

v.v. Easy

Unit 3: ISSUE OF DEBENTURES

"Efforts are never wasted even when they lead to disappointing results. Because they always make us more experienced."

DEBENTURES – DEFINITION AND FEATURES

(Debt : Borrowing)
(Charge : Later on)

DEFINITION

- (a) Debenture includes Debentures Stock, Bonds and any other instrument of a Company evidencing a debt, whether constituting a charge on the assets of the Company or not.
- (b) It is a document issued by a Company indicating its indebtedness. (Borrowing)
- (c) Debenture is one of the most commonly used debt instruments issued by the company to raise funds for the business. The most common method of supplementing the capital available to company is to issue debentures which may either be secured or unsecured. (Purpose for raising of debenture by the company)

FEATURES

Shareholders: Owners: Divided
Deb. holders: Outsiders: Interest: Fixed rate

Later on
Not owners

- (a) **Debt:** Debenture is a document which evidences a loan made to a Company. A debenture is a bond issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest.
- (b) **Interest:** The Company pays a fixed rate of interest on Debentures, due on specific dates. Such interest is payable, irrespective of whether the Company has earned profit or not.
- (c) **Maturity/Redemption:** Generally, Debentures are issued for specified period of time, after which they mature & have to be redeemed by the Company by paying the money. Sometimes, they may be converted into Equity Shares, after the maturity period.
- (d) **Creation of Charge:** Most Debentures are secured by way of a charge on the assets / part of the assets of the Company. However, they may also be unsecured Debentures.
- (e) **Trading:** Debentures may be bought or sold through the Stock Exchange, at a price above or below the Face Value. Hence, Debentures may be traded, in the same manner as Shares.
- (f) **No Voting Rights:** Debenture Holders are mere lenders to the Company, who are generally secured for payment. Hence they do not have any right as to voting in meetings. The Company shall not issue any Debentures carrying voting rights at any Company Meeting, whether generally or in respect of particular class of business.

DISTINGUISH – SHARES AND DEBENTURES

BASIS	SHARES	DEBENTURES
Holder	Shareholders are the <u>Owners</u> of the Company	Debentureholders are the <u>Creditors</u> of the Company.
Kinds	There are <u>two basic kinds</u> of Shares (a) <u>Equity</u> & (b) <u>Preference</u> Shares.	Debentures can be <u>classified</u> in different ways.

Voting	Shareholders generally <u>enjoy voting rights</u> .	Debentureholders do <u>not have any voting rights</u> .
Return	<u>Dividend is paid only out of the profits of the Company</u> .	<u>Interest on Debentures is paid even if there are no profits</u> .
Variation in return	<u>Dividend on Equity Shares may vary from year to year</u> . [But, Dividend on Pref. Shares is paid at fixed rates.]	<u>Rate of Interest on Debentures is Fixed</u> .
Nature of Payment	Dividend is an <u>appropriation</u> of Profits of the Company. Hence, it is not deductible as an "expense" for tax purposes.	Interest on debentures is a <u>'charge'</u> on the profits of the Company. Interest payment gives tax savings to the Company.
Disclosure	<u>Shares are shown under "Share Capital" (under Shareholder Funds) on the Liabilities Side of the Balance Sheet</u> .	<u>Debentures are shown under "Long term Borrowings" (under Non-Current Liabilities) on the Liabilities Side of the Balance Sheet</u> .
Conversion	<u>Shares cannot be converted into debentures under any circumstances</u> .	<u>Debentures may be converted into Shares (partly or fully) as per the terms of issue</u> .
Forfeiture	<u>Shares can be Forfeited for non-payment of Allotment or Call Money</u>	<u>Debentures cannot be forfeited for non-payment of Call Money</u> .
Charge on Assets	Shares do not carry any charge on Assets.	Debentures generally have a charge on the Assets of the Company.
Priority of repayment	<u>Upon winding-up, they are paid after Debentureholders are settled</u> .	<u>They are paid before Shareholders, since they are the Creditors of the company</u> .
Risk	<u>Higher Risk than Debentureholders</u> .	<u>Lower Risk than Equity Shareholders</u> .
Control	<u>Higher degree of control over Company</u>	<u>Minimum / No control</u> .

