) | | | |
| 2. | Ajay Enterprises Ltd. A/c | | 57,00,000 | |
| | Dr. | | | 40,00,000 |
| | To 9% Deb. A/c (200000 x 20) | | | 10,00,000 |
| | To Securities premium reserve A/c (200000 x 5) | | | 7,00,000 |
| | To Bank A/c (200000 Deb. issued @ 20 each at 25% premium as consideration) | | | |

Working Note:

$$\text{Number of Debentures} = \frac{57,00,000 - 70,000}{25} = 20,00,00$$

26 Grown Ltd. issued 500, 10% Debentures of 1,000 each credited as fully paid-up to the promoters for their services to incorporate the company. It also issued 100, 10% Debentures of 1,000 each credited as fully paid-up to the underwriters towards their commission. Pass the journal entries.

Solution:

Journal

| Date | Particular | L. F. | Dr. | Cr. |
|------|--|----------|-----------------|------------------------------------|
| 1. | Incorporation Expenses A/c Dr. To promoters A/c (Amount of incorporation expenses recorded) | | 5,00,000 | 5,00,000 |
| 2. | Promoters A/c Dr. To 10% Debentures A/c (500, 10% Deb. @ 100 each issued to promoters) | | 5,00,000 | 5,00,000 |
| 3. | Underwriting commission A/c Dr. To underwriters A/c (underwriters commission to underwriters due) | | 1,00,000 | 1,00,000 |
| 4. | Underwriters A/c Dr. To 10% Deb. A/c (100, 10% deb. @ 100 each issued to underwriters) | | 1,00,000 | 1,00,000 |
| 5. | Statement of profits & loss A/c Dr. To incorporation expenses A/c To underwriting expenses A/c (Sundry expenses transferred to p/c A/c) | | 6,00,000 | 5,00,000 1,00,000 |

| Date | Particular | L. F. | Dr. | Cr. |
|------|--|----------|--------------------|--------------------|
| 1. | Sundry Assets A/c Dr. Goodwill A/c Dr. To sundry liabilities A/c To star Ltd. (Business purchased of star Ltd. comprising Assets & Liabilities) | | 6,60,000 20,000 | 80,000 6,00,000 |
| 2. | Star Ltd. A/c Dr. To Bank A/c (10% payment is paid in cash) | | 60,000 | 60,000 |
| 3. | Star ltd. A/c (5400 x 100) Dr. To 12% Deb. A/c (5400 Deb. issued @ 100 each as consideration) | | 5,40,000 | 5,40,000 |

Working Note:

$$\text{Number of Debentures} = \frac{54,00,000}{100} = 5,400$$

Case- II**Journal**

| Date | Particular | L. F. | Dr. | Cr. |
|------|---|----------|----------------------------------|----------------------------------|
| 1. | Sundry Assets A/c Dr. Goodwill A/c Dr. To sundry liabilities A/c To star Ltd. (Business purchased of star Ltd. comprising Assets & Liabilities) | | 6,60,000 20,000 | 80,000 6,00,000 |
| 2. | Star Ltd. A/c Dr. To Bank A/c (10% payment is paid in cash) | | 60,000 | 60,000 |
| 3. | Star ltd. A/c (5400 x 100) Dr. To 12% Deb. A/c (4500 x 100) To securities premium reserve A/c (4500 x 20) (4500,12% Deb. issued @ 100 each of 20% premium as consideration) | | 5,40,000 | 4,50,000 90,000 |

Working Note:

$$\text{Number of Debentures} = \frac{54,00,000}{120} = 4,500$$

Case- III**Journal**

| Date | Particular | L. F. | Dr. | Cr. |
|------|------------|----------|-----|-----|
|------|------------|----------|-----|-----|

| | | | | |
|----|---|------------|--------------------|--------------------|
| 1. | Sundry Assets A/c Goodwill A/c To sundry liabilities A/c To star Ltd. (Business purchased of star Ltd. comprising Assets & Liabilities) | Dr. Dr. | 6,60,000 20,000 | 80,000 6,00,000 |
| 2. | Star Ltd. A/c To Bank A/c (10% payment is paid in cash) | Dr. | 60,000 | 60,000 |
| 3. | Star ltd. A/c Discount on issue of Deb. A/c (6000 x 10) To 12% Deb. A/c (4500 x 100) (6000 Deb. issued @ 100 each of 10% Dis. issued as consideration) | Dr. | 5,40,000 60,000 | 6,00,000 |

Working Note:

$$\text{Number of Debentures} = \frac{5,40,000}{90} = 6,000$$

28 Star Ltd. took over the assets of 6,00,000 and liabilities of 80,000 of moon Ltd. for 6,00,000 Give necessary journal in the books of star Ltd. if:

Case 1. The purchase consideration was payable 10% in cash and the balance in 5,400; 12% Debentures of 100 each.

Case 2. The purchase consideration was payable 10% in cash and the balance in 4,500; 12% Debentures of 100 each issued at 20% premium.

