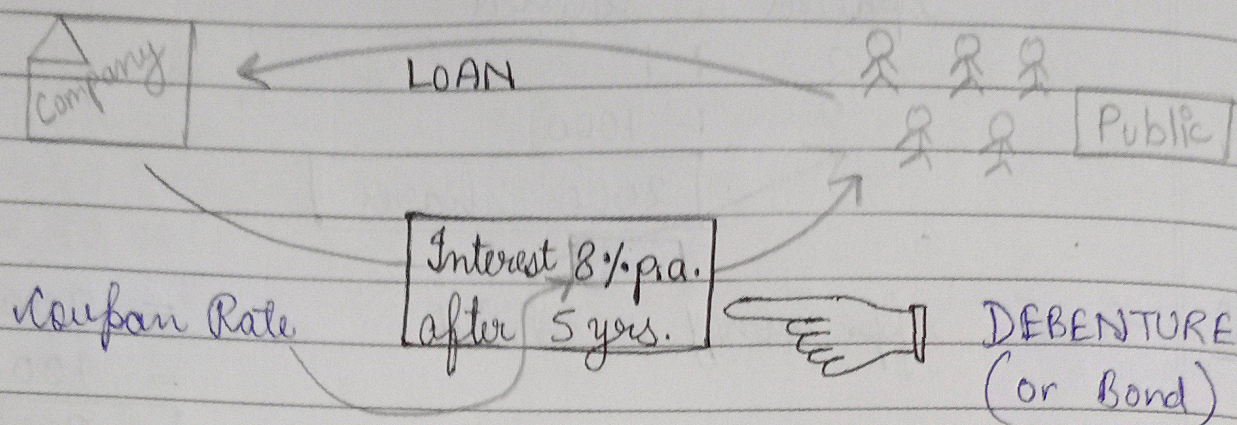


ISSUE OF DEBENTURES



* **Debentures:** It is a written document issued by the company acknowledging the borrowing. The terms of repayment of principal and the payment of interest at a specified rate are stated in the document.

→ **Debentures Trust deed:** Company issuing debentures to the public is required to appoint trustees and execute a Trust deed. It is the responsibility of trustees to protect the interest of debenture holders through the powers granted by the Trust deed.

→ **Bonds:** It is very similar to that of debenture. Bonds had been issued by the government. Debentures are issued with a fixed rate of interest whereas bonds can be issued without pre-determined rate of interest.

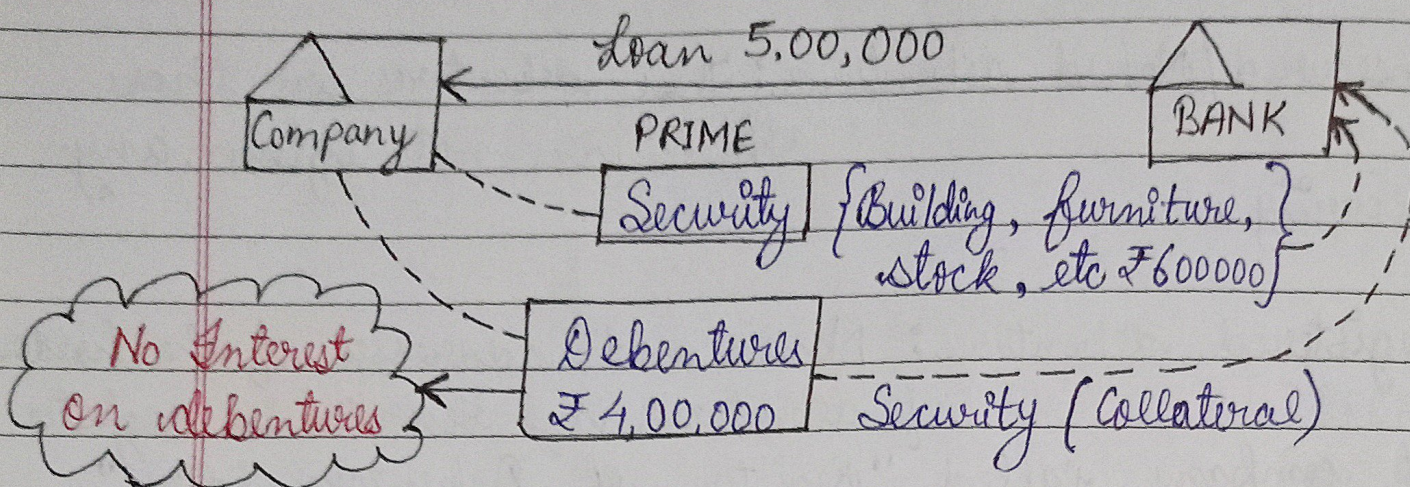
* Types of Debentures

(i) **Secured / Mortgage debentures:** These debentures are those which are secured either

on particular assets or all assets of the Company.