DIFFERENT KINDS / TYPES OF DEBENTURES

BASED ON PRIORITY

(Importance class)

	<u>First Mortgage Debentures</u>	<u>Second Mortgage Debentures</u>
(a)	They are <u>ranked first</u> and are to be <u>paid first in priority to other Debentures</u> which may be issued later or subsequently by the Company.	They are issued subsequent to first Debentures and <u>rank next in matters of repayment</u> , i.e. they can be redeemed only after First Debentures are repaid.
(b)	These constitute <u>first priority in repayment</u> .	These constitute <u>second priority in repayment</u> .

BASED ON NEGOTIABILITY

(Transferability)

	<u>Bearer or Unregistered Debentures</u>	<u>Registered Debentures</u>
(a)	These are <u>payable to Bearer</u> . Interest is paid <u>through coupons attached to Certificate</u> . On <u>maturity, principal is paid to the Bearer</u> .	These are <u>payable to Registered Holders</u> , i.e. whose <u>names appear on the Certificate</u> and are <u>entered as a Holder in Register of Debenture Holders of the Company</u> .

(b)	These are <u>similar to Negotiable Instruments</u> , and are <u>freely transferable, by mere delivery</u> . <u>No transfer deed is required for transfer of such debentures</u>	They are <u>not easily transferable</u> . They are <u>transferable only as per condition endorsed in it, i.e. by way of execution of transfer deed and registration with the Company</u> .
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BASED ON PERMANENCE / REDEEMABILITY

paix wapis karna! Repay karna

	<u>Redeemable Debentures</u>	<u>Irredeemable / Perpetual Debentures</u>
(a)	They are issued for a <u>specified period of time upon whose expiry, company has the right to pay back the Holders</u> and have its properties released from charge.	It is a Debenture which <u>contains no clause to payment, or which contains a clause that it shall not be paid back</u> .
(b)	<u>Payment / Redemption is made at the end of the specified period</u> .	Payment / Redemption is <u>only upon winding-up/liquidation of company</u> .

BASED ON CONVERTIBILITY

(Convertible into share)

	<u>Convertible Debentures</u>	<u>Non Convertible Debentures</u>
(a)	They are issued with an <u>option that they can be converted into Shares (at par or premium), after a certain period</u> .	They <u>do not have any option as to convertibility</u> .
(b)	They can be <u>fully convertible or partly convertible</u> . In Partly Convertible debentures, the non-convertible portion is redeemed at the expiry of certain period.	They become <u>fully payable on maturity, as specified in the terms of issue</u> .

BASED ON SECURITY

	<u>Secured Debentures</u>	<u>Unsecured / Naked Debentures</u>
(a)	These are <u>secured by a charge on the assets / part of the assets of the Company</u> .	These are issued <u>without any security</u> . They do not create any charge on the Company's Assets.
(b)	The Charge may either be <u>Fixed or Floating</u> . (See Note below.)	Holders are like ordinary Unsecured Creditors and may sue the Company for recovery.
(c)	<u> Holders of such Debentures have lower risk</u> .	These types of debentures are <u>very risky</u> from the <u>viewpoint of Investors</u> .

Note:

A Fixed Charge is a mortgage on specific assets, e.g. Machinery, Land and Building, etc. These assets cannot be sold without the consent of Debentureholders. The sale proceeds of these assets are utilized first for repaying Debentureholders.

A Floating Charge generally covers all assets of the Company, including future assets, e.g. Stock, Receivables, Debtors, etc.

