

DEBENTURES

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CONCEPT

- Derived from Latin word '*debere*' meaning '*to borrow*'
- Written instrument acknowledging a debt and containing the provision for the repayment of the principal and the interest at a fixed date and fixed rate
- Includes
 - Debenture stock
 - Bonds
 - Other debt instruments – with charge on assets or not
 - Example Public Deposit

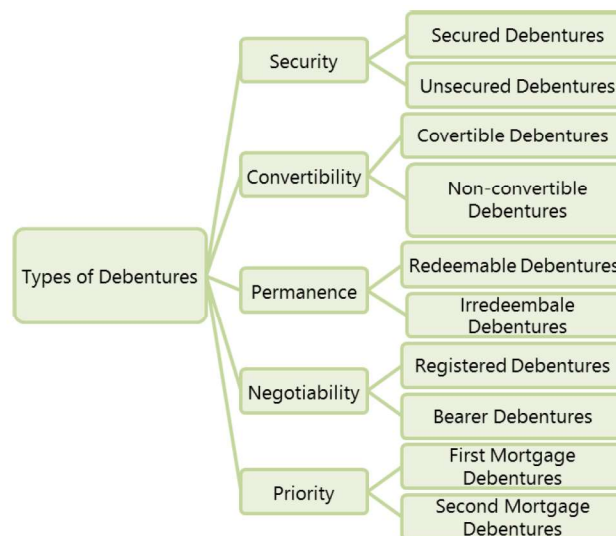
Nature

- Acknowledgement of debt
- May or may not with common seal
- Fixed rate of interest
- Fixed date of repayment
- May or may not be secured

CONCEPT

- Section 71 (2) further provides that no company can issue any debentures which carry any voting rights.
 - **Basic provisions**
 - If a charge has been created on any asset or the entire assets of the company,
 - the nature of the charge
 - the asset(s) charged
- are described therein.
- Since the charge is not valid unless registered with the Registrar, his certificate registering the charge is printed on the bond.
 - It is also customary to create a trusteeship in favour of one or more persons in the case of mortgage debentures. The trustees of debenture holders have all powers of a mortgage of a property and can act in whatever manner they think necessary to safeguard the interest of debenture holders.
 - As per Rule 18(2) of the Companies (Share Capital and Debentures) Rules, 2014, the company shall appoint debenture trustees as required under sub-section (5) of section 71 of the Companies Act 2013, after complying with certain conditions mentioned in that rule.

TYPES OF DEBENTURES



5 ACCOUNTING

5/4/2020

ACCOUNTING - DEBENTURES

Six Possible Cases

Issue	Redemption
Par	Par
Premium	