- (ii) **Unsecured/Naked debentures**: These debentures are those which are not given any security.
- (iii) **Registered debentures**: Names and addresses of the holders of debentures are recorded in register of company called "Register of Debentureholders". Such debentures are not freely transferable.
- (iv) **Bearer debentures**: Name and addresses of debentureholder are not recorded in the company.
- (v) **Redeemable debentures**: The debenture which will be repaid by the company at the end of specified period or by installments during the lifetime of the company.
- (vi) **Irredeemable/Perpetual**: The debenture which are ~~to~~ only repayable at winding-up of company.
- (vii) **Convertible debentures**: The debentures which are convertible into equity shares or other securities.

★ Issue of Debentures as Collateral Security



★ Interest on loan of ₹ 5,00,000 will be given.

Illustration. 13

Ajay enterprises A/c	Dr.	57,00,000	
To bank A/c			7,00,000
To 9% debentures A/c			40,00,000
To securities premium A/c			10,00,000

Building A/c	Dr.	35,00,000	
Plant and machinery A/c	Dr.	8,00,000	
Stock A/c	Dr.	4,00,000	
Trade receivables A/c	Dr.	4,00,000	
Goodwill A/c	Dr.	10,00,000	
To creditors A/c			3,00,000
To outstanding expenses			1,00,000
To Ajay enterprises			57,00,000

* Issue of Debentures as Collateral Security

Collateral security : It is secondary security ~~in~~ issued in the form of debentures to supplement primary security offered against loan

→ First method : In this only loan taken is recorded. Debenture issued at collateral security shown in foot note.

(i) Bank A/c Dr.
To bank loan A/c

→ Second method : Under this method, loan taken and debenture ~~are~~ issued as collateral securities both are recorded.

(i) Bank A/c Dr.
To bank loan.

(ii) Debenture suspense A/c Dr.
To debentures A/c

Illustration. 17

Purchase Consideration:

(i) 5,000 equity shares @ ₹13	65000
(ii) 1000 debentures @ ₹90	90000
(iii) Promissory Note	48000
	<u>2,03,000</u>

(i) Machinery A/c Dr. 2,03,000
To K Ltd. 2,03,000

(ii) K Ltd. Dr. 65000
To equity share capital A/c 50000
To securities premium reserve 15000

(iii) K Ltd. Dr. 90000
Discount on issue of debenture A/c Dr. 10000
To 8% debentures A/c 100000

(iv) K Ltd. Dr. 48000
To Bills payable A/c 48000



Illustration. 9

→ Sundry assets A/c Dr. 9,90,000
To Vendor's A/c 9,90,000

(i) When debentures issued at Par: ₹

→ Vendor's A/c Dr. 990000
To 11% debentures A/c 990000

(ii) When debentures are issued at premium:

→ Vendor's A/c Dr. 990000
To 11% debentures A/c 900000
To securities premium reserve A/c 90000

(iii) When debentures are issued at discount:

→ Vendor's A/c Dr. 9,90,000
Discount on issue of debentures A/c Dr. 1,10,000
To 11% debentures A/c 11,00,000

→ Statement of Profit & loss Dr. 1,10,000
To discount on issue of debenture 1,10,000

WN. of (ii)

$$\text{At 10\% premium} \Rightarrow \frac{9,90,000}{(100+10)} \times \frac{100}{110} = 9000 \text{ debentures}$$

WN. of (iii)

$$\text{At 10\% discount} = \frac{9,90,000}{(100-10)} \times \frac{100}{90} = 11000 \text{ debentures}$$

* Debenture Interest

Transactions	Journal Entry
1) Interest due	Debenture interest A/c Dr. To debentureholder
2) For payment	Debentureholder A/c Dr. To bank A/c
3) For transfer of und interest to Dr. side of P&L A/c B	P&L A/c Dr. To debenture interest

Ques - On 1st April 2015 J.K Ltd. issued 8000, 9% debentures of ₹ 1000 each at a discount of 6%, redeemable at a premium of 5% after 3 years. The company closes its books on 31st March every year. Interest on 9% debenture is payable on 30th ~~sept~~ September and 31st March to every year. Pass necessary journal entries for the year ended 31st March 2016

Ans - In the books of J.K Ltd.

