

Joint Stock Company— Issue of Debentures

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Debenture

It is a written acknowledgement of Debt issued by the company. 'Debenture' includes debenture stock, bonds or any other instrument of a company, evidencing a debt, whether constituting a charge on the assets of the company or not.

2. Debentureholder

The person who owns the debentures.

3. Issue of Debentures for Cash

It means issue of debentures against consideration being received through bank.

4. Issue of Debentures for Consideration other than Cash

It means issue of debentures against which amount is not received as consideration but is received in kind, *i.e.*, assets or services.

5. Issue of Debentures as Collateral Security

It means issue of debentures to secure a loan.

6. Issue of Debentures at Par

It means that debentures are issued at its nominal (face) value of debentures.

7. Issue of Debentures at Premium

It means that the issue price of the debentures is higher than their nominal (face) value.

8. Issue of Debentures at Discount

It means that the issue price of the debentures is lower than their nominal (face) value.

9. Redemption of Debentures at Par

It means that the redemption value and the nominal (face) value of debenture is same.

10. Redemption of Debentures at Premium

It means that the redemption value of the debenture is higher than its nominal (face) value.

SUMMARY OF THE CHAPTER

- **Debenture:** A debenture is a written instrument acknowledging a debt and issued under the common seal of the company. It is an agreement for the repayment of the principal sum at a specified date and for the payment of interest at the specified rate.

- **Types of Debentures**

- (i) *From the Security Point of View:* Secured Debentures or Unsecured Debentures.
- (ii) *From the Redemption Point of View:* Redeemable Debentures or Irredeemable Debentures.
- (iii) *From the Registration Point of View:* Registered Debentures or Bearer Debentures.
- (iv) *From the Convertibility Point of View:* Convertible Debentures or Non-Convertible Debentures.

- **Issue of Debentures:** Debentures can be issued for: (i) cash, (ii) consideration other than cash, and (iii) as Collateral Security. These debentures can be issued: (a) at par, or (b) at premium, or (c) at discount.

Accounting for issue of debentures for cash is the same as the accounting for issue of shares with one difference, i.e., the word 'Shares' shall be replaced by 'Debentures' and 'Share Capital' by 'Debentures'. The terms used for the issue of shares will be changed at the time of issue of debentures.

<i>Terms for Issue of Shares</i>	<i>Terms for Issue of Debentures</i>
1. Shares Application/Allotment/First Call ..., etc.	Debentures Application/Allotment/First Call ..., etc.
2. Share Capital	Debentures

Note: Premium on the issue of shares or debentures is called *Securities Premium*.

Only Debentures can be issued at discount.

- **Issue of Debentures for Consideration other than Cash:** A company can issue debentures to promoters, underwriters and the vendors as a payment for the purchase of the assets, such an issue of debentures is known as *issue of debentures for consideration other than cash*.
- Excess of purchase consideration over Net Assets acquired is debited to '*Goodwill Account*'.
- Excess of Net Assets acquired over purchase consideration is credited to '*Capital Reserve Account*'.
- **Issue of Debentures as Collateral Security:** Collateral security means an additional security pledged against loan. A company can issue its own debentures as a collateral security.
No interest is payable on such debentures.
- **Writing off Discount/Loss on Issue of Debentures:** Discount or Loss on Issue of Debentures is a capital loss for a company which is written off in the year when debentures are allotted. It is written off from (i) Securities Premium Reserve (if it has a balance); or from (ii) Statement of Profit and Loss; or from (iii) Capital Reserve.
- **Underwriting Commission** is written off in the year in which it is incurred. It is written off from Securities Premium Reserve (if it has a balance) or from Statement of Profit and Loss.
- **Premium on Redemption of Debentures** is to be shown under the main head '**Non-Current Liabilities**' and sub-head '**Long-term Borrowings**'.
- **Interest on Debentures** is an expense for the company. It is a charge against the profits of the company and is payable whether the company earns profit or not. It is shown as '*Finance Costs*' in the Statement of Profit and Loss.

Solved Questions

Illustration 1 (*Interest on Debentures*).

X Ltd. issued 5,000, 10% Debentures of ₹ 100 each on 1st April, 2018 at par redeemable at a premium of 10%. TDS is deducted @ 10%. Pass Journal entries relating to issue of debentures and debentures' interest for the year ended 31st March, 2019 assuming that the interest was payable half-yearly on 30th September and 31st March.

