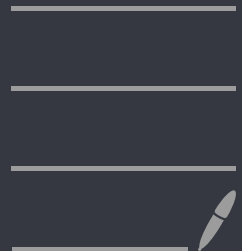
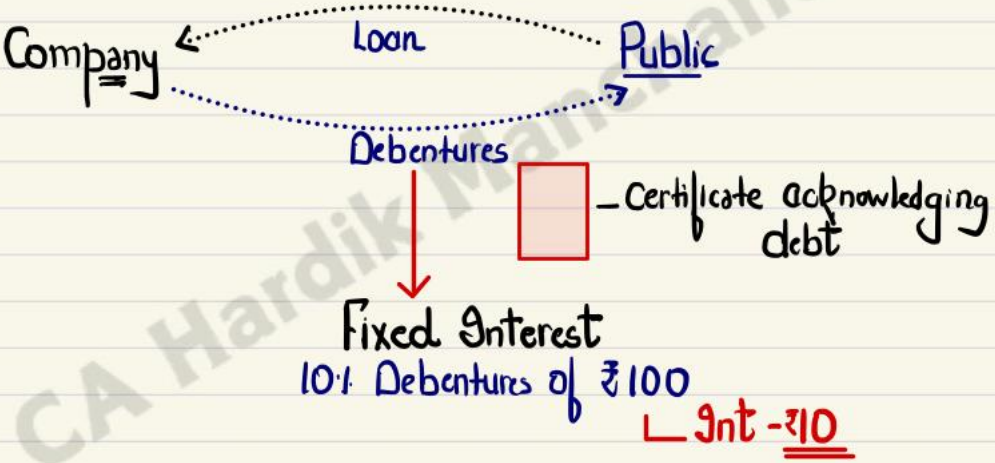
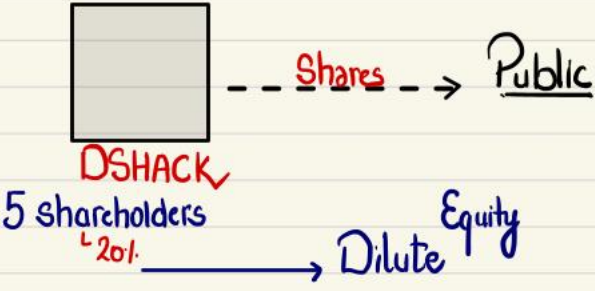
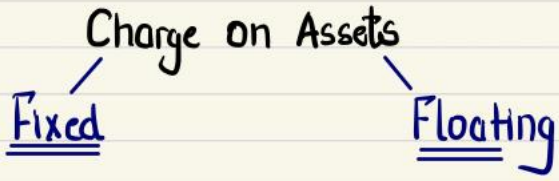


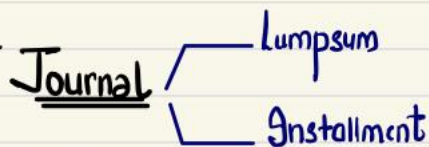
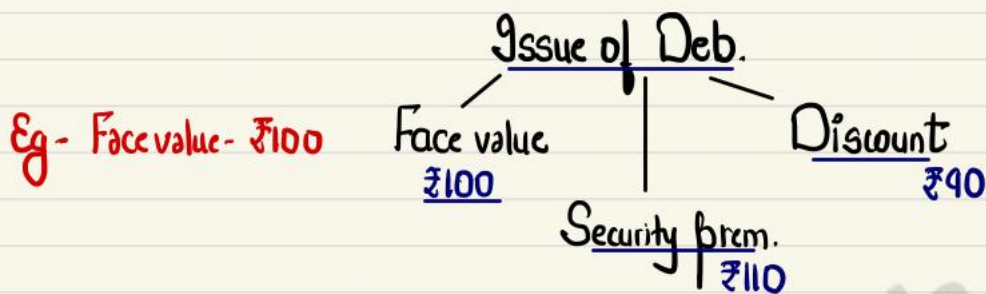
Issue of Debentures





→ Int on Deb is charged against profit.





1. Lumpsum

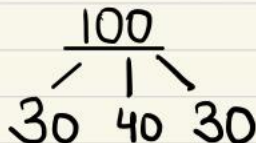
CCW Ltd. Issued 2000, 12% Deb of ₹100 each at par.

