

CHAPTER – 9

ACCOUNTING OR DEBENTURES

Debenture

See 2(30) of companies Act, 2013 defines debenture as “Debenture includes debenture stock, bond or any other instrument of a company evidencing a debit, whether constituting a charge on the company’s assets or not”.

It is a document issued by a company under its common seal acknowledging the debt and it also contains the terms of repayment of debt and payment of interest at a specified rate.

Types of Debentures

- (i) Security
 - Secured
 - Unsecured
- (ii) Record
 - Registered
 - Beaset
- (iii) Priority
 - First
 - Second
- (iv) Redemption
 - Redamble
 - Irredeemable
- (v) Coupem rate
 - Specific
 - Zero
- (iv) Convertibility
 - Convertible
 - Nonconvertible

Share V/S Debenture

Basis	Share	Debenture
1) Ownership	Shareholder are the owners of company	Debenture holder are the lenders of company
2) Form of Return	Dividend	Interest
3) Risk	More risk as compare to debentures	Risk free due to secured debentures
4) Voting Right	Equally shareholder have the voting right	No voting right in normal course of business

(Issue of Debentures as Collateral Security)

Collateral Security: Collateral security means security provided to lender in addition to the principal security. It is a subsidiary or secondary 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. No interest is paid on the debentures issued as collateral security because company pays interest on loan.

(i) **First method:** No journal entry to be made in the books of accounts of the company for debentures issued as collateral security. A note of this fact is given in the this case.

(ii) **Second method:** Entry to be made in the books of accounts of the company. A journal entry is made on the issue of debentures as a collateral security; Debentures Suspense is debited because no cash is received for such issue

Following journal will be made

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Debenture Suspense A/c Dr. To % Debentures A/c (Being the issue of Debentures of Rs..... issued as collateral security)			

Debentures may be issued:

- * For "Cash" (At Par, Premium or Discount)
- * For "Consideration other than Cash"
- * As "Collateral Security"

Let us understand them one by one.

8.5 ISSUE OF DEBENTURES FOR CASH

Just like shares, debentures may be issued either at par or at a premium or at company may either require the amount for debentures for debentures to be paid in lumpsum installment. The accounting entries to be passed are also same as in te case of issue of shares.

When Debenture Amount is received in Lump-Sum (Assuming that debentures carry 11% interest)

Transaction	Journal Entry	
1. On Receipt of Application Money	Bank A/c Dr. To Debenture Application and Allotment A/c**	With application money receipt.
2. On Transfer of Application Money to Debentures A/c	Debenture Application A/c Dr. To 11% Debentures A/c	With application money on Debenture.
3. On Refund of Excess Application Money	Debenture Application A/c Dr. To Bank A/c	With surplus application transfer on partially accepted application.
4. On transfer of surplus application money on partillay accepted application	Debenture Application A/c Dr. To Debenture Allotment A/c	With the amount due on allotment.
5. On Making Allotment Money Due	Debenture Allotment A/c Dr. To 11% Debentures A/c	With the amount actually receipt on allotment.

6. On Receipt of Allotment money	Bank A/c Dr. To Debenture Allotment A/c	With the money due on call.
7. On Making the Call Money Due	Debenture Call A/c Dr. To 11% Debentures A/c	
8. On Receipt of Call Money	Bank A/c Dr. To Debenture Call A/c*	

* If more than one call is to be made, then similar entries are made for the second call and third call. The word..... added to the last call.

Issue of Debentures for Consideration other than cash

When Debentures are issued for purchase of asset

When Debentures are issued for purchase of Asset at par	Sundry Assets A/c Dr. To Vendor	With the purchase consideration
	Vendor A/c Dr. % debentures	With the purchase consideration
When Debentures are issued for purchase of asset at premium	Sundry Assets A/c Dr. To Vendor	With the purchase consideration
	Vendor Dr. To Debenture A/c To Security Premium Reserve A/c	No. of debentures par value No. of debentures × premium per debentures
When business is Purchased	When Purchase consideration is equal to net value of assets Sundry Assets A/c Dr. To Sundry Liabilities A/c To Vendor	Value of asset Value of liabilities Purchases consideration