Solution:**In the Books of X Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 April 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the amount received on application)		5,00,000	5,00,000
April 1	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 10% Debentures A/c To Premium on Redemption of Debentures A/c (Being the issue of debentures at par and redeemable at 10% premium)		5,00,000 50,000	5,00,000 50,000
Sept. 30	Debentures' Interest A/c ...Dr. To Debentureholders' A/c To TDS Payable A/c (Being the interest due for 6 months; TDS deducted @ 10%)		25,000	22,500 2,500
Sept. 30	Debentureholders' A/c ...Dr. To Bank A/c (Being the payment of interest)		22,500	22,500
Sept. 30	TDS Payable A/c ...Dr. To Bank A/c (Being the TDS deducted deposited)		2,500	2,500
2019 March 31	Debentures' Interest A/c ...Dr. To Debentureholders' A/c To TDS Payable A/c (Being the interest due for 6 months; TDS deducted @ 10%)		25,000	22,500 2,500
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the payment of interest)		22,500	22,500
March 31	TDS Payable A/c ...Dr. To Bank A/c (Being the TDS deducted deposited)		2,500	2,500
March 31	Statement of Profit and Loss ...Dr. To Debentures' Interest A/c To Loss on Issue of Debentures A/c (Being the transfer of Debentures' Interest and Loss on Issue of debentures to Statement of Profit and Loss)		1,00,000	50,000 50,000

Illustration 2.

On 1st June, 2018, Goodluck Ltd. issued 5,000, 10% Debentures of ₹ 100 each at par redeemable after five years at a premium of 10%. All the debentures were subscribed and allotment made. The balance in Securities Premium Reserve is ₹ 20,000. Profit for the year was ₹ 50,000.

Pass the Journal entries for issue of debentures and writing off the loss and prepare the extract of the Balance Sheet as at 31st March, 2019 showing Loss on Issue of Debentures.

Solution: **In the Books of Goodluck Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 June 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the subscription received for 5,000, 10% Debentures of ₹ 100 each)		5,00,000	5,00,000
	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 10% Debentures A/c To Premium on Redemption of Debentures A/c (Being 5,000, 10% Debentures of ₹ 100 each issued at par, redeemable at 10% premium)		5,00,000 50,000	5,00,000 50,000
2019 March 31	Securities Premium Reserve A/c ...Dr. Statement of Profit and Loss ...Dr. To Loss on Issue of Debentures A/c (Being the of loss on issue of debentures written off)		20,000 30,000	50,000

BALANCE SHEET (Extract)
as at 31st March, 2019

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Reserves and Surplus	1	20,000

Note to Accounts

1. Reserves and Surplus		₹
Securities Premium Reserve	20,000	
Less: Loss on Issue of Debentures written off	20,000	...
Surplus, i.e., Balance in Statement of Profit and Loss (₹ 50,000 – ₹ 30,000)		20,000
		20,000

Illustration 3.

DSC Ventures Ltd. issued on 1st April, 2017, 10,000, 9% Debentures of ₹ 100 each at 10% discount redeemable after five years at a premium of ₹ 10. All the debentures were subscribed. During the year ended 31st March, 2018, the company incurred a loss of ₹ 20,000. It has balance in Securities Premium Reserve of ₹ 1,50,000.

Pass the Journal entries and prepare the extract of the Balance Sheet showing Loss on Issue of Debentures.

Solution: JOURNAL OF DSC VENTURES LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2017 April 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the application money received for 10,000, 9% Debentures)		9,00,000	9,00,000
	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Being the debentures issued)		9,00,000 2,00,000	10,00,000 1,00,000
	Securities Premium Reserve A/c ...Dr. Statement of Profit and Loss ...Dr. To Loss on Issue of Debentures A/c (Being the loss on issue of Debentures written off)		1,50,000 50,000	2,00,000

BALANCE SHEET (EXTRACT) as at 31st March, 2018

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Reserves and Surplus	1	(70,000)

Note to Accounts

Particulars	₹	₹
1. Reserves and Surplus		
Securities Premium Reserve	1,50,000	
Less: Loss on Issue of Debentures Written off	1,50,000	...
Surplus, i.e., Balance in Statement of Profit and Loss (– ₹ 20,000 – ₹ 50,000)		(70,000)
		(70,000)

Illustration 4.

On 1st April, 2016, Sunstar Ltd. issued 10,000, 12% Debentures of ₹ 100 each at a discount of 5%, redeemable as follows:

On 31st March, 2017	2,000 Debentures;
On 31st March, 2018	5,000 Debentures;
On 31st March, 2019	3,000 Debentures.

Interest is paid annually on 31st March. Discount on Issue of Debentures is to be written off in the year in which Debentures are issued.

You are required to pass the Journal entries, including for interest for the three years and prepare Discount on Issue of Debentures Account.

