

## CHAPTER - 07

### ISSUE AND REDEMPTION OF DEBENTURES

#### Meaning of Debentures

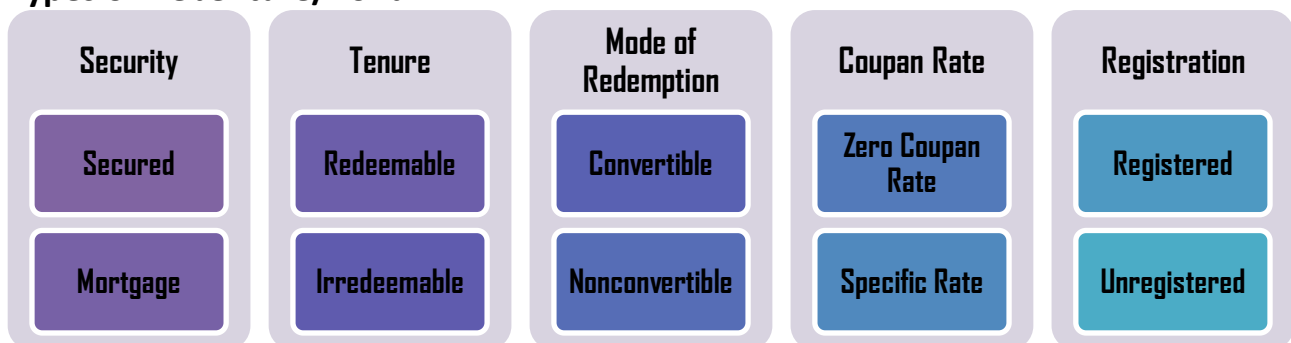
The word 'debenture' has been derived from a Latin word 'debere' which means to borrow. Debenture is a written instrument acknowledging a debt under the common seal of the company.

**BOND:** Bond is also an instrument of acknowledgement of debt. Traditionally, the Government issued bonds.

#### Distinction between Shares and Debentures

Basis	Shares	Debentures
Ownership	Ownership Capital	Borrowed Capital
Return	Dividend	Interest
Repayment	Not returned during the life of the company	Returned only after the completion of specific period.
Voting Rights	Have voting rights	Do not have voting right.
Security	Not Secured	Secured by assets of company
Convertibility	Can not be converted into Debentures	Can be converted into shares.

#### Types of Debenture/Bond



#### ISSUE OF DEBENTURES

##### Issue of Debentures for Cash

##### **On Application**

1. On opening account in scheduled bank  
Bank A/c Dr.

To Debenture Application A/c

(Amount received on application for — Debenture @ Rs. \_\_\_\_\_ per Debenture)

2. For Transfer of Application Money  
Debenture Application A/c Dr.  
    To Debenture Capital A/c  
(Application money on \_\_\_\_\_ Debenture allotted/transferred to Debenture Capital)
3. For Money refunded on rejected application  
Debenture Application A/c Dr.  
    To Bank A/c  
(Application money returned on rejected application for \_\_\_\_\_ Debenture)

**On Allotment**

4. For Amount Due on Allotment  
Debenture Allotment A/c Dr.  
    To Debenture Capital A/c
5. For Adjustment of Excess Application Money  
Debenture Application A/c Dr.  
    To Debenture Allotment A/c  
(Application Money on \_\_\_\_\_ Debenture @ Rs. \_\_\_\_\_ per Debenture adjusted to the amount due on allotment).
6. For Receipt of Allotment Money  
Bank A/c Dr.  
    To Debenture Allotment A/c  
(Allotment money received on \_\_\_\_\_ Debenture @ Rs. — per Debenture Combined Account)

**On Receipt of Call Money**

7. For Call Amount Due  
Debenture Call A/c Dr.  
    To Debenture Capital A/c  
(Call money due on \_\_\_\_\_ Debenture @ Rs. \_\_\_\_\_ per Debenture)
8. For Receipt of Call Amount  
Bank A/c Dr.  
    To Debenture Call A/c  
(Call money received)

**Issue of Debentures at a Discount**

Debenture is issued at a price below its nominal value.

It is a capital loss and can be written-off either by debiting it to profit and loss.

12% Debenture Allotment A/c Dr.

Discount on Issue of Debentures A/c Dr.

To 12% Debenture A/c  
(Allotment money due on debentures)

### **Issue of Debentures at Premium**

The price charged is more than its nominal value. Amount of premium is credited to securities premium account and is shown on the liabilities side of the balance sheet under the head reserves and surpluses.

10% Debenture Allotment A/c Dr.  
    To 10% Debentures A/c  
    To Securities Premium A/c  
(Allotment money due on debentures)

### **Over Subscription**

The number of debentures applied for is more than the number of debentures offered to the public.