JOURNAL ENTRIES IN RESPECT OF ISSUE OF DEBENTURES (For Cash)

Issue At	Redemption At	Journal Entry
1) PAR 100	PAR / Disc. 100	Bank A/c - Dr 100 To <u>-1. Debentures A/c</u> 100 ROI ←
2) Premium 120	PAR / Disc. 100	Bank A/c - Dr 120 To <u>-1. Debentures A/c</u> 100 To <u>Securities Premium A/c</u> 20
3) Discount 90	PAR / Disc. 100	Bank A/c - Dr 90 <u>Discount on Issue A/c - Dr</u> 10 To <u>-1. Debentures A/c</u> 100
4) PAR 100	Premium 105 Extra 5	Bank A/c - Dr 100 <u>Loss on Issue A/c - Dr</u> 5 To <u>-1. Debentures A/c</u> 100 To <u>Premium on Redemption A/c</u> 5
5) Premium 120	Premium 105 Extra 5	Bank A/c - Dr 120 <u>Loss on Issue A/c - Dr</u> 5 To <u>-1. Debentures A/c</u> 100 To <u>Securities Premium A/c</u> 20 To <u>Premium on Redemption A/c</u> 5
6) Discount 90	Premium 105 Extra 5	Bank A/c - Dr 90 <u>Loss on Issue A/c - Dr (Disc. + Loss)</u> 15 To <u>-1. Debentures A/c</u> 100 To <u>Premium on Redemption A/c</u> 5

	Transaction	Journal Entries
1.	Receipt of <u>Application Money</u>	Bank A/c Dr. To <u>Debenture Application A/c</u>
2.	Transfer of <u>Application Money</u>	
(a)	Issued at par, and redeemable (i) at par, or (ii) at discount	Debenture Application A/c Dr. To...% <u>Debentures A/c</u>
(b)	Issued at Premium, and redeemable- (i) at par, or (ii) at discount	Debenture Application A/c Dr. To...% <u>Debentures A/c</u> To <u>Securities Premium A/c</u>
(c)	Issued at Discount, and redeemable- (i) at par, or (ii) at discount	Debenture Application A/c Dr. <u>Discount on Issue of Deb A/c</u> Dr. To...% <u>Debentures A/c</u>

(d)	Issued at par, and redeemable at premium. [Note: Here, Loss on Issue of Debentures= Premium payable on Redemption only.]	Debenture Application A/c Loss on Issue of Deb. A/c To...% Debentures A/c To Premium on Redemption of deb.	Dr. Dr.
(e)	Issued at Premium, redeemable at premium. [Note: Here, Loss on issue of Debentures= Premium payable on Redemption only.]	Debenture Application A/c Loss on Issue of Deb. A/c To...% Debentures A/c To Securities Premium A/c To Premium on Redemption of deb.	Dr. Dr.
(f)	Issued at Discount, and redeemable at premium [Note: Here, Loss on Issue of Debentures= Discount on Issue + Premium payable on Redemption only]	Debenture Application A/c Disc./Loss on Issue of Deb. A/c To...% Debentures A/c To Premium on Redemption of deb.	Dr. Dr.

Note: In the above scheme, it is assumed that entire money is collected at the time of application itself. If the moneys are collected in installments, e.g. Application, Allotment, Calls, etc. the Journal Entries are similar to that of Issue of Shares.

- ❖ In fact, the discount on issue of debentures is considered as incremental interest expense. The true expense (net borrowing cost) for a particular accounting period is, therefore, the total interest payment plus the discount amortised.
- ❖ Debenture Redemption Premium Account is a personal account which represents a liability of the company in respect of premium payable on redemption.