1. Bank A/c Dr. (2000 × 100) 200,000
To Deb App & Allotment 200,000

2. Deb. App & All. Dr. 200,000
To 12% Deb. A/c 200,000

↓
Long term borrowings

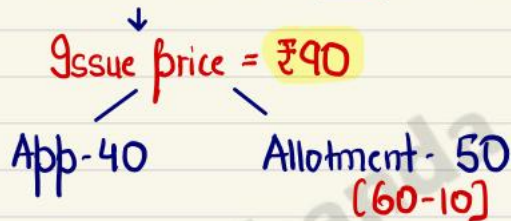
2. Installments



1. Bank A/c Dr (2000x30) 60.000
To Deb App A/c 60.000
 2. Deb App A/c Dr 60.000
To 12% Deb A/c 60.000
 3. Deb. Allotment Dr. 80.000
To 12% Deb A/c 80.000
 4. Bank Dr. 80.000
To Deb All 80.000
 5. Deb. first & final call Dr. 60.000
To 12% Deb A/c 60.000
 6. Bank Dr. 60.000
To Deb first & final call 60.000
-

.....> Issued at Discount

1000, 12% Deb. of FV ₹100, issued at 10% Discount.



1. Bank Dr. [1000x40] 40,000
 To Deb App A/c 40,000
2. Deb App Dr 40,000
 To 12% Deb A/c 40,000
3. Deb. All. Dr [1000x50] 50,000 Receivable
 Discount on issue of Deb Dr 10,000 → Nominal A/c
 ↳ Writoff.
 (1000x60) To 12% Deb A/c 60,000
4. Bank Dr. 50,000
 To Deb All. A/c 50,000

→ Lumpsum

1. Bank Dr. [1000x90] 90,000
To Deb App & All 90,000.

2. Deb App & All. Dr. 90,000
Discount on issue of Deb Dr 10,000
To 12% Deb A/c 100,000

→ Issued at premium

1000, 10% Deb of ₹100 each, issued at 20% premium.

Issue price - ₹120
40 80
 (60+20)

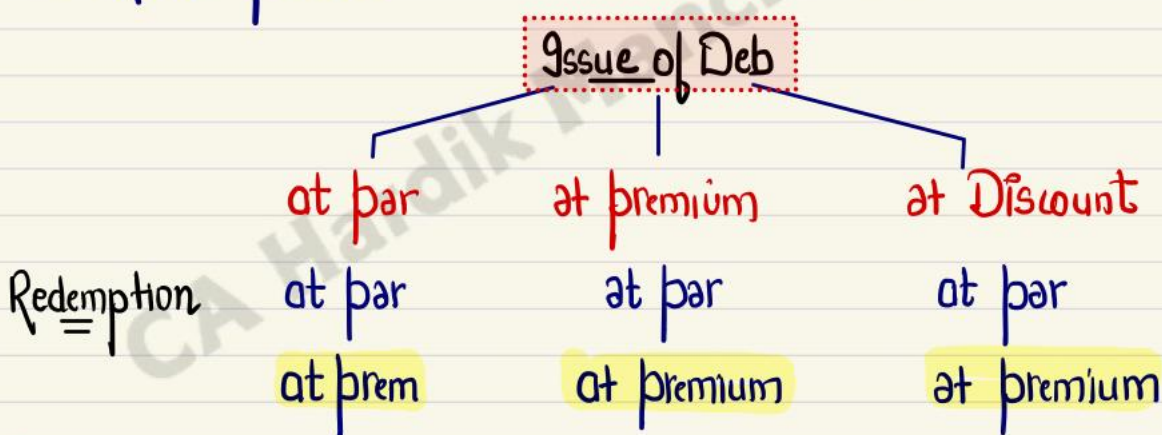
1. Bank Dr. [1000x40] 40,000
To Deb App 40,000

2. Deb. App Dr. 40,000
To 10% Deb A/c 40,000

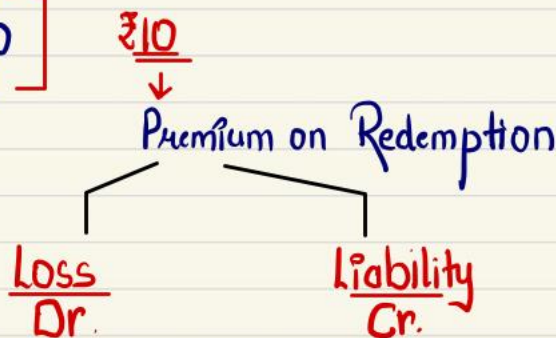
3. Deb Allotment Dr. 80,000
 [1000 x 60] To 10% Deb. 60,000
 To Sec. prem A/c 20,000

4. Bank Dr. 80,000
 To Deb All A/c 80,000

→ Redemption



Eg- Face value - ₹100
 Issue price - ₹100
 Rederm - ₹110



→ Loss on issue of Deb Dr 10^{Loss}
 To prem. on Red. of Deb 10^{Liab.}

Eg:- Issued 500 11% Deb of ₹100 each, redeemable at 10% prem.