Solution:

JOURNAL OF SUNSTAR LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the debentures application money received)		9,50,000	9,50,000
	Debentures Application and Allotment A/c ...Dr. Discount on Issue of Debentures A/c ...Dr. To 12% Debentures A/c (Being 10,000; 12% Debentures of ₹ 100 each allotted at 5% discount)		9,50,000 50,000	10,00,000
2017 March 31	Debentures' Interest A/c ...Dr. To Debentureholders' A/c (Being the interest due on debentures @ 12% p.a.)		1,20,000	1,20,000
	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest paid to debentureholders)		1,20,000	1,20,000
	Statement of Profit and Loss (Finance cost) ...Dr. To Debentures' Interest A/c (Being the transfer of Debentures' Interest to Statement of Profit and Loss)		1,20,000	1,20,000
	Statement of Profit and Loss (Finance cost) ...Dr. To Discount on Issue of Debentures A/c (Being the discount on Issue of Debentures written off)		50,000	50,000
2018 March 31	Debentures' Interest A/c ...Dr. To Debentureholders' A/c (Being the interest due on debentures @12% p.a. on ₹ 8,00,000)		96,000	96,000
	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest paid to debentureholders)		96,000	96,000
	Statement of Profit and Loss (Finance cost) ...Dr. To Debentures' Interest A/c (Being the transfer of Debentures' Interest to Statement of Profit and Loss)		96,000	96,000
2019 March 31	Debentures' Interest A/c ...Dr. To Debentureholders' A/c (Being the interest due on debentures @12% p.a. on ₹ 30,000)		36,000	36,000
	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest paid to debentureholders)		36,000	36,000
	Statement of Profit and Loss (Finance cost) ...Dr. To Debentures' Interest A/c (Being the transfer of Debentures' Interest to Statement of Profit and Loss)		36,000	36,000

Dr.		DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2016 April 1	To 12% Debentures A/c	50,000	2017 March 31	By Statement of Profit and Loss	50,000	
		50,000			50,000	

Illustration 5.

Pilot Pens Ltd. issued 5,000, 6% Debentures of ₹ 100 each at a discount of 20%. It had balance in Securities Premium Reserve of ₹ 60,000. It decided to write off the discount in the first year itself.

Show the Notes to Accounts writing off the Discount on Issue of Debentures.

Solution:

Note to Accounts

Particulars	₹	₹
1. Reserves and Surplus		
Securities Premium Reserve		
Opening Balance	60,000	
Less: Discount on Issue of Debentures written off	60,000	...
Surplus, i.e., Balance in Statement of Profit and Loss		
Loss for the year (Discount on Issue of Debentures written off)		(40,000)

Note: Balance amount of Discount on Issue of Debentures (₹ 40,000) is written off from Statement of Profit and Loss. Hence, the balance in Surplus, i.e., Balance in Statement of Profit and Loss shows negative balance of ₹ 40,000.

Illustration 6.

On 1st April, 2018, Moonlight Ltd. issued 1,000, 9% Debentures of ₹ 200 each at a discount of 5% redeemable after 5 years at a premium of 10%. All the debentures were subscribed and allotment made. The balance in Securities Premium Reserve is ₹ 10,000. Profit for the year was ₹ 50,000.

Pass the Journal entries for issue of debentures and writing off the loss in the year of issue of debentures. Prepare the extract of the Balance Sheet as at 31st March, 2019 showing Loss on Issue of Debentures.

Solution:

JOURNAL OF MOONLIGHT LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 April 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the application received for 1,000; 9% Debentures @ ₹ 190 per debenture)		1,90,000	1,90,000
	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Being 1,000; 9% Debentures allotted)		1,90,000 30,000	2,00,000 20,000
2019 March 31	Securities Premium Reserve A/c ...Dr. Statement of Profit and Loss (Finance cost) ...Dr. To Loss on Issue of Debentures A/c (Being the Loss on Issue of Debentures written off)		10,000 20,000	30,000

BALANCE SHEET (EXTRACT)
as at 31st March, 2019

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Reserves and Surplus	1	30,000

Note to Accounts

Particulars	₹	₹
1. Reserves and Surplus		
Securities Premium Reserve	10,000	
Less: Loss on Issue of Debentures Written off	10,000	...
Surplus, i.e., Balance in Statement of Profit and Loss (₹ 50,000 – ₹ 20,000)		30,000
		30,000

Illustration 7.

Mayur Ltd. issued 5,000; 9% Debentures of ₹ 100 each at par and obtained a loan of ₹ 8,00,000 from bank, which is collaterally secured by ₹ 10,00,000; 9% Debentures of ₹ 100 each. How are debentures shown in the Balance Sheet of the company if the company has passed an entry for issue of debentures as collateral security in the books?

Solution: AN EXTRACT OF BALANCE SHEET OF MAYUR LTD. as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Non-Current Liabilities		
Long-term Borrowings	1	13,00,000

Note to Accounts

1. Long-term Borrowings		₹
5,000; 9% Debentures of ₹ 100 each		5,00,000
Bank Loan		8,00,000
10,000; 9% Debentures of ₹ 100 each issued as Collateral Security	10,00,000	
Less: Debentures Suspense A/c	10,00,000	...
		13,00,000

Illustration 8.

