

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 sell them 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;
- calculate interest on debentures.

26.1 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.

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

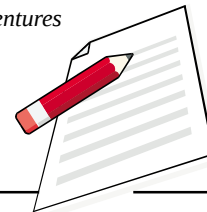
Debenture can be classified as under :

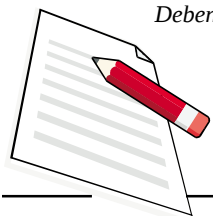
1. From security point of view

- (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 :
 - (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.

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

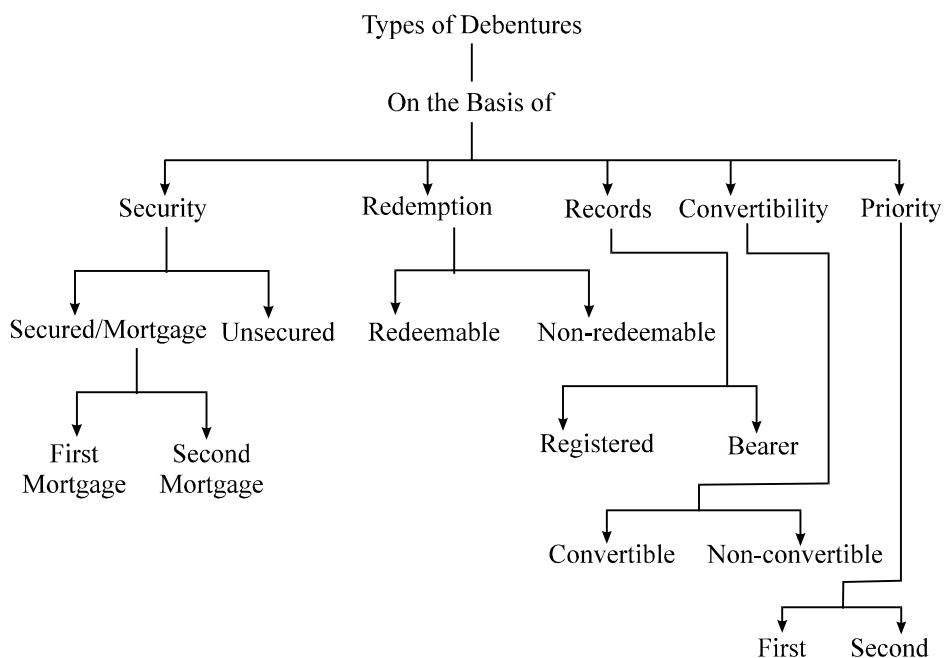
- (i) **Registered debentures** : These are the debentures that are registered with the company. The amount of such debentures is payable only to those debenture holders whose name appears in the register of the company.
- (ii) **Bearer debentures** : These are the debentures which are not recorded in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

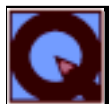
4. On the basis of convertibility

- (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 26.1

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.

26.2 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

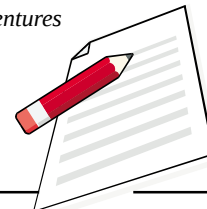
Accounting treatment of issue of debentures **for cash**

1. Debentures issued for cash at par :

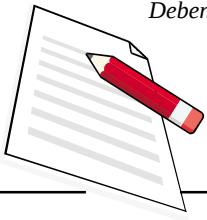
Following journal entries will be made :

(i) Application money is received

Bank A/c	Dr
To Debentures Application A/c	
(Application money received for Debentures)	



Notes



(ii) Transfer of debentures application money to debentures account on their allotment

Debit

Debentures Application A/c	Dr
To Debentures A/c	

(Application money transferred to debenture account on allotment)

(iii) Money due on allotment

Debentures Allotment A/c	Dr
To Debentures A/c	

(Allotment money made due)

(iv) Money due on allotment is received

Bank A/c	Dr
To Debentures Allotment A/c	

(Receipt of Debenture allotment money)

(v) First and final call is made

Debentures First and Final call A/c	Dr
To Debentures A/c	

(First and Final call money made due on debentures)

(vi) Debentures First and Final call money is received

Bank A/c	Dr
To Debentures First and Final call A/c	

(Receipt of Amount due on call)

Note : Two calls i.e. first call and second call may be made

Journal entries will be made on the lines made for first and final call.