1. Bank Dr 50,000
 To Deb App & All A/c 50,000

2. Deb App & All 50,000
 Loss on issue of Deb Dr 5000
 To 11% Deb 50,000
 To prem on Red 5000

Eg:- Issued 100 12% Deb of ₹100 each at 20% premium, redeemable at 10% premium.

1. Bank Dr 12000
 To Deb App & All 12000

Issue price - ₹120 ^{SP-₹20}
 Redemption - ₹110 — Face value

2. Deb. App & All Dr 12000
 Loss on issue of Deb Dr 1000
 To 12% Deb 10,000
 (100x20) To Sec. prem A/c 2000
 To prem on Red A/c 1000

Eg: Issued 100, 14% Deb of ₹100 each at 10% Discount, redeemable at 20% premium.

1. Bank A/c Dr. [100 x 90] 9000
 To Deb App & All 9000

2. Deb App & All Dr. 9000
 [Disc. on issue of Deb Dr 1000] Same Nature
 (100 x 20) [Loss on issue of Deb Dr 2000] → Merge
 (100 x 100) To 14% Deb 10,000
 To prem. on Red 2000
 ↓
 Loss on issue of Deb Dr. 3000

ILLUSTRATION 2

lcr. ✓

Atul Ltd. issued 1,00,00,000, 8% debenture of ₹100 each at a discount of 10% ^xredeemable at par at the end of 10th year. Money was payable as follows :

₹ 30 on application ✓

₹ 60 on allotment [10-10] ✓

Record necessary journal entries regarding issue of debenture.

Journal

	Dr.	Cr.
	[₹ in crores]	
1. Bank A/c Dr.	30	
To Deb App A/c		30
2. Deb App Dr.	30	
To B.I. Deb		30
3. Deb All Dr.	60	
Disc on Deb A/c	10	
To B.I. Deb		70
4. Bank	60	
To Deb All.		60

ILLUSTRATION 4

Modern Equipments Ltd. issued 4,00,000, 12% debentures of ₹ 100 payable as follows :

On application ₹ 30

On allotment ₹ 70

The debenture were fully subscribed and all the money was duly received. As per the terms of issue, debentures are redeemable at ₹110 per debenture. Record necessary entries regarding issue of debentures.

100 + 10

	Dr	Cr.
	(₹ in Lacs)	
3. Deb	280	
All. Dr.	40	
Loss on issue of Deb		280
To 12% Deb		40
To prem on Red.		

ILLUSTRATION 5

Agrotech Ltd. issued 150 lakh 9% debentures of ₹ 100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as: ₹ 50 on application and ₹ 44 on allotment. Record necessary journal entries for issue of debentures.

50-6

Journal

	Dr. (₹ in Lakh)	Cr (₹ in Lakh)
1. Bank A/c	Dr. (150x50) 7500	
	To Deb App A/c	7500
2. Deb App A/c	Dr. 7500	
	To Q.I. Deb	7500
3. Deb. All.	Dr. (150x44) 6600	
	Loss on issue of Deb Dr. 1650	
	(150x50)	To Q.I. Deb
	(150x5)	To prem on Red.
		7500
		750

Discount

Loss (150x6)
→ Disc. on issue of Deb Dr. 900
To Q.I. Deb. 900

Loss

Loss (150x5)
Loss on issue of Deb Dr. 750
To prem. on Red of Deb. 750

ILLUSTRATION 6

Simmons Ltd. issued 1,00,000, 12% Debentures of ₹ 100 each at par payable in full on application by 1st April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.

You are required to pass necessary Journal Entries (including cash transactions) in the books of the company.

