Debenture

- written acknowledgement of debt by a Co. under its common seal.
- Debenture – either creates a debt or acknowledges it. Creates a charge on the Co's assets.

Debenture Certificate – issued by the Co. ~~or~~ contains the terms of repayment of principal & interest thereon.

Charge

- interest or right which a lender/creditor obtains in the property of the Co. by way of security that the Co. will pay back the debt.

Fixed Charge

Floating Charge

Fixed charge is against a specific clearly identifiable & defined property.

Floating charge - not attached to any specific asset but covers the assets of a circulating & fluctuating nature such as stock-in-trade, Sundry Debtors.

Disclosure in B/S

→ Non-current liabilities → Long-Term Borrowings (Since payable after 12 months)

Debentures → Debentureholders are creditors of the Co

have no voting right

Borrowed Capital

Pre-Determined fixed ROI

Par, Premium, Discount.

may be secured/unsecured.

Debentureholders

⇓

Long Term indebtedness.

★ No restriction on Debentures to be issued at discount.

Shares	Debentures
Assets can't be mortgaged in favor of S/h So shares are not Secured.	Assets can be
	Can't claim over & above fixed ROI.

Types of Debentures

Security

Secured/Mortgage Deb. – Secured against assets of the Co. (In closure of bus., assets will be sold & DH will realise their money).

Unsecured Deb/Naked Deb – no security against the assets of the Co.

Redemption

usually

- Redeemable Deb – Repayable at the end of specified period
- Irredeemable – payable only at the time of winding up.

Record

- Registered Deb - repayable to the persons whose names are shown in Register of Debenture holders.

Bearer Deb - Interest payable to Person who produces interest coupons attached to Deb.

Priority

First Deb - paid in priority to other Debs.

2nd Deb - paid after 1st Deb. have been paid.

Convertibility

called convertible Deb. - Fully Convertible - into shares of Co. acco to terms of issue.

Partly - has convertible + non-convertible portions

convertible → to shares acc to terms of issue

non-convertible → paid at the expiry of certain period.

★ Debentures can't be forfeited.

Non-Convertible — can't be —

A/cing Entries — Replace Debentures with shares & prefix rate of interest.

Issue of Deb.

- **For Cash**
- For Cons. Other than cash
- As Collateral Security

★ Payment of Divi. - is not a compulsion whereas interest must be paid to Debentureholders at any cost, Pass entry for interest O/s if any & transfer it to P&L A/c at end.

Issue of Debentures Considering the Terms of Redemption

Debentures can be redeemed either

- At par
- Premium
- Discount is not possible as a prudent investor will not accept anything less than his investment

Depending upon terms & conditions of issue & R of Deb, 6 situations are commonly found:-

	Issue	Redeemable
1	Par	Par
2	Discount	Par
3	Premium	Par
4	Par	Prem.
5	Discount	Prem.
6	Premium	Prem.
7	Discount at 10% say	At Dis say 5%

In cases 4th, 6th & 6th - Diff. b/w

FV & RV of Deb. is considered as loss.
Recording of loss at the time of issue is based on the 'Principle of Prudence' - Anticipate, record & provide for losses which may take place in future.

☆ In first 3 cases - only simple entries for issue of Deb. coz deb. are going to be Redeemed at par in all the cases & no loss on issue of Deb. is taking place.

4th Case Par, R at Premium

Deb. App & Allotment A/c - Dr.
Loss on Issue of Deb. A/c - Dr.
  To x% Deb A/c
  To Premium on R of Deb. A/c

☆ Loss on Issue of Deb. A/c - Nominal A/c - Cap. loss = written off asap
Prem. on R of D - Personal A/c

5th Case D, R at P.

Deb. App. & Allotment A/c - Dr.
Discount on Issue of Deb. A/c - Dr.
Loss on Issue of Deb. A/c - Dr.
  To x% Deb. A/c
  To Prem. on R of D A/c

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In 5th case many authors have combined dis. & Premium on R. So entry becomes,

Deb App & Allotment A/c - Dr.
Loss on Issue of Deb. A/c - Dr.
To x% Deb A/c
To Premium on R of Deb A/c

Discount on Issue + Premium on R.

6th ~~Deb.~~ P., R at P

Deb App & Allotment A/c - Dr.
Loss on Issue of Deb A/c - Dr. - (P on R)
To x% Deb A/c
To SP A/c (P on Issue)
To Premium on R of D A/c (P on R)

7th D ~~@~~ of 10%, R at D - 5%
90, ~~90~~ 95

Deb App & Allotment A/c - Dr. 90
Discount on Issue of Deb A/c - Dr. 10
To x% Deb A/c 100

In 7th case [only simple entry is passed coz recognising this profit will be against principle of Prudence will be recognised at R.]