Illustration 1

Shining India Ltd. issued 5000 8% Debentures of Rs 100 each payable as follows

Rs 20 on Application

Rs 30 on Allotment

Rs. 50 on First and Final call

Issue of Debentures

All the debentures were applied for and allotted. All the calls were duly received. Make necessary journal entries in the books of the company.

Solution :

Shining India Ltd.

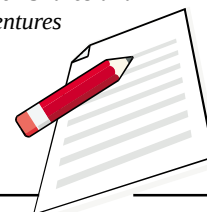
S.No.	Particulars	Dr LF Rs	Cr Amount Rs	Amount
1.	Bank A/c ... Dr To Debentures Application A/c (Application money received for 5000 debentures)		100000	100000
2.	Debentures Application A/c Dr To 8% Debentures A/c (Application money transferred to Debentures A/c on allotment)		100000	100000
3.	Debentures Allotment a/c Dr To 8% Debentures A/c (Allotment money due on 5000 debentures @ Rs 30 per debenture)		150000	150000
4.	Bank A/c Dr To Debentures Allotment A/c (Allotment money received)		150000	150000
5.	Debentures First and Final call A/cDr To 8% Debentures A/c (Debentures first and final call money made due @ Rs 50 per debenture)		250000	250000
6.	Bank A/c Dr To Debentures First and Final call A/c (Receipt of Debentures first and final call money)		250000	250000

Over subscription

Company if receives applications for number of debentures that exceed the number of debentures offered for subscription, it is called over subscription. There can be following treatment of the excess application money received :

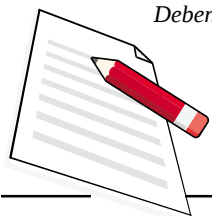
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Accounting for Shares and Debentures



Notes

Accounting for Shares and Debentures



Issue of Debentures

- (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.

For refund of money if the applications are rejected

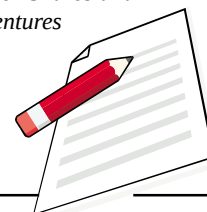
(Refund of money on rejected applications)

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

ABC Ltd issued 5000 10% Debentures of Rs 100 each payable as Rs 40 on application and Rs 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. All money was duly received.

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

Date	Particulars	LF	Dr Amount Rs	Cr Amount Rs
1.	Bank A/c Dr To Debentures Application A/c (Application money received for 6000 debentures @ Rs 40 per debenture)		240000	240000



Notes

2.	Debentures Application A/c Dr	240000	
	To 10% Debentures A/c		200000
	To Bank A/c		20000
	To Debentures Allotment A/c		20000
	(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.	Debentures Allotment A/c Dr	300000	
	To 10% Debentures A/c		300000
	(Allotment money due on 5000 debentures @ Rs 60 per debenture)		
4.	Bank A/c Dr	280000	
	To Debentures Allotment A/c		280000
	(Allotment money received)		



INTEXT QUESTIONS 26.2

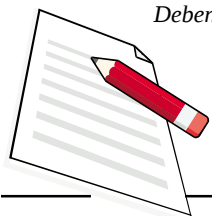
- I. Write the various forms in which debentures can be issued
 - (i)
 - (ii)
 - (iii)
- II. A company issued 10000 10% debentures of Rs 100 each. Rs 30 per debenture was to be paid along with application. Applications were received for 12000 debentures. What can the company do with the excess application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

26.3 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

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Notes

Issue of Debentures

Rs 100 is issued at Rs 110. This excess amount of Rs 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.