ISSUE OF DEBENTURES FOR CONSIDERATION OTHER THAN CASH

Just like shares, debentures can also be issued for consideration other than for cash, such as for purchase of land, machinery, etc. In this case, the following entries are passed:

(a)	Assets purchased from Vendor / business taken over, etc.	Sundry Assets A/c To Sundry Liabilities A/c, (if any) To Vendor A/c	Dr. Anti-due
(b)	Assets purchased from Vendor, at par / premium / discount	Vendor A/c Discount on Issue of Deb. A/c (if any) To...% Debentures A/c To Securities Premium A/c (if any)	Dr.
No. of Debentures = $\frac{\text{Purchase Consideration}}{\text{Issue Price}}$			

- When debentures are issued **at par**

$$\text{No. of Debentures} = \frac{\text{Purchase Consideration}}{\text{Par Value}} = \frac{100}{100}$$

FV = 100
IP = 100
- When debentures are issued **at premium**

$$\text{No. of Debentures} = \frac{\text{Purchase Consideration}}{\text{Par Value} + \text{Premium}} = \frac{110}{110}$$

IP = 110
- When debentures are issued **at discount**

$$\text{No. of Debentures} = \frac{\text{Purchase Consideration}}{\text{Par Value} - \text{Discount}} = \frac{90}{90}$$

IP = 90

ACCOUNTING TREATMENT OF ISSUE OF DEBENTURES AS COLLATERAL SECURITY

1. Meaning

Additional / Supporting

- (a) Collateral Security means secondary or supporting security for a loan, which can be realized by the Lender, when the original loan is not paid on due date.
- (b) Companies may Issue their Own Debentures as Collateral Security for Loan or Overdraft facility taken from Bank / other Lenders.
- (c) The holder of such debentures is entitled to interest only on the amount of loan but not on the debentures.

2. Effect:

- (a) If the Company repays the loan on the due date, the Debentures will be released, along with the main security.
- (b) If the Company is not able to repay the loan or the interest thereon, the Lender will become the Debentureholders who can exercise all the rights of a debenture holder.

2. Accounting Treatment: There are two method of showing Debentures issued as Collateral Security -

[Bank To Loan]

Situation	Method I	Method II
Journal Entry for Issue of Debentures as Collateral Security	No Entry. It is only a Memorandum Method	Debenture Suspense A/c Dr. To...% Debentures A/c
Disclosure in the Balance Sheet till Loan is settled	The Issue of debentures and Loan Outstanding is shown as a Note under "Long Term Borrowings"	Debenture Suspense A/c will appear on the Assets Side under 'Non Current Assets' and Debentures A/c will appear on the Liabilities Side under 'Long Term Borrowings'.
Treatment after settlement of Loan	The Note given as above will be discontinued.	The Journal Entry given above will be reversed

Note: Method 1 is much more logical from the accounting point of view. Therefore, it is advised to follow Method 1.

TREATMENT OF DISCOUNT / LOSS ON ISSUE OF DEBENTURES

*Ratio of Deb. Ops Amount
↓
P&L A/c*

1. Treatment: Discount / Loss on Issue of Debentures is capital loss and to be written-off / amortized over the period between the date of issue and date of redemption.

2. Determination of write-off amount:

Situation	Amount written off is computed as under-
Debentures redeemed at lumpsum at the end of a given period	Total Amount of Discount / Loss should be written off <u>equally</u> over the life of Debentures, i.e. <u>Straight Line Method</u> is used.
Debentures redeemed in different / unequal instalments	Total Amount of Discount / Loss should be written off in the <u>ratio of benefit</u> derived from Debenture Loan in any particular year, i.e. <u>Sum of Year's Digits Method</u> is used in the case.
Debentures are irredeemable	Total Amount of Discount / Loss should be written off <u>gradually</u> over a <u>long period</u> .

3. Journal Entry:

Profit and Loss Account	Dr.	3000
To Discount / Loss on Issue of debentures A/c		3000

Note: The unamortized amount is shown on the Assets Side of the Balance Sheet as Non-Current /Current Asset depending upon the period for which it has to be written off.

Example:

12%, 5,000 debentures of ₹100 each issued on 01.01.2023 at 3% discount.

