

*Notes***30**

ISSUE OF DEBENTURES

You have learnt that share capital is the main source of finance of a joint stock company. Such capital is raised by issuing shares. Those who hold the shares of the company are called the shareholders and are owners of the company. Company may need additional amount of money for a long period. It cannot issue shares every time. It can raise loan from the public. The amount of loan can be divided into units of small denominations and the company can offer the same for subscription to the public. Each unit is called a 'debenture' and holder of such units is called Debenture holder. The amount so raised is loan for the company. In this lesson we shall learn about issue of debentures and its accounting treatment.



OBJECTIVES

After studying this lesson you will be able to :

- state the meaning and types of debentures;
- explain the procedure of issue of debentures and its accounting treatment;
- explain issue of debentures as collateral security;
- explain 'writing off 'discount' and 'loss' on issue debentures and their accounting treatment in the books of the company and
- calculate interest on debentures.

30.1 DEBENTURE AND ITS TYPES

A Debenture is a unit of loan amount. When a company intends to raise the loan amount from the public it issues debentures. A person holding debenture or debentures is called a debenture holder. A debenture is a document issued under the seal of the company. It is an acknowledgment of the loan received by the company equal to the nominal value of the debenture. It bears the date of redemption and rate and mode of payment of interest. A debenture holder is the creditor of the company.

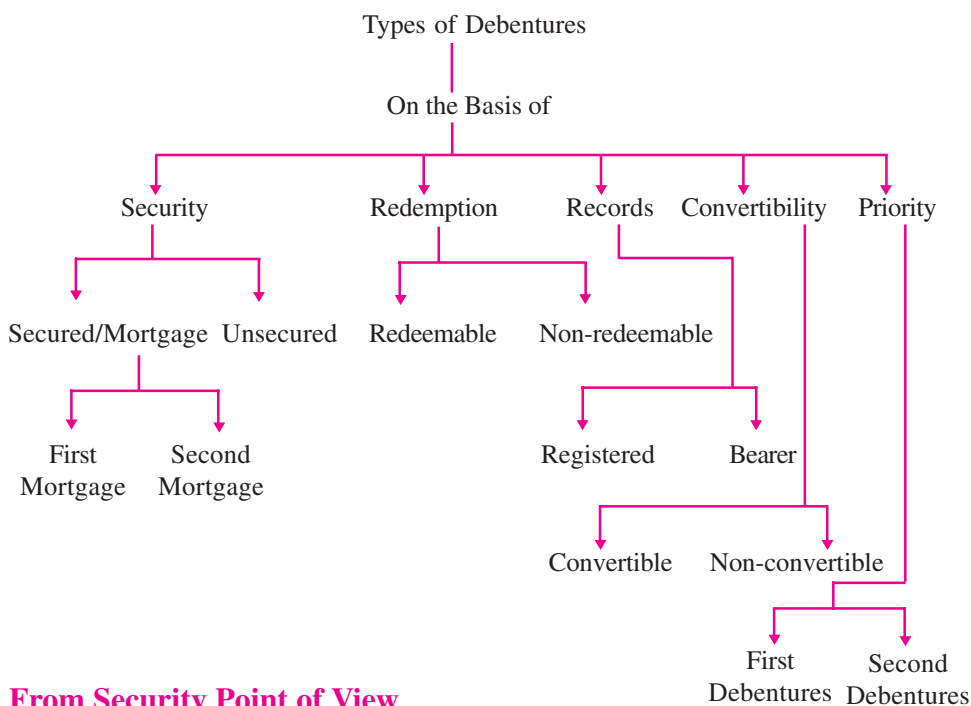


Notes

As per section 2(12) of Companies Act 1956, “Debenture includes debenture stock, bond and any other securities of the company whether constituting a charge on the company’s assets or not”.

Types of Debentures

Debenture can be classified as under :



1. From Security Point of View

- (i) **Secured or Mortgage Debentures :** These are the debentures that are secured by a charge on the assets of the company. These are also called mortgage debentures. The holders of secured debentures have the right to recover their principal amount with the unpaid amount of interest on such debentures out of the assets mortgaged by the company. In India, debentures must be secured. Secured debentures can be of two types :



Notes

- (a) **First Mortgage Debentures** : The holders of such debentures have a first claim on the assets charged.
- (b) **Second Mortgage Debentures** : The holders of such debentures have a second claim on the assets charged.
- (ii) **Unsecured Debentures** : Debentures which do not carry any security with regard to the principal amount or unpaid interest are called unsecured debentures. These are called simple debentures. Such debentures do not have any charge on the assets of the company.

2. On the Basis of Redemption

- (i) **Redeemable Debentures** : These are the debentures which are issued for a fixed period. The principal amount of such debentures is paid off to the debenture holders on the expiry of such period. These can be redeemed by annual drawings or by purchasing from the open market.
- (ii) **Non-redeemable Debentures** : These are the debentures which are not redeemed in the life time of the company. Such debentures are paid back only when the company goes into liquidation.

3. On the Basis of Records

- (i) **Registered Debentures** : These are the debentures that are registered with the company. The amount of such debentures is payable only to those debenture holders whose name appears in the register of the company.
- (ii) **Bearer Debentures** : These are the debentures which are not recorded in a register of the company. Such debentures are transferrable merely by delivery. Holder of these debentures is entitled to get the interest.

4. On the Basis of Convertibility

- (i) **Convertible Debentures** : These are the debentures that can be converted into shares of the company on the expiry of predecided period. The term and conditions of conversion are generally announced at the time of issue of debentures.
- (ii) **Non-convertible Debentures** : The debenture holders of such debentures cannot convert their debentures into shares of the company.

5. On the Basis of Priority

- (i) **First Debentures** : These debentures are redeemed before other debentures.
- (ii) **Second Debentures** : These debentures are redeemed after the redemption of first debentures.



