

Chapter-3

Accounting for Debentures

Meaning and Definition of Debentures

A debenture is a certificate issued by a company acknowledging debt of a specified amount of public borrowing. It represents the long term loan and secured loan as well. It consists of maturity date, fixed rate of interest, redeemable condition, long term nature.

Types of Debentures

1) Registered Debenture: A debenture that cannot be transferred by a mere physical delivery is called registered debenture. The name ~~hold~~ of the holder of such debenture is registered with the company.

2) Bearer Debenture: A debenture which is transferable by a mere delivery is called bearer debenture. The holders of such debentures are its owners and are called debenture holders.

3) Redeemable debenture: The debentures which are to be repaid within a specific date as per the terms of their issue are called redeemable debentures. The company is bound to pay the principal to debenture holders after the expiry of the period specified at the time of issue.

4) Irredeemable debenture: A debenture which is issued without any maturity period is called irredeemable debenture. This type of debenture is also called perpetual debenture. The sum of the debenture is repaid to the debenture holders only on liquidation of the company.

- 5) Convertible debenture: A debenture which is issued with an option to convert it into equity share, preference share or a new debenture within a specified period at a conversion ratio is called convertible debenture.
- 6) Non-convertible debenture: The debentures, which have no options of being converted into equity or preference shares or new debentures, are called non-convertible debentures.
- 7) Secured debenture: A debenture which is issued against a specific fixed asset as security is called secured debenture. Upon default of such debenture on due date, the debenture holder can realize their sum out of the sale realized from such fixed asset. Secured debentures are also called mortgaged debentures.
- 8) Unsecured (naked) debenture: Debentures issued without any security are called unsecured debentures. The holders of such debentures are not given any security for the issue of such debentures. The holders of such debentures are treated as the general creditors of the company.
- 9) First debenture: A debenture which is issued against a specific fixed asset not currently pledge as a security for the issue is called first debenture. Such debentures need to be repaid fully before the second debentures are issued.
- 10) Second debenture: A debenture which is issued against a specific fixed asset already used as a security is known as second debenture. Such debentures are repaid only after the first debentures have been fully settled.

Collateral debentures: Debentures may also be issued to money lenders i.e. to the banks and financial institutions as an additional security along with the principal security for the sanction of the bulk amount of loan. Such debenture is known as collateral debentures.

Differences between Shares and Debentures

Shares	Debentures
1. Share denotes ownership capital of a company.	1. Debenture denotes debt or loan capital of a company.
2. Shareholders are the owner of the company.	2. Debentureholders are the creditors of the company.
3. Dividend is paid on shares out of profits on the recommendation of directors.	3. A fixed rate of interest is to be paid to the debenture holders.
4. Rate of dividend on the share capital is not fixed.	4. Rate of interest is prefixed in debentures.
5. Dividend is paid only when there is sufficient profit.	5. Interest is paid regularly on debentures whether a company earns profit or not.

Home Work Problems

Issue of Debentures on lump-sum basis

Issue of Debentures at par

Hw-1

Ambition Ltd.
Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	Bank a/c		400,000	
	To 8% debenture a/c			400,000
	(Being money received on issue of 4,000 debentures @ Rs 100 each.)			

Issue of Debentures at Premium

HW-2

ATM Co. Ltd

Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	Bank a/c		1,100,000	
	To 8% debenture a/c			1,000,000
	To debenture premium a/c			100,000
	(Being money received on issue of 10,000 debenture @ Rs 110 each including premium)			

Issue of Debentures at Discount

HW-3

ABC company Ltd

Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	Bank a/c		675,000	
	Discount on issue of debenture a/c		75,000	
	To 8% debenture a/c			750,000
	(Being money received for 7,500 debentures @ Rs 90 each)			

Issue of Debentures for Non-Cash ConsiderationsPurchase of assets

HW-4

Sharma Ltd.

Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	Machinery a/c		200,000	
	To Pradhan Ltd.			200,000
	(Being purchased machinery from Pradhan Ltd)			
	Pradhan Ltd.		200,000	
	To 10% debenture a/c			200,000
	(Being payment made to Pradhan Ltd. by issuing ^{200,} 10% debenture @ Rs 1,000 each)			

Purchase of assets by issuing discount

HW-5

ABC Co. Ltd

Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	Sundry assets a/c		1,870,000	
	To XYZ Co. Ltd			1,870,000
	(Being purchased sundry assets from XYZ Co. Ltd)			

$$\text{No of debenture} = \frac{\text{Payable}}{\text{Par} \pm \text{Prol Discount}}$$

Date
Page 202

XYZ Co. Ltd	1,870,000	
Discount on issue of debentures	330,000	
To 8% debenture a/c		2,200,000
(Being payment made to XYZ Co. Ltd by issuing 22,000, 8% debentures @ Rs 85 each)		

HW-6

ABC Ltd.

Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	Premises a/c		130,000	
	Furniture a/c		45,000	
	Equipment a/c		80,000	
	Plant and equipment a/c		135,000	
	To XYZ company a/c			320,000
	To Accounts Payable a/c			40,000
	To Capital reserve a/c			30,000
	(Being purchased business)			
	XYZ company a/c		320,000	
	Discount on issue of debenture a/c		30,000	
	To Cash a/c			50,000
	To 10% debenture a/c			300,000
	(Being payment made to XYZ company partially by cash and rest by issuing 3,000 debentures at discount)			

HW-7

Date

Issue

HW-8

a)

Date

HW-7

JDC Limited Journal Entries

Date	Particulars	IF	Debit (Rs)	Credit (Rs)
	Plant and machinery a/c		150,000	
	Inventory a/c		25,000	
	Accounts receivable a/c		20,000	
	Goodwill a/c		25,000	
	To Rolex Ltd.			190,000
	To Accounts Payable			20,000
	(Being purchased business)			
	Rolex Ltd.		190,000	
	Discount on issue of debenture a/c		10,000	
	To 6% debenture a/c			200,000
	(Being payment made to Rolex Ltd. by issuing debentures @ Rs 95 each)			

Issue of Debenture as Collateral Securities

HW-8

a)

X Ltd.

Journal Entries

Date	Particulars	IF	Debit (Rs)	Credit (Rs)
	Debenture Suspense a/c		300,000	
	To 6% Debenture a/c			300,000
	(Being issued 3000, 6% debenture of Rs 100 each as collateral security to City Bank for loan)			

X Ltd.
Balance sheet
As on ---

Liabilities	Amount	Assets	Amount
Bank Loan	200,000	Debtors suspense ac	800,000
8% Debenture a/c	200,000	Bank a/c	200,000
	500,000		500,000

b)

Panas Ltd.
Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	Debtors suspense a/c		750,000	
	To 8% debenture a/c			750,000
	(Being issued 8% debentures as collateral security to Sigma Bank for loan)			

Panas Ltd.
Balance Sheet
As on ---

Liabilities	Amount	Assets	Amount
Bank loan	500,000	Debtors suspense ac	750,000
8% debenture ac	750,000	Bank a/c	500,000
	1,250,000		1,250,000

Issue of Debentures with different redeemable conditions

HW-9

----- Company Journal Entries

Date	Particulars	IF	Debit (Rs)	Credit (Rs)
i.	Bank a/c To 6% debentures a/c (Being issued 5000, 6% debentures of Rs 100 each at par and redeemable at par)		500,000	500,000
ii.	Bank a/c Discount on issue of debenture a/c To 6% debenture a/c (Being issued 5000, 6% debentures at Rs 95 each redeemable at par)		475,000 25,000	500,000
iii.	Bank a/c Loss on redemption a/c To 6% debenture a/c To debenture premium on redemption a/c (Being issued 5000, 6% debentures at par redeemable at premium)		500,000 50,000	500,000 50,000
iv.	Bank a/c Discount on issue of share a/c Loss on redemption a/c To 6% debenture a/c To debenture premium on redemption a/c (Being issued 5,000, 6% debentures at Rs 90 and redeemable at premium)		450,000 50,000 25,000	500,000 25,000

v.	Bank a/c	525,000	
	To 6% debenture a/c		500,000
	To debenture premium a/c		25,000
(Being issued 5000, 6% debentures at Rs 105 and redeemable at par)			
vi.	Bank a/c	525,000	
	Loss on redemption	25,000	
	To 6% debenture a/c		500,000
	To debenture premium a/c		25,000
	To debenture premium redemption a/c		25,000
(Being issued 5000, 6% debentures at Rs 105, redeemable at premium)			
vii.	Bank a/c	525,000	
	To 6% debenture a/c		500,000
	To debenture premium a/c		25,000
(Being issued 5000, 6% debentures at Rs 105, redeemable at discount)			

