

ISSUE OF DEBENTURES

The background of the slide is a blue-tinted image of a financial chart. A pen is visible in the upper right corner, pointing towards the chart. The chart shows a line graph with several data points and a dotted trend line. The overall aesthetic is professional and academic.

- Dr Nisha Chadda

Definition of Debentures

As per section 2(30) of Companies Act 2013, 'Debenture' includes debenture stock, bond or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

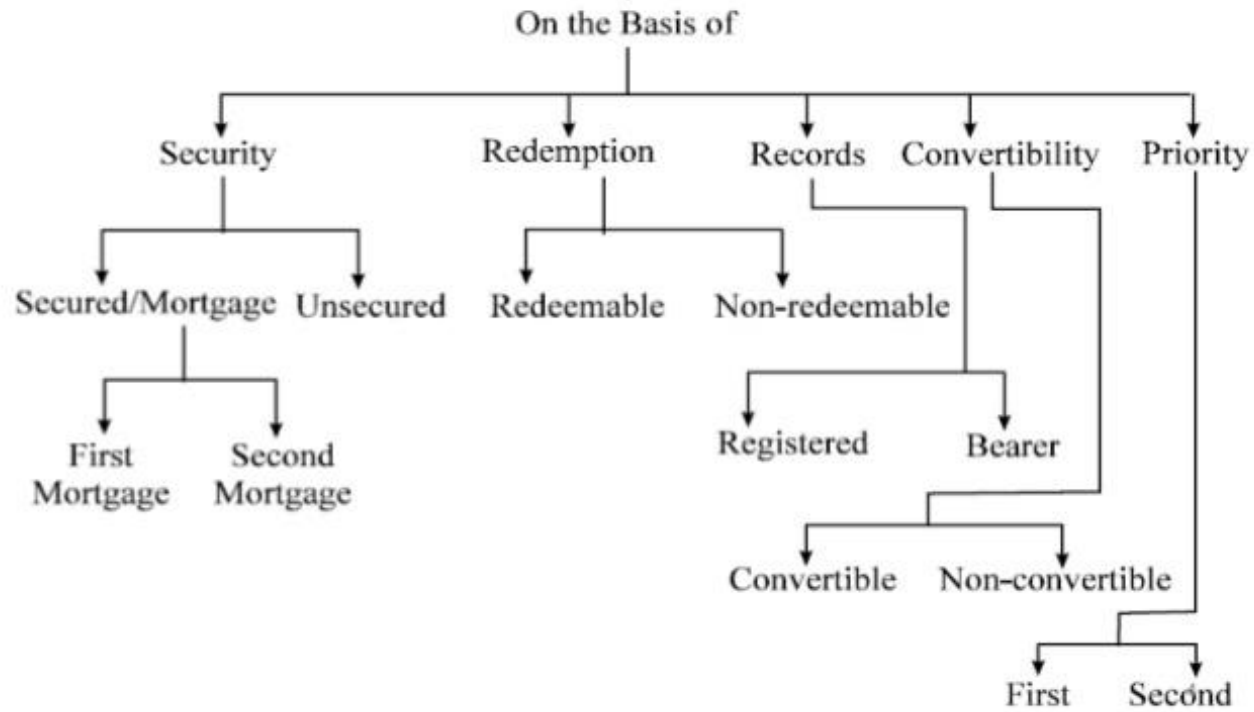
Meaning of Debenture

Company may need additional amount of money for a long period. It cannot issue shares every time. It can raise loan from the public.

The amount of loan can be divided into units of small denominations and the company can sell them to the public.

Each unit is called a 'debenture' and holder of such units is called Debenture holder. The amount so raised is loan for the company.

Types of Debentures





Types of Debentures

❑ From Security point of view

1) Secured or Mortgage Debentures

- Secured by a charge on the assets of the company.
- Debenture holders have the right to recover their principal amount with the unpaid amount of interest on such debentures out of the assets mortgaged by the company.