Disclosure in B/s

(1) Prem. on R of D A/c – Personal A/c
Represents a liab. of the Co. –

Non-Current liab. – Long Term Borrowings

(2) Loss on Issue of Deb. – Capital loss
⇓
To be written off gradually against P&L A/c or SP A/c during the lifetime of D. before R of Deb.

| Unwritten Off Amt. | – Non-Current Asset

→ Other Non-Current Asset.
Just like Discount on Issue of Deb. A/c

(3) When Deb. issued at D, R at P,

| Loss = Discount on Issue of Deb + Prem. payable on R of Deb. |

Q Pass Journal entries for issue of 8% Deb.

Case	Face Value	Issue Price	Redeemable Price	Loss
1	10	10	10	–
2	10	9	10	–
3	10	12	10	–
4	10	10	12	2
5	10	9	12	1+2=3
6	10	12	15	5

Always compare face value with Redeemable price for cal of loss on Issue of Deb.

Case 5 Loss = Discount + Premium Payable on R.

Case I Bank 10
To Deb App & Allotment 10

Deb App & Allotment 10
To 8% Deb A/c 10

2 Bank 9
To Deb App & Allotment 9

Deb App 9
~~to~~ Discount on Issue of Deb A/c - Dr. 1
To 8% Deb 10

3 Bank 12
To Deb App & Allotment 12

Deb App. 12 - Dr.
To 8% Deb 10
To SP A/c 2

4 Bank 10
To Deb App & Allotment 10

Deb App A/c - Dr. 10
~~to~~ Loss on Issue of Deb A/c - Dr. 2
To 8% Deb 10
To Prem. on R 2

5 Bank 9
To Deb App & Allotment A/c 9

Deb App & Allotment A/c - Dr. 9
[Discount on Issue of Deb A/c - Dr. 1 / ✗
Loss on Issue of Deb A/c - Dr. 2 / 3

To 8% Deb A/c 10
To Premo on R A/c 2

6th Case Bank 12
To Deb App & All 12

Deb App & Allotment A/c - Dr 12
loss on Issue of D A/c - Dr 5
To 8% Deb A/c 10
To Seco P 2
To R of Deb A/c 5

Do Ill. (11) Pg - 6.22
Ill. (7) Pg - 5.16 - ~~Bok Goyal~~

Ill. 12 B.K. - Debenture Interest

→ carry a specific ROI payable on specified date & repayment of principal at stipulated time.

→ Interest is a charge against the P & it is payable as and when interest is due whether there is a P/Loss.

→ Interest paid & calculated on a nominal value.

- Generally interest payable after expiry of a period of 6 months.

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TDS

Co. have to deduct TDS on Gross Interest on Due or paid basis w.ever falls earlier.

☆ Until the Co. deposits amt. of TDS with govt. authorities it is shown under Sub-heading Other Current liabilities.

When Deb. Int. is Due

(1) Deb. Int. A/c — Dr. (Gross Amt.)
To TDS A/c (Amt of tax)
To DH A/c (Net amt payable)

DH — Debenture holders

(2) When net Amt. Due is paid to DH

Debentureholders A/c — Dr.
To Bank A/c

(3) For Deposit of TDS amt. calculated at a prescribed rate with govt. authorities within the prescribed time limit

TDS A/c — Dr.
To Bank A/c

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(4) At the end of the year, Bal in Deb Interest A/c being expense transferred to P&L A/c

P&L A/c - Dr.
To Deb Interest A/c

Treatment of Discount / loss on Issue of Deb.

→ Discount on Issue of Deb - Capital loss.

→ Section 52 of Co's Act 2013, SP A/c. can be used to write off Dis. on Issue of Deb. -

SP A/c - Dr.
To Discount on Issue of Debentures A/c

→ Discount can be written off against P&L A/c over the period of life of Redeemable Deb. on equitable basis.

P&L A/c - Dr.
To Dis on Issue of Deb A/c.

☆ In case of Red-Deb - The total amt. of discount on issue of deb. be written off in the ratio of benefit derived from Deb loan i.e. In the ratio of O/s Bal of NV of Deb.

$\boxed{\text{2 Methods}}$ to write off

Fixed Instalment
⇓
Dis - written off equally every year during lifetime of Deb.

Fluctuating Inst.
⇓
Writing off proportionate amt. each year.

one & the same method

Q — Bk Goyal Ill. 8 Pg - 5.19

12% Deb. FV - 10L Dis - 6% redeemable after 4 yrs. Write off Dis. based on O/s Deb O/s each year. ⊕

Acc. Year - 1st April to 31st March

Soln Here we ~~w~~ are reqd. to calculate amt. of Dis. to be written off each yr & Prepare Dis. on Issue of Deb A/c.