Pass the Journal entries for the following:

- (i) Dhoni Ltd. issued 20,000; 10% Debentures of ₹ 100 each at par, redeemable at par after 5 years.
- (ii) Stokes Ltd. issued 30,000; 10% Debentures of ₹ 100 each at a discount of 5% to be repaid at par at the end of 5 years.
- (iii) Corney Ltd. issued 10% Debentures of ₹ 100 each of the value ₹ 40,00,000 at a premium of 5% to be redeemed at par.

- (iv) Daniel Ltd. issued ₹ 50,00,000; 12% Debentures of ₹ 100 each at par redeemable at the end of 10 years at 105%.
- (v) Emily Ltd. issued ₹ 60,00,000; 12% Debentures of ₹ 100 each at a discount of 5% repayable at a premium of 10% at the end of 5 years.
- (vi) Feather Ltd. issued ₹ 70,00,000; 12% Debentures of ₹ 100 each at a premium of 5% redeemable at 110%.

Solution:

(i) JOURNAL OF DHONI LTD.				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the debentures application money received)		20,00,000	20,00,000
	Debentures Application and Allotment A/c ...Dr. To 10% Debentures A/c (Being 20,000; 10% Debentures of ₹ 100 each issued at par)		20,00,000	20,00,000
(ii) JOURNAL OF STOKES LTD.				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the debentures application money received)		28,50,000	28,50,000
	Debentures Application and Allotment A/c ...Dr. Discount on Issue of Debentures A/c ...Dr. To 10% Debentures A/c (Being the issue of 30,000; 10% Debentures of ₹ 100 each at a discount of 5%)		28,50,000 1,50,000	30,00,000
(iii) JOURNAL OF CORNEY LTD.				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the debentures application money received)		42,00,000	42,00,000
	Debentures Application and Allotment A/c ...Dr. To 10% Debentures A/c To Securities Premium Reserve A/c (Being the issue of 40,000; 10% Debentures of ₹ 100 each at a premium of 5%)		42,00,000	40,00,000 2,00,000
(iv) JOURNAL OF DANIEL LTD.				
Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the debentures application money received)		50,00,000	50,00,000
	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 12% Debentures A/c To Premium on Redemption of Debentures A/c (Being the issue of 50,000; 12% Debentures of ₹ 100 each at par redeemable at 105%)		50,00,000 2,50,000	50,00,000 2,50,000

8.10

Double Entry Book Keeping (Section A) – ISC XII

(v) JOURNAL OF EMILY LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the debentures application money received)		57,00,000	57,00,000
	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 12% Debentures A/c To Premium on Redemption of Debentures A/c (Being the issue of 60,000; 12% Debentures of ₹ 100 each at a discount of 5% and repayable at a premium of 10%)		57,00,000 9,00,000	60,00,000 6,00,000

(vi) JOURNAL OF FEATHER LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (₹ 70,00,000 + 5% of ₹ 70,00,000) ...Dr. To Debentures Application and Allotment A/c (Being the debentures application money received)		73,50,000	73,50,000
	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 12% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c (Being the issue of 70,000; 12% Debentures of ₹ 100 each at a premium of 5% and redeemable at a premium of 10%)		73,50,000 7,00,000	70,00,000 3,50,000 7,00,000

Illustration 9 (Writing off Loss equally over life of the debentures).

On 1st June, 2014, Goodluck Ltd. issued 50,000, 10% Debentures of ₹ 100 each at par redeemable after five years at a premium of 10%. It was decided to write off Loss on Issue of Debentures in five years equally beginning 31st March, 2015.

Pass the Journal entries for issue of debentures and writing off the loss and prepare Loss on Issue of Debentures Account till it is completely written off.

Solution: JOURNAL OF GOODLUCK LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2014 June 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the application money received for 50,000, 10% Debentures of ₹ 100 each)		50,00,000	50,00,000
	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 10% Debentures A/c To Premium on Redemption of Debentures A/c (Being 50,000, 10% Debentures issued at par and redeemable at 10% premium)		50,00,000 5,00,000	50,00,000 5,00,000

2015					
March 31	Statement of Profit and Loss (Finance Cost) ...Dr.		1,00,000		1,00,000
	To Loss on Issue of Debentures A/c* (Being 1/5th of loss on issue of debentures written off)				
2016					
March 31	Statement of Profit and Loss (Finance Cost) ...Dr.		1,00,000		1,00,000
	To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)				
2017					
March 31	Statement of Profit and Loss (Finance Cost) ...Dr.		1,00,000		1,00,000
	To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)				
2018					
March 31	Statement of Profit and Loss (Finance Cost) ...Dr.		1,00,000		1,00,000
	To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)				
2019					
March 31	Statement of Profit and Loss (Finance Cost) ...Dr.		1,00,000		1,00,000
	To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)				

*Loss on Issue of Debentures ₹ 5,00,000 (i.e., 10% of ₹ 50,00,000) will be written off in five equal yearly instalments, i.e., ₹ 1,00,000 each year.