2) Unsecured Debentures

- Such debentures do not carry any security with regard to the principal amount or unpaid interest.⁵

❑ On the basis of redemption

1) Redeemable Debentures

- Debentures are issued for a fixed period.
- Principal amount of such debentures is paid off to the debenture holders on the expiry of such period.
- Such debentures can be redeemed by annual drawings or by purchasing from the open market.

2) Non-redeemable Debentures

- Debentures which are not redeemed in the life time of the company.
- Such debentures are paid back only when the company goes into liquidation.

❑ On the basis of Negotiability

1) Registered Debentures

- Debentures that are registered with the company.
- Amount of such debentures is payable only to those debenture holders whose name appears in the register of the company.

2) Bearer Debentures

- Debentures which are not recorded in a register of the company.
- Such debentures are transferrable merely by delivery.
- Holder of these debentures is entitled to get the interest.

□ On the basis of Convertibility

1) Convertible Debentures

- Debentures that can be converted into shares of the company on the expiry of pre-decided period.
- The term and conditions of conversion are generally announced at the time of issue of debentures.

2) Non-Convertible Debentures

- Debentures that cannot be converted into shares of the company.

❑ On the basis of priority

1) **First Debentures**

- Debentures are redeemed before other debentures.

2) **Second Debentures**

- Debentures are redeemed after the redemption of first debentures.

❑ On the basis of coupon rate or interest rate

1) Coupon rate

- Usually debentures are issued with a coupon rate, that is annual interest rate on the face value of debentures.
- This rate may be fixed or floating with the market interest rate.

2) Zero coupon rate

- Such debentures does not carry coupon rate or specified interest rate with itself.
- These debentures are issued with substantial discount to compensate the investor for interest.¹⁰

ISSUE OF DEBENTURES

By issuing debentures means issue of a certificate by the company under its seal which is an acknowledgment of debt taken by the company.

The procedure of issue of debentures by a company is similar to that of the issue of shares. A Prospectus is issued, applications are invited, and letters of allotment are issued. On rejection of applications, application money is refunded. In case of partial allotment, excess application money may be adjusted towards subsequent calls.

Issue of Debenture takes various forms which are as under :

1. Debentures issued for cash
2. Debentures issued for consideration other than cash
3. Debentures issued as collateral security.

Further, debentures may be issued

- (i) at par,
- (ii) at premium, and
- (iii) at discount



**Debentures issued for cash
at par**

(i) Application money is received

Bank A/c Dr

To Debentures Application A/c

(Application money received for Debentures)

**(ii) Transfer of debentures application money to
debentures account on their allotment**

Debentures Application A/c Dr

To Debentures A/c

(Appl. money transferred to debenture a/c on allotment)

(iii) Money due on allotment

Debentures Allotment A/c Dr

To Debentures A/c

(Allotment money made due)

(iv) Money due on allotment is received

Bank A/c Dr

 To Debentures Allotment A/c

(Receipt of Debenture allotment money)

(v) First and final call is made

Debentures First and Final call A/c Dr

 To Debentures A/c

(First and Final call money made due on
debentures)

(vi) Debentures First and Final call money is received

Bank A/c Dr

 To Debentures First and Final call A/c

(Receipt of Amount due on call)

Note : Two calls i.e. first call and second call may be made
Journal entries will be made on the lines made for first and
final call.

ISSUE OF DEBENTURES AT PREMIUM

Debentures are said to be issued at premium when these are issued at a value which is more than their nominal value.

For example, a debenture of Rs 100 is issued at Rs 110. This excess amount of Rs 10 is the amount of premium. The premium on the issue of debentures is a capital receipt and is credited to Securities Premium Reserve A/c and shown in the Equity and Liabilities part of the Balance Sheet as Reserves and Surplus under Shareholders' Funds.

Utilisation of Securities Premium
Reserve A/c is specified Under Section
52(2) of the Companies Act, 2013.