	When Purchase consideration is more than net value of assets		
	Sundry Assets A/c	Dr.	Value fo asset
	Goodwill A/c (B/F)	Dr.	Excess of purchase value (B/F)
	To Sundry liabilities		Value of liabilities
	To vendors A/c		Purchases consideration
	When Purchase consideration is less than net value of asset		
	Sundry Assets A/c	Dr	Value of asset
	To Sundry Liabilities A/c		Value of liabilities
	To Capital Reserve (B/f)		Difference (B/F)
	To Vendor's A/c		Purchase consideration

Fill in The missing figures (?) in the following Journal entries

JOURNAL

Date	Particular	L.F.	Dr. (Rs)	Cr. (Rs.)
	Suncity Ltd. _____		10,00,000	
	To Sundry Liabilities A/c			1,80,000
	To ? _____			_____
	(Being the purchase of running businers of Suncity Ltd.)			
	Suncity Ltd. _____		7,60,000	
	Discount on issue of Debentures A/c		_____	
	To 10% Debentures A/c			_____
	(Being ? 10% Debetures of Rs. 100 each issued at 5% discount)			

Fill in the missing figures (?) in the following Journal entries:

Date	Particulars	L.F.	Dr.(Rs)	Cr.(Rs)
	Sundry Assets A/c _____		5,50,000 _____	
	To Sundry Liabilities A/c			1,10,000
	To Jan Bros.			_____
	(Being the assets and liabilities taken over from Jain Brothers)			
	Jain Brothers		5,40,000	
	To 10% Debentures A/c			_____
	To Securities Premium Reserves A/c			_____
	(Being 4,500 10% Debentures of Rs. 100 each issued at a premium of ...%)			

Fill in the missing figures (?) in the following Journal entries:

Date	Particulars	L.F.	Dr. (Rs.)	Cr.(Rs)
	Building A/c		10,00,000	
	Plant and Machinery A/c		8,00,000	
	_____		_____	
	To liabilities A/c			3,00,000
	To M/s. Raman & Co.			_____
	(Being the purchase of running business of M/s. Raman & Co.)			

	M/s. Raman & Co. To 12% Debentures A/c To Securities Premium Reserve A/c (Being the issue of 12% Debentures of Rs. 100 each at 10% premium for consideration other than cash)		6,50,000	
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Illustration 1.

ABC Ltd. issued Rs. 5,00,000 10% debenture of Rs 100 each at 10% discount payable Rs. 30 on application and Balance on allotment.

These debenture were to be redeemed at a premium of 5% after 5 year. All the debenture are subscribed for public.

Pass necessary journal entries for the issue of debentures.

Solution:

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Date	Particular	L.F	Rs. Amount	Rs. Amount
1.	Bank A/c Dr To debenture application A/c (Being the debenture application money receivable for 5,000 debenture (Rs. 30 each))		1,50,000	1,50,000
2.	Debenture application A/c Dr. To 10% debentures A/c (Being 5000 debentures allotted)		1,50,000	1,50,000
3.	Debenture allotment A/c Dr. Loss on issue of debenture Dr. A/c To 10% debenture A/c To premium of redemption of Debentures A/c (Being the allotment money due on 5,000, 10% Debenture issued at 10% discount and redeemable at 5% premium.		3,00,000 75,000	3,50,000 25,000
4.	Bank A/c Dr. To debenture allotment A/c (Being the allotment money received)		3,00,000	3,00,000

Illustration 2. Pass Journal entries to record the following transaction :

- (i) A Ltd. issued 15000; 8% Debentures of Rs. 100 each at discount of 5% to be repaid at par at the end of 5 years.

- (ii) A Ltd. Issues 10% Debentures of ₹ 100 each for the total nominal value of Rs. 80,00,000 at a premium of 5% to be redeemed at par.
- (iv) A Ltd. Issues ₹ 50,00,000; 9% Debentures of ₹ 100 each at par but redeemable at the end of 10 years at 105%.
- (v) A Ltd. Issued ₹ 40,00,000, 12% debentures of ₹ 100 each at a discount of 5% repable at a premium of 10% at the end of 5 years.
- (vi) A Ltd issues ₹ 70,000; 12% debentures of ₹ 100 each at a premium of 5% repable at 110% at the end of 10 years.

Journal of A Ltd.

