Company Accounts- Issue of Debentures

Meaning of Debenture

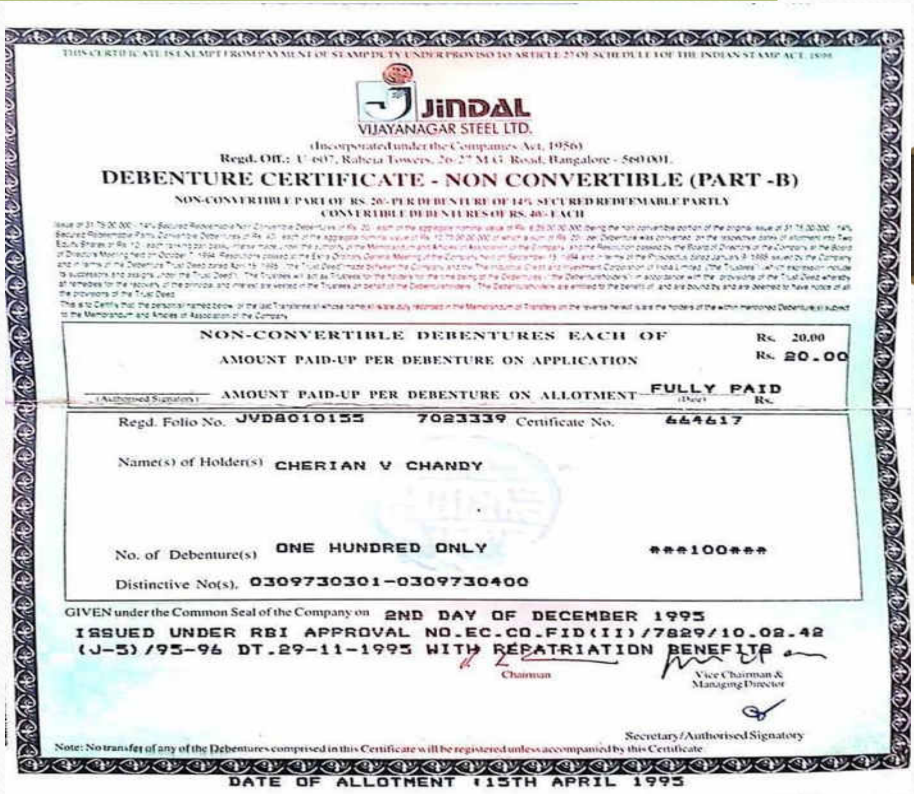
- Debenture is a written instrument or document issued by the company for the acknowledgement of a debt. It includes the term and conditions of repayment of principal amount and payment of interest at a rate specified at the time of its issue.
- "Debenture includes debenture stock, bonds and any other instrument of the company evidencing a debt, whether constituting a charge on assets of the company or not."

  -Section 2(30) of the Companies Act, 2013
- "A debenture is a document given by a company as evidence of a debt to the holder usually arising out of a loan and most commonly secured by a charge."

  -Topham

Features of a Debenture

- Debenture is a written document acknowledging debt by the company.
- Method and period of repayment of principal and interest is fixed.
- Rate of interest is prefixed to Debentures, like '10% Debentures'.
- Debentures are considered as external equity or long term borrowings.
- Generally debentures are secured by way of charge on the assets of the company.
- Interest on debenture is a charge against profit.



JINDAL
VIJAYANAGAR STEEL LTD.

DEBENTURE CERTIFICATE - NON CONVERTIBLE (PART -B)

NON-CONVERTIBLE DEBENTURES EACH OF	Rs. 20.00
AMOUNT PAID-UP PER DEBENTURE ON APPLICATION	Rs. 20.00
AMOUNT PAID-UP PER DEBENTURE ON ALLOTMENT	FULLY PAID

Regd. Folio No. JVD8010155 7023339 Certificate No. 664617

Name(s) of Holder(s) CHERIAN V CHANDY

No. of Debenture(s) ONE HUNDRED ONLY ***100***

Distinctive No(s). 0309730301-0309730400

GIVEN under the Common Seal of the Company on 2ND DAY OF DECEMBER 1995
ISSUED UNDER RBI APPROVAL NO.EC.CO.FID(II)/7829/10.02.42 (J-5)/95-96 DT.29-11-1995 WITH REPATRIATION BENEFITS