1) Bank A/c	Dr.	75,20,000	
To debenture application & allotment A/c			75,20,000
2) Debenture application & allotment A/c	Dr.	75,20,000	
Loss on issue of debenture	Dr.	880,000	
To 9% debenture			4,80,00,000
To premium on redemption			40,00,000

30 sep

Debenture interest A/c Dr. 360000
To debentureholder 360000

Debentureholder A/c Dr. 360000
To bank A/c 360000

Statement of P & L A/c Dr. 360000
To debenture interest 360000

2016
31st March

Debenture interest A/c Dr. 360000
To debenture holder A/c 360000

Debenture holder A/c Dr. 360000
To bank A/c 360000

Statement P & L A/c Dr. 360000
To debenture interest A/c 360000

★ Writing off Discount / Loss on debenture

Ques

On 1st april 2020, Alok Ltd. issued 7000 10% debentures of ₹ 500 each at a premium of 5% and redeemable at a premium of 10% after 5 years. According to the terms of issue ₹ 200 was payable on application and balance on allotment. Record necessary journal entries regarding issue of debentures.

Ans-

1) Bank A/c (7000 × 200) Dr. 1400000
To debentures Appli 1400000

2> Debenture application A/c Dr. 1400000
 To 10% debenture A/c 1400000

3> Debenture allotment A/c Dr. 2275000
 Loss on issue of debenture A/c Dr. 350000
 To 10% debenture A/c (7000 x 300) 2100000
 To securities premium (7000 x 25) 175000
 [5% of 500 = 25]
 To premium of ~~on~~ redemption of discount (350000 x 10%) 350000

4> Bank A/c Dr. 2275000
 To debenture application 2275000

5> Securities premium A/c Dr. 175000
 State of Profit & loss A/c Dr. 175000
 To loss on debenture A/c 350000

Illustration .32 [8.38]

2017

Jan 1. Bank A/c Dr. 95000
 To debenture application & allotment A/c 95000

Debenture application & allotment A/c Dr. 95000
 Discount on issue of debenture A/c Dr. 5000
 To 12% debenture A/c 100000

Dec 31 Debenture interest A/c Dr. 12000
 To debentureholders A/c 12000

Debentureholders A/c Dr. 12000
 To bank A/c 12000

Statement of P & L A/c Dr. 17000
 To debenture interest A/c 12000
 To discount on debenture A/c 5000

Dr.		Debenture discount / loss on issue of debenture				Cr.	
Date	Particulars	₹	Date	Particulars	₹		
2017			2017				
Jan 1.	To 12% debenture A/c	5000	Dec. 31	By statement of P & L A/c	5000		
		5000			5000		

2019

Dec. 31 Debenture interest A/c Dr. 12000
 To debentureholders A/c 12000

Debentureholder A/c Dr. 12000
 To bank A/c 12000

P & L A/c Dr. 12000
 To debenture interest A/c 12000

Debenture A/c Dr. 20000
 To debentureholder A/c 20000

Debentureholder A/c Dr. 20000
 To bank A/c 20000

2020

Dec. 31 Debenture interest A/c Dr. 9600
 To debentureholder A/c 9600
 12% [100000 - 20000]

Debentureholder A/c Dr. 9600
 To bank A/c 9600

Statement P & L A/c	Dr.	9600	
To debentureholder A/c			9600

12% debenture A/c	Dr.	60000	
To debentureholder A/c			60000

Debentureholder A/c	Dr.	60000	
To bank A/c			60000

2021

Dec. 31

Debenture interest A/c	Dr.	2400	
To debenture A/c			2400

Debentureholder A/c	Dr.	2400	
To bank A/c			2400

Statement P & L A/c	Dr.	2400	
To debenture holder interest A/c			2400

Debenture A/c	Dr.	20000	
To debentureholder A/c			20000

Debentureholder A/c	Dr.	20000	
To bank A/c			20000

Accounting for Issue of Debentures Considering the Terms and Conditions of Redemption

Debentures may be redeemed either at par or at premium, according to the terms laid down at the time of issue. After taking into account the three possibilities of issue (i.e., at par, at discount, at premium) and two possibilities of redemption (i.e., at par or at premium) a Company can issue debentures from the following six types :

1. When debentures are issued at par and are redeemable at par : For example, if a debenture of ₹100 is issued at ₹100 and is redeemable at ₹100, the following entries will be passed :

Entries for Issue :			Entries for Redemption :		
Bank A/c	Dr.	100	Debentures A/c	Dr.	100
To Debenture Application & Allotment A/c		100	To Debentureholders A/c		100
Debenture Application & Allotment A/c	Dr.	100	Debentureholders A/c	Dr.	100
To Debentures A/c		100	To Bank A/c		100

2. When debentures are issued at a discount and are redeemable at par : For example, if a debenture of ₹100 is issued at ₹95 and is redeemable at ₹100, the following entries will be passed :

Entries for Issue :			Entries for Redemption :		
Bank A/c	Dr.	95	Debentures A/c	Dr.	100
To Debenture Application & Allotment A/c		95	To Debentureholders A/c		100
Debenture Application & Allotment A/c	Dr.	95	Debentureholders A/c	Dr.	100
Discount on Issue of Debentures A/c	Dr.	5	To Bank A/c		100
To Debentures A/c		100			

'Discount on issue' is a capital loss and will be written off from Securities Premium (if it exists) or from General Reserve (if it exists) or from Statement of Profit & Loss in the year in which it occurs.