INTEXT QUESTIONS 30.1

Name the type of debentures against each of the following :

- (i) Debentures that are redeemed before other debentures.
- (ii) Debentures the holders of which have a first claim on the assets charged.
- (iii) Debentures that are transferable merely by delivery.
- (iv) Debentures that are paid back only when the company goes into liquidation.



Notes

30.2 ISSUE OF DEBENTURES

By issuing debentures means issue of a certificate by the company under its seal which is an acknowledgment of debt taken by the company.

The procedure of issue of debentures by a company is similar to that of the issue of shares. A Prospectus is issued, applications are invited, and letters of allotment are issued. On rejection of applications, application money is refunded. In case of partial allotment, excess application money may be adjusted towards subsequent calls.

Issue of Debenture takes various forms which are as under :

1. Debentures issued for cash
2. Debentures issued for consideration other than cash
3. Debentures issued as collateral security.

Further, debentures may be issued

- (i) at par, (ii) at premium, and (iii) at discount

Accounting treatment of issue of debentures for cash

1. Debentures Issued for Cash at Par :

Following journal entries will be made :

(i) Application money is received

Bank A/c To Debentures Application A/c (Application money received for Debentures)	Dr.
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(ii) Transfer of debentures application money to debentures account on allotment of debentures

Solution :

Shining India Ltd.

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Bank A/c Dr. To 8% Debentures Application A/c (Application money received for 5000 debentures)		1,00,000	1,00,000
2.	8% Debentures Application A/c Dr. To 8% Debentures A/c (Application money transferred to Debentures A/c on allotment)		1,00,000	1,00,000
3.	8% Debentures Allotment a/c Dr. To 8% Debentures A/c (Allotment money due on 5000 debentures @ ₹ 30 per debenture)		1,50,000	1,50,000
4.	Bank A/c Dr. To 8% Debentures Allotment A/c (Allotment money received)		1,50,000	1,50,000
5.	8% Debentures First and Final call A/c Dr. To 8% Debentures A/c (Debentures first and final call money made due @ ₹ 50 per debenture)		2,50,000	2,50,000
6.	Bank A/c Dr. To Debentures First and Final call A/c (Receipt of 8% Debentures first and final call money)		2,50,000	2,50,000



Notes

Over Subscription

If the company receives applications for number of debentures that exceed the number of debentures offered for subscription, it is called over subscription. The excess application money received can be treated as follows :



Notes

- (a) The total amount of excess number of applications is refunded in case the applications are totally rejected.
- (b) The amount of excess application money is totally adjusted towards amount due on allotment and calls
 - in case partial allotment is made,
 - the excess amount is adjusted towards sums due on allotment and rest of the amount is refunded.

Journal entries in the above cases will be as follows :

For refund of money if the applications are rejected

Debentures Application A/c Dr.
 To Bank A/c
 (Refund of money on rejected applications)

For adjustment of excess application money adjusted towards sum due on allotment

Debentures Application A/c Dr.
 To Debentures Allotment A/c
 (Excess application money adjusted)

Illustration 2

ABC Ltd issued 5000 10% Debentures of ₹ 100 each payable as ₹ 40 on application and ₹ 60 on allotment. Applications were received for 6000 debentures. Applicants for 500 debentures were sent letter of regret and money was returned. Allotment was made proportionately to the remaining applicants. Over subscription was applied to the amount due on allotment. Remaining amount was duly received.

Make journal entries for the above transactions in the books of the company.

Solution :

Journal Entries

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Bank A/c Dr To 10% Debentures Application A/c (Application money received for 6000 10% debentures @ ₹ 40 per debenture)		2,40,000	2,40,000



Notes

Issue of Debentures					
2.	10% Debentures Application A/c	Dr	2,40,000		
	To 10% Debentures A/c			2,00,000	
	To Bank A/c			20,000	
	To 10% Debentures Allotment A/c			20,000	
	(Debenture application money of 5000 debentures transferred to debenture A/c on their allotment of 500 debentures returned and balance of 500 adjusted towards allotment)				
3.	10% Debentures Allotment A/c	Dr	3,00,000		
	To 10% Debentures A/c			3,00,000	
	(Allotment money due on 5000 debentures @ ₹ 60 per debenture)				
4.	Bank A/c	Dr	2,80,000		
	To 10% Debentures Allotment A/c			2,80,000	
	(Allotment money received)				



INTEXT QUESTIONS 30.2

- i. List the various forms in which debentures can be issued
 - a) _____
 - b) _____
- ii. A company issued 10000 10% debentures of ₹ 100 each. ₹ 30 per debenture was to be paid along with application. Applications were received for 12000 debentures. What can the company do with the excess application money i.e. ₹ 60000 (2000 × ₹ 30)

30.3 ISSUE OF DEBENTURES AT PREMIUM AND AT DISCOUNT

Debentures are said to be issued at premium when these are issued at a value which is more than their nominal value. For example, a debenture of ₹ 100 is issued at ₹ 110. This excess amount of ₹ 10 is the amount of premium. The premium on the issue of debentures is credited to the Securities Premium A/c as per section 78 of the Companies Act, 1956.



Notes

Journal entry will be as follows :

Debentures Allotment A/c	Dr.
To Debentures Account	
To Securities Premium A/c	
(Amount due on allotment alongwith premium of ₹)	

Illustration 3

A company issued 5000 10% Debentures of ₹ 100 each at a premium of 20% payable as ₹ 60 on application ₹ 60 on allotment (including premium).

All the debentures were subscribed for and money was duly received. Make journal entries.