Chairman

Vice Chairman & Managing Director

Secretary/Authorised Signatory

DATE OF ALLOTMENT :15TH APRIL 1995

Difference between Debentures and a Shares

Basis	Debentures	Shares
1. Ownership	Debenture means debt, so, Debenture holder is a lenders of the company.	Share means capital, so, shareholder is the owner.
2. Return	Debentureholder gets interest as a return.	Shareholder gets dividend as a return.
3. Repayment	Repayment is made after specified period.	Repayment is made at the time of wind-up of the company.
4. Issue at Discount	Debentures can be issued at discount.	Shares cannot be issued at discount except sweat equity shares.
5. Voting Right	These are not having any voting right.	Equity shareholders are having a right to vote in general meeting.
6. Security	Debentures may or may not be secured.	Shares are not secured.
7. Convertibility	Debentures can be converted into shares.	Shares cannot be converted in other securities.
8. Risk	Debentures are relatively secure.	Shares are not secure. They are at greater risk.

Types of Debentures

- Debentures
  - On the basis of Security
  - On the basis of Redemption
  - On the basis of Records
  - On the basis of Priority
  - On the basis of Coupon Rate
  - On the basis Convertibility

Kinds of Debentures

On the basis of Security
- Secured Debentures
- Un-secured Debentures

On the basis of Redemption
- Redeemable Debentures
- Irredeemable Debentures

On the basis of Records
- Registered Debentures
- Bearer Debentures

On the basis of Priority
- First Debentures
- Second Debentures

On the basis of Coupon Rate
- Specific Coupon Rate Debentures
- Zero Coupon Rate Debentures

On the basis of Convertibility
- Convertible Debentures
- Non-Convertible Debentures

Issue of Debentures

The company issues prospectus inviting public to subscribe debentures of the company or company can make private placement of debentures. The company may call the amount for debentures to be paid in lump sum or in instalments.

Minimum Subscription:-

As per section 39(1) of the Companies Act, 2013 a company cannot allot securities unless minimum subscription is received which is stated in the prospectus. The minimum subscription is specified in the Act, but has to be decided by the company.

SEBI has prescribed that **75%** of the issue should be subscribed before the allotment of debentures by a company. 10 is known as the nominal (face) value of the share.

Issue of Debentures

Debentures may be issued:-

- For cash
- For consideration of other than cash
- As a collateral security

Debentures, whether issued for cash or for consideration of other than cash may be issued:-

- At Par
- At Premium
- At Discount Rs 10 is known as the nominal (face) value of the share.

Debentures issued for Cash

The debentures issued for cash may be issued at par, at premium, at discount.

There may be two cases:-

- When debenture amount is received in lump sum
- When debenture amount is received in instalmentsRs.10 is known as the nominal (face) value of the share.

When debenture amount is received in lump sum

When the total amount of issue is payable in one installment, then it is called debentures issued against payment in lump-sum.

Accounting entries for issue of debentures, when amount payable in Lump-sum

For receiving application money:-

Bank A/c Dr.
    To Debenture App & Allotment A/c
(For Application money received)

For allotment of debenture:-

Debenture App & Allotment A/c Dr.
    To ---% Debentures A/c
(For Application money transferred to Debentures A/c)

When debenture amount is received in instalments

Transactions	Journal Entries
On receipt of Application money	Bank A/c Dr. To debenture Application A/c
On allotment of debentures	Debenture Application A/c Dr. To ----% Debentures A/c
On allotment money due	Debenture Allotment A/c Dr. To ----% Debentures A/c
On receipt of allotment money	Bank A/c Dr. To Debentures Allotment A/c
On call money due	Debenture Calls A/c Dr. To ----% Debentures A/c
On receipt of calls money	Bank A/c Dr. To Debentures Calls A/c

Debentures Issued at Par

Issue of debentures at par means that issue price of debenture is the same as its face value or the nominal value. i.e. debenture of Rs.100 (face value) is issued at Rs.100.

