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शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce Sub. ACT Date 02.01.2021

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Issue and Redemption of Debentures (H.W)

Question 4:

How is 'Discount on Issue of Debentures' treated in the books of accounts? How will you deal with the 'discount in issue of debentures' when the debentures are to be redeemed in instalments?

ANSWER:

When the debentures are issued at a price below its par value or face value, then it is said that the debentures are issued at discount. The difference between the issue price and the face value of the debenture is regarded as a capital loss. As per the Revised Schedule VI of the Companies Act, Discount on Issue of Debentures is shown in the Notes to Accounts:

1. With the amount that is to be written off **within 12 months** from the date of Balance Sheet - Shown under **Other Current Assets**
2. With the amount that is to be written off **after 12 months** from the date of Balance Sheet - Shown under **Other Non-Current Assets**

Accounting Treatment

For example, if a company has issued 10% debentures of Rs 6,00,000 at 5% discount redeemable annually by Rs 2,00,000 each year. The total amount of discount on Rs 6,00,000 debentures @ 5% is Rs 30,000, i.e. $(6,00,000 \times 5/100 = \text{Rs } 30,000)$. The accounting treatment for discount on issue of debentures (if it is to be written-off in 5 years) is:

Year 1: Amount to be written-off each year = $30,000 \div 5 = 6,000$ - Shown in **Statement of Profit and Loss**

Amount to be written-off in the next year = 6,000 - Shown as **Other Current Asset** under **Current Assets**

Remaining Amount to be written-off after next year
= $30,000 - 6,000 - 6,000 = 18,000$ - Shown as **Other Non-Current Asset** under **Non-Current Assets**

Statement of Profit and Loss
for year ended...

S. No.	Particulars	Note No.	Amount
I	Revenue from Operations		
II	Other Income		
III	Total Revenue (I + II)		
IV	Expenses:		
	Amortisation Expenses (Discount on issue of debentures written-off)		6,000

Extract of Balance Sheet

as on March 31, 2013

Particulars	Note No.	Amount (Rs)
II. Assets		
1. Non-Current Assets		
(e) Other Non-Current Assets	1	18,000
2. Current Assets		
(f) Other Current Assets	2	6,000

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	Other Non-Current Assets	
	Discount of Issue of Debentures	18,000
2	Other Current Assets	
	Discount of Issue of Debentures	6,000

Year 2

Amount to be written-off = $30,000 \times 15 = 6,000$ - Shown in **Statement of Profit and Loss**

Amount to be written-off in the next year = 6,000 - Shown as *Other Current Asset* under **Current Assets**

Remaining Amount to be written-off after next year
= $18,000 - 6,000 = 12,000$ - Shown as *Other Non-Current Asset* under **Non-Current Assets**

At the end of Year 5, the amount of discount on issue of debentures will be completely written off.

Question 5:

Explain the different terms for the issue of debentures with reference to their redemption.

ANSWER:

The different terms for the issue of debentures with reference to their redemption can be the combinations of at par, at premium and at discount. Normally, the debentures are not redeemable at discount. The permutation and the combination of the various terms of issue and redemption of debentures give rise to following six situations:

1. Issue at Par, Redeemable at Par.
2. Issue at Premium, Redeemable at Par.
3. Issue at Discount, Redeemable at Par.
4. Issue at Par, Redeemable at Premium.
5. Issue at Premium, Redeemable at Premium.
6. Issue at Discount Redeemable at Premium.

1. Issue at Par and Redeemable at Par- When the debentures are issued and are redeemed at their face value, then the following Journal entry is passed.

Bank A/c	Dr. (with the amount received)
To Debenture Application A/c	(with the face value)
(Debenture Application money received)	

4. Issue at Par and Redeemable at Premium- When debentures are issued at par and redeemable at premium, then the following Journal entry is passed. In such case, the company did not suffer any loss at the time of issue but there will be loss at the time of redemption.

Bank A/c	Dr.
To Debenture Application A/c	
(Debenture Application money received)	
Debenture Application A/c	Dr.
Loss on Issue of Debenture A/c	Dr. (with the amount of premium on redemption)
To Debenture A/c	(with the face value of the debentures)
To Premium on Redemption of Debenture A/c	(with the amount of premium on redemption)
(Debentures issued at par and redeemable at premium)	

5. Issued at Premium and Redemption at Premium- When the debentures are issued and redeemable at premium, then the following Journal entry is passed.

Bank A/c	Dr.
To Debenture Application A/c	
(Debenture Application money received)	
Debenture Application A/c	Dr.
Loss on Issue of Debenture A/c	Dr. (with the amount of premium on redemption)
To Debenture A/c	(with the face value of the debentures)
To Securities Premium A/c	(with the amount of premium on issue)
To Premium on Redemption of Debenture A/c	(with the amount of premium on redemption)
(Debentures issued at premium and redeemable at premium)	

6. Issue of Discount and Redemption at Premium- When the debentures are issued at discount and redeemable at premium, then the following Journal entry is passed.

Bank A/c

Dr.

To Debenture Application A/c

(Debenture Application money received)

Debenture Application A/c

Dr.

Loss on Issue of Debenture A/c

Dr. (with the amount of discount on issue *plus* amount of premium on redemption)

To Debenture A/c

(with the face value of the debentures)

To Premium on Redemption of Debenture A/c (with the amount of premium on redemption)

(Debentures issued at discount and redeemable at premium)