Redemption of Debentures by paying Cash

HW-10

Sony Ltd.
Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	10% Debenture a/c		1,000,000	
	To Discount on redemption a/c			100,000
	To Debenture holder's a/c			900,000
	(Being amount due for the redemption of 1,000, 10% debentures at discount)			
	Debenture holder's a/c		900,000	
	To Bank a/c			900,000
	(Being redemption of debentures)			

HW-11

Cello Co. Ltd
Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	10% Debenture a/c		200,000	
	Debenture premium on redemption a/c		40,000	
	To debenture holders a/c			240,000
	(Being amount due for the redemption of 2,000, 10% debentures at premium)			
	Debenture holders a/c		240,000	
	To Bank a/c			240,000
	(Being redemption of debentures)			

HW-12

A Ltd.

Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	12% debenture a/c		1,500,000	
	Debenture premium on redemption a/c		100,000	
	To debenture holders a/c			1,100,000
	(Being amount due on 2,000 debentures of Rs 500 each redeemable at premium)			
	Debenture holders a/c		1,100,000	
	To Bank a/c			1,100,000
	(Being redemption of debenture)			

Issue and Redemption of Debenture.

HW-13

----- Company
Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
1.	Bank a/c		100,000	
	To 10% debenture a/c			100,000
	(Being issued 10% debentures at par repayable at par)			
	10% debenture a/c		100,000	
	To debenture holders a/c			100,000
	(Being amount due for 100 debentures @ Rs 1,000 each)			

	Debtore holders a/c	100,000	
	To bank a/c		100,000
	(Being redemption of debtore)		
Dr.	Bank a/c	100,000	
	Loss on redemption a/c	10,000	
	To 10% debtore a/c		100,000
	To debtore premium redemption a/c		10,000
	(Being debtore issued at par and repayable at premium)		
	10% debtore a/c	100,000	
	Debtore premium on redemption a/c	10,000	
	To Debtore holders a/c		110,000
	(Being amount due for the redemption of 100, 10% debtures at premium)		
	Debtore holders a/c	110,000	
	To Bank a/c		110,000
	(Being redemption of debtore)		
Dr.	Bank a/c	110,000	
	To 8% Debtore a/c		100,000
	To Debtore premium a/c		10,000
	(Being issued 1000, 8% debtures at Rs 1100 repayable at par)		
	8% Debtore a/c	100,000	
	To Debtore holders a/c		100,000
	(Being amount due for the redemption of 100, 8% debtures at par)		

	Debenture holders a/c	100,000	
	To Bank a/c		100,000
	(Being redemption of debentures)		
iv.	Bank a/c	110,000	
	Loss on redemption a/c	10,000	
	To 10% debenture a/c		100,000
	To debenture premium a/c		10,000
	To debenture premium redemption a/c		10,000
	(Being issued 100, 10% debentures at Rs 1,100 repayable at Rs 1,100)		
	10% debenture a/c	100,000	
	Debenture premium redemption a/c	10,000	
	To Debenture holder's a/c		110,000
	(Being amount due for the redemption of 100, 10% debentures at premium)		
	Bank a/c Debenture Holder's a/c	110,000	
	To Bank a/c		110,000
	(Being redemption of debentures)		
v.	Bank a/c	90,000	
	Discount on issue of debenture a/c	10,000	
	To 9% debenture a/c		100,000
	(Being issued 100, 9% debentures at Rs 900 each repayable at par)		

9% debenture a/c

To debenture holders a/c
(Being amount due for the redemption of 100, 9% debentures at par)

100,000

100,000

Debenture holders a/c

To Bank a/c
(Being redemption of debentures)