Illustration

A Ltd. Offered to public on 1st April, 2020, 10,000; 9% Debentures of Rs.100 each payable on application by 1st April, 2020. The applications were received for 10,000 debentures. Debentures were allotted on 10th April, 2020. Pass necessary journal entries in the books of the company.

In the books of A Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2020 1 April	Bank A/c Dr. (10,000×100) To Debenture App & Allotment A/c (10,000×100) (For Application money received)		10,00,000	10,00,000
10 April	Debenture App & Allotment. A/c Dr. (10,000×100) To 9% Debentures A/c (10,000×100) (For application money transfer to debenture A/c)		10,00,000	10,00,000

Illustration

Bajaj Auto Ltd. issued 5,000; 10% Debentures of Rs.100 each, payable Rs.20 on application, Rs.40 on allotment and balance on first and final call. Application were received for the issued debentures and allotment was made to all the applicants. The amount was received on due dates. Pass the journal entries and prepare balance sheet.

In the books of Bajaj Auto Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (5,000×20) To Debenture Application A/c (5,000×20) (For Application money received)		1,00,000	1,00,000
	Debenture Application A/c Dr. (5,000×20) To 10% Debentures A/c (5,000×20) (For application money transfer to 10% debentures)		1,00,000	1,00,000
	Debenture Allotment A/c Dr. (5,000×40) To 10% Debentures A/c (5,000×40) (For allotment money due)		2,00,000	2,00,000

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (5,000×40) To Debenture Allotment A/c (5,000×40) (For Allotment money received)		2,00,000	2,00,000
	Debenture 1st & Final Call A/c Dr. (5,000×40) To 10% Debentures A/c (5,000×40) (For debenture 1st & Final call money due)		2,00,000	2,00,000
	Bank A/c Dr. (5,000×40) To Debenture 1st & Final Call A/c (For debenture 1st & Final call money received)		2,00,000	2,00,000

Debentures Issued at Premium

When the debentures are issued at a price more than its nominal or face value is called debentures issued at premium. Premium received on issue of debenture is a capital receipt and is credited to Security Premium Reserve Account. In the balance sheet this premium is shown in Equity and Liability under the head of 'Shareholders Fund' under sub-head Reserve and Surplus.

Use of Security Premium Reserve

As per Section 52(2) of the Companies Act, 2013 the amount of premium received on securities as Security Premium Reserve can be used for the following purpose:-

- **Issuing fully paid bonus shares to the members**
- **Writing off preliminary expenses of the company**
- **Writing off the expenses of issue of securities**
- **Writing off the discount allowed on issue of debentures of the company**
- **In purchasing its own shares**
- **Providing premium on redemption of preference shares and debentures**

Accounting Entries for Issue of Debenture at Premium

Transactions	Journal Entries
On receipt of Application money	Bank A/c Dr. To Debenture Application A/c (For application money received including premium)
On allotment of shares (when premium received on application)	Debenture Application A/c Dr. To ----% Debentures A/c To Security Premium Reserve A/c (For application money adjusted)
On allotment money due (when premium due on allotment)	Debenture Allotment A/c Dr. To ----% Debentures A/c To Security Premium Reserve A/c (For the allotment money due)

Transactions	Journal Entries
On receipt of Allotment money	Bank A/c Dr. To Debenture Allotment A/c (For allotment money received including premium)
On call money due (when premium due on calls)	Debenture Calls A/c Dr. To ---% Debentures A/c To Security Premium Reserve A/c (For calls money due)
On receipt of calls money	Bank A/c Dr. To Debentures Calls A/c (For the calls money received including premium)

Illustration

Sujata Ltd. issued 6,000, 9% debentures of Rs.100 each at a premium of 10%, payable along with application. Applications were received for all and allotment was made to all. Pass necessary journal entries.

In the books of Sujata Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2020 1 April	Bank A/c Dr. (6,000×110) To Debenture App & Allotment A/c (6,000×110) (For Application money received)		6,60,000	 6,60,000
10 April	Debenture App & Allotment. A/c Dr. (6,000×110) To 9% Debentures A/c (6,000×100) To Security Premium Reserve A/c (6,000×10) (For application money transfer to debenture and Security Premium Reserve A/c)		6,60,000	 6,00,000 60,000

Illustration

Ltd. issued 5,000, 9% debentures of Rs.100 each at a premium of 10%, payable along with allotment. Applications were received for all and allotment was made to all. The amount was payable as Rs.30 on application, Rs.50 on allotment and the balance is on final call. The amount was duly received. Pass necessary journal entries.