Debentures Allotment A/c Dr
 To Debentures Account
 To Securities Premium A/c
(Amount due on allotment along with
premium of Rs.)

Issue of Debentures at Discount

When debentures are issued at less than their nominal value they are said to be issued at discount. **For example**, debenture of Rs 100 each is issued at Rs 90 per debenture. It is important to note that the Companies Act has not put any restriction on the maximum limit of discount. However, there should be provision for issue of such debentures in the Articles of Association of the Company.

Disclosure of Discount in Balance Sheet:

It is a capital loss which shall be written off within 12 months from the date of Balance Sheet, or within the period of Operating Cycle & until it is written off-completely, it is shown on the Asset side of Balance Sheet, under the heading 'Current Assets' and sub-head 'Other Current Asset'. Discount on issue of debentures account is supposed to be allowed on allotment, unless, otherwise, mentioned.

Discount on issue of debentures A/c Dr
To Debentures A/c

(Allotment money due. The amount of discount is @ Rs per debenture)



Over Subscription

Company if receives applications for number of debentures that exceed the number of debentures offered for subscription, it is called over subscription.

There can be following treatment of the excess application money received :

(a) The total amount of excess number of applications is refunded in case the applications are totally rejected.

Debentures Application A/c Dr

To Bank A/c

(Refund of money on rejected applications)

(b) For adjustment of excess appli. money
adjusted towards sum due on allotment

Debentures Application A/c Dr

To Debentures Allotment A/c

(Excess application money adjusted)

(c) Excess amount is adjusted towards sums due
on allotment & rest of the amount is refunded.

Debentures Application A/c Dr

To Debentures Allotment A/c

To Bank A/c

(Excess appli. money adjusted towards sums due
on allotment and rest of the amount is refunded.)



**Issue of Debentures for
consideration other
than cash**

When a company purchases some assets and issues debentures as a payment for the purchase, to the vendors it is known as issue of debentures for consideration other than cash. Debentures can be issued to vendors at par, at premium and at discount.



On Purchase of Business

- Sundry Assets A/c Dr. (With the agreed values of assets taken over)
- *Goodwill A/c Dr. (With excess of purchase consideration over the value of net assets)
- To Sundry Liabilities A/c (With the agreed amount of liabilities taken over)
- To Vendor's A/c (With purchase consideration)
- To *Capital Reserve A/c (With excess of value of net assets over the purchase consideration)

*Either Goodwill or Capital Reserve.



Purchase Consideration

Purchase consideration is the amount agreed to be paid by the purchasing company of business from another enterprise. It may be given in the question; otherwise it will be equal to net assets (i.e., Agreed value of assets taken – Agreed amount of liabilities assumed).

On Issue of Debentures to Vendor

(i) At par

Vendors' A/c Dr

To Debentures A/c

(issue of debentures at par to vendors)

(ii) At premium

Vendors' A/c Dr

To Debentures A/c

To Securities Premium A/c

(issue of debentures to vendors at a premium of Rs per debenture)

(iii) At discount

Vendors' A/c Dr

Debentures Discount A/c Dr

To Debentures A/c

(Issue of debentures to vendors at a discount of Rs ... per debenture)

ISSUE OF DEBENTURES AS COLLATERAL SECURITY

Collateral security means security given in addition to the principal security. It is a subsidiary or secondary security. Whenever a company takes loan from bank or any financial institution it may issue its debentures as secondary security which is in addition to the principal security. Such an issue of debentures is known as 'issue of debentures as collateral security'.

The lender will have a right over such debentures only when company fails to pay the loan amount and the principal security is exhausted. In case the need to exercise this right does not arise debentures will be returned back to the company. No interest is paid on the debentures issued as collateral security because company pays interest on loan.²⁷

In the accounting books of the company issue of debentures as collateral security can be credited in two ways.