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 Rs)		

Illustration 3

A company has issued 5000 10% Debentures of Rs 100 each at a premium of 20% payable as Rs 60 on application

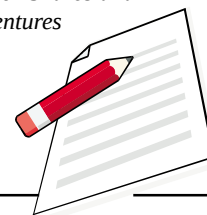
Rs 60 on allotment (including premium)

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

Solution

Journal entries

Date	Particulars	LF	Dr Amount Rs	Cr Amount Rs
1.	Bank A/c Dr To Debentures Application A/c (Application money received)		300000	300000
2.	Debentures Application A/c Dr To 10% Debentures A/c (Application money transferred to Debenture A/c)		300000	300000
3.	Debentures Allotment A/c To 10% Debentures A/c To Securities Premium A/c (Amount due on allotment along with premium)		300000	200000 100000
4.	Bank A/c Dr To Debentures Allotment A/c (Allotment money received)		300000	300000



Notes

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 Rs 100 each is issued at Rs 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.

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 @ Rs per debenture)

Illustration 4

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

Rs 40 on application

Rs 50 on allotment

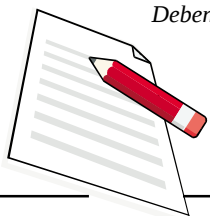
Make necessary journal entries.

Solution

Date	Particulars	LF	Dr Amount Rs	Cr Amount Rs
1.	Bank A/c Dr To Debentures Application A/c (Application money received)		80000	80000
2.	Debentures Application A/c Dr To 9% Debentures A/c (Application money transferred to debenture A/c)		80000	80000

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Notes

Issue of Debentures

3.	Debentures Allotment A/c	Dr	100000	
	Debentures Discount A/c	Dr	20000	
	To 9% Debenture A/c			120000
	(Amount due on allotment, along with discount amount Rs 10 per debenture)			
4.	Bank A/c	Dr	100000	
	To Debentures Allotment			100000
	(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 Dr
(Individually)
To Vendors A/c
(Purchase of assets)

2. Allotment of debentures

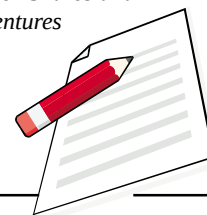
(i) At par

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 Rs ... per debenture)



Notes

(iii) At premium

Vendors' A/c	Dr
To Debentures A/c	
To Securities Premium A/c	

(issue of debentures to vendors at a premium of Rs per debenture)

Dr

To Debentures A/c

To Securities Premium A/c

(issue of debentures to vendors at a premium of Rs per debenture)

Illustration 5

M.B. Electronics Ltd. purchased machinery for Rs 198000 and issued 9% debentures of Rs 100 each to the vendors. Make journal entries if the debentures were issued

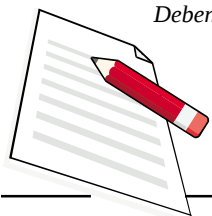
(a) at par

(b) at a premium of Rs 10

(c) at a discount of Rs 10

Solution :

S.No.	Particulars	Dr Amount Rs	Cr Amount Rs
(a)	Machinary A/c ...Dr To Vendors A/c (Machine purchased)	198000	198000
(b)	Vendors A/c Dr To 9% Debentures A/c 1980 debentures of Rs 100 each issued to vendors	198000	1980000
(c)	Vendors A/c Dr To 9% Debentures A/c To Securities Premium A/c (1800 debentures issued at a premium of Rs 10 per debenture)	198000	180000 18000



Notes

Working notes

Amount due = Rs 198000

Value of debenture including Rs 10 for premium = Rs 110

$$\text{No. of debentures to be issue} = \frac{\text{Rs } 198000}{\text{Rs } 110} = 1800$$

∴ Debenture amount (Nominal value) = $1800 \times 100 = \text{Rs } 180000$

Securities Premium Amount = $1800 \times \text{Rs } 10 = \text{Rs } 18000$

(c)	Vendors A/c	Dr	198000	
	Discount on Issue of Debentures A/c	Dr	22000	
	To 9% Debentures A/c			220000

(Issue of 2200 9% debentures of Rs 100 each at a discount of Rs 10 per debenture)

Working notes

Amount due to vendor = Rs 198000

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

No. of debentures to be issued = $\text{Rs } 198000 \div \text{Rs } 90 = 2200$

Debentures amount (Nominal value) = $2200 \times \text{Rs } 100 = \text{Rs } 220000$