Dr.		LOSS ON ISSUE OF DEBENTURES ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2014			2015			
June 1	To Premium on Redemption of Debentures A/c	5,00,000	March 31	By Statement of Profit and Loss	1,00,000	
		5,00,000		By Balance c/d	4,00,000	
					5,00,000	
2015			2016			
April 1	To Balance b/d	4,00,000	March 31	By Statement of Profit and Loss	1,00,000	
		4,00,000		By Balance c/d	3,00,000	
					4,00,000	
2016			2017			
April 1	To Balance b/d	3,00,000	March 31	By Statement of Profit and Loss	1,00,000	
		3,00,000		By Balance c/d	2,00,000	
					3,00,000	
2017			2018			
April 1	To Balance b/d	2,00,000	March 31	By Statement of Profit and Loss	1,00,000	
		2,00,000		By Balance c/d	1,00,000	
					2,00,000	
2018			2019			
April 1	To Balance b/d	1,00,000	March 31	By Statement of Profit and Loss	1,00,000	

Illustration 10.

On 1st October, 2015, Nimrat Ltd. issued 20,000, 10% Debentures of ₹ 100 at ₹ 71 each redeemable at par as follows:

On 31st March, 2017	3,000 Debentures;
On 31st March, 2018	5,000 Debentures;
On 31st March, 2019	6,000 Debentures;
On 31st March, 2020	6,000 Debentures.

How much discount will be written off each year by the company?

Solution:

Amount of Discount on Issue of Debentures = ₹ 5,80,000 (i.e., 20,000 Debentures × ₹ 29).

Calculation of Amount of Discount on Issue of Debentures to be Written off

Year ended 31st March,	Debentures Outstanding (₹)	Ratio	Discount to be Written off (₹)
2016	20,00,000 (for 6 Months)	10	$5,80,000 \times 10/65 = 89,231$
2017	20,00,000 (for 12 Months)	20	$5,80,000 \times 20/65 = 1,78,462$
2018	17,00,000 (for 12 Months)	17	$5,80,000 \times 17/65 = 1,51,692$
2019	12,00,000 (for 12 Months)	12	$5,80,000 \times 12/65 = 1,07,077$
2020	6,00,000 (for 12 Months)	6	$5,80,000 \times 6/65 = 53,538$
		65	5,80,000

Explanation: Debentures are issued on 1st October, 2015. It means in the year ended 31st March, 2016, the amount is used for 6 months. Hence, the ratio is accordingly for 6 months.

Illustration 11 (Debentures Discount, when First Redemption Due in Next Accounting Period).

X Ltd. issued 10,000, 10% Debentures of ₹ 100 each at a discount of 6% on 1st July, 2015 repayable by five equal annual instalments of ₹ 2,00,000 each.

The company closes its accounts on 31st March, every year. Determine the amount of discount to be written off in every accounting year if the debentures are to be redeemed equally every year beginning from 30th June, 2016. Also prepare Discount on Issue of Debentures Account.

Solution: Total amount of Discount on Issue of Debentures = ₹ 10,00,000 × 6/100 = ₹ 60,000.

Calculation of Amount of Discount on Issue of Debentures to be Written off

Year ended (1)	Amount Outstanding (₹) (2)	Months for which Amount used (3)	Total Amount (Product 2 × 3) (₹) (4)	Ratio (5)	Discount to be Written off (6)
31st March, 2016	10,00,000	9(From 1st July, 2015 to 31st March, 2016)	90,00,000	15	₹ 60,000 × 15/60 = ₹ 15,000
31st March, 2017	10,00,000	3(From 1st April, 2016 to 30th June, 2016)	30,00,000	17	₹ 60,000 × 17/60 = ₹ 17,000
	8,00,000	9(From 1st July, 2016 to 31st March, 2017)	72,00,000 1,02,00,000		
31st March, 2018	8,00,000	3(From 1st April, 2017 to 30th June, 2017)	24,00,000	13	₹ 60,000 × 13/60 = ₹ 13,000
	6,00,000	9(From 1st July, 2017 to 31st March, 2018)	54,00,000 78,00,000		
31st March, 2019	6,00,000	3(From 1st April, 2018 to 30th June, 2018)	18,00,000	9	₹ 60,000 × 9/60 = ₹ 9,000
	4,00,000	9(From 1st July, 2018 to 31st March, 2019)	36,00,000 54,00,000		
31st March, 2020	4,00,000	3(From 1st April, 2019 to 30th June, 2019)	12,00,000	5	₹ 60,000 × 5/60 = ₹ 5,000
	2,00,000	9(From 1st July, 2019 to 31st March, 2020)	18,00,000 30,00,000		
31st March, 2021	2,00,000	3(From 1st April, 2020 to 30th June, 2020)	6,00,000	1	₹ 60,000 × 1/60 = ₹ 1,000
			Total	60	₹ 60,000