3. When debentures are issued at a premium and are redeemable at par : For example, if a debenture of ₹100 is issued at ₹105 and is redeemable at ₹100, the following entries will be passed :

Entries for Issue :			Entries for Redemption :		
Bank A/c	Dr.	105	Debentures A/c	Dr.	100
To Debenture Application & Allotment A/c		105	To Debentureholders A/c		100
Debenture Application & Allotment A/c	Dr.	105	Debentureholders A/c	Dr.	100
To Debentures A/c		100	To Bank A/c		100
To Securities Premium Reserve A/c		5			

Securities Premium Reserve A/c has a credit balance and is a capital profit, to be shown on the equity and liabilities side under the head, "Reserves and Surplus".

4. When debentures are issued at par and are redeemable at a premium : Sometimes the debentures are issued with the specific condition that the Company will pay a premium at the time of their redemption. Although, such premium will be paid at the time of actual redemption, but as it is a known loss, the Company records such loss at the time of issue by debiting an account called, "Loss on issue of debentures A/c". It is done in keeping with the convention of conservatism.

For example, if a debenture of ₹100 is issued at ₹100 and is redeemable at ₹105, the following entries will be passed :

Entries for Issue :			Entries for Redemption :		
Bank A/c	Dr.	100	Debentures A/c	Dr.	100
To Debenture Application & Allotment A/c		100	Premium on Redemption of Debentures A/c	Dr.	5
Debenture Application & Allotment A/c	Dr.	100	To Debentureholders A/c		105
Loss on Issue of Debentures A/c	Dr.	5	Debentureholders A/c	Dr.	105
To Debentures A/c		100	To Bank A/c		105
To Premium on Redemption of Debentures A/c		5			

'Loss on issue of debentures A/c' is a loss on account of promise to pay debentures at premium at the time of their redemption. This is a capital loss and is written off from Security Premium Reserve or from General Reserve or from Statement of Profit & Loss in the year it occurs. The entry for writing off will be :

Statement of Profit and Loss	Dr.
To Loss on Issue of Debentures A/c	

'Premium on Redemption of Debentures A/c' is a Personal Account and shows a credit balance. It is a liability on the part of the Company and appears under the head: 'Non-Current Liabilities' under sub-head 'Other Long term Liabilities' on the equity and liability side of the balance sheet each year, until the debentures are repaid. At the time of redemption of debentures, this account is debited and closed off.

★ **5. When debentures are issued at a discount and are redeemable at a premium :** For example, if a debenture of ₹100 is issued at ₹98 and is redeemable at ₹105, the following entries will be passed :

Entries for Issue :			Entries for Redemption :		
Bank A/c	Dr.	98	Debentures A/c	Dr.	100
To Debenture Application & Allotment A/c			Premium on Redemption of Debentures A/c	Dr.	5
Debenture Application & Allotment A/c	Dr.	98	To Debentureholders A/c		105
Loss on Issue of Debentures A/c	Dr.	7	Debentureholders A/c	Dr.	105
To Debentures A/c		100	To Bank A/c		105
To Premium on Redemption of Debentures A/c		5			

Both, the amount of discount allowed ₹2 and premium on redemption ₹5 are capital losses and therefore, grouped together and debited to 'Loss on issue' as ₹7.

6. When debentures are issued at premium and are redeemable at a premium: For example, if a debenture of ₹100 is issued at ₹106 and is redeemable at ₹110, the following entries will be passed :

Entries for Issue :			Entries for Redemption :		
Bank A/c	Dr.	106	Debentures A/c	Dr.	100
To Debenture Application & Allotment A/c			Premium on Redemption of Debentures A/c	Dr.	10
Debenture Application & Allotment A/c	Dr.	106	To Debentureholders A/c		110
Loss on Issue of Debentures A/c	Dr.	10	Debentureholders A/c	Dr.	110
To Debentures A/c		100	To Bank A/c		110
To Securities Premium Reserve A/c		6			
To Premium on Redemption of Debentures A/c		10			

Notes :

- Loss on issue of Debentures (₹10) will be first written off from Securities Premium Reserve of ₹6 and the remaining ₹4 from Statement of Profit & Loss.
- Premium on Redemption will be shown under the head "Non-Current Liabilities" under the sub-head 'Other Long-term Liabilities'.

Note : Debentures cannot be redeemed at discount, although a Company may redeem its debentures by purchasing them in the open market at a discount.