### **Issue of Debentures for Consideration other than Cash**

1. Asset A/c Dr.  
    To Vendor  
(Asset purchased)
2. When debentures are issued at par  
Vendors A/C Dr.  
    To debentures Capital A/c  
(debentures issued at par)
3. When debentures are issued at Discount  
Vendors A/C                      Dr.  
Discount on Issue of debentures A/c Dr.  
    To debentures Capital A/c  
(debentures issued at discount)
4. When debentures are issued at premium  
Vendors A/C                      Dr.  
    To debentures Capital A/c  
    To Securities Premium A/c  
(debentures issued at premium)

### **Issue of Debentures as a Collateral Security**

Any security in addition to primary security is called 'collateral security'. The amount of debentures will be transferred to debenture suspense account.

Debenture Suspense A/c Dr.  
    To 19% Debentures A/c

For cancellation of 19% debentures as collateral security on repayment of bank loan.

19% Debentures A/c Dr.  
To Debenture Suspense A/c

### **TERMS OF ISSUE & REDEMPTION OF DEBENTURES**

#### **1. Issue at par and redeemable at par**

- (a) Bank A/c Dr.  
To Debenture Application & Allotment A/c  
(Receipt of application money)
- (b) Debenture Application & Allotment A/c Dr.  
To Debentures A/c  
(Allotment of debentures)

#### **2. Issue at a discount and redeemable at par**

- (a) Bank A/c Dr.  
To Debenture Application & Allotment A/c  
(Receipt of application money)
- (b) Debenture Application & Allotment A/c Dr.  
Discount on Issue of Debentures A/c Dr.  
To Debentures A/c  
(Allotment of debentures at a discount)

#### **3. Issue at premium and redemption at par**

- (a) Bank A/c Dr.  
To Debenture Application & Allotment A/c  
(Receipt of application money)
- (b) Debenture Application & Allotment A/c Dr.  
To Debentures A/c  
To Securities Premium A/c  
(Allotment of debentures at a premium)

#### **4. Issue at par and redeemable at premium**

- (a) Bank A/c Dr.  
To Debenture Application & Allotment A/c  
(Receipt of application money)
- (b) Debenture Application & Allotment A/c Dr.  
Loss on Issue of Debentures A/c Dr. (with premium on redemption)  
To Debentures A/c (with nominal value of debenture)  
To Premium on Redemption of Debenture A/c (with premium on redemption)  
(Allotment of debentures at par and redeemable at a premium)

**5. Issue at discount and redemption at premium**

Bank A/c Dr.

To Debenture Application & Allotment A/c  
(Receipt of application money)

Debenture Application & Allotment A/c Dr.

Loss on Issue of Debentures A/c Dr. (with discount on issue plus premium on redemption)

To Debentures A/c (with nominal value of debenture)

To Premium on Redemption of Debentures A/c (with premium on redemption)

(Allotment of debentures at a discount and redeemable at premium)

**6. Issued at a premium and redeemable at premium**

Bank A/c Dr.

To Debenture Application & Allotment A/c  
(Receipt of application money)

Debenture Application & Allotment A/c Dr.

Loss on Issue of Debentures A/c Dr. (with premium on redemption)

To Debentures A/c (with nominal value of debenture)

To Securities Premium A/c (with premium on issue)

To Premium on Redemption of Debentures A/c (with premium on redemption)

**INTEREST ON DEBENTURES**

Interest at fixed percentage will be paid periodically until debentures are repaid. According to Income Tax Act 1961, a company must deduct income tax at a prescribed rate from the interest payable on debentures if it exceeds the prescribed limit.

1. When interest is due

Debenture Interest A/c Dr.

To Income Tax payable A/c

To Debentureholders A/c

(Amount of interest due on debenture and tax deducted at source)

2. For payment of interest to debentureholders

Debentureholders A/c Dr.

To Bank A/c

(Amount of interest paid to debentureholders)

3. On transfer debenture Interest Account to statement of Profit and Loss  
Profit and Loss A/c Dr.

To Debenture Interest A/c

(Debenture interest transferred to profit and loss A/c)

4. On payment of tax deducted at source to Government

Income Tax Payable A/c Dr.

To Bank A/c

(Payment of tax deducted at source on interest on debentures)

### Writing-Off Discount/Loss On Issue Of Debentures

The discount/loss on issue of debentures is a capital loss or a fictitious asset.

Profit and Loss A/c Dr.

To Discount/Loss on Issue of Debentures A/c

(Discount/loss on issue of debentures written-off)

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