Journal

		Dr. (₹ in Lakh)	Cr. (₹ in Lakh)
Apr 1	Bank Dr.	110	
	To Deb App & All A/c		110
Apr 7	Deb. App & All A/c Dr.	110	
	To 12% Deb		100
	To Bank		10

ILLUSTRATION 7

X Ltd. issued 1,00,000 12% Debentures of ₹100 each at a discount of 10% payable in full on application by 31st May, 2022. Applications were received for 1,20,000 debentures. Debentures were allotted on 9th June, 2022. Excess money was refunded on the same date. Pass necessary Journal Entries. Also show necessary ledger accounts.

Journal

		Dr. (Lacs)	Cr. (Lacs)
2022			
May 31	Bank A/c Dr.	108	
	To Deb App & All A/c ✓		108
June 9	Deb App & All Dr. ✓	108 — 18.90	
	Disc. on issue Dr. (11x10)	10 ✓	
	To 12% Deb. ✓		100 ✓
	(20,000 x 90)	To Bank A/c ✓	18 -

Bank A/c

Dr			Cr		
Date	Part	₹ (Lacs)	Date	Part	₹
May 31	To Deb App & All	108	June 9	By Deb App & All	18
		==		by bal old	<u>90</u>

Deb App & All A/c

			Cr.		
Date	Part	₹	Date	Part	₹
June 9	To 12.1. Deb To Bank	90 18 <u> </u>	May 31	By Bank	108 <u> </u>

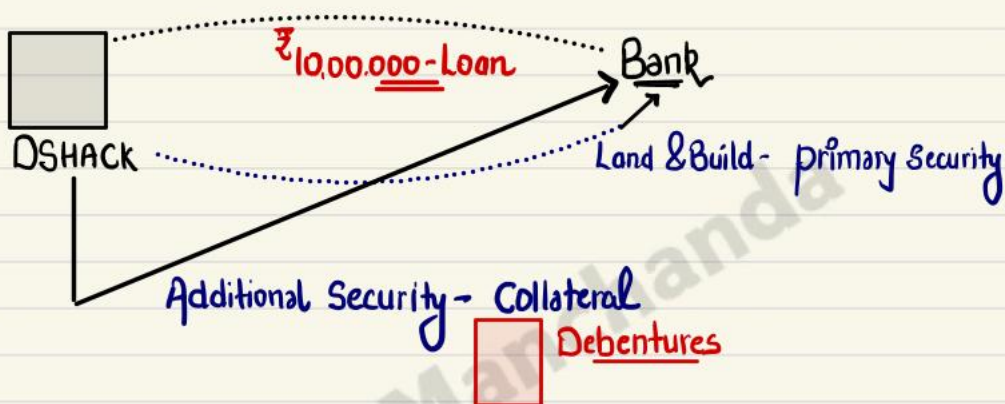
12.1. Deb A/c

			Cr.		
Date	Part	₹	Date	Part	₹
	To bal cld	100 <u> </u>	9 June	By Deb App & All By Discount	90 10 <u> </u>

Disc. on issue of Deb A/c

Date	Part	₹	Date	Part	₹
9 June	To 12.1. Deb	10 <u> </u>		by bal cld	10 <u> </u>

→ Issue of Deb as Collateral Security



→ No interest is allowed on Debentures, issued as Collateral Security.

Methods

1st Method → Follow this Method → 2nd Method

1. Bank Dr. 10,00,000
To Bank Loan A/c 10,00,000

1. Bank Dr. 10,00,000
To Bank Loan A/c 10,00,000

→ No separate entry for Debentures.

2. Deb. Susp Dr 100,000
To 12% Deb 100,000

Other Non-current Asset Long term Liab.

Method 1

Balance Sheet

as on ..

Particulars	Note No.	C.Y. (₹)
I Equity & Liabilities		
Non-Current Liabilities		
Long term borrowings	1	10,00,000
II Assets		
Current Assets		
Cash & cash equivalent		10,00,000

Notes to Accounts

1. Long term borrowings

Bank Loan

10,00,000

[Secured by 1000, 12% Deb. of ₹100 each
as collateral security.

Method 2:

Balance Sheet

As on ..

Particulars	Note No.	C.Y. (₹)
I Equity & Liabilities		
Non-Current Liabilities		
Long term borrowings	1	1100.000
II Assets		
Non-Current Asset		
Other non-current Assets	2	100.000
Current Assets		
Cash & cash equivalent		10.00.000
1 Long term Borrowings		
Bank Loan	10.00.000	
12% Deb	<u>100.000</u>	1100.000
2 Other non-current Assets		
Deb. suspense		100.000

— Issue of Deb. for consideration other than cash.