Date	Particulars	L.F.	Dr.	Cr.
(i) (A)	Bank A/c Dr. To debenture application and allotment A/C (Being the debenture application money record)		14,25,000	14,25,000
(B)	Debenture application & Allotment A/c Dr. Discount on issue of Deb. A/d Dr. To 10 Debentures A/c (Being the issue of 15,000, 8% debentures of Rs. 100 each at a discount of 5%.		14,25,000 75,000	15,00,000
(ii) (A)	Bank A/c Dr. To debenture application and allotment A/c (Being the debenture application money received)		84,00,000	84,00,000

(B)	Debenture application and allotment A/C Dr. To 10% debenture A/C To security premium A/C (Being the issue of 80,000, 10% debenture of Rs. 100 each at a premium of 5%)		84,00,000	80,00,000 4,00,000
(iii)(A)	Bank A/C Dr. To debenture application and allotment A/C (Being the debenture application money received)		50,00,000	50,00,000
(B)	Debenture application and allotment A/C Dr. Loss on issue of debenture A/c Dr. To 12% Debenture A/c To premium on Redemption of Debenture A/c (Being the issue of 50,000, 12% debenture of Rs. 100 each at par redeemable at 105%)		50,00,000 2,50,000	50,00,000 2,50,000
(iv) (A)	Bank A/C Dr. To debenture application and allotment A/C (Being the debentures application money received)		38,00,000	38,00,000

(B)	<p>Debenture application and allotment A/C Dr. 38,00,000</p> <p>Loss on issue of debenture A/C Dr. 6,00,000</p> <p>To 12% debenture A/C 40,00,000</p> <p>To premium on redemption of debenture A/c 4,00,000</p> <p>(Being the issue of 40,000, 12% debenture of Rs. 100 each at a discount of 5% and repayable at a premium 10%)</p>			
(v) (A)	<p>Bank A/c Dr. 73,50,000</p> <p>To debenture application and allotment A/c 73,50,000</p> <p>(Being the debenture application money second)</p>			
	<p>B) Debenture application and allotment A/c Dr. 73,00,000</p> <p>Loss on issue of debenture A/c Dr. 7,00,000</p> <p>To 12% debenture A/c 70,00,000</p> <p>To security Premium Reserve A/c 3,50,000</p> <p>To premium on redemption of debenture A/c. 7,00,000</p> <p>(Being the issue of 70,000, 12% debentures of Rs. 100 each at a premium of 5% and repable at a premium of 10%)</p>			

INTEREST ON DEBENTURES

Interest on Debentures is calculated at a fixed rate on its face value and is usually payable half yearly. Interest on debentures is to be paid even company is suffering from loss because it is charge against profit.

Income Tax is deducted from interest before payment to debenture holders. It is called T.D.S. (Tax deducted at source).

JOURNAL ENTRIES

- | | | | |
|----|---------------------------|-----|--------------------------|
| 1. | Debenture's Interest A/c | Dr. | (Gross Interest) |
| | To Debentureholder A/c | | (Net interest) |
| | To Income Tax Payable A/c | | (Incrme
Tax deducted) |
- | | | | |
|----|-----------------------|-----|-----------------|
| 2. | When interest is paid | | |
| | Debentureholder A/c | Dr. | (With Interest) |
| | To Bank A/c | | |
- | | | | |
|----|--|-----|------------------------|
| 3. | On payment of Income Tax to Government | | |
| | Income Tax Payable A/c | Dr. | Amount of Income |
| | To Bank A/c | | Tax deducted at source |
- | | | | |
|----|--|-----|----------------------|
| 4. | On transfer of Interest on debentures to Statement of
Profit and Loss | Dr. | |
| | Statement of Profit & Loss A/c | Dr. | (Amount of Interest) |
| | To Debenture Interest A/c | | |

(1) Illustration 3: ABC Company Ltd., had 6% debentures of ₹ 1,00,000 on 1st April 2009 on which interest is payable on 30th September and 31st March. Pass necessary journal entries for the payment of interest for the year 2009-10, 10% tax is deducted at source from interest and remitted immediately. If books are closed on 31st March, given necessary journal entries of interest on debentures only.

Solution :

ABC Ltd.