100,000

100,000

vi. Bank a/c

Discount on issue of debenture a/c

Loss on redemption a/c

To 7% debenture a/c

To debenture premium redemption a/c

(Being issued 100, 10% 7% debentures at Rs 900 each repayable at Rs 1,100 each)

90,000

10,000

10,000

100,000

10,000

7% debenture a/c

Debenture premium redemption a/c

To Debenture Holders a/c

(Being amount due for redemption of 100, 7% debentures at premium)

100,000

10,000

110,000

Debenture holders a/c

To Bank a/c
(Being redemption of debentures)

110,000

110,000

vii.	Bank a/c	100,000	
	To 8% debenture a/c		100,000
	(Being issued 100, 8% debentures at Rs 1,000 ^{each} repayable at Rs 900 each)		
	8% debenture a/c	100,000	
	To Debenture holders a/c		90,000
	To Discount on redemption a/c		10,000
	(Being amount due for the redemption of 100, 8% debenture at Rs 900 each)		
	Debenture holder's a/c	90,000	
	To Bank a/c		90,000
	(Being redemption of debenture)		

HW-14

Sridel Bank Ltd.
Journal Entries

Date	Particulars	lf	Debit (Rs)	Credit (Rs)
	Bank a/c		380,000	
	Discount on issue of debenture a/c		20,000	
	To 10% debenture a/c			400,000
	(Being issued 400, 10% debentures of Rs 1,000 each at Rs 950 redeemable at discount)			

Conversion

Issue

HW-15

Date

10% debenture a/c

To Discount on redemption a/c

To Debenture Holders a/c

(Being amount due for the redemption of 400, 10% debentures at discount)

400,000

40,000

360,000

Debenture Holder's a/c

360,000

To Bank a/c

360,000

(Being redemption of debentures)

Conversion of Debentures

Issue of new debentures at par

HW-15

Blue Cross Company
Journal Entries

Date	Particulars	IF	Debit (Rs)	Credit (Rs)
	12% Debenture a/c		50,000	
	To Debenture Holders a/c			50,000
	(Being amount due for the redemption of 500, 12% debentures of Rs 100 each)			
	Debenture Holders a/c		50,000	
	To 14% Debenture a/c (500 x 100)			50,000
	(Being redemption of debentures by new debenture)			

HW-16

A company
Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	10% Debenture a/c		200,000	
	To Debenture Holder's a/c			200,000
	(Being amount due for the redemption of 200, 10% debentures of Rs 1,000)			
	Debenture Holder's a/c		200,000	
	To 12% Debenture a/c			200,000
	(Being redemption of debenture by new 2000 debentures)			

Issue of new ^{shares} debentures at premium

HW-17

Yak Ltd.
Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	8% Debenture a/c		200,000	
	Deb. premium on redemption		20,000	
	To Debenture Holder's a/c			220,000
	(Being amount due for the redemption of 200, 8% debentures of Rs 1,000)			
	Debenture Holder's a/c		220,000	
	To Preference share capital a/c			200,000
	To share premium a/c			20,000
	(Being redemption of debentures)			

Issue of

HW-18

Date

Debenture
at par

HW-

Issue of new shares at discount

HW-18

Jack Co. Ltd

Journal Entries

Date	Particulars	LF	Debit (Rs)	Credit (Rs)
	8% debenture a/c		800,000	
	To discount on redemption a/c			80,000
	To Debenture Holder's a/c			720,000
	(Being amount due for the redemption of 800, 8% debentures @ Rs 90 each)			
	Debenture Holder's a/c		720,000	720,000
	Discount on issue of share a/c		80,000	
	To Equity share capital a/c			800,000
	(Being redemption of debentures by equity share)			

Debentures redeemable at premium and issue of new shares at par

HW-19

Rhino Co. Ltd

Journal Entries

Date	Particulars	lf	Debit (Rs)	Credit (Rs)
	12% Debenture a/c		500,000	
	Debenture premium on redemption a/c		50,000	
	To Debenture Holder's a/c			550,000
	(Being the amount due for redemption of 500, 12% debentures at premium)			
	Debenture Holder's a/c		550,000	
	To share premium a/c			
	To equity share capital a/c			550,000