↓
F.V. ₹100

↓
25% premium
Issue price = 125

↓
20% Discount
Issue price = ₹80

$$\text{No. of Deb} = \frac{100,000}{100} = 1000 \text{ Deb.}$$

$$= \frac{100,000}{125} = 800 \text{ Deb.}$$

$$= \frac{100,000}{80} = 1250 \text{ Deb.}$$

2. Vendor Dr 100,000
To 12% Deb 100,000
 (1000×100)

2. Vendor Dr 100,000
To 12% Deb. 80,000
To Sec prem. 20,000
 (800×25)

2. Vendor Dr 100,000
Discount Dr 20,000
To 12% Deb 120,000
 (1250×100)

ILLUSTRATION 10

X Company Limited issued 10,000 14% Debentures of the nominal value of ₹50,00,000 as follows:

- (a) To sundry persons for cash at 90% of nominal value of ₹ 25,00,000.
- (b) To a vendor for purchase of fixed assets worth ₹10,00,000 – ₹ 12,50,000 nominal value.
- (c) To the banker as collateral security for a loan of ₹ 10,00,000 – ₹ 12,50,000 nominal value.

Pass necessary Journal Entries.

a) (i) Bank Dr [2500.000 x 90%] 2250.000
To Deb App & All A/c 2250.000

(ii) Deb App & All Dr 2250.000
Discount on issue Dr 250.000
To 14% Deb 2500.000

b) (i) Fixed assets A/c Dr 10.00.000
To vendor 10.00.000

(ii) Vendor Dr 10.00.000
Disc on issue Dr 250.000
To 14% Deb 1250.000

c) i. Bank A/c Dr 10.00.000
To Bank loan 10.00.000
[Bank loan is secured by ₹12,50,000, 14% Deb as collateral security]

PQ-5

5. A Limited issued 14% Debentures of the nominal value of ₹ 10 each as follows:
- To sundry persons 1,00,000 Debentures for cash at 10% discount.
 - To a vendor for purchase of Inventory worth ₹ 1,00,000, 8,000 debentures at 25% premium. L10
 - To the banker as collateral security for a loan of ₹ 1,00,000 (₹ 1,50,000 nominal value.)

Pass necessary Journal Entries.

$$b) \text{ No. of Deb} = \frac{100000}{12.5} = 8000 \text{ Deb}$$

Vendor Dr 100,000
 [8000 x 10] To 14% Deb 80,000
 (8000 x 25) To Sec. prem 20,000

RTP

19. On 1st April 2020, XY Ltd. took over assets of ₹ 4,50,000 and liabilities of 60,000 of Himalayan Ltd. for the purchase consideration of ₹ 4,40,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date.

1. Sundry Assets Dr 450,000
 Goodwill (bal. fig) Dr. 50,000
 To Sundry Liab 60,000
 To Himalayan Ltd. 440,000

2. Himalayan Ltd Dr 440,000
 (4000 x 100) To 8% Deb 400,000
 (4000 x 10) To Sec. prem A/c 40,000

$$\frac{440,000}{110} = 4000$$

→ Treatment of Discount / Loss on Issue of Deb.

Nominal A/c

Recording - Discount on Issue of Deb Dr.
To % Deb A/c.

Write off - Security Prem. A/c Dr.
Statement of P&L A/c Dr.
To Discount on Issue A/c

ILLUSTRATION 11

HDC Ltd issues 1,00,000, 12% Debentures of ₹ 100 each at ₹ 94 on 1st January, 2022. Under the terms of issue, the debentures are redeemable at the end of 5 years from the date of the issue. Calculate the amount of discount to be written-off in each of the 5 years.

1. Bank A/c Dr. (100,000 × 94) 9400.000
To Deb App & All A/c 9400.000

2. Deb App & All Dr. 9400.000
Disc. on Issue Dr. 600.000 -
To 12% Deb. 100.00.000

Written off over a period of 5 years.

Benefit

100.00.000

Year	o/s Deb. [Fv]	Ratio of Benefit derived	Disc. to be written off
1	100,00,000	1	$600000 \times \frac{1}{5} = 120,000$
2	100,00,000	1	120,000
3	100,00,000	1	120,000
4	100,00,000	1	120,000
5	100,00,000	1	120,000
			600,000

End of 1st year

Statement of P&L Dr. 120,000
 To Disc on issue 120,000



Balance in Disc. on Issue of Deb A/c = ₹480,000
 — Balance Sheet

120,000

Other Current Asset

360,000

Other NCA.