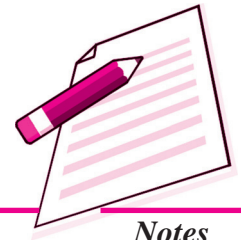
Solution :

Journal Entries

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Bank A/c Dr. To Debentures Application A/c (Application money received)		3,00,000	3,00,000
2.	10% Debentures Application A/c Dr. To 10% Debentures A/c (Application money transferred to Debenture A/c)		3,00,000	3,00,000
3.	Debentures Allotment A/c To 10% Debentures A/c To Securities Premium A/c (Amount due on allotment along with premium)		3,00,000	2,00,000 1,00,000
4.	Bank A/c Dr. To 10% Debentures Allotment A/c (Allotment money received)		3,00,000	3,00,000

Issue of Debentures at Discount

When debentures are issued at less than their nominal value they are said to be issued at discount. For example, debenture of ₹ 100 each is issued at ₹ 90 per debenture. Companies Act, 1956 has not laid down any conditions for the issue of debentures at a discount as have been laid down in case of issue of shares at discount. However, there should be provision for issue of such debentures in the Articles of Association of the Company.



Notes

Journal entry for issue of debentures at discount (at the time of allotment)

Debentures Allotment A/c	Dr.
Discount on issue of debentures A/c	Dr.
To Debentures A/c	
(Allotment money due. The amount of discount is @ ₹ per debenture)	

Illustration 4

A company has issued 2000 9% debentures of ₹ 100 each at a discount of 10% payable as

- ₹ 40 on application
- ₹ 50 on allotment

Make necessary journal entries.

Solution :

Journal Entries

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Bank A/c	Dr.	80,000	80,000
	To 9% Debentures Application A/c (Application money received)			
2.	9% Debentures Application A/c	Dr.	80,000	80,000
	To 9% Debentures A/c (Application money transferred to debenture A/c)			

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Company Accounts



Notes

Issue of Debentures

3.	9% Debentures Allotment A/c	Dr.	1,00,000	
	Debentures Discount A/c	Dr.	20,000	
	To 9% Debenture A/c			1,20,000
	(Amount due on allotment, along with discount amount ₹ 10 per debenture)			
4.	Bank A/c	Dr.	1,00,000	
	To 9% Debentures Allotment			1,00,000
	(Receipt of allotment money)			

Issue of Debentures for Consideration Other than Cash

When a company purchases some assets and issues debentures as a payment for the purchase, to the vendors it is known as issue of debentures for consideration other than cash. Debentures can be issued to vendors at par, at premium and at discount

Accounting Treatment :

1. Purchase of Assets

Sundry Assets A/c (Individually) Dr.
To Vendors A/c
(Purchase of assets)

2. Allotment of debentures

(i) At par

Vendors' A/c Dr.
To Debentures A/c
(issue of debentures at par to vendors)

(ii) At discount

Vendors' A/c Dr.
Debentures Discount A/c Dr.
To Debentures A/c
(Issue of debentures to vendors at a discount of ₹ ... per debenture)

(iii) At premium

Vendors' A/c Dr
To Debentures A/c
To Securities Premium Reserve A/c
(Issue of debentures to vendors at a premium of ₹ per debenture)

Illustration 5

M.B. Electronics Ltd. purchased machinery for ₹ 1,98,000 and issued 9% debentures of ₹ 100 each to the vendors. Make journal entries if the debentures were issued

- (a) at par
- (b) at a premium of ₹ 10
- (c) at a discount of ₹ 10



Notes

Solution :

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
	Machinery A/c Dr. To Vendors A/c (Machine purchased)		1,98,000	1,98,000
	(a) Vendors A/c Dr. To 9% Debentures A/c (1980 debentures of ₹ 100 each issued to vendors)		1,98,000	1,98,000
(b)	Vendors A/c Dr. To 9% Debentures A/c To Securities Premium Reserve A/c (1800 debentures issued at a premium of ₹ 10 per debenture)		1,98,000	1,80,000 18,000
(c)	Vendors A/c Dr. Discount on Issue of Debentures A/c Dr. To 9% Debentures A/c (Issue of 2200 9% debentures of ₹ 100 each at a discount of ₹ 10 per debenture)		1,98,000 22,000	2,20,000

Working Notes

Amount due = ₹ 198000

Value of debenture including ₹ 10 for premium = ₹ 110

No. of debentures to be issued = $\frac{₹1,98,000}{₹110} = ₹ 1,800$



Notes

∴ Debenture amount (Nominal value) = $1800 \times 100 = ₹ 1,80,000$

Securities Premium Amount = $1800 \times ₹ 10 = ₹ 18,000$

Working Notes

Amount due to vendor = ₹ 1,98,000

Value of one debenture at a discount of ₹ 10 = ₹ 90

No. of debentures to be issued = $₹ 1,98,000 \div ₹ 90 = ₹ 2,200$

Debentures amount (Nominal value) = $2200 \times ₹ 100 = ₹ 2,20,000$

Discount on issue of Debentures = $2200 \times ₹ 10 = ₹ 22,000$

Issue of Debentures with conditions Stipulated to their Redemption (Journal entry)

Issued at par redeemable at par

- (i) Bank A/c Dr.
 To Debentures Application Account
 (Issue of debentures of ₹ at par)
- (ii) Debentures Application Dr.
 To Debentures A/c
 (Debentures application amount transferred to debentures account)

Issued at discount and redeemable at par

- (i) Bank A/c Dr.
 To Debentures A/c
 (Issue of debentures of ₹ ... at a discount of ₹)
- (ii) Debentures A/c Dr.
 Discount on issue of Debentures A/c Dr.
 To Debentures Account
 (Debentures application amount transferred to debentures account)

Issued at premium redeemable at par

- (i) Bank A/c Dr.
 To Debentures Application A/c
 (Issue of ... debentures of ₹ at a premium of ₹)

- (ii) Debentures Application Dr.
 To Debentures A/c
 To Securities Premium A/c
 (Debenture Application amount transferred to debenture account)

Issue at par, redeemable at premium

- (i) Bank A/c Dr
 To Debentures A/c
 (Issue of ... debentures of ₹ ... a redeemable at a premium of ₹ ...)
- (ii) Debentures Application A/c Dr
 Loss on issue of Debentures A/c Dr
 To Debentures A/c
 To Premium on Redemption of Debentures
 (Debenture application amount transferred to debenture A/c & recognised loss on issue)