Discount on issue of Debentures = $2200 \times \text{Rs } 10 = \text{Rs } 22000$

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

(i) Issued at par redeemable at par

Bank A/c	Dr
To Debentures Account	

(Issue of debentures of Rs at par)

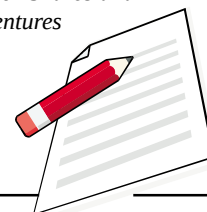
(ii) Issued at discount and redeemable at par

Bank A/c	Dr
Discount on issue of Debentures A/c	Dr
To Debentures A/c	

(Issue of debentures of Rs ... at a discount of Rs)

(iii) Issued at premium redeemable at par

Bank A/c	Dr
----------	----



Notes

- To Debentures A/c
To Securities Premium A/c
(Issue of ... debentures of Rs at a premium of Rs)
- (iv) Issue at par, redeemable at premium
- | | |
|---|----|
| Bank A/c | Dr |
| Loss on Issue of Debentures A/c | Dr |
| To Debentures A/c | |
| To Premium on Redemption of Debenture A/c | |
- (Issue of ... debentures of Rs ... a redeemable at a premium of Rs ...)
- (v) Issued at discount and redeemable at premium
- | | |
|---|----|
| Bank A/c | Dr |
| Discount on Issue of Debentures A/c | Dr |
| Loss on Issue of Debentures A/c | Dr |
| To Debentures A/c | |
| To Premium on Redemption of Debenture A/c | |
- (issue of ... debentures of Rs ... at a discount of
Rs ... redeemable at a premium of Rs)

Illustration 6

Make journal entries if 200 debentures of Rs 500 each have been issued as :

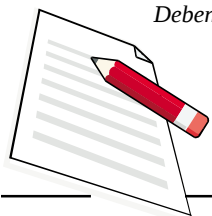
- Issued at Rs 500, redeemable at Rs 500
- Issue at Rs 450; redeemable at Rs 500
- Issued at Rs 550; redeemable at Rs 500
- issued at Rs 500; redeemable at Rs 550
- Issued at Rs 450; redeemable at Rs 550

Solution : Journal

Date	Particulars	LF	Dr Amount Rs	Cr Amount Rs
(i)	Bank A/c Dr To Debentures A/c (Issue of 200 debentures @ of Rs 500 each)		100000	100000

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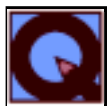
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Issue of Debentures

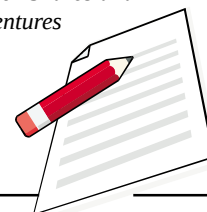
(ii)	Bank A/c	Dr	90000	
	Discount on Issue of Debentures A/c	Dr	10000	
	To Debentures A/c			100000
	(Issue of 200 debentures of Rs 50 each at Rs 450)			
(iii)	Bank A/c	Dr	110000	
	To Debentures A/c			100000
	To Securities Premium A/c			10000
	(Issue of 200 debentures of Rs 500 each at Rs 550)			
(iv)	Bank A/c	Dr	10000	
	Loss on Issue of Debentures A/c	Dr	10000	
	To Debentures A/c			100000
	To Premium on redemption of debentures A/c		10000	
	(Issue of 200 debentures of Rs 500 each at Rs 500 repayable at Rs 550)			
(v)	Bank A/c	Dr	90000	
	Loss on Issue of Debentures A/c	Dr	10000	
	Discount on Issue of Debentures A/c	Dr	10000	
	To Debentures A/c			100000
	To Premium on Redemption of Debentures A/c		20000	
	(Issue of 2000 Debentures of Rs 500 each at Rs 45 repayable at Rs 550)			



INTEXT QUESTIONS 26.3

- I. A company purchased a building for Rs 315000 and issued 10% debentures of Rs 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 Rs 100 has been issued at Rs 90 is said to be issued at
 - (ii) A 9% debenture of a nominal value of Rs 100 has been issued at Rs 120 debentures are said to be issued at

- (iii) 100 8% debentures of Rs 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



26.4 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 :

Debentures are issued as collateral security. A note of this fact is given on the liability side of the balance sheet under the heading Secured Loans and Advances.

Balance Sheet Co. Ltd.