(i) No journal entry to be made in the books of accounts of the company :

Debentures are issued as collateral security. A note of this fact is given on the liability side of the balance sheet under the heading Secured Loans and Advances.

Accounting Treatment of Debentures as a Collateral Security

Balance Sheet Co Ltd.,

Capital & liabilities	Rs.	Assets	Rs.
Debentures (.... Debentures of Rs per debenture issued as collateral security			
Loan (Secured by the issue of debentures of Rs each issued as collateral security			

**(ii) Entry to be made in the books of account
the company**

A journal entry is made on the issue of debentures as a collateral security, Debentures suspense A/c is debited because no cash is received for such issue.

Following journal entry will be made

Debenture Suspense A/c Dr

To Debentures A/c

(.....Debentures of Rs each issued as collateral security to))

In the Balance sheet of the issuing company it will be shown as under :

Balance Sheet of Co. Ltd.

Capital & liabilities	Rs.	Assets	Rs.
Debenture		Bank	
(.....debenture of Rs each issued as collateral security as per contra)		Debenture suspense A/c (Debenture issued as collateral security for loan as per contra)	
Loan			

Issue of Debentures with conditions Stipulated to their Redemption

Case	Conditions of issue	Conditions of redemption
1	Issued at par	Repayable at par
2	Issued at premium	Repayable at par
3	Issued at discount	Repayable at par
4	Issued at par	Repayable at premium
5	Issued at premium	Repayable at premium
6	Issued at discount	Repayable at premium

(i) Issued at par redeemable at par

Bank A/c Dr. 100

To Debentures Account 100

(Issue of debentures Rs.100 at par)

(ii) Issued at premium redeemable at par

Bank A/c Dr.110

To Debentures A/c 100

To Securities Premium A/c 10

(Issue of debentures Rs.100 at a premium of Rs.10)

(iii) Issued at discount and redeemable at par

Bank A/c Dr. 90

Discount on issue of Debentures A/c Dr. 10

To Debentures A/c 100

(Issue of debentures Rs.100 at a discount of Rs.10)

(iv) Issue at par, redeemable at premium

Bank A/c Dr. 100

Loss on Issue of Debentures A/c Dr. 10

To Debentures A/c 100

To Premium on Redemption of Debenture A/c 10

(Issue of debentures of Rs.100 and redeemable at a premium of Rs.10)

(v) Issue at premium, redeemable at premium

Bank A/c Dr. 110

Loss on Issue of Debentures A/c Dr. 10

To Debentures A/c 100

To Securities Premium Reserve A/c 10

To Premium on Redemption of Debenture A/c 10

(Issue of debentures of Rs.110 a redeemable at a premium of Rs.10)

(vi) Issued at discount and redeemable at premium

Bank A/c Dr. 90

Discount on Issue of Debentures A/c Dr. 10

Loss on Issue of Debentures A/c Dr. 10

To Debentures A/c 100

To Premium on Redemption of Debenture
A/c 10

(issue of debentures of Rs.100 at a discount of Rs.10 redeemable at a premium of Rs.10)

Interest on Debentures

‘Debenture’ is always prefixed by a certain percentage say 9% Debentures or 12% Debentures.

Have you ever thought what meaning does this prefix carry. It is the rate of interest per annum that will be paid to the debenture holders.

Companies generally pay interest on its debentures after every six months.

1. When interest is due

Debenture Interest A/c Dr.

To Tax deducted at source A/c

To Debenture holders A/c

(Amount of interest due on debenture and tax deducted at source)

2. For payment of interest to debenture holders

Debenture holders A/c Dr.

To Bank A/c

(Amount of interest paid to debenture holders)

3. On transfer debenture Interest Account to profit and loss account

Profit and Loss A/c Dr.

To Debenture Interest A/c

(Debenture interest transferred to P & L A/c)

4. On payment of tax deducted at source to Government

Tax deducted at source A/c Dr.

To Bank A/c

(Payment of tax deducted at source on interest on debentures)

Thank you