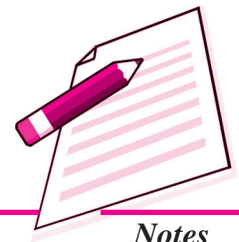
Issued at discount and redeemable at premium

- (i) Bank A/c Dr
 To Debentures Application A/c
 (issue of ... debentures of ₹ ... at a discount of ₹ ... redeemable at a premium of ₹)
- (ii) Debentures Application A/c Dr
 Discount on issue of Debenture A/c Dr
 Loss on issue of Debentures Dr
 To Debentures A/c
 To Premium on Redemption of Debentures
 (Transferred debentures approving to Debentures A/c & recognised loan on issue of debentures)

Illustration 6

Make journal entries if 200, 9% debentures of ₹ 500 each have been issued as :

- (i) Issued at ₹ 500, redeemable at ₹ 500
- (ii) Issue at ₹ 450; redeemable at ₹ 500
- (iii) Issued at ₹ 550; redeemable at ₹ 500
- (iv) issued at ₹ 500; redeemable at ₹ 550
- (v) Issued at ₹ 450; redeemable at ₹ 550



Notes

Solution :

Journal



Notes

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
(i)	(a) Bank A/c Dr. To Debenture Application A/c (Received application for issue of 200, 9% debentures)		1,00,000	1,00,000
	(b) Debenture Application A/c To 9% Debentures A/c (9% debentures application amount transferred to 9% debentures a/c on allotment)		1,00,000	1,00,000
(ii)	(a) Bank A/c Dr. To Debenture application A/c (Received application for issue of 200 debentures of ₹ 50 each at ₹ 450)		90,000	1,00,000
	(b) Debentures Application A/c Dr. Discount on issue of 9% Debentures A/c Dr. To 9% Debentures A/c (Transferred 9% Debentures Application amount to 9% Debentures A/c on allotment of Debentures)		90,000 10,000	1,00,000
(iii)	(a) Bank A/c Dr. To Debentures Application A/c To Securities Premium Reserve A/c (Received application for 200 debentures of ₹ 500 each at ₹ 550)		1,10,000	1,00,000 10,000

Issue of Debentures

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Company Accounts



Notes

	(b) Debentures Application A/c Dr. To 9% Debentures A/c To Securities Premium (9% Debentures Application amount transferred to 9% Debentures A/c & Securities Premium A/c on allotment of 9% Debentures)		1,10,000	1,00,000 10,000
(iv)	(a) Bank A/c Dr. To Debentures Application A/c (Issue of 200 debentures of ₹ 500 each at ₹ 500 repayable at ₹ 550)		1,00,000	1,00,000
	(b) Debentures Application A/c Dr. Loss on issue of debenture A/c Dr. To 9% debentures A/c To Premium on redemption of Debentures A/c (9% Debentures Application money transferred to 9% debentures a/c & accounted for loss on issue of debs.)		1,00,000 10,000	1,00,000 10,000
(v)	(a) Bank A/c Dr. To Debentures Application A/c (Issue of 200 Debentures of ₹ 500 each at ₹ 450 each)		90,000	90,000
	(b) Debentures Application A/c Dr. Loss on Issue of Debentures A/c Dr. To 9% Debentures A/c To Premium on Redemption A/c (9% Debentures Application money transferred to 9% debentures a/c & accounted for loss on issue of debs.)		90,000 20,000	1,00,000 10,000



INTEXT QUESTIONS 30.3



Notes

- I. A company purchased a building for ₹ 3,15,000 and issued 10% debentures of ₹ 100 each at a premium of 5%. Calculate**
- (i) the number of debentures issued to the vendors
 - (ii) make journal entry for the issue.
- II. Fill in the blanks with appropriate word/words, figure/figures**
- (i) A 10% debenture of nominal value of ₹ 100 has been issued at ₹ 90 is said to be issued at
 - (ii) A 9% debenture of a nominal value of ₹ 100 has been issued at ₹120 debentures are said to be issued at
 - (iii) 100 8% debentures of ₹ 100 each has been issued to vendors for plant purchased the debentures are said to be issued
 - (iv) A company can issue its debentures at a discount if a provision in this regard has been made in its

30.4 ISSUE OF DEBENTURES AS COLLATERAL SECURITY

Collateral security means security given in addition to the principal security. It is a subsidiary or secondary security. Whenever a company takes loan from bank or any financial institution it may issue its debentures as secondary security which is in addition to the principal security. Such an issue of debentures is known as ‘issue of debentures as collateral security’. The lender will have a right over such debentures only when company fails to pay the loan amount and the principal security is exhausted. In case the need to exercise this right does not arise, debentures will be returned back to the company. No interest is paid on the debentures issued as collateral security because company pays interest on loan.

In the accounting books of the company issue of debentures as collateral security can be credited in two ways.

(i) No journal entry to be made in the books of accounts of the company

Journal entries are not passed in the books, however, debentures issued as collateral security are shown by way of information in Note to Accounts below Long-term Borrowings under Non-Current Liabilities if issued for obtaining Long-term Loans or below Short-term.

Borrowing under current liabilities if issued for obtaining short-term loans.

Illustration 7

On 30.9.2014 X Ltd. obtained a bank loan of ₹ 8,00,000 prepayable after 5 years. For this the company issued 9% debentures as collateral security. Show the loan in the balance sheet of the company and prepare 'note to accounts'.

Solution :

X Ltd.
Balance Sheet
as at 31.3.2014

<i>Particulars</i>	<i>Note No.</i>	<i>₹</i>
I. EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long Term Borrowings	1	8,00,000

Note to Accounts

Long-Term Borrowing

Bank Loan 8,00,000
(Secured by issue of 9% debentures as collateral security)

Illustration 8

On 1.3.2014 Y Ltd. obtained a short term loan for ₹ 10,00,000. The company issued 12,000, 9% debentures of ₹ 100 each as collateral security for the same. Show loan in the balance sheet of Y Ltd and prepare 'note to account'.