In the books of Birla Ltd.

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (5,000×30) To Debenture Application A/c (5,000×30) (For Application money received)		1,50,000	 1,50,000
	Debenture Application A/c Dr. (5,000×30) To 9% Debentures A/c (5,000×30) (For application money transfer to 9% debenture)		1,50,000	 1,50,000
	Debenture Allotment A/c Dr. (5,000×50) To 9% Debentures A/c (5,000×40) To Security Premium Reserve A/c (5000×10) (For allotment money due)		2,50,000	 2,00,000 50,000

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (5,000×50) To Debentures Allotment A/c (5,000×50) (For Allotment money received including premium)		2,50,000	2,50,000
	Debenture Final Call A/c Dr. (5,000×30) To 9% Debentures A/c (5,000×30) (For debenture Final call money due)		1,50,000	1,50,000
	Bank A/c Dr. (50,000×30) To Debenture Final Call A/c (For debenture Final call money received)		1,50,000	1,50,000

Issue of Debentures at Discount

When the debentures are issued at a price less than its nominal value is called debentures issued at Discount. For example, debentures of Rs.100 issued at Rs.90, means debentures issued at discount of Rs.10. The amount of discount is debited to Discount on Issue of Debenture Account. Discount on issue of debentures is written off at the earliest, but with in the life time of the debentures. It is written off from Capital Reserves, if Capital Reserve does not exists, it can be written off from Security Premium Reserve or from Statement of Profit and Loss Account.

Journal Entries

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (1,000×90) To Debenture App & Allotment A/c (1,000×90) (For Application money received)		90,000	90,000
	Debenture App & Allotment. A/c Dr. (1,000×90) Discount on Issue of Debenture A/c Dr. (1,000×10) To 9% Debentures A/c (1,000×100) (For application money transfer to debenture A/c)		90,000 10,000	1,00,000

Accounting Treatment of Discount on Issue of Debentures

Discount or loss on issue of debentures is written off from Capital Reserve, if it has a balance. If capital reserve does not exist, it is written off from Security Premium Reserve or from Statement of Profit and Loss.

Discount on issue of debentures, if written off over the life of the debentures will have debit balance. It will be shown partly as Other Current Assets (the discount written off within 12 months from date of balance sheet) **and partly as Other Non-Current Assets** (the discount written off after 12 months from the date of balance sheet or after the period of Operating Cycle).

Illustration

Global Ltd. issued on 1st April, 2018, 1,000; 10% debentures of Rs.100 each at a discount of Rs.10 each redeemable at the end of 5 years. Discount on issue of debenture is written off in 5 equal yearly installments beginning 31st March, 2019. Show treatment of discount in the balance sheet of the company.

Balance Sheet as at 31st March, 2109

Particulars	Note No.	Rs.
II. Assets		
1. Non-Current Assets		
Other Non-Current Assets		6,000
2. Current Assets		
Other Current Assets		2,000

Issue of Debentures for Consideration of other than Cash

When a company is issuing debentures for purchase of asset or purchase of business or services taken etc. is called debentures issued for consideration of other than cash. In these cases company is not receiving any amount against debentures issued. Purchase of assets and issue of debentures are two separate transactions. The journal entries for issue of debentures for consideration of other than cash are following:

Accounting Entries for issue of debentures for consideration of other than cash

Transactions	Journal Entries
On purchase of assets	Sundry Assets A/c Dr. To Vendor's A/c (For assets purchased)
On purchase of Business	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Vendor's A/c To Capital Reserve A/c (For business purchased)

Transactions	Journal Entries
On issue of debentures (when issued at par)	Vendor's A/c Dr. To ----% Debentures A/c (For -------- debentures issued to vendor)
On issue of debentures (when issued at premium)	Vendor's A/c Dr. To ----% Debentures A/c To Security Premium Reserve A/c (For -------- debentures issued to vendor at premium)
On issue of debentures (when issued at discount)	Vendor's A/c Dr. Discount on Issue of Debentures A/c Dr. To ----% Debentures A/c (For ------- debentures issued to vendor at discount)

Illustration

Y Ltd. purchased assets of Rs.99,000 from X Ltd. It was agreed that the purchase consideration will be paid by issuing 10% debentures of Rs.100 each. Pass necessary journal entries when debentures have been issued (i) at par, (ii) at 10% premium and (iii) at 10% discount.

