

# VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce Sub. ACT Date 26.12.2020

Teacher name – Ajay Kumar Sharma

## Issue and Redemption of Debentures (H.W)

*Question 1:*

What is meant by a Debenture?

**ANSWER:**

The word Debenture is derived from a Latin word 'debere' which means to borrow. A debenture is issued in the form of a certificate under the seal of a company and containing a contract for the repayment of the principal sum after a fixed period of time and payment of interest at regular intervals, generally half yearly. Debentures are issued by a company for acquiring long-term borrowings.

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*Question 2:*

What does a Bearer Debenture mean?

**ANSWER:**

When a company does not maintain any record of the debenture holders and the debenture is transferable mere by delivery, then the type of the debenture held by the holders is termed as Bearer Debenture. Interests on such debentures are paid to the persons who produce the interest coupons that are attached with these debentures in a specified bank.

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*Question 3:*

State the meaning of 'Debentures issued as a Collateral Security'.

**ANSWER:**

The term collateral security means additional or secondary security in addition to the primary security. Sometimes, when a company takes loan from a financial institution, then besides the primary security, the company may issue debenture for additional security (as collateral security). The lender who receives debenture as collateral security is not entitled for interest on these debentures. If any default is made by the company in

paying back the principal amount (i.e. the loan amount) or interest on the loan, then the lender has the full right to recover his/her dues from the sale of primary security. But, if the primary security is not sufficient to recover the amount of the debt, then the debentures issued as collateral may be used for recovery of the remaining amount.

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*Question 4:*

What is meant by 'Issue of debentures for Consideration other than Cash'?

**ANSWER:**

If a company purchases assets from its suppliers or vendors, then instead of paying them in cash the company issues debentures to them. This is known as issue of debenture for consideration other than cash. The issue of debenture for consideration other than cash serves the purpose of both the vendor as well as of the purchaser (company). From the purchaser's point of view, purchasing an asset against the issue of debentures requires no additional cost for raising loans or arranging funds immediately. On the other hand, the vendor gets interest on the amount of debentures received. In this case, payment is deferred by issue of debentures and interest is paid for time lag payment. Debentures may be issued at par, premium or discount to the vendor.

### **Accounting treatment for Issue of Debentures for Consideration other than Cash**

#### **1. For purchase of Assets:**

Assets A/c	Dr.
To Vendor A/c	
(Asset Purchased)	

#### **2. For Issue of Debentures**

##### **a. If debentures are issued at Par:**

Vendor A/c	Dr.
To Debentures A/c	
(Debenture issued to Vendor at par )	

**b. If debentures are issued at Premium**

Vendor A/c Dr.

To Debentures A/c

To Securities Premium A/c

(Debenture issued to Vendor at premium)

**c) If debentures are issued at Discount**

Vendor A/c Dr.

Discount on Issue of Debentures Dr.

To Debentures A/c

(Debenture issued to Vendor at discount )

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*Question 5:*

What is meant by 'Issue of debenture at discount and redeemable at premium?'

**ANSWER:**

When debentures are issued below its par value (or the face value) but are redeemed at price higher than its par value, then it is termed as issue of debenture at discount and redeemable at premium. The difference between the issue price and the redemption price is treated as loss on issue of debenture.

**Example:**

A 10% debenture of Rs 1,000 is issued at 5% discount and is redeemed at 10% premium.

Bank A/c Dr. 950

Discount on Issue of Debenture A/c Dr. 50

Loss on Issue of Debenture A/c	Dr. 100	
To Debenture A/c		1,000
To Debenture Redemption Premium A/c		100

(Debenture issued)

Total loss = Payment made at redemption – Amount received on issue of debenture

1,100 – 950 = Rs 150

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