Dr.		DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT				Cr.	
Date	Particulars	₹	Date	Particulars	₹		
2015			2016				
July 1	To 10% Debentures A/c	60,000	March 31	By Statement of Profit and Loss	15,000		
			March 31	By Balance c/d	45,000		
		60,000			60,000		
2016			2017				
April 1	To Balance b/d	45,000	March 31	By Statement of Profit and Loss	17,000		
		45,000	March 31	By Balance c/d	28,000		
					45,000		
2017			2018				
April 1	To Balance b/d	28,000	March 31	By Statement of Profit and Loss	13,000		
		28,000	March 31	By Balance c/d	15,000		
					28,000		
2018			2019				
April 1	To Balance b/d	15,000	March 31	By Statement of Profit and Loss	9,000		
		15,000	March 31	By Balance c/d	6,000		
					15,000		
2019			2020				
April 1	To Balance b/d	6,000	March 31	By Statement of Profit and Loss	5,000		
		6,000	March 31	By Balance c/d	1,000		
					6,000		
2020			2021				
April 1	To Balance b/d	1,000	March 31	By Statement of Profit and Loss	1,000		

Master Questions and Advanced Level Question

Illustration 12.

Eey Kay Ltd. issued 10,000, 12% Debentures of ₹ 100 each at a discount of 10% and redeemable at 5% premium after 5 years. Interest was payable half-yearly on 30th September and 31st March each year. The amount was payable as follows:

- ₹ 50 on application; and
- Balance on allotment.

Applications were received for 12,500 Debentures and allotment was made on *pro rata* basis to all the applicants. Excess application money was adjusted against allotment money due.

The company had purchased Plant and Machinery of ₹ 11,00,000. It paid the consideration by issue of 10% Debentures of ₹ 100 each at a premium of 10%.

You are required to:

- (i) Pass Journal entries for issue of debentures; and
- (ii) Prepare Balance Sheet showing the above transactions.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application A/c (Being the applications received for 12,500, 12% Debentures along with application money @ ₹ 50 per debenture)		6,25,000	6,25,000
	Debentures Application A/c ...Dr. To 12% Debentures A/c To Debentures Allotment A/c (Being 12% Debentures allotted on <i>pro rata</i> basis to all the applicants)		6,25,000	5,00,000 1,25,000
	Debentures Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 12% Debentures A/c To Premium on Redemption of Debentures A/c (Being the allotment money due)		4,00,000 1,50,000	5,00,000 50,000
	Bank A/c ...Dr. To Debentures Allotment A/c (Being the balance debentures allotment money received)		2,75,000	2,75,000
	Plant and Machinery A/c ...Dr. To Vendor's A/c (Being the machinery purchased)		11,00,000	11,00,000
	Vendor's A/c ...Dr. To 10% Debentures A/c To Securities Premium Reserve A/c (Being 10,000; 10% Debentures issued to Vendor at 10% premium)		11,00,000	10,00,000 1,00,000

BALANCE SHEET OF EEEY KAY LTD.

as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
Reserves and Surplus	1	(50,000)
2. Non-Current Liabilities		
Long-term Borrowings	2	20,50,000
Total		<u>20,00,000</u>
II. ASSETS		
1. Non-Current Assets		
Fixed Assets—Tangible	3	11,00,000
2. Current Assets		
Cash and Bank Balances	4	9,00,000
Total		<u>20,00,000</u>

Notes to Accounts

1. Reserves and Surplus		₹
Securities Premium Reserve	1,00,000	
Less: Loss on Issue of Debentures	1,00,000	...
Surplus, i.e., Balance in Statement of Profit and Loss:		
Opening Balance	...	
Less: Loss on Issue of Debentures	50,000	(50,000)
		<u>(50,000)</u>
2. Long-term Borrowings		
10,000; 12% Debentures of ₹ 100 each		10,00,000
10,000; 10% Debentures of ₹ 100 each		10,00,000
(Above 10% Debentures issued to Vendors of machinery pursuant to contract for consideration other than Cash)		
Premium Payable on Redemption of Debentures		50,000
		<u>20,50,000</u>
3. Fixed Assets—Tangible		
Plant and Machinery		11,00,000
4. Cash and Bank Balances		
Cash at Bank		9,00,000

Illustration 13.

Gee Ess Ltd. is registered with authorised capital of 2,00,000 shares of ₹ 10 each and issued, subscribed and fully paid-up capital of ₹ 15,00,000. It purchased computers of ₹ 7,50,000 and office furniture of ₹ 2,50,000 and issued 10% Debentures of ₹ 100 each at 10% discount to the Vendors, redeemable at par. The company also issued 10,000, 8% Debentures of ₹ 100 each at a premium of 10% redeemable at 10% premium. The amount was payable along with application.

