ACCOUNTING FOR ISSUE OF DEBENTURES

Debentures Issued at par and redeemable at par

(i) For receipt of debenture application money:

Bank A/c Dr.
To X % Debenture Application A/c

(ii) For transfer of Application money to debentures a/c :

X % Debenture Application A/c Dr.
To X % Debenture A/c

(iii) For debenture allotment money due :

X % Debenture Allotment A/c Dr.
To X % Debenture A/c

(iv) For receipt of allotment money:

Bank A/c Dr.
To X % Debenture Allotment A/c

(v) For debenture call money due:

X % Debenture ...... call A/c Dr.
To X % Debentures A/c

Debentures Issued at premium and Redeemable at par

(a) When premium amount due with application money

(i) For debenture application money received including premium :

Bank A/c Dr.
To X % Debenture Application A/c

(ii) For debenture application money adjusted :

X % Debenture Application A/c Dr.
To X % Debentures A/c
To Securities Premium A/c

(b) When premium amount due with allotment/call money

(i) For debenture allotment/call money due including premium :

X % Debenture Allotment/call A/c Dr.
To X % Debentures A/c
To Securities Premium A/c

(ii) For receipt of debenture allotment/call money:
    Bank A/c  \(\text{Dr.}\)
    To X \% Debenture Allotment/call A/c

**Debentures Issued at par and redeemable at premium**

(i) For debenture allotment money due excluding debenture redemption premium:
    X \% Debenture Allotment A/c  \(\text{Dr.}\)
    Loss on Issue of Debentures A/c  \(\text{Dr.}\)
    To X \% Debentures A/c
    To Premium on Redemption of Debentures A/c

(ii) For receipt of debenture allotment money:
    Bank A/c  \(\text{Dr.}\)
    To X \% Debenture Allotment A/c

**When debentures are issued at premium and redeemable at premium**

When premium is received along with allotment money

(i) For debenture allotment money due:
    X \% Debenture Allotment A/c  \(\text{Dr.}\)
    Loss on Issue of Debentures A/c  \(\text{Dr.}\)
    To X \% Debentures A/c
    To Securities Premium A/c
    To Premium on Redemption of Debentures A/c

(ii) For debenture allotment money received:
    Bank A/c  \(\text{Dr.}\)
    To X \% Debenture Allotment A/c

**NOTES:** If securities premium is received with application money then securities premium will not be credited in allotment money due.

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

(a) For Purchase Of Assets:
    Assets A/c  \(\text{Dr.}\)
    To Vendor’s A/c

(b) Debentures can be issued to vendor under one of the following conditions:

(i) At Par:
    Vendor’s A/c  \(\text{Dr.}\)
    To X \% Debentures A/c  (No. of debentures issued x par value)

(ii) At Premium:
    Vendor’s A/c  \(\text{Dr.}\)
    To X \% Debentures A/c  (No. of debentures issued x par value)
    To Securities Premium A/c  (No. of debentures issued x premium value)

(iii) Calculation:
    No. of debentures issued = Amount Due to vendor / Issue Price Of Debenture
Calculation of Goodwill or Capital Reserve

(i) When purchase consideration and value of liabilities taken over exceed the value of assets taken over. Such excess is considered as value of goodwill. Entry will be:

<table>
<thead>
<tr>
<th>Sundry Assets A/c</th>
<th>Dr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill A/c (Balancing Figure)</td>
<td>Dr.</td>
</tr>
<tr>
<td>To Sundry Liabilities A/c</td>
<td></td>
</tr>
<tr>
<td>To Vendor’s A/c</td>
<td></td>
</tr>
</tbody>
</table>

(ii) When purchase consideration and value of liabilities taken over is less than the value of assets taken over, such difference is considered as capital profit and it is transferred to capital reserve entry will be:

<table>
<thead>
<tr>
<th>Sundry Assets A/c</th>
<th>Dr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Sundry Liabilities A/c</td>
<td></td>
</tr>
<tr>
<td>To Vendor’s A/c</td>
<td></td>
</tr>
<tr>
<td>To Capital Reserve A/c (Balancing Figure)</td>
<td></td>
</tr>
</tbody>
</table>

(iii) When purchase consideration and value of liabilities taken over is equal to the value of assets taken over. In such a case neither goodwill not capital reserve is taken into account. Entry will be:

<table>
<thead>
<tr>
<th>Sundry Assets A/c</th>
<th>Dr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Sundry Liabilities A/c</td>
<td></td>
</tr>
<tr>
<td>To Vendor’s A/c</td>
<td></td>
</tr>
</tbody>
</table>

Issue of Debentures as Collateral Security

First method: For pledging the debentures as collateral security, since no immediate liability is created by the company, therefore no journal entry is recorded. In such a situation, entry is passed only for taking a loan. If the loan is taken from a bank, the journal entry will be as follows:

<table>
<thead>
<tr>
<th>Bank A/c</th>
<th>Dr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Bank Loan A/c</td>
<td></td>
</tr>
</tbody>
</table>

On the liabilities side of balance sheet, only a note is being appended below the Loan Account that the loan is secured by the issue of debentures as collateral security.