In the books of Y Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Sundry Assets A/c Dr. To X Ltd. A/c (For Business purchased from X Ltd.)		99,000	 99,000
(i)	X Ltd. A/c Dr. To 10% Debentures A/c (990×100) (For $\frac{99,000}{100}$ = 990 debentures issued at par)		99,000	 99,000
(ii)	X Ltd. A/c Dr. To 10% Debentures A/c (900×100) To Security Premium Reserve A/c (900×10) (For $\frac{99,000}{110}$ = 900 debentures issued at 20% premium)		99,000	 90,000 9.000

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
(iii)	X Ltd. A/c Dr. (1,100×90) Discount on Issue of Deb. A/c Dr. (1,100×10) To 10% Debenture A/c (1,100×100) (For $\frac{99,000}{90} = 1,100$ debentures issued at discount)		99,000 11,000	 1,10,000

Illustration

A Ltd. purchased a machine from B Ltd. for Rs.10,00,000 and paid the consideration as follows:-

a) Issued a cheque of Rs.5,00,000;

b) Given acceptance for a bill of exchange for 3 months for Rs.2,50,000;

c) Issued 2,500; 10% Debentures of Rs.100 each.

Pass necessary journal entries.

In the books of A Ltd.

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Machine A/c Dr. To B Ltd. A/c (For machine purchased from B Ltd.)		10,00,000	 10,00,000
	B Ltd. A/c Dr. To Bank A/c To Bill Payable A/c To 10% Debentures A/c (For consideration of machine paid by bank, issuing of bills of exchange and issuing 10% debentures at par)		10,00,000	 5,00,000 2,50.000 2,50,000

Issue of Debentures as Collateral Security

Loans taken are secured by mortgage of the assets known as prime or principal security. **Security given in addition to the primary security is called collateral security.**

Debentures are issued as collateral security is realised by the lender only if the due amount of loan cannot be recovered by realizing the principal security.

When loan is paid to the lender, the debentures issued as a collateral security are returned to the company.

Accounting Treatment of Issue of Debentures as Collateral Security

There are two methods to deal with the debentures issued as collateral security:-

First Method:- In this case the entry for issue of debentures as collateral security is not passed. Only entry is passed for the loan taken. It is disclosed in the notes to account under the head of Long Term Borrowings that debentures have been issued as collateral security as follows:-

Journal Entry:-

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

(For loan taken from bank and 1,200; 11% debentures of Rs.100 each issued as collateral security)

Balance Sheet *as at* ---------

Particulars	Note No.	Rs.
I. Equity and Liabilities		
Non-Current Liabilities		
Long Term Borrowings	1	1,00,000

Notes to Accounts

1. Long Term Borrowings	
Loan from bank	**1,00,000**
(Secured by issue of 1,200 11% debentures of Rs.100 each)	**=======**

Second Method

In this method the debentures issued as collateral security are recorded in the books of account. When loan is paid to the lender the entry which is made at the time of issue of debenture as collateral security is cancelled. Debentures issued as collateral security is shown as long term borrowing in the Notes to account.

Journal Entry for issue of debentures as collateral security

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. To Bank Loan A/c (For loan taken from bank)		1,00,000	1,00,000
	Debenture Suspense A/c Dr. To 11% Debentures A/c (For 1,200; 11% debentures issued as collateral security)		1,20,000	1,20,000

Balance Sheet *as at ---------*

Particulars	Note No.	Rs.
I. Equity and Liabilities		
Non-Current Liabilities		
Long Term Borrowings	1	1,00,000

Notes to Accounts

1. Long Term Borrowings		
Loan from bank		1,00,000
11% debentures	1,20,000	
(1200, 11% debentures of Rs.100 each issued as collateral security)		
Less: Debenture Suspense A/c	1,20,000	--------
		1,00,000
		======

Interest on Debentures

Interest on debentures is calculated at fixed rate on its nominal value or face value payable quarterly, half yearly or yearly as per the terms of issue. Interest on debentures is payable even if there is a loss in the company and it is charge against profit. Interest payment may be subject to tax deducted at source.