- 1) Redemption after 5 years in lumpsum
- 2) Redemption of ₹1,00,000 at the end of each year

Disc. on Issue = $5000 \times 3 = 15000$

Case (1) Disc. w/off in ratio of of Deb. Amount Case (2)

Year	Ofs Deb.	Ratio	Amt. w/off	Year	Ofs Deb.	Ratio	Amt. w/off
2023	5L	1	$\frac{1}{5} \times 15000 = 3000$	2023	5L	5	$\frac{5}{15} \times 15000 = 5000$
2024	5L	1	3000	2024	4L	4	4000
2025	5L	1	3000	2025	3L	3	3000
2026	5L	1	3000	2026	2L	2	2000
2027	5L	1	3000	2027	1L	1	1000
		<u>5</u>	<u>15000</u>			<u>Total 15</u>	<u>15000</u>

ACCOUNTING TREATMENT FOR PAYMENT OF INTEREST ON DEBENTURES

- Interest: Interest on debentures is a charge against the profits of the Company. Interest is paid at specified dates, (e.g. on half-yearly or annual basis) on the Nominal Value of Debentures. (Face value)
- Tax Deducted at Source: The Company will pay Interest to the Debentureholders after deducting the amount of tax, as specified in the Income Tax Rules. The Company is under an obligation to deduct tax at source and deposit the deducted tax amount with the Income Tax Authorities.
- Journal Entries:

	Transaction	Journal Entry
(a)	Interest due on Debentures after considering tax at source (TDS)	Interest on Debentures A/c Dr. To Debentureholders A/c To TDS Payable A/c
(b)	Payment of interest to Debentureholders	Debentureholders A/c Dr. To Bank A/c
(c)	Remittance Tax Deducted at Source with Government	TDS Payable A/c Dr. To Bank A/c
(d)	Transfer of Interest on Debentures to P&L A/c	Profit & Loss A/c Dr. To Interest on Debentures A/c

ASSIGNMENT QUESTIONS

Question 1

Pg no. _____

C Ltd. is interested in issuing 10,000, 12% debentures of ₹100 each. You are required to pass necessary journal entries in each of the following situations:

Application Money ₹ 40 & balance on Allotment.

- a) Issued at par and redeemable at par
- b) Issued at par and redeemable at premium of 5%
- c) Issued at 10% discount and redeemable at par
- d) Issued at discount of 5% and redeemable at premium of 10%
- e) Issued at 5% premium and redeemable at par
- f) Issued at premium of 10% and redeemable at premium of 20%.

Question 2 (ICAI Study Material)

Pg no. _____

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.

Question 3

Pg no. _____

Sam Ltd. issued ₹ 70,000, 12% debentures of ₹ 100 each at a premium of 5% redeemable at 110%. Show by means of journal entries how you would record the above issue.

Question 4 (RTP May 2019)

Other than cash

Pg no. _____

Suvidha Ltd. purchased machinery worth ₹ 1,98,000 from Hemant Ltd. The payment was made by issue of 12% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when:

- (i) Debentures are issued at par;
- (ii) Debentures are issued at 10% discount; and
- (iii) Debentures are issued at 10% premium

Question 5

Pg no. _____

Mahesh Ltd. obtained loan from ICICI Bank of ₹ 5,00,000 on 31st March, 2023 by issuing and securing 6,000 12% debentures of ₹ 100 each as collateral security.

Pass journal entries & show balance sheet extract as per both approaches.

Question 6 (ICAI Study Material) / (RTP May 2018) / (RTP May 2023) (Similar)

Pg no. _____

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

- i. To sundry persons for cash at 90% of nominal value of ₹ 25,00,000.
 - ii. To a vendor for purchase of fixed assets worth ₹ 10,00,000 – ₹ 12,50,000 nominal value.
 - iii. To the banker as collateral security for a loan of ₹ 10,00,000 – ₹ 12,50,000 nominal value.
- You are required to pass necessary journal entries.