ILLUSTRATION 12

HDC Ltd. issues 2,00,000 ^{40,000} 12% Debentures of ₹10 each at ₹9.40 on 1st January, 2022. Under the terms of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 2022. Calculate the amount of discount to be written-off from 2022 to 2026.

$$200,000 \times 0.6 = 120,000$$

$$\begin{aligned} \text{Discount on issue of Deb} &= 200,000 \times 0.6 \\ &= ₹120,000 \end{aligned}$$

Year	o/s Deb (FV)	Ratio of Benefit derived	Amt of Disc to be written off.
1	20,00,000	5	$120,000 \times \frac{5}{15} = 40,000$
2	16,00,000	4	$120,000 \times \frac{4}{15} = 32,000$
3	12,00,000	3	$120,000 \times \frac{3}{15} = 24,000$
4	8,00,000	2	$120,000 \times \frac{2}{15} = 16,000$
5	4,00,000	1	$120,000 \times \frac{1}{15} = 8,000$
		15	120,000

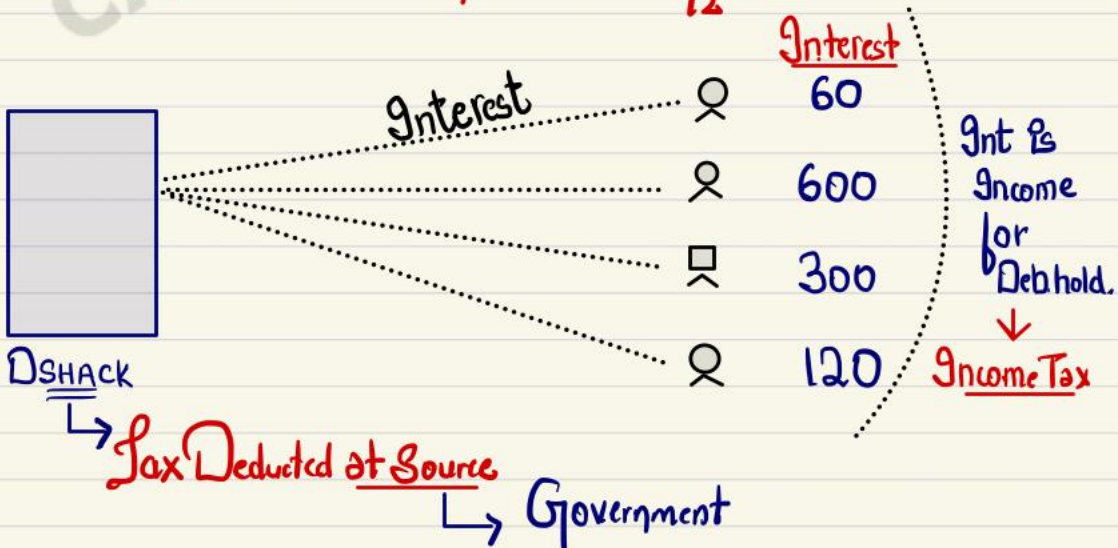
— Interest on Debentures

1. Int is calculated on Face value
2. Charge against profit
3. Int is written off in Statement of p&L.

Eg:- 1000, 12% Deb of ₹100 each at 20% premium on 1/4/23.
 Int is payable half yearly on 30th Sep & 31st Mar.
 Tax to be deducted @ 10%

→ Interest p.a = $1000 \times 100 \times \frac{12}{100}$
 = ₹ 12000

Int payable on 30th Sep = $12000 \times \frac{6}{12}$ = ₹ 6000



JOURNAL

30/9 Int on Deb Dr. 6000 — Expense
 [6000-10% Tds] To Deb holder 5400 — payable to DH
 [6000x10%] To Tax deducted at source 600 — payable to Govt.

30/9 Deb holder Dr 5400
 Tax deducted at source Dr 600
 To Bank 6000

31/3 Int on Deb Dr. 6000
 [6000-10% Tds] To Deb holder 5400
 [6000x10%] To Tax deducted at source 600

31/3 Deb holder Dr 5400
 Tax deducted at source Dr 600
 To Bank 6000

31/3 Statement of p&L Dr 12000
 To Int on Deb 12000

Imp.