The applications were received for 12,500 debentures and allotment was made on *pro rata* basis to all the applicants. Both the allotments were made on 1st April, 2014.

You are required to:

- Pass Journal entries for issue of debentures;
- Pass Journal entries for interest for the year ended 31st March, 2015 and
- Prepare Balance Sheet showing the above transactions.

Note: According to the terms of issue, interest is payable on half-yearly basis.

Solution:**JOURNAL**

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2014 April 1	Computers A/c ...Dr. Furniture and Fixtures A/c ...Dr. To Vendor's A/c (Being the computers and office furniture purchased)		7,50,000 2,50,000	10,00,000
	Vendor's A/c ...Dr. Discount on Issue of Debentures A/c ...Dr. To 10% Debentures A/c To Bank A/c (Being the liability towards Vendor discharged by issue of 11,111; 10% Debentures of ₹ 100 each at a discount of 10%, balance paid by cheque)		10,00,000 1,11,110	11,11,100 10
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the application money received for 12,500; 8% Debentures @ ₹ 110 per debenture)		13,75,000	13,75,000
	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 8% Debentures A/c To Securities Premium Reserve A/c To Bank A/c To Premium on Redemption of Debentures A/c (Being 10,000; 8% Debentures allotted being redeemable at 10% premium, application money adjusted against debentures and securities premium reserve while balance refunded)		13,75,000 1,00,000	10,00,000 1,00,000 2,75,000 1,00,000
Sept. 30	Debentures' Interest A/c ...Dr. To Debentureholders' A/c (Being the interest for half-year ending 30th September, 2014 on ₹ 11,11,100 @ 10% p.a., and on ₹ 10,00,000 @ 8% p.a. due)		95,555	95,555
	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest paid)		95,555	95,555
2015 March 31	Debentures' Interest A/c ...Dr. To Debentureholders' A/c (Being the interest for half-year ending 31st March, 2015 on ₹ 11,11,100 @ 10% p.a. and on ₹ 10,00,000 @ 8% p.a. due)		95,555	95,555
	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest paid)		95,555	95,555
	Securities Premium Reserve A/c ...Dr. Statement of Profit and Loss ...Dr. To Loss on Issue of Debentures A/c To Discount on Issue of Debentures A/c (Being the loss and discount on issue of debentures written off)		1,00,000 1,11,110	1,00,000 1,11,110
	Statement of Profit and Loss ...Dr. To Debentures' Interest A/c (Being the transfer of debentures' interest to Statement of Profit and Loss)		1,91,110	1,91,110

BALANCE SHEET OF GEE ESS LTD.

as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	15,00,000
(b) Reserves and Surplus	2	(3,02,220)
2. Non-Current Liabilities		
Long-term Borrowings	3	22,11,100
Total		<u>34,08,880</u>
II. ASSETS		
1. Non-Current Assets		
Fixed Assets—Tangible		10,00,000
2. Current Assets		
Cash and Bank Balances	4	24,08,880
Total		<u>34,08,880</u>

Notes to Accounts

1. Share Capital		₹
<i>Authorised Capital</i>		
2,00,000 shares of ₹ 10 each		20,00,000
<i>Issued Capital</i>		
1,50,000 shares of ₹ 10 each		15,00,000
<i>Subscribed Capital</i>		
Subscribed and fully paid-up		
1,50,000 shares of ₹ 10 each		15,00,000
2. Reserves and Surplus		
Securities Premium Reserve	1,00,000	
Less: Discount on Issue of Debentures Written off	1,00,000	...
<i>Surplus, i.e., Balance in Statement of Profit and Loss:</i>		
Opening Balance	...	
Less: Discount on Issue of Debentures	11,110	
Loss on Issue of Debentures	1,00,000	
Interest on Debentures (₹ 95,555 + ₹ 95,555)	1,91,110	3,02,220
		<u>(3,02,220)</u>
3. Long-term Borrowings		
11,111; 10% Debentures of ₹ 100 each		11,11,100
(Issued to Vendors of Computers and Office Furniture for consideration other than cash)		
10,000; 8% Debentures of ₹ 100 each		10,00,000
Premium payable on Redemption of Debentures		1,00,000
		<u>22,11,100</u>
4. Cash and Bank Balances		
Cash at Bank		24,08,880
(Opening Balance ₹ 15,00,000 + ₹ 13,75,000 – ₹ 2,75,000 – ₹ 1,91,110 – ₹ 10)		

Advanced Level Question**Illustration 14.**

The Earth Ltd. invited applications for issuing 10,000, 12% Debentures of ₹ 100 each at a premium of 5%, redeemable at a premium of 5%, after 5 years. The full amount was payable on application. Applications were received for 14,000 debentures out of which applicants for 9,000 debentures were allotted fully, applicants for 2,500 debentures were allotted 1,000 debentures and remaining applications were rejected.