Tax Deducted at Source (TDS):- The company deducts the income tax on interest paid to the debentureholders and this amount of tax is deposited with the income tax authority. This amount of deducted tax is called Tax Deducted at Source (TDS).

Accounting entries for Interest on Debentures

Transactions	Journal Entries
When interest is due and Tax is ignored	Interest on Debentures A/c Dr. To Debentureholders A/c (For interest due on debenures)
When interest is due and Tax is Deducted at Source (TDS)	Interest on Debentures A/c Dr. To Debentureholders A/c To TDS Payable A/c (For interest and TDS due on debentures)
When interest is paid)	Debentureholders A/c Dr. To Bank A/c (For interest paid to debentureholders)
When TDS is deposited in Government Account)	TDS Payable A/c Dr. To Bank A/c (For TDS deposited in government's account)

Transactions	Journal Entries
When TDS is deposited in Government Account)	TDS Payable A/c Dr. To Bank A/c (For TDS deposited in government's account)
On transfer of interest to Statement of Profit and Loss at the end of the year	Statement of Profit and Loss A/c Dr. To Interest on Debentures A/c (For interest transferred to Statement of Profit and Loss)

Illustration

On April 1, 2018 HMT Ltd. Issued 1,000, 10% debentures of Rs.100 each at a discount of 5% redeemable at a par after 5 years.

Pass necessary journal entries for the issue of debentures and debenture interest for the year ended 31st March, 2019 assuming interest is payable on 30th September and 31st March and the rate of the tax deducted at source is 10%. The company closes its books on 31st March every year.

In the books of HMT Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2018 April 1	Bank A/c Dr. (1,000×95) To Debenture App & Allot. A/c (1,000×95) (For Application money received @ Rs.95 each)		95,000	 95,000
April 1	Debenture App & Allot A/c Dr. (1,000×95) Discount on Issue of Debenture A/c Dr. (1,000×5) To 10% Debentures A/c (1,000×100) (For application money transfer to 10% debentures)		95,000 5,000	 1,00,000
Sept. 30	Interest on Debentures A/c Dr. To Debentureholders A/c To TDS Payable A/c (For allotment money due)		5,000	 4,500 500

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
Sept. 30	Bank A/c Dr. To Debentureholders A/c (For interest paid to debenturehoders)		4,500	 4,500
Sept. 30	Bank A/c Dr. To TDS Payable A/c (For TDS deposited into government account)		500	 500
March 31	Interest on Debentures A/c Dr. To Debentureholders A/c To TDS Payable A/c (For interest and TDS due on debentures)		5,000	 4,500 500

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
March 31	Bank A/c Dr. To Debentureholders A/c (For interest paid to debenturehoders)		4,500	4,500
March 31	Bank A/c Dr. To TDS Payable A/c (For TDS deposited into government account)		500	500
March 31	Statement of Profit & Loss A/c Dr. To Interest on Debentures A/c (For interest transferred to Statement of Profit and Loss A/c)		10,000	10,000

Writing off Discount or Loss on Issue of Debentures

Discount or Loss on issue of debentures is a capital loss for the company, which should be written off at the earliest but within the period of the debentures are to be redeemed. So, the company may write off this discount or loss on issue of debentures at any time before the debentures are due for redemption.

Discount on Issue of Debentures may be written off by any of the following option:-

- It may be written off in the first year of issue.
- It may be written off over the tenure of the debentures.

Illustration

On 1st April, 2019, Shiva Ltd. issued 5,000; 10% debentures of Rs.100 each at a discount of 10% redeemable at par after five years. All the debentures were subscribed. It has a balance of Rs.30,000 in Capital Reserve and Rs.50,000 in Security Premium Reserve which the company decided to use for writing off the loss. It decided to write off the discount in the first year itself.

Pass the Journal entries for issue of debentures and writing off the discount.