ILLUSTRATION 13

A company issued 12% debentures of the face value of ₹10,00,000 at 10% discount on 1-1-2022. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st of December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass journal entries for the accounting year 2022.

1.1.20 Bank A/c Dr. 900,000
To Deb App & All A/c 900,000

1.1.20 Deb. App & All A/c Dr. 900,000
Loss on Issue of Deb Dr. 150,000

To 12% Deb. 10,00,000
To prem on Red. 50,000

30.6 Int on Deb. $[10,00,000 \times \frac{12}{100} \times \frac{6}{12}]$ 60,000

(60,000 - 10%) To Deb holder 54,000
To Tax deducted at Source 6,000

30.6. Deb holder Dr. 54,000
Tax ded. at Source Dr. 6,000
To Bank 60,000

31.12 Same as above

31.12 Statement of P&L A/c Dr 120,000
 To Int on Deb 120,000

31.12 Statement of P&L Dr. 30,000
 To Loss on issue of Deb 30,000
 [$150,000 \times \frac{1}{5}$]

PQ-4

4. On 1st April 2022 Sheru Ltd. issued 1,00,000 12% debentures of ₹ 100 each at a discount of 5%, redeemable on 31st March, 2027. Issue was oversubscribed by 20,000 debentures, who were refunded their money. Interest is paid annually on 31st March. You are required to prepare:

- (i) Journal Entries at the time of issue of debentures.
- (ii) Discount on issue of Debenture Account
- (iii) Interest account and Debenture holder Account assuming TDS is deducted @ 10%.

1.4.22 Bank Dr. (1,20,000 x 95) 1,14,00,000
 To Deb App & All A/c 1,14,00,000

Deb App & All A/c 1,14,00,000
 Disc. on issue of Deb 500,000
 (100,000 x 100) To 12% Deb. 1,00,00,000
 (20,000 x 95) To Bank 19,00,000

2.

Discount on issue of Deb A/c

Date	Part	₹	Date	Part	₹
14.20	To 12% Deb	500.000	31.3.21	By st of p&L	100.000
		<u> </u>		By bal c/d ^(5L x 1%)	<u>400.000</u>
14.21	fo bal b/d	400000	31.3.22	By st of p&L	100.000
				By bal c/d	<u>300.000</u>

3. a.

Deb. Int A/c

Dr

Date	Part	₹	Date	Part	₹
31.3.21	To Deb holder	1080.000	31.3.21	By st of p&L	1200.000
	To TDS	<u>120.000</u>			<u> </u>
31.3.22	To Deb holder	1080.000	31.3.22	By st of p&L	1200000
	To TDS	<u>20.000</u>			<u> </u>

b. Deb. Holder A/c

Date	Part	₹	Date	Part	₹
31.3.21	To Bank	<u>1080.000</u>	31.3.21	By Deb Int	<u>1080.000</u>
31.3.22	To Bank	<u>1080.000</u>	31.3.21	By Deb Int	1080.000

RTP-Jan 25

On 1st April 2023, Globex Ltd. took over assets of ₹9,00,000 and liabilities of 1,20,000 of Himalayan Ltd. for the purchase consideration of ₹ 8,80,000. It paid the purchase consideration by issuing 8% debenture of ₹ 100 each at 10% premium on same date. XY Ltd. issued another 6000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5% after 5 years. According to the terms of the issue ₹ 30 is payable on application and the balance on the allotment on debentures. It has been decided to write off the entire loss on issue of discount in the current year itself.

You are required to pass the journal entries in the books of XY Ltd. for the financial year 2023-24

$$\text{Loss on issue} = \frac{15}{100} \times 600000 = 90000$$

Sec prem Dr	80.000
St of P&L	10.000
To Loss on Issue	90.000

True and False

1. *Debenture holder are the owners of the company.*
2. *Perpetual debentures are payable at the time of liquidation of the company.*
3. *Registered debentures are transferable by delivery.*
4. *When companies issue their own debentures as collateral security for a loan, the holder of such debenture is entitled to interest only on the amount of loan and not on the debentures*
5. *Debentures suspense account appears on liability side of balance sheet.*
6. *If a company incurs loss, then it does not pay interest to the debenture holders.*
7. *At the time of liquidation, debenture holders are paid off after the shareholders.*
8. *Convertible debentures can be converted into equity shares.*
9. *Redeemable debentures are not payable during the life time of the company.*
10. *Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.*