Case- I**Journal**

| Date | Particular | L. F. | Dr. | Cr. |
|------|--|----------|----------------------------------|----------------------------------|
| 1. | Sundry Assets A/c Dr. Goodwill A/c Dr. To sundry liabilities A/c To moon Ltd. (Business purchased of star Ltd. comprising Assets & Liabilities) | | 6,60,000 20,000 | 80,000 6,00,000 |
| 2. | Moon Ltd. A/c Dr. To Bank A/c (10% payment is paid in cash) | | 60,000 | 60,000 |
| 3. | Moon ltd. A/c (5400 x 100) Dr. To 12% Deb. A/c (5400 Deb. issued @ 100 each as consideration) | | 5,40,000 | 5,40,000 |

Working Note:

$$\text{Number of Debentures} = \frac{5,40,000}{100} = 5,400$$

Case- II**Journal**

| Date | Particular | L. F. | Dr. | Cr. |
|------|--|----------|----------------------------------|----------------------------------|
| 1. | Sundry Assets A/c Dr. Goodwill A/c Dr. To sundry liabilities A/c To Moon Ltd. (Business purchased of star Ltd. comprising Assets & Liabilities) | | 6,60,000 20,000 | 80,000 6,00,000 |

| | | | | |
|----|---|-----|----------|--------------------|
| 2. | Moon Ltd. A/c To Bank A/c (10% payment is paid in cash) | Dr. | 60,000 | 60,000 |
| 3. | Moon Ltd. A/c To 12% Deb. A/c (4500 x 100) To securities premium reserve A/c (4500 x 20) (4500,12% Deb. issued @ 100 each of 20% premium as consideration) | Dr. | 5,40,000 | 4,50,000 90,000 |

Working Note:

$$\text{Number of Debentures} = \frac{5,40,000}{120} = 4,500$$

Issue of Debentures as Collateral Security

29 A company took loan of 4,00,000 from Bandhan Bank Ltd. and issued 8% Debentures of 4,00,000 as a collateral security.

Solution:

First method (when journal entry is not passed)

An Extract of Balance Sheet as at...

| Particulars | Note No. | |
|---------------------------------|----------|----------|
| I Equity and Liabilities | | |
| Non-current Liabilities | | |
| Long-term Borrowings | 1 | 4,00,000 |

Note to Accounts

| Particular | |
|--------------------------------|----------|
| 1. Long-term Borrowings | |
| Loan from Bank Ltd. | 4,00,000 |

| | |
|--|--|
| (Secured by issue of 4,000, 8% Deb. of 100 each) | |
|--|--|

Journal Entry

| Date | Particular | L. F. | Dr. | Cr. |
|------|--|----------|----------|----------|
| 1. | Bank A/c To Bank Loan A/c (Bank loan raised from Bandhan Bank Ltd.) | | 4,00,000 | 4,00,000 |
| 2. | Debenture suspense A/c To 9% Deb. A/c (issue of 4,000, 8% Deb. of 100 each as collateral security for a loan taken from Bandhan Bank Ltd.) | | 4,00,000 | 4,00,000 |

An Extract of Balance Sheet as at...

| Particulars | Note No. | |
|---------------------------------|----------|----------|
| I Equity and Liabilities | | |
| Non-current Liabilities | 1 | 4,00,000 |
| Long-term Borrowings | | |

Note to Accounts

| Particular | |
|--|----------|
| 1. Long-term Borrowings | |
| Loan from Bank Ltd. (4000, 8% Deb. of 100 each issued as collateral security) | 4,00,000 |
| 400000 | 4,00,000 |

| | |
|--|--|
| Less: Debentures suspense A/c <u>400000</u> | |
|--|--|

30 Best Barcode Ltd. took loan of 5,00,000 from a bank giving 6,00,000; 9% Debentures as collateral security. Pass journal entries regarding issue of debentures, if any, and show this loan in the balance sheet of the company.

Solution:

Journal

| Date | Particular | L. F. | Dr. | Cr. |
|------|--|----------|----------|----------|
| 1. | Bank A/c Dr. To Bank loan A/c (Bank Loan raised from Bank) | | 5,00,000 | 5,00,000 |
| 2. | Debenture suspense A/c To 9% Deb. A/c (issue of 6000, 8% Deb. of 100 each as collateral security for a loan taken from Bank) | | 6,00,000 | 6,00,000 |

An Extract of Balance Sheet as at.....

| Particulars | Note No. | |
|---------------------------------|----------|----------|
| I Equity and Liabilities | | |
| Non-current Liabilities | 1 | 5,00,000 |
| Long-term Borrowings | | |

Note to Accounts

| Particular | |
|--------------------------------|----------|
| 1. Long-term Borrowings | |
| Loan from Bank Ltd. | 5,00,000 |

| | |
|---|-----------------|
| <p>(6000, 8% Deb. of 100 each issued as collateral security)</p> <p>Less: Debenture suspense A/c</p> <p>600000</p> <p><u>600000</u></p> | <p>5,00,000</p> |
|---|-----------------|