On 1st October, 2016, company purchased building worth ₹ 10,00,000, Plant and Machinery worth ₹ 8,00,000 from M/s. Raman & Company and took over their Liabilities of ₹ 3,00,000 for a purchase price of ₹ 16,50,000. The company paid the purchase price by issuing 12% Debentures of ₹ 100 each at a premium of 10%, redeemable at the end of 5 years at par.

During the accounting year 2016–17 on 1st October, 2016 company took a loan of ₹ 10,00,000 from ICICI Bank payable on 31st March, 2018 and issued ₹ 15,00,000, 12% Debentures as collateral security.

Additional Information:

- Debenture interest is payable half-yearly on 30th September and 31st March.
- Tax to be deducted at source @ 10%.
- Ignore interest on bank loan.
- It was decided by the company to write-off Loss on Issue of Debentures as early as possible.

Pass necessary Journal entries in the books of Earth Ltd. for the year 2016–17.

Solution:

In the Books of Earth Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the application money received for 14,000; 12% Debentures @ ₹ 105 each)		14,70,000	14,70,000
April 1	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 12% Debentures A/c To Securities Premium Reserve A/c To Premium on Redemption of Debentures A/c To Bank A/c (Being 10,000; 12% Debentures of ₹ 100 each issued at 5% premium and redeemable at 5% premium and excess money returned)		14,70,000 50,000	10,00,000 50,000 50,000 4,20,000
Sept. 30	Debentures' Interest A/c ...Dr. To Debentureholders' A/c To TDS Payable A/c (Being the interest due on 12% Debentures for half year ended 30th September, 2016, TDS being deducted @ 10%)		60,000	54,000 6,000
Sept. 30	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest paid to debentureholders)		54,000	54,000

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8.19

Sept. 30	TDS Payable A/c To Bank A/c (Being the TDS deposited in Government Account)	...Dr.	6,000	6,000
Oct. 1	Building A/c Plant and Machinery A/c Goodwill A/c (Balancing Figure) To Sundry Liabilities A/c To M/s Raman & Company (Being the assets and liabilities of M/s Raman & Company taken over for a purchase consideration of ₹ 16,50,000)	...Dr. ...Dr. ...Dr.	10,00,000 8,00,000 1,50,000	3,00,000 16,50,000
Oct. 1	M/s Raman & Company To 12% Debentures A/c To Securities Premium Reserve A/c (Being 15,000; 12% Debentures of ₹ 100 each issued at 10% premium to M/s Raman & Company against purchase consideration)	...Dr.	16,50,000	15,00,000 1,50,000
Oct. 1	Bank A/c To Loan from ICICI Bank A/c (Being the loan taken from ICICI Bank)	...Dr.	10,00,000	10,00,000
Oct. 1	Debentures Suspense A/c To 12% Debentures A/c (Being 15,000; 12% Debentures of ₹ 100 each issued as collateral security to bank against loan of ₹ 10,00,000)	...Dr.	15,00,000	15,00,000
2017				
March 31	Debentures' Interest A/c To Debentureholders' A/c To TDS Payable A/c (Being the interest due on 25,000; 12% Debentures of ₹ 100 each for half year ended 31st March, 2017, TDS being deducted @ 10%)	...Dr.	1,50,000	1,35,000 15,000
March 31	Debentureholders' A/c To Bank A/c (Being the interest paid to debentureholders)	...Dr.	1,35,000	1,35,000
March 31	TDS Payable A/c To Bank A/c (Being the TDS deposited in Government Account)	...Dr.	15,000	15,000
March 31	Statement of Profit and Loss To Debentures' Interest A/c (Being the transfer of Debentures' Interest to Statement of Profit and Loss)	...Dr.	2,10,000	2,10,000
March 31	Securities Premium Reserve A/c To Loss on Issue of Debentures A/c (Being the Loss on Issue of Debentures written off from Securities Premium Reserve)	...Dr.	50,000	50,000

Notes:

1. Interest on Debentures issued as collateral security is not paid. Therefore, interest on 15,000; 12% Debentures of ₹ 100 each is not accounted.

2. Calculation of Interest:

	₹
(i) Half year ended 30th September, 2016	
10,000; 12% Debentures of ₹ 100 each $\left(₹ 10,00,000 \times \frac{12}{100} \times \frac{1}{2} \right)$	<u>60,000</u>
TDS Payable (₹ 60,000 × 10%) = ₹ 6,000.	
(ii) Half year ended 31th March, 2017	
10,000; 12% Debentures of ₹ 100 each $\left(₹ 10,00,000 \times \frac{12}{100} \times \frac{1}{2} \right)$	60,000
15,000; 12% Debentures of ₹ 100 each $\left(₹ 15,00,000 \times \frac{12}{100} \times \frac{1}{2} \right)$	90,000
	<u>1,50,000</u>
TDS Payable (₹ 1,50,000 × 10%) = ₹ 15,000.	

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