Solution :

Y Ltd.
Balance Sheet
as at 31.3.2014

<i>Particulars</i>	<i>Note No.</i>	<i>₹</i>
I. EQUITY AND LIABILITIES		
Current Liabilities Shot-term Borrowings	1	10,00,000



Notes



Notes

Note to Accounts

Short-Term Borrowing

Bank Loan 10,00,000
 (Secured by issue of 12,000, 9% debentures
 of ₹ 100 each as collateral security)

(ii) Entry to be made in the books of account the company

A journal entry is made on the issue of debentures as a collateral security, Debentures suspense A/c is debited because no cash is received for such issue.

Following journal entry will be made

Debenture Suspense A/c	Dr.
To Debentures A/c	
(.....Debentures of ₹ each issued as collateral security to	

When the loan is paid this entry is cancelled by means of a reverse entry. In the Balance Sheet, debentures issued as collateral security are distinguished from other debentures.

Debentures issued as collateral security are related to the loan, therefore, they are shown in the same 'note to accounts' in which the loan secured by debentures is shown. For example if the loan is shown as Long-term Borrowings, debentures issued as collateral securities are also shown as long-term borrowings under Non-Current Liabilities in the Equity and Liabilities part of the Balance Sheet.

Illustration 9

XY Ltd obtained a term loan of ₹ 8,00,000 from bank on 1.1.1014 and issued ₹ 10,00,000, 9% debentures of ₹ 100 each as collateral security. Pass necessary journal entries, prepare Balance Sheet and Note to Account.

Solution :

Journal Entries

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
	Bank A/c Dr.		8,00,000	
	To Bank Loan A/c			8,00,000
	(Obtained loan ₹ 8,00,000 from bank)			



Notes

Issue of Debentures

Debenture Suspense A/c To 9% Debentures A/c (Issued 9% Debentures as collateral security for obtaining loan)	Dr.		10,00,000		10,00,000
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XY Ltd.
Balance Sheet
as at 31.3.2014

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Long-Term Borrowings	1	8,00,000

Note to Accounts

Long-Term Borrowing

Loan from Bank		8,00,000
1,000, 9% Debentures of ₹ 100 each	10,00,000	
Issued as collateral Security		
(Less Debenture Suspense)	10,00,000	
		8,00,000



INTEXT QUESTIONS 30.4

Answer the following in one word/words :

- (i) Name the security which is issued in addition to the principal security.
- (ii) Which account is debited while making a journal entry in the books of the company on issue of debentures as collateral security.
- (iii) On which side of the balance sheet of a company issuing debentures as collateral security is written the Debentures Suspense A/c?
- (iv) When does a company issue debentures as collateral security ?

30.5 DISCOUNT ON ISSUE OF DEBENTURES AND LOSS ON ISSUE OF DEBENTURES



Notes

In case company issues debentures on discount the total amount of discount is not charged to profit and Loss Account of the company in the accounting year in which this discount is allowed. The amount of such discount is very heavy and to the company gets benefit from the loan by issuing debentures over a number of years. Hence some part of the amount of discount is written off every year. Generally it is written off prior to the redemption of these debentures.

As the amount of discount on issue of debentures is treated as a capital loss, it is shown on the asset side of the balance sheet of the company under the head “Miscellaneous Expenditure” until and by the amount it is not written off.

The amount of debenture discount can be written off in two ways :

1. All debentures are to be redeemed after a fixed period

When the debentures are to be redeemed after a fixed period, the amount of discount will be distributed equally within the number of years spreaded between the issue of debentures and their redemption. The amount of discount on issue of debentures to be written off each year is calculated as

Amount of discount to be written off annually =

$$\frac{\text{Amount of discount on issue of debentures}}{\text{No. of years after which debs. have to be redeemed}}$$

Illustration 10

A company issues 1000 debentures of ₹ 1000 each at a discount of 10% redeemed after 5 years. Calculate the amount of discount to be written off each year and prepare discount on issue of debentures account.

Solution :

$$\text{Amount of discount} = \frac{(1,000 \times ₹1,000) \times 10}{100} = ₹ 1,00,000$$

$$\text{Amount to be written off each year} = \frac{₹1,00,000}{5} = ₹ 20,000$$

Accounting Treatment

Journal entry to write off discount on debentures will be.

	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i> ₹	<i>Cr.</i> ₹
	Profit and Loss A/c Dr.		20,000	
	To Discount on Issue of Debentures A/c			20,000
	(Amount of Discount on Issue of Debentures written off)			



Notes

Discount on Issue of Debentures Account till the amount of discount is written off, is shown as under :

Discount on Issue of Debentures A/c

Dr.

Cr.

<i>Date</i>	<i>Particulars</i>	<i>Amount</i> ₹	<i>Date</i>	<i>Particulars</i>	<i>Amount</i> ₹
Jan 1	1st year Debenture A/c	1,00,000	Dec 31 Dec 31	1st year Profit & Loss A/c Balance cld	20,000 80,000
		1,00,000			1,00,000
		Jan 1			2nd year Balance b/d
80,000	80,000				
Jan 1	3rd year Balance b/d		60,000	Dec 31 Dec 31	
		60,000	60,000		
		Jan 1	4th year Balance b/d		40,000
40,000	40,000				

MODULE - 5

Company Accounts



Notes

Issue of Debentures

5th year			5th year		
Jan 1	Balance b/d	20,000	Dec 31	Profit & Loss A/c	20,000
		20,000			20,000

2. Debentures are redeemed in instalments

Debentures may also be redeemed in instalments but over a fixed period. In that case the amount of debenture discount will be written off each year in proportion to the amount of debentures outstanding at the end of each year.

