. REDEMPTION BY INSURANCE POLICY

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This is an alternative to sinking fund method. Under this method, an insurance policy is purchased by paying annual premium. Such policy will mature on the date of redemption. This method provides funds for redemption and covers the risk involved in the transactions. Under this method the following entries are passed.

During all the years till the policy maturity:

Dun	ing an the years the the policy maturity.	
i.	For amount of premium paid at the be	eginning of the year
	Debenture Redemption Policy A/c	Dr
	To Bank A/c	
ii.	For setting aside the profit at the end	of the year
	P & L Appropriation A/c	Dr
	To Debenture Redemption Fun	ld A/c
Durii	ng the last year in addition to the above t	two entries
i.	For realizing the insurance policy	
	Bank A/c	Dr
	To Debenture Redemption Pol	icy A/c
ii.	For the transfer of profit on realization	า
	Debenture Redemption Policy A/c	Dr
	To Debenture Redemption Fun	nd A/c
	(Note: if loss the entry is reversed)	
iii.	For amount due to debenture holders	
	Debentures A/c	Dr
	Premium on redemption A/c	Dr (if redemption at premium)
	To Debenture holders A/c	
iv.	For amount paid to debenture holders	5
	Debenture holders A/c	Dr
	To Bank A/c	
٧.	For transfer of balance in Debenture R	Redemption Fund A/c
	Debenture Redemption Fund A/c	Dr
	To General Reserve A/c	
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Illustration 20

Athul Ltd issued 1000, 6% debentures of Rs.100 each at par redeemable after 5 years at premium of 10%. An insurance policy was taken at the time of issue of debentures on 1 April 2006 for the amount in order to provide for the necessary funds required for the redemption. The annual premium paid at the beginning of every year Rs.18280. show the accounts for redemption.

Solution:

6% Debentures A/c						
2007			2006			
Mar 31	To Balance c/d	100000	•	By Bank (first year)	100000	
2011 Mar 31	To Debenture holders A/c	100000	2010 Apr 1	By Balance b/d	100000	

Premium on redemption of debentures A/c

2007			2006	By loss on issue of		
Mar 31	To Balance c/d	10000		debentures A/c	10000	
2011	To Dehenture holders A/c	10000	2010	Rv Balance h/d	10000	

Mar 31		Apr 1	

CORPORATE ACCOUNTING

Debenture Redemption Fund A/c

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Debenture Redemption Fund A/c					
2007	To Balance c/d	18280		By P&L Appn A/c	18280
Mar 31			Mar 31 Apr 1	By Balance b/d	18280
2008 Mar 31	To Balance c/d	36560	2008 Mar 31	By P&L Appn A/c	18280
		36560		, ,, ,,	36560
			2008	By Balanco h/d	36560
2009	To Balance c/d		Apr 1 2009	By Balance b/d By P&L Appn A/c	18280
Mar 31		54840	Mar 31	- / · •·-· · · · · · · · · · ·	
		54840			54840
			2009 Apr 1	By Balance b/d	54840
2010 Dag 21	To Balance c/d	73120	2010	By P&L Appn A/c	18280
Dec 31	,	73120	Mar 31	, , ,	73120
2011			2010 Apr 1	By Balance b/d	73120
Mar 31	To loss on issue of			By P&L Appn A/c	18280
	debentures A/c	10000	-	By Debenture	
	To General Reserve	100000	Mar 31	Redemption Policy	18600
				(profit on realization – B.F)	
		110000			110000

Debenture Redemption Policy A/c (Investment)

2006	To Bank	18280	2007 Mar 31	By Balance c/d	18280
Apr 1 2007	To Balance b/d	18280			
Apr 1	To Bank	18280	2008 Mar 31	By Balance c/d	36560
2008	To Balance b/d	36560			36560
Apr 1	To Bank	36560		By Balance c/d	
		18280	Mar 31	,	54840
2009		54840			54840
Apr 1	To Balance b/d	54840	Mar 31	By Balance c/d	
	To Bank	18280			73120
2010		73120	2011		73120
Apr 1	To Balance b/d To Bank	73120 18280		By Bank	110000
2011				(realization of policy)	
Mar 31	To Deb. Red. Fund (profit-B.F)	18600			
		110000			110000
	Debe	nture holder	s A/c		-
		110000	2011	By 6% Debentures	100000
2011 Mar 31	To Bank A/c	110000	Mar 31	A/c	100000
				By premium on redemption of	10000
				debentures A/c	10000
		110000			110000