Journal

Date	Particulars	L.F.	Debit (Rs)	Credit (Rs)
2009 Sept 30	Interest On Debenture A/c Dr. To Debentureholder A/c To Income Tax payable A/c (half yearly debenture interest due and tax deducted at source)		3,000	2,700 300
Sep 30	Debentureholder A/c Dr. Income Tax Payable A/c Dr. To Bank (Interest & Tax paid)		2700 300	3000
2010 March 31	Interest on Debenture A/c Dr. To Debentureholder A/c To Income Tax Payable (Half yearly debenture interest due and tax deducted at source)		3000	27,00 300
March 31	Debentureholder A/c Dr. Income Tax Payable A/c Dr. To Bank A/c (Being Interest & Tax paid)		2700 300	3000

	Statement of Profit and Loss Dr.		6000	
	To Interest on Debenture A/c (Debenture Interest (3000 + 3000) transferred to statement of profit and loss)			6000

Illustration 4: B.G. Ltd. issued 2,000, 12% debentures of ₹ 100 each on 1st April 2012. The issue was fully subscribed. According to the terms of issue, interest on debentures is payable half yearly on 30th September and 31st March and tax deducted at source is 10%.

Pass necessary journal entries related to the debenture interest for the half-yearly ending 31st March, 2013 and transfer of interest on debentures of the year to the Statement of Profit & Loss.

Solution:

Books of B.G. Ltd. Dr.

Journal Cr.

Date	Particulars	LF.	Debit (₹)	Credit (₹)
2013	Interest on Debentures A/c Dr.		12,000	
March	To Debentureholder's A/c			10,800
31	To Income Tax Payable A/c			1,200
	(Half yearly interest due on debentures and tax deducted at source)			

31 March	Debentureholder's A/c To Bank A/c (Payment of Interest)	Dr.	10,800	10,800
March 31	Income Tax Payable / TDS from Debentures Interest A/c To Bank A/c (TDS deposited with income tax authorities)	Dr.	1,200	1,200
	Statement of Profit & Loss To Interest on Debentures A/c (Interest transferred to Statement of P/L)	Dr.	24,000	24,000

Writing off Discount or Loss on issue of Debentures

Discount or Loss on issue of Debentures, being Loss for a company, is to be written off by the company as early as possible but within the tenure of the debentures.

Discount or Loss on issue of Debentures should be written off by a company by using write off of the entire discount or loss in the same year itself as finance cost (As per AS-16)

WRITINGS OFF DISCOUNT/LOSS ON ISSUE OF

DEBENTURES

Statement of Profit shows A/c or (Amount Written off)
 Securities Premium Reserve A/c or (Amount Written off)
 To discount or Loss on issue of Debentures A/c

Illustration 5. X Ltd. issued ₹ 10,00,00, 8% debentures at as discount of 10 % on 1st April 2018, redeemable in 4 equal annual installments starting from 31st March 2019.

Pass necessary Journal entries for issue of Debentures & to Write off Discount on issue of debentures if

- (a) There is no Securities Premium Reserve Balance
 (b) The Securities Premium Reserve A/c Shows a balance of ₹ 30,000 .
 (c) The Securities Premium Reserve A/c Shows a balance of ₹ 1, 50,000 .

Solution

Journal

Date	Particulars	L.F.	Dr (₹)	Cr (₹)
Ist April 2018	Bank A/c To Debentures Application Allotment A/c	Dr.	9,00,000	9,00,000
	(Application for ₹ 10 lakh, 8% debentures @ 10 % discounts received).			
	Debentures Application & Allotment Dr		9,00,000	
	Discount on Issue of Debentures A/c		1,00,000	
	To 8% Debentures A/c (Application money transferred to Debentures A/c)			1,00,000
Case (a) 31st Mar 2019	There is No SPR balance statement of Profit & Loss A/c	Dr.	1,00,000	
	To discount on Issue of Debentures A/c (Being discount on Issue of debentures written off)			1,00,000

Case (b) The Securities Premium A/c Shows a balance of ₹ 30,000 .

31st Mar
2019

Securities Premium Reserve A/c	Dr.	30,000
Statement of Profit & Loss A/c	Dr.	70,000
To Discount on Issue of Debentures A/c (being discount on issue of Debentures written off)		1,00,000

Case (c) The Securities Premium Reserve A/c Shows a balance of

31st Mar
2019

₹ 1,50,000 . Securities Premium Reserve A/c dr. 1,00,000		
To Discount on Issue of Debentures A/c (being discount on issue of Debentures written off)	1,00,000	