Question 7 (ICAI Study Material)

Pg no. _____

A Limited issued 14% Debentures of the nominal value of ₹10 each as follows:

- (a) To sundry persons 1,00,000 Debentures for cash at 10% discount.
- (b) To a vendor for purchase of Inventory worth ₹1,00,000, 8,000 debentures at 25% premium.
- (c) To the banker as collateral security for a loan of ₹1,00,000 – ₹1,50,000 nominal value.

Pass necessary Journal Entries.

Question 8 (ICAI Study Material) _____ Pg no. _____

HDC Ltd. issues 2,00,000, 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.

Question 9 _____ Pg no. _____

X Ltd. issues 1,00,000, 9% Debentures of ₹10 each at ₹9.50 on 1st January, 2020. Under the terms of issue, 1/5th of the debentures are redeemable by drawings, the first redemption occurring on 31st December, 2020. Accounting year is from April to March. Calculate the amount of discount to be written-off for each year.

Question 10 (ICAI Study Material) _____ Pg no. _____

A company issued 12% debentures of the face value of ₹10,00,000 at 10% discount on 1-1-2023. 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 2023.

Question 11 (ICAI Study Material) _____ Pg no. _____

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

Question 12 _____ Pg no. _____

D Ltd. issued ₹ 15,00,000, 10% debentures on 1st October, 2020 and interest is payable on 30th June and 31st December. Pass journal entries to record debenture interest for accounting years ended on 31st March, 2021 and 31st March, 2022.

PRACTICE QUESTIONS

MULTIPLE CHOICE QUESTIONS

- 1) Premium on redemption of debentures account appearing in the balance sheet is _____.
 - (a) A nominal account - expenditure
 - (b) A nominal account - income
 - (c) A personal account _____.
- 2) Debenture interest
 - (a) Is payable before the payment of any dividend on shares
 - (b) Accumulates in case of losses or inadequate profits
 - (c) Is payable after the payment of preference dividend but before the payment of equity dividend
- 3) F Ltd. purchased Machinery from G Company for book value of ₹4,00,000. The consideration was paid by issue of 10% debentures of ₹ 100 each at a premium of 25%. The debenture account was credited with _____.
 - (a) ₹ 4,00,000
 - (b) ₹ 5,00,000
 - (c) ₹ 3,20,000
- 4) Which of the following is not a characteristic of Bearer Debentures?
 - (a) They are treated as negotiable instruments
 - (b) Their transfer requires a deed of transfer
 - (c) They are transferable by mere delivery
- 5) When debentures are issued as collateral security, the final entry for recording the collateral debentures in the books is _____.
 - (a) Credit Debentures A/c and debit Cash A/c.
 - (b) Debit Debenture suspense A/c and credit Cash A/c.
 - (c) Debit Debenture suspense A/c and credit Debentures A/c.
- 6) When debentures are redeemable at different dates, the total amount of discount on issue of debentures should be written off
 - (a) Every year by applying the sum of the year's digit method
 - (b) Every year by applying the straight line method
 - (c) To profit and loss account in full in the year of final or last redemption
- 7) Debentures are issued at discount when
 - (a) Market interest rate is higher than debenture interest rate
 - ~~(b)~~ Market interest rate is lower than debenture interest rate
 - (c) Market interest rate is equal to debenture interest rate
- 8) Interest payable on Debentures attract
 - (a) Tax deducted at source
 - (b) Goods and Service tax
 - (c) Fringe benefit tax

ANSWERS MCQs

1. (c) 2. (a) 3. (c) 4. (b) 5. (c) 6. (a) 7. (b) 8. (a)

TRUE / FALSE

State with reasons whether the following statement is true or false:

- 1) Debenture holder are the owners of the company.
- 2) Perpetual debentures are payable at the time of liquidation of the company. *(June 2023)*
- 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 & not on the debentures
- 5) Debentures suspense account appears on the liability side of balance sheet. *(June 2022)*
- 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 lifetime of the company.
- 10) Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.
- 11) Debenture interest is payable after the payment of preference dividend but before the payment of equity dividend.
- 12) Interest on debentures is calculated on Issue Price of Debentures
- 13) When debentures are issued as collateral security against any loan then holder of such debentures is entitled to Interest both on the amount of the loan and on the debentures
- 14) Debenture holders enjoy the voting rights in the company.
- 15) A fixed charge generally covers all the assets of company including future one. *(Dec 2022)*

Solution

- 1) False: Debenture holder are the creditors of the company.
- 2) True: Perpetual debentures, also known as irredeemable debentures are not repayable during the life time of the company & are repayable at the time of liquidation of company
- 3) False: Registered debentures are not easily transferable by delivery. Bearer debentures are transferrable by delivery.
- 4) True: In case the company cannot repay its loan & the interest thereon on the due date, the lender becomes debenture holder & then only he is entitled to interest on debentures.
- 5) False: Deb. Suspense A/c appears on asset side of balance sheet under non-current asset
- 6) False: Even if the company incurs loss or earns profit, it has to pay interest on debentures. Debentures being debts on company & debenture holders are not concerned with profit/loss of company, interest is to be paid at the rate fixed on it at the time of issue of debenture.
- 7) False: At the time of liquidation, debenture holders are paid off before shareholders on priority basis.
- 8) True: Convertible debentures can be converted into equity shares after a certain period of time from the date of its issue.
- 9) False: These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue.
- 10) True: Debentures can be issued for a consideration other than for cash, such as for purchasing land, machinery etc.
- 11) False: Debenture interest is payable before the payment of any dividend on shares.
- 12) False: Interest on debentures is calculated on Face Value of Debentures
- 13) False: When debentures are issued as collateral security against any loan then holder of such debentures is entitled to Interest only on the amount of the loan.
- 14) False: Debenture holders does not enjoy voting rights in company. He is only a creditor of the company.
- 15) **False:** A fixed charge is a mortgage on specific assets. A floating charge generally covers all the assets of the company including future one.

HOMEWORK QUESTIONS

Question 1 (ICAI Study Material) _____ Pg no. _____

Amol Ltd. issued 40,00,000, 9% debentures of ₹ 50 each, payable on application as per term mentioned in the prospectus and redeemable at par any time after 3 years from the date of issue. Record necessary entries for issue of debentures in the books of Amol Ltd.

Question 2 (ICAI Study Material) _____ Pg no. _____

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

₹ 30 on application

₹ 60 on allotment

Record necessary journal entries regarding issue of debenture.

Question 3 (ICAI Study Material) _____ Pg no. _____

Koinal Chemicals Ltd. issued 15,00,000 10% debenture of ₹50 each at premium of 10%, payable as ₹20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in application money.

Question 4 (ICAI Study Material) _____ Pg no. _____

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.

Question 5 (ICAI Study Material) _____ Pg no. _____

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.

6
 App. 50
 AU. 44 (6)
 94

POR = 5

Question 6 (ICAI Study Material) _____ Pg no. _____

Country Crafts Ltd. issued 1,00,000, 8% debentures of ₹ 100 each at premium of 5% payable fully on application and redeemable at premium of ₹ 10.

Pass necessary journal entries at the time of issue.

Question 7 (ICAI Study Material) _____ Pg no. _____

Koinal Chemicals Ltd. issued 20,00,000, 10% debentures of ₹50 each at premium of 10%, payable as ₹ 20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in allotment money.

Question 8 (ICAI Study Material) _____ Pg no. _____

Kapil Ltd. issued 50,000, 12% Debentures of ₹100 each at a premium of 10% payable in full on application by 1st March, 2023. The issue was fully subscribed and debentures were allotted on 9th March, 2023. Pass necessary Journal Entries (including cash transactions).