In the books of Shiva Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
2019 April 1	Bank A/c Dr. (5,000×90) To Debenture App & Allot. A/c (5,000×90) (For Application money received @ Rs.90 each)		4,50,000	 4,50,000
April 1	Debenture App & Allot A/c Dr. (5,000×90) Discount on Issue of Debenture A/c Dr. (5,000×10) To 10% Debentures A/c (5,000×100) (For 5,000; 10% debentures allotted)		4,50,000 50,000	 5,00,000
2020 March 31	Capital Reserve A/c Dr. Security Premium Reserve A/c To Discount on Issue of Debentures A/c (For discount on issue of debentures written off)		30,000 20,000	 50,000

Writing off Discount or Loss on Issue of Debentures over the tenure of the Debentures

Discount or loss may be written off in the following way:-

(a) **Fixed Instalment Method:-** In this method the amount of discount or loss is written off in equal instalments every year.

(b) **Fluctuating Instalment Method**:- This method is used when debentures are redeemed by draw of lots. The number of debentures may or may not be equal. The amount of discount or loss on issue of debentures is written off in the ratio of outstanding balance of nominal value of debentures.

Fixed Instalment Method

In this method the amount of discount or loss is written off in equal instalments every year.

$$Amount\ of\ Discount\ or\ Loss\ to\ be\ written\ of\ Annually$$

$$= \frac{Total\ Amount\ of\ Discount\ or\ Loss}{Number\ of\ years\ after\ which\ Debentures\ will\ be\ redeemed}$$

Illustration

Alfa Ltd. issued 10,000; 10% debentures of Rs.100 each at a discount of 10%. The debentures were redeemable after 5. Prepare Discount on Issue of Debentures Account.

Solution:-

Total Amount of Discount of Debentures = $10,00,000 \times \frac{10}{100} = Rs. 1,00,000$

Amount of Discount to be written off Annually= $\frac{1,00,000}{5} = Rs. 20,000$

Discount on Issue of Debentures A/c

Year	Particulars	Rs.	Year	Particulars	Rs.
I	To 10% Debentures A/c	1,00,000	I	By Statement of Profit & Loss By Balance c/d	20,000 80,000
		1,00,000 =====			1,00,000 =====
II	To Balance b/d	80,000	II	By Statement of Profit & Loss By Balance c/d	20,000 60,000
		80,000 =====			80,000 =====
III	To Balance b/d	60,000	III	By Statement of Profit & Loss By Balance c/d	20,000 40,000
		60,000 =====			60,000 =====
IV	To Balance b/d	40,000	IV	By Statement of Profit & Loss By Balance c/d	20,000 20,000
		40,000 =====			40,000 =====
V	To Balance b/d	20,000 =====	V	By Statement of Profit & Loss	20,000 =====

Illustration

Batra Ltd. issued 10% debentures of the face value of Rs.6,00,000 at a discount of 10%. The debentures were redeemable by annual draw of lots of Rs.2,00,000 starting from the end of the first year of issue. Prepare Discount on Issue of Debentures Account.

Solution:-

Total Amount of Discount of Debentures = $6{,}00{,}000 \times \frac{10}{100} = Rs.\,60{,}000$

Calculation of Amount of Discount to be written off

At the end of	Debenture Outstanding	Ratio	Discount to be Written off
1st Year	Rs.6,00,000	3	$Rs. 60{,}000 \times \frac{3}{6} = 30{,}000$
2nd Year	6,00,000 – 2,00,000 = Rs.4,00,000	2	$Rs. 60{,}000 \times \frac{2}{6} = 20{,}000$
3rd Year	4,00,000 – 2,00,000 = Rs.2,00,000	1	$Rs. 60{,}000 \times \frac{1}{6} = 10{,}000$

Discount on Issue of Debentures A/c

Year	Particulars	Rs.	Year	Particulars	Rs.
I	To 10% Debentures A/c	60,000	I	By Statement of Profit & Loss	30,000
				By Balance c/d	30,000
		60,000			60,000
		=====			=====
II	To Balance b/d	30,000	II	By Statement of Profit & Loss	20,000
				By Balance c/d	10,000
		30,000			30,000
		=====			=====
III	To Balance b/d	10,000	III	By Statement of Profit & Loss	10,000
		10,000			10,000
		=====			=====