Solⁿ :- Total Discount on Deb = 60,000
(6% of 10L)

Year	Deb o/s	Ratio
1	10L	1
2	10L	1
3	10L	1
4	10L	1

1:1:1:1

Implies that $\frac{1}{4}$th of amt. of Dis to be written off - 15000 to be written off every year.

Dis on Issue of Deb A/c

Date	Particulars	J.F.	₹	Date	Particulars	J.F.	₹
1-4-12	To 12% Deb A/c		60,000	31-3-13	By P&L A/c		15000
					By Bal c/d		45000
			60,000				60000
1-4-13	To Bal b/d		45000	31-3-13	By P&L A/c		15000
					By Bal c/d		30000
			45000				45000
1-4-14	To Bal b/d		30000	31-3-14	By P&L A/c		15000
					By Bal c/d		15000
1-4-15	To Bal b/d		15000	31-3-16	By P&L A/c		15000

8 Deb App - Dr
Discount A/c - Dr
To 12% Deb.

Unwritten off Amount of Discount = Other Current Assets/Other Non-Current Assets.

Q 12% Deb FV 10L Dis - 6% on 1-4-12

(b) These Deb are redeemable by annual drawings of 2L made on 31st March each year. Write off Dis based on Deb. O/s each year.
A/cs - closed on 31st March every year.

Statement Showing Deb. Discount to be written off

Year	Deb O/s	Ratio	Amt. of Discount to be written off
1st	10L	5	60,000 × 5/15 = 20,000
2nd	8L	4	60,000 × 4/15 = 16000
3rd	6L	3	60,000 × 3/15 = 12000
4th	4L	2	60,000 × 2/15 = 8000
5th	2L	1	60,000 × 1/15 = 4000
		15	

Discount on Issue of Deb. A/c

Date	Particulars	Amount	Date	Particulars	Amount
1-4-12	To 12% Deb A/c	60,000	31-3-13	By P&L A/c	20,000
				By Bal c/d	40,000
		60,000			60,000
1-4-13	To Bal b/d	40,000	31-3-14	By P&L A/c	16000
				By Bal c/d	24000
		40,000			40,000
1-4-14	To Bal b/d	24000	31-3-15	By P&L	12000
				By Bal c/d	12000
		24000			24000

classmate

Date ________

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1-4-15	To Bal b/d	12000	31-3-16	By P&L A/c	8000
				By Bal c/d	4000
		12000			12000
1-4-16	To Bal b/d	4000	31-3-17	By P&L A/c	4000

Annual Drawings -

... Deb are redeemed

Irredeemable Deb → payable only at winding up.

Meaning of R of Deb.

⇓

1. Repayment of the loan due on debentures to the DH.
2. Terms & conditions of R are generally given in Prospectus.
3. But irredeemable Deb are perpetual - redeemable on the happening of contingency only.

METHODS OF R
(At par/premium)

- In one lump-sum ⇓ Ex- Expiry Date/ Maturity date/ Par 31st March 2013
- By Means of Annual Instalments or By Draw of lots.
- By conversion into shares ↓ ES/PS in Practice ES convert
- By Purchase of its own Deb in the open market (for immediate cancellation or investment) → When MV < Par value

1. Repayment made in one lump sum at the expiry of a specified period.

2. Certain amt. of Deb redeemed at regular intervals during lifetime of D. Amt. of annual drawings may/may not be equal.

(3) Convertible/exchange D for ES/PS.

(4) Purchasing own D thru Stock exchange- leads to immediate cancellation → Automatic R. Can be purchased for investment purposes also.

Own Deb.

SOURCES OF R

(Money reqd. for R)

(1) Out of capital
(2) Out of Profits
(3) thru conversion

OUT OF CAPITAL

→ When no amt. is set aside out of Ps for R of Deb.

→ ~~As per Rule 18(7) of Co's Rules 2014,~~ Rule ~~8~~18 (7) of Co's Rules 2014, (sec Debentures)

⇒ Only All India financial Institutions regulated by RBI & Banking Co's can redeem out of K. as these are exempted from creation of DRR A/C.

Imp

Public + Privately Placed Deb
DRR % - NIL

Journal Entries

(1) Making amt. Due on R

Deb A/c - Dr. (Paid-up value of Deb)
Premium on R of D A/c - Dr.
(With premium, if any, on R of Deb)
To Debentureholders' A/c (Total amt. payable)

(2) On Payment

DH A/c - Dr. (Actual Amt. paid)
To Bank A/c

☆ If Deb R at Discount
Rare possibility

- Due entry Deb A/c - Dr.
To DH A/c
To Cap Reserve A/c
Amt. of Discount

Payment entry DH
To Bank A/c