Second method: Under this method it is necessary to record the issue of debentures as collateral security with the entry for taking a loan. In such a case, journal entries will be passed:

(a) On taking a loan:

<table>
<thead>
<tr>
<th>Bank A/c</th>
<th>Dr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Bank Loan A/c</td>
<td></td>
</tr>
</tbody>
</table>

(b) On issuing the debentures as collateral security:

<table>
<thead>
<tr>
<th>Debenture Suspense A/c</th>
<th>Dr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To X % Debentures A/c</td>
<td></td>
</tr>
</tbody>
</table>

Debenture Suspense Account is shown on the assets side of balance sheet while the Debentures Account is shown on the liabilities side of balance sheet. Alternatively, Debenture Suspense Account may be shown as deduction out of Debenture Account on the liabilities side of balance sheet.
ACCOUNTING FOR REDEMPTION OF DEBENTURES

Journal Entries on Redemption of Debentures:

(i) For the amount of debentures due:
   (a) When the debentures Issued are redeemed at Par:
       X% Debentures A/c Dr.
       To Debenture holder A/c
   (b) When the debentures Issued are redeemed at Premium:
       X% Debentures A/c Dr.
       Debenture Redemption Premium Dr.
       To Debenture holder A/c

(ii) For payment made to debenture holders:
     Debenture holders A/c Dr.
     To Bank A/c

Notes:

(i) Debenture Redemption Premium Account is debited because it is a loss to the company which is written off through Securities Premium/Profit and Loss A/c. Following entry is passed to write off such loss:
     Securities Premium/Profit and Loss A/c Dr.
     To Premium on Redemption of Debentures

(ii) Generally, debentures cannot be redeemed at discount but if the debentures to be redeemed are purchased from the market at less than face value, the company will get profit. Such profit is a capital profit of the company and therefore it is transferred to Capital Reserve. Following entry is passed for this:
     Profit/Gain on Redemption of Debentures A/c Dr.
     To Capital Reserve A/c

(iii) Every debenture is taken as non-convertible except convertible debentures.

Redemption out of profit:

(i) On transfer of profits:
     Profit & Loss Appropriation A/c Dr.
     To Debenture Redemption Reserve A/c

(ii) On redemption of debentures:
     (a) For the amount of debentures due
         X% Debentures A/c Dr.
         To Debenture holder A/c
     (b) For payment made to debenture holders
         Debenture holder A/c Dr.
         To Bank A/c

(iii) When all the debentures are redeemed, the balance of debenture redemption reserve is transferred to general reserve.
     Debenture Redemption Reserve A/c Dr.
Redemption of debentures by conversion in shares or new debentures

(i) For amount due to debenture holder:
   (a) Redemption at par:
       X % Debentures A/c Dr.
       To Debenture holder A/c
   (b) Redemption at premium:
       X% Debentures A/c Dr.
       Debenture Redemption premium A/c Dr.
       To Debenture holder A/c

(ii) For discharging obligation by issuing shares or debentures:
    Debenture holder A/c Dr.
    To Equity Share Capital A/c Or
    To X% Debenture A/c (new)

Redemption of Debentures by Purchase of Debentures in the open market:

(I) For purchase of own debentures for immediate cancellation:
    Own Debenture A/c Dr. [with purchase price (cost of own debentures)]
    To Bank A/c

(II) For cancellation of own debentures:
    (i) For cancellation of own debentures at face value of debenture:
        X % Debentures A/c Dr. (with nominal value of debenture)
        To Own Debentures A/c (with purchase price)
    (ii) For cancellation of own debentures at a price below face value of debenture:
        X % Debentures A/c Dr. (With nominal value of debenture)
        To Own Debentures A/c (with purchase price)
        To Gain on Cancellation of Debenture A/c (with excess of face value of debenture over purchase price)
    (iii) For cancellation of own debentures at a price more than the face value of debenture:
        X % Debentures A/c Dr. (with nominal value)
        Loss on Redemption of Debentures A/c Dr. (excess of purchase price over face value)
        To Own Debentures A/c (purchase price)

(III) For sale of own debentures:
    (i) When investment is sold at a price equal to its purchase price:
        Bank A/c Dr. (with purchase price)
        To Investment in Own Debentures A/c
    (ii) When investment is sold at a price below its purchase price:
(a) For sale of investment at:
Bank A/c Dr. (sale price of own debenture)
Loss on Sale of Investment A/c Dr. (excess of purchase price over sale price)
To Investment in Own Debentures A/c (purchase price of own debentures)

(b) For transfer of loss transferred to Profit & Loss A/c:
Profit & Loss A/c Dr.
To Loss on Sale of Investment A/c

(iii) When investment is sold at a price higher than its purchase price:

(a) For sale of investment at profit:
Bank A/c Dr. (sale price of own debenture)
To Investment in Own Debentures A/c (purchase price of own debentures)
To Profit on Sale of Investment A/c (excess of sale price over purchase price)

(b) For transfer of profit transferred to Profit & Loss A/c:
Profit on Sale of Investment A/c Dr.
To Profit & Loss A/c

Note: Profit or loss on sale of own debentures is transferred to profit & Loss A/c.

Important notes for the creation of Debenture Redemption Reserve A/c

(i) For debentures issued by all India Financial Institutions Regulated by RBI and Banking Companies and for Infrastructure companies and debentures with a maturity period of 18 months – No Debenture Redemption Reserve A/c is required
For other companies - Debenture Redemption Reserve A/c should be equal to 50% of the value of debentures.

(ii) The Debenture Redemption Reserve A/c is shown on the liabilities side of the Balance Sheet under the head ‘Reserves & Surplus’. On the completion of redemption of all the debentures, this account is closed by transferring it to General Reserve.