Question 9 (RTP Nov 2019) / (RTP May 2021) (Similar) Pg no. _____

Pihu Ltd. issued 50,00,000, 9% debentures of ₹ 100 each at a discount of 10% redeemable at par at the end of 10th year. Money was payable as follows:
 ₹ 40 on application & ₹ 50 on allotment
 You are required to give necessary journal entries regarding issue of debenture

Question 10 (RTP Nov 2018) / (RTP Nov 2020) Pg no. _____

A Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.
 You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company.

Question 11 (ICAI Study Material) Pg no. _____

X Ltd. issued 1,00,000 12% Debentures of ₹100 each at a discount of 10% payable in full on application by 31st May, 2023. Applications were received for 1,20,000 debentures. Debentures were allotted on 9th June, 2023. Excess money was refunded on the same date.
 Pass necessary Journal Entries. Also show necessary ledger accounts.

Question 12 (ICAI Study Material) Pg no. _____

X Ltd. obtains a loan from IDBI of ₹ 1,00,00,000, giving as collateral security of ₹ 1,50,00,000 (of ₹10 each), 14%, First Mortgage Debentures. Pass journal entries & show balance sheet extract as per both approaches.

Question 13 - (ICAI Study Material) Pg no. _____

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.

Question 14 (CA Foundation Nov 2018) (5 Marks)/(RTP May 2020)/(Nov 2022)(Similar) Pg no. _____

Pure Ltd. issues 1,00,000 12% debentures of ₹ 10 each at ₹ 9.40 on 1st January, 2021. Under the terms of issue the debentures are redeemable at the end of 5 years from the date of issue. Calculate the amount of discount to be written off in each of the 5 years.

Question 15 Pg no. _____

X Ltd. issued 10,000 12% debentures of ₹ 100 each at a discount of 5%. These debentures are redeemable at a premium of 10 % after 5 years.
 You are required to show:
 a) Journal entry on issue of the debentures; and
 b) The loss on issue of debentures account over the period.

Question 16 Pg no. _____

A company issued 12% debentures of the face value of ₹ 2,00,000 at 10% discount on 1st January, 2020. Debenture Interest after deducting tax at source @ 10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of 5 years period at 5% premium. Pass the necessary journal entries for the year 2020.

Question 17 *(CA Foundation May 2019) (5 Marks) / (RTP Nov 2023)* Pg no. _____

On 1st January 2020-Ankit Ltd. issued 10% debentures of the face value of ₹ 20,00,000 at 10% discount. Debenture interest after deducting tax at source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass necessary journal entries for the accounting year 2020.

Question 18 *(CA Foundation Nov 2020) (5 Marks)* Pg no. _____

Y Company Limited issue 10,000 12% Debentures of the nominal value of ₹ 60,00,000 as follows:

- (i) To a vendor for purchase of fixed assets worth ₹ 13,00,000 - ₹ 15,00,000 nominal value.
 - (ii) To sundry persons for cash at 90% of nominal value of ₹ 30,00,000.
 - (iii) To the banker as collateral security for a loan of ₹ 14,00,000 - ₹ 15,00,000 nominal value
- You are required to pass necessary Journal Entries.

Question 19 *(RTP May 2022)* Pg no. _____

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. XY Ltd. issued another 3000, 8% debenture of ₹ 100 at discount of 10% redeemable at premium of 5 % after 5 year. 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 2020-21.

Question 20 *(RTP Nov 2021)* Pg no. _____

Avantika Ltd. purchased machinery worth ₹9,90,000 from Avneet Ltd. The payment was made by issue of 10% debentures of ₹100 each. Pass the necessary journal entries for the purchase of machinery and issue of debentures when:

- (i) Debentures are issued at par
- (ii) Debentures are issued at 20 % discount and
- (iii) Debentures are issued at 20% premium