Illustration 11

A company has issued 3000 9% debentures of ₹ 1,000 each at a discount of 10%. If the debentures are to be redeemed in five equal annual instalments, calculate the amount of Discount on Issue of Debentures to be written off each year and prepare Discount on Issue of Debentures A/c.

Solution :

Calculation of Amount of Discount on Issue of Debentures Account

Total amount of Discount on Issue of Debentures A/c

$$= \frac{10}{100} \times 3,000 \times 1,000 = ₹ 3,00,000$$

Year end	Outstanding amount of debenture ₹	Ratio	Amount of Discount written off ₹
1st	30,00,000	5	$3,00,000 \times \frac{5}{15} = 1,00,000$
2nd	24,00,000	4	$3,00,000 \times \frac{4}{15} = 80,000$
3rd	18,00,000	3	$3,00,000 \times \frac{3}{15} = 60,000$
4th	12,00,000	2	$3,00,000 \times \frac{2}{15} = 40,000$
5th	6,00,000	1	$3,00,000 \times \frac{1}{15} = 20,000$
		15	

Journal Entry

	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i> ₹	<i>Cr.</i> ₹
1st year	Profit and Loss A/c Dr. To Debenture Discount A/c (Discount on issue of debenture written off)		1,00,000	1,00,000



Notes

Similarly entry will be made every year with the respective amount of discount.

Discount on issue of Debentures Account till the amount of discount is written off will be shown as under.

Discount on Issue of Debentures A/c

Dr.

Cr.

<i>Date</i>	<i>Particulars</i>	<i>Amount</i> ₹	<i>Date</i>	<i>Particulars</i>	<i>Amount</i> ₹
Jan 1	1st year Debentures A/c	3,00,000	Dec 31 Dec 31	1st year Profit & Loss A/c Balance cld	1,00,000
		3,00,000			2,00,000
					3,00,000
Jan 1	2nd year Balance b/d	2,00,000	Dec. 31 Dec.31	2nd year Profit & Loss A/c Balance cld	80,000
		2,00,000			1,20,000
					2,00,000
Jan 1	3rd year Balance b/d	1,20,000	Dec 31 Dec 31	3rd year Profit & Loss A/c Balance cld	60,000
		1,20,000			60,000
					1,20,000
Jan 1	4th year Balance b/d	60,000	Dec 31 Dec 31	4th year Profit & Loss A/c Balance cld	40,000
		60,000			20,000
					60,000

MODULE - 5

Company Accounts



Notes

Issue of Debentures

5th year			5th year		
Jan 1	Balance b/d	20,000	Dec 31	Profit & Loss A/c	20,000
		20,000			20,000

Loss on Issue of Debentures

You have learnt that a company may issue debentures with the stipulation that the repayment of the debentures on maturity will be made at premium. The amount of the premium payable is debited to Loss on Issue of Debentures Account at the time of issue of debentures. This amount will also be written off in the same manner as is done in case of writing off Discount on Issue of Debentures. This is illustrated as under :

(i) All Debentures are redeemed after fixed period

Journal Entry

Amount of Loss on Issue of Debentures written off each year

Profit and Loss A/c Dr.

To Loss on Issue of Debentures A/c

(Loss on Issue of Debentures written off)

Same journal entry will be made each year till the whole amount of the Loss on issue of Debentures is written off.

Calculation of the amount to be written off Total Amount of Loss on Issue of Debentures/No. of years.

Illustration 12

A company issues 1000 10% Debentures of ₹ 1,000 each on 1st Jan, 2014 payable at a premium of 10% after 5 years. Make journal entries and open Loss on Issue of Debentures A/c for the year ending 31st December 2014.

Solution :

$$\text{Amount of Loss on issue of Debentures} = \frac{1000 \times ₹1,000 \times 10}{100} = ₹ 1,00,000$$

$$\text{Amount to be written off each year} = \frac{₹1,00,000}{5} = ₹ 20,000$$

Loss on Issue of Debentures A/c

Dr.

Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2014 Jan. 1	10% Debentures A/c	1,00,000	2014 Dec. 31	Profit & Loss A/c	20,000
			Dec. 31	Balance cld	80,000
		1,00,000			1,00,000
2015 Jan. 1	Balance b/d	80,000			



Notes

Journal Entry

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2014 Dec. 31	Profit and Loss A/c Dr. To Loss on Issue of Debentures A/c (Loss on Issue of Debentures transferred to Profit and Loss A/c)		20,000	20,000

(ii) Debentures are Redeemed in Instalments

The amount of Loss on Issue of Debentures to be written off each year is calculated in the manner it is calculated in case of Discount on Issue of Debentures and accounting treatment is also the same.

Illustration 13

Refer Illustration No. 10. A company decides to redeem its debentures in five equal instalments beginning from the end of first year. Make journal entry for the writing off and show Loss on Issue of Debentures A/c for first year.

Solution :

$$\text{Amount of Loss on Issue of Debentures} = \frac{1000 \times ₹1,000 \times 10}{100} = ₹ 1,00,000$$

MODULE - 5

Company Accounts



Notes

Issue of Debentures

Calculation of amount to be written off each year

Year end	Amount Outstanding ₹	Ratio	Amount of Loss to be written off each year (₹)
1st	10,00,000	5	$1,00,000 \times \frac{5}{15} = 33,333$
2nd	8,00,000	4	$1,00,000 \times \frac{4}{15} = 26,667$
3rd	6,00,000	3	$1,00,000 \times \frac{3}{15} = 20,000$
4th	4,00,000	2	$1,00,000 \times \frac{2}{15} = 13,333$
5th	2,00,000	1	$1,00,000 \times \frac{1}{15} = 6,667$
		15	

Journal Entry

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
2014 Dec 31	Profit and Loss A/c To Loss on Issue of Debentures A/c (Amount of Loss on Issue of Debentures written off for 2014)		33,333	33,333

Loss on Issue of Debentures A/c

Dr.