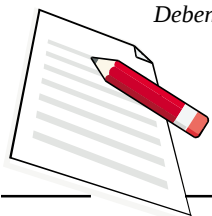
Capital & liabilities	Amount Rs	Assets Rs	Amount Rs
Debentures (.... debentures of Rs per debenture issued as collateral security			
Loan (Secured by the issue of debentures of Rs each issued as collateral security			

(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.

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Notes

Issue of Debentures

Following journal entry will be made

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

In the Balance sheet of the issuing company it will be shown as under :

Balance Sheet of Co. Ltd.

Capital & Liabilities	Amount Rs	Assets Rs	Amount Rs
Debenture (.....debenture of Rs each issued as collateral security as per contra)		Bank Debenture suspense A/c (Debenture issued as collateral security for loan as per contra)	
Loan			

Illustration 7

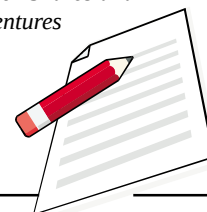
Sky Rocketing Company Ltd issued 6000 10% debentures of Rs 100 each to the bank as collateral security against a loan of Rs 500000 taken from the bank. Record the issue of debentures in the books of the company and show the issued Debentures in the Balance Sheet of the Company.

Solution

(i) No journal entry is required

Balance Sheet (Relevant) of Sky Rocketing Co. Ltd

Capital & Liabilities	Amount Rs	Assets Rs	Amount Rs
Secured Loan Bank loan (Secured by 6000 10% debentures of Rs 100 each issued as collateral security)	500000	Current Assets & loans and Advance Cash at Bank	500000



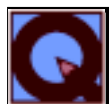
(ii) Journal

Date	Particulars	LF	Dr	Cr
			Amount Rs	Amount Rs
	Debentures Suspense A/c Dr To Debenture A/c (Issue of 6000 10% debentures of Rs 100 each issued as collateral security to bank)		600000	600000

Notes

Balance Sheet (Relevant) of Sky Rocketing Co. Ltd.

Capital & Liabilities	Amount Rs	Assets	Amount Rs
Secured Loan		Current Assets	
Bank loan	500000	Cash at Bank	500000
		Miscellaneous expenditure Debenture suspense A/c	600000
		(6000 Debentures of Rs 100 each issued as collateral security as per contra)	
Debentures	600000		
(6000 10% debentures issued as collateral security)			



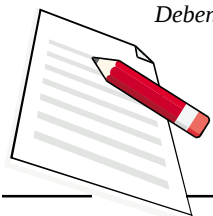
INTEXT QUESTIONS 26.4

Answer the following in one word/words :

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

26.5 DISCOUNT ON ISSUE OF DEBENTURES AND LOSS ON ISSUE OF DEBENTURES

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

$$\frac{\text{Total Amount of Discount}}{\text{Number of years}}$$

Illustration 8

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

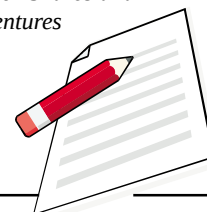
Solution

$$\text{Amount of discount} = \frac{(1000 \times \text{Rs}1000) \times 10}{100} = \text{Rs } 100000$$

$$\text{Amount to be written off each year} = \frac{\text{Rs } 100000}{5} = \text{Rs } 20000$$

Accounting Treatment

Journal entry to write off debenture discount each year



		Dr.	Cr.
Profit and Loss A/c	...Dr	20000	
To Discount on Issue of Debentures A/c			20000

(Amount of Discount on Issue of Debentures written off)

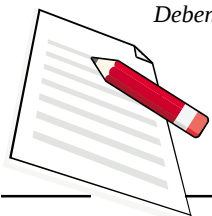
Discount on Issue of Debentures Account till the amount of discount is written off, is shown as under :

Notes

Discount on Issue of Debentures A/c

Dr. Cr.