Cr.

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
2014 Jan 1	10% Debentures A/c	1,00,000	2014 Dec 31	Profit & Loss A/c	33,333
			Dec 31	Balance cld	66,667
		1,00,000			1,00,000
2015 Jan 1	Balance b/d	66,667			

Interest on Debentures

If you have seen an advertisement in newspaper regarding issue of debentures by a company, you must have noticed that 'Debenture' is always prefixed by a certain percentage say 9% Debentures or 12% Debentures. Have you ever thought what meaning does this prefix carry. It is the rate of interest per annum that will be paid to the debenture holders. Companies generally pay interest on its debentures after every six months. Income Tax on such interest is deducted at source by the company. Journal entries that are made in the books of the company are as follows :

*Notes***(i) Interest due on Debentures**

Debenture Interest A/c	Dr.
To Debentures Holder's A/c	
To Income Tax Payable A/c	
(Interest on ...% Debentures due for six months ending ...@ ...% pa)	

(ii) For Payment of Interest

Debentures Holders A/c	Dr.
Income Tax Payable	Dr.
To Bank	

(iii) Transfer of Debenture Interest to Profit and Loss A/c

Profit and Loss A/c	Dr.
To Debenture Interest A/c	
(Debenture Interest transferred to Profit and Loss A/c)	

Illustration 14

X Ltd has issued 5000 9% Debentures of ₹ 1,000 each, on 1st April, 2013 Interest is payable after every six months. The ratio of TDS is 10%. Make journal entries for the interest paid for the first six months after the date of issue.

Solution :

Calculation of Interest payable at six monthly intervals :

$$\frac{\text{Amount of Debentures} \times 9}{100} \times \frac{6}{12}$$

Amount of Debentures = 5000 × ₹ 1,000 = ₹ 50,00,000

Interest on Debentures for six month ending 30th September, 2013

= = ₹ 2,25,000

Journal Entry



Notes

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i> ₹	<i>Cr.</i> ₹
2013 Sept. 30	Debentures Interest A/c Dr. To Debenture Holder's A/c To Tax Payable (Interest on 5000 9% Debentures @ ₹ 1000 per debenture paid for 6 months ending 30th Sept 2006)		2,25,000	2,02,500 22,500
Sept. 30	Debenture Holders A/c Dr. Tax Payable Dr. To Bank (Paid interest to debenture holder's tax to government)		2,02,500 22,500	2,25,000
2014 Mar. 31	Profit and Loss A/c Dr. To Debentures Interest A/c (Debenture Interest transferred to profit and Loss A/c)		2,25,000	2,25,000



INTEXT QUESTIONS 30.5

Answer the following :

- (i) Why is the amount of Discount on Issue of Debentures written in the Balance sheet ?
- (ii) 1000 10% Debentures are issued at a discount of 10% to be redeemed after five years. Calculate the amount of Debenture Discount to be written off each year.

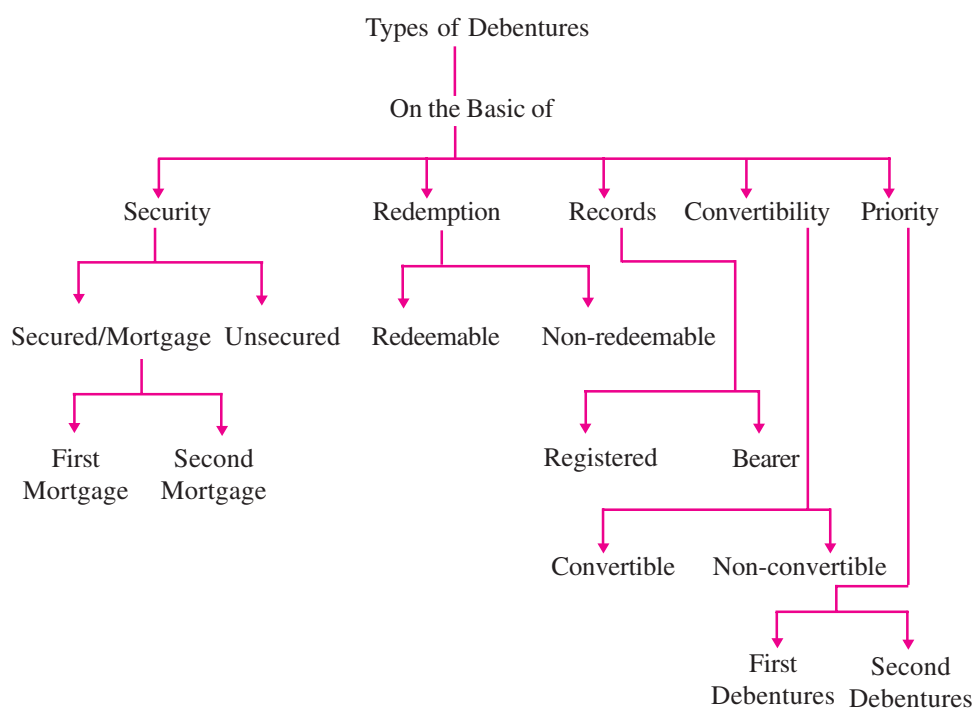
- (iii) 5000 10% Debentures of ₹ 100 each were issued by company on 1 Jan. 2014. Interest is payable on 30 June & 31 Decembers each year. Calculate the amount of interest paid to debenture holders during 2015.



WHAT YOU HAVE LEARNT

- A Debenture is a unit of loan amount issued to the lenders of the company. Debenture includes debenture stock, bond and any other security whether constituting a charge on the company's assets or not.

Debentures can be classified on the basis of :



- Issue of debentures : Debentures can be issued for cash at par, for consideration other than cash, as collateral security debentures are said to be oversubscribed when the company receives application for number of debentures than the company has offered for subscription.

Debenture can be issued at premium, at discount and in consideration other than cash.



Notes



Notes

- Debentures can be issued with conditions stipulated to their redemption as:
 - ▶▶ Issued at par redeemable at par
 - ▶▶ Issued at discount redeemable at par
 - ▶▶ Issued at premium redeemable at par
 - ▶▶ Issued at par redeemable at premium
 - ▶▶ Issued at discount redeemable at premium
- Issue of debentures as collateral security means issuing debentures to the lending agency that has given loan as additional/secondary security.



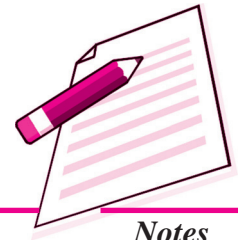
TERMINAL EXERCISE

1. What do you mean by debenture? State in brief the various types of debentures.
2. When are debentures said to be over subscribed? What accounting treatment is given in case debentures are oversubscribed?
3. What is the accounting treatment in the following cases :
 - (a) Debentures are issued at premium
 - (b) Debentures are issued at discount
 - (c) Debentures are issued in consideration other than cash
4. What is meant by debentures issued as collateral security? How is it treated in the books of accounts of the company?
5. Explain debentures issued at a discount. How is the amount of discount treated in the books of the company?
6. MBS Company Ltd has issued 5000 9% debentures of ₹ 100 each at a premium of ₹ 20 per debenture payable ₹ 60 (including premium) on application and allotment and the balance on call. Applications were received for 6500 debentures. Applications for 500 debentures were outrightly rejected and allotment was made on prorata basis to the remaining applicants.

All the money was duly called up. Make journal entries for the issue in the books of the company.

7. New Ventures Ltd. purchased plant of the book value of ₹ 4,95,000 from another firm. The purchase consideration was paid by issuing 10% debentures of ₹ 100 each. Assume debentures have been issued, (i) at par, (ii) at discount of 10%, (iii) at premium of 10%.
8. XYZ Co Ltd. has purchased the business of ABC Ltd. consisting assets of ₹ 4,50,000 and liabilities of ₹ 1,50,000 for a consideration of ₹ 4,00,000. It issued 10% debentures of ₹ 100 each fully paid in satisfaction of purchase consideration. Make journal entries.
9. Gaspig Furnishing and Decoration Ltd. raised a secured loan of ₹ 10,00,000 from State Bank of India and issued 1,500 10% debentures of ₹ 1,000 each as collateral security. Give the treatment of issue of such debentures in the books of the company.
10. Make journal entries for the issue of 10% debentures of ₹ 100 each in the following cases :
 - (a) 4,000 debentures issued at ₹ 100, redeemable at ₹ 120
 - (b) 2,000 debentures issued at ₹ 120, redeemable at ₹ 100
 - (c) 5,000 debentures issue at ₹ 90, redeemable at ₹ 100
 - (d) 6,000 debentures issued at ₹ 90, redeemable at ₹ 110
 - (e) 2,000 debentures issued at ₹ 100, redeemable at ₹ 100
11. On 1st January, 2014 a limited company issued its 1000000 debentures at a discount of 6%. The debenture were repayable by annual drawings of ₹ 2,00,000 made on 31st December each year. The discount was to be written off each year with an amount proportionate to debentures outstanding in the year.

Show the discount on issue of Debentures Account in the company ledger till it is written off.
12. High Rise Builders Ltd. issued 10% debentures of ₹ 100 each valued at ₹ 6,00,000 at discount of 6% repayable at par in equal proportions at the end of 2nd, 3rd and 5th year. Calculate the amount of discount to be written off at the end of each year and prepare discount on issue of debentures account.
13. AB Ltd issued 1000 12% debentures of ₹ 1,000 each on 1st January 2014. Make journal entries for the year ended 31st December 2014 assuming that interest was payable yearly on 31st December and tax deducted at source is @10%.

*Notes*



Notes



ANSWERS TO INTEXT QUESTIONS

- 30.1** (i) Redeemable; Non-redeemable (ii) Registered; Bearer
 (iii) Convertible; Non-convertible (iv) First; Second
- 30.2** I. (i) Issued for cash (ii) Issued in consideration other than cash
 (iii) Issued as collateral security
- II. (a) Application money is received
 (b) Application money is adjusted towards subsequent calls
- 30.3** I. 3,000
- | | | |
|---------------------------|-----|----------|
| Vendors A/c | Dr. | 3,15,000 |
| To 10% Debentures A/c | | 3,00,000 |
| To Securities Premium A/c | | 15,000 |
- II. (i) Discount (ii) Premium
 (iii) for considerations other than cash
 (iv) Articles of Association
- 30.4** (i) Collateral security (ii) Debenture suspense A/c
 (iii) Assets side (iv) When lender demands additional security
- 30.5** (i) It is treated as a capital loss (ii) ₹ 10000 ÷ 5 = ₹ 2000
 (iii) ₹ 25,000 on 30 June 2015 & ₹ 25,000 on 31 Dec. 2015



ANSWERS TO TERMINAL EXERCISE

7. Number of debentures to be issued (i) 4950, (ii) 5500 (iii) 4500
8. Amount of goodwill ₹ 1,00,000
11. Discount written of 1st year ₹ 20,000, 2nd year ₹ 16,000, 3rd year ₹12,000,
 4th year ₹ 8,000 and 5th year ₹ 4,000
12. Discount written of 1st year and 2nd year ₹ 10,800, 3rd year ₹ 7,200 4th and
 5th year ₹ 3,600.



ACTIVITY

Procure Balance Sheets of a number of companies which have raised funds by issuing debentures. Study them and collect information about the type of debentures issued by each company. Write the name of the company and put \checkmark mark in the appropriate column :



Notes

<i>Name of the Company</i>	<i>Convertible</i>	<i>Type of Debentures</i>			
		<i>Non-convertible</i>	<i>Secured</i>	<i>Unsecured</i>	<i>Collateral security</i>