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
1st year			1st year		
Jan 1	Debenture A/c	100000	Dec 31	Profit & Loss A/c	20000
			Dec 31	Balance cld	80000
		100000			100000
2nd year			2nd year		
Jan 1	Balance b/d	80000	Dec. 31	Profit & Loss A/c	20000
			Dec.31	Balance cld	60000
		80000			80000
3rd year			3rd year		
Jan 1	Balance b/d	60000	Dec 31	Profit & Loss A/c	20000
			Dec 31	Balance cld	40000
		60000			60000
4th year			4th year		
Jan 1	Balance b/d	40000	Dec 31	Profit & Loss A/c	20000
			Dec 31	Balance cld	20000
		40000			40000
5th year			5th year		
Jan 1	Balance b/d	20000	Dec 31	Profit & Loss A/c	20000
		20000			20000



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 redeemed.

Illustration 9

A company has issued 2000 9% debentures of Rs 1000 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

$$= \frac{2000 \times (Rs 1000) \times 10}{100} = Rs 200000$$

Year end	Outstanding amount of debenture Rs $\frac{(2000 \times Rs 1000) \times 10}{100}$	Ratio	Amount of Discount written off Rs
1st	3000000	5	$300000 \times \frac{4}{15} = 80000$
2nd	2400000	4	$300000 \times \frac{3}{15} = 60000$
3rd	1800000	3	$300000 \times \frac{2}{15} = 40000$
4th	1200000	2	$300000 \times \frac{1}{15} = 20000$
5th	600000	1	
		15	

Journal entry

	Dr.	Cr.
1st year Profit and Loss A/c	...Dr 100000	
To Debenture Discount A/c		100000
(Discount on issue of debenture written off)		

Issue of Debentures

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.

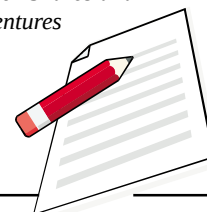
Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
1st year			1st year		
Jan 1	Debentures A/c	300000	Dec 31	Profit & Loss A/c	100000
			Dec 31	Balance cld	200000
		300000			300000
2nd year			2nd year		
Jan 1	Balance b/d	200000	Dec. 31	Profit & Loss A/c	80000
			Dec.31	Balance cld	120000
		200000			200000
3rd year			3rd year		
Jan 1	Balance b/d	120000	Dec 31	Profit & Loss A/c	60000
			Dec 31	Balance cld	60000
		120000			120000
4th year			4th year		
Jan 1	Balance b/d	60000	Dec 31	Profit & Loss A/c	40000
			Dec 31	Balance cld	20000
		60000			60000
5th year			5th year		
Jan 1	Balance b/d	20000	Dec 31	Profit & Loss A/c	20000
		20000			20000

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

MODULE - 5

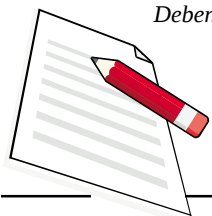
Accounting for Shares and
Debentures



Notes

MODULE - 5

Accounting for Shares and
Debentures



Notes

Issue of Debentures

Debentures A/c 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 10

A company issues 1000 10% Debentures of Rs 1000 each on 1st Jan, 2006 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 2006.

Solution

$$\text{Amount of Loss on issue of Debentures} = \frac{1000 \times \text{Rs}1000 \times 10}{100} = \text{Rs } 100000$$

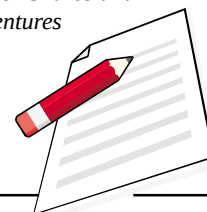
$$\text{Amount to be written off each year} = \frac{\text{Rs } 100000}{5} = \text{Rs } 20000$$

Loss on issue of Debentures A/c

Dr.

Cr.

Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
2006 Jan 1	10% Debentures A/c	100000	2006 Dec 31	By Profit & Loss A/c	20000
			Dec 31	By Balance cld	80000
		100000			100000
2007 Jan 1	Balance b/d	80000			



Journal Entry

2006	Profit and Loss A/c	Dr	20000	
Dec 31	To Loss on Issue of Debentures A/c			20000
	(Loss on Issue of Debentures transferred to Profit and Loss A/c)			

Notes

(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 11

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

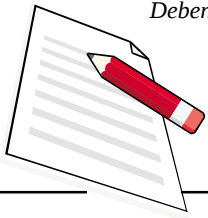
$$\text{Amount of Loss on Issue of Debentures} = \frac{1000 \times \text{Rs}1000 \times 10}{100} = \text{Rs}100000$$

Calculation of amount to be written off each year

Year end	Amount Outstanding	Ratio	Amount of Loss to be written off each year
1st	1000000	5	$100000 \times \frac{5}{15} = 33333$
2nd	800000	4	$100000 \times \frac{4}{15} = 26667$
3rd	600000	3	$100000 \times \frac{3}{15} = 20000$
4th	400000	2	$100000 \times \frac{2}{15} = 13333$
5th	200000	1	$100000 \times \frac{1}{15} = 6667$
		15	

Journal Entry

2006	Profit and Loss A/c	Dr	33333	
Dec 31	To Loss on Issue of Debentures A/c			33333
	(Amount of Loss on Issue of Debentures written off for 2006)			



Notes

Loss on Issue of Debentures A/c

Dr.			Cr.		
Date	Particulars	Amount Rs	Date	Particulars	Amount Rs
2006			2006		
Jan 1	10% Debentures A/c	100000	Dec 31	Profit & Loss A/c	33333
			Dec 31	Balance cld	66667
		100000			100000
2007					
Jan 1	Balance b/d	66667			

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. Journal entries that are made in the books of the company are as follows;

(i) Payment of Interest on Debentures

Debenture Interest A/c	Dr
------------------------	----

To Bank A/c

(Interest on ...% Debentures paid for six months ending ...@ ...% pa)

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

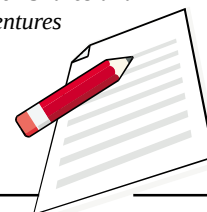
Profit and Loss A/c Dr

To Debenture Interest A/c

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

Illustration 12

X Ltd has issued 5000 9% Debentures of Rs 1000 each, on 1st April, 2006 Interest is payable after every six months. 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 :

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

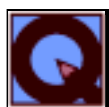
Amount of Debentures = 5000 × Rs 1000 = Rs 5000000

Interest on Debentures for six month ending 30th September, 2006

$$= \frac{\text{Rs } 5000000 \times 9}{100} \times \frac{6}{12} = \text{Rs } 225000$$

Journal Entry

2006		Dr.	Cr.
30th Sept.	Debentures Interest A/c Dr To Bank A/c (Interest on 5000 9% Debentures @ Rs 1000 per debenture paid for 6 months ending 30th Sept 2006)	225000	225000
2007			
31st Mar	Profit and Loss A/c Dr To Debentures Interest A/c (Debenture Interest transferred to profit and Loss A/c)	225000	225000



INTEXT QUESTIONS 26.5

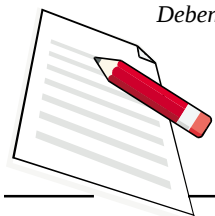
Answer the following :

- Why is the amount of Discount on Issue of Debentures written in the Balance sheet ?
- 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.



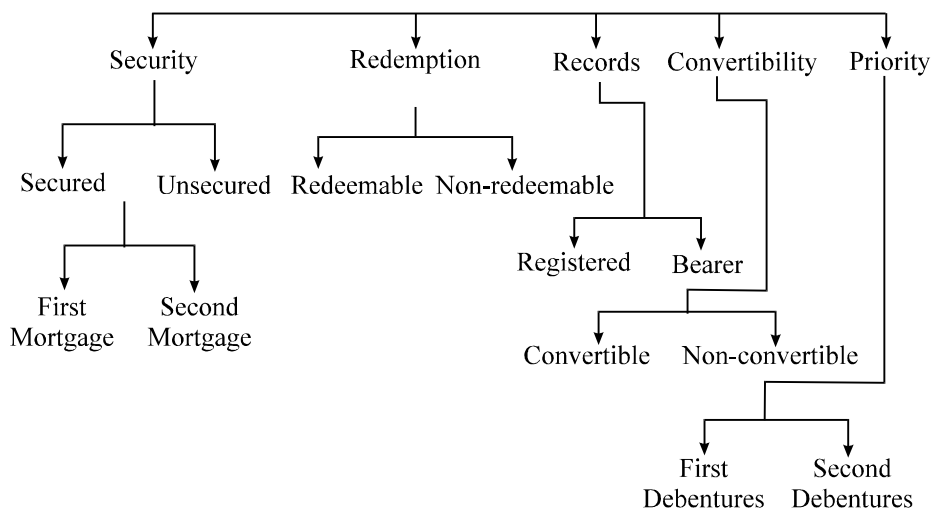
WHAT YOU HAVE LEARNT

- 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.



Notes

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.

- 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

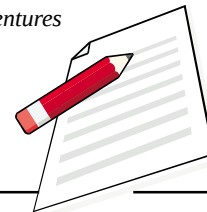
Issued at discount redeemable at premium

- Issue of debentures as collateral security means issuing debentures to the lending agency that has given loan as additional/secondary security.



TERMINAL QUESTIONS

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?

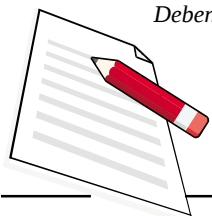
**Notes**

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 Rs 100 each at a premium of Rs 20 per debenture payable Rs 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 Rs 495000 from another firm. The purchase consideration was paid by issuing 10% debentures of Rs 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 Rs 450000 and liabilities of Rs 150000 for a consideration of Rs 400000. It issued 10% debentures of Rs 100 each fully paid in satisfaction of purchase consideration. Make journal entries.
9. Gasping Furnishing and Decoration Ltd. raised a secured loan of Rs 1000000 from State Bank of India and issued 1500 10% debentures of Rs 1000 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 Rs 100 each in the following cases :
 - (a) 4000 debentures issued at Rs 100, redeemable at Rs 120
 - (b) 2000 debentures issued at Rs 120, redeemable at Rs 100
 - (c) 5000 debentures issue at Rs 90, redeemable at Rs 100
 - (d) 6000 debentures issued at Rs 90, redeemable at Rs 110
 - (e) 2000 debentures issued at Rs 100, redeemable at Rs 100

MODULE - 5

Accounting for Shares and
Debentures



Notes

Issue of Debentures

11. On 1st January, 2002 a limited company issued its 1000000 debentures at a discount of 6%. The debenture were repayable by annual drawings of Rs 200000 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 Rs 100 each valued at Rs 600000 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 Rs 1000 each on 1st January 2006. Make journal entries for the year ended 31st December 2006 assuming that interest was payable yearly on 31st December and tax deducted at source is @10%.



ANSWERS TO INTEXT QUESTIONS

Intext Questions 26.1

- (i) Redeemable; Non-redeemable
- (ii) Registered; Bearer
- (iii) Convertible; Non-convertible
- (iv) First; Second

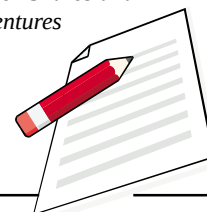
Intext Questions 26.2

- 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

Intext Questions 26.3

- I. 3000

Vendors A/c	Dr	315000	
To 10% Debentures A/c			300000
To Securities Premium A/c			15000



- II. (i) Discount (ii) Premium
- (iii) for considerations other than cash
- (iv) Articles of Association

Intext Questions 26.4

- (i) Collateral security
- (ii) Debenture suspense A/c
- (iii) Assets side
- (iv) When lender demands additional security

Intext Questions 26.5

- (i) It is treated as a capital loss
- (ii) $\text{Rs } 10000 \div 5 = \text{Rs } 2000$

Answers to Practical Terminal Questions

7. Number of debentures to be issued (i) 4950, (ii) 5500 (iii) 4500
8. Amount of goodwill Rs 100000
11. Discount written of 1st year Rs 20000, 2nd year Rs 16000, 3rd year Rs 12,000, 4th year Rs 8000 and 5th year Rs 4000
12. Discount written of 1st year and 2nd year Rs 10800, 3rd year Rs 7200 4th and 5th year Rs 3600.



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 :

Name of the company	Type of Debentures				
	Convertible	Non-convertible	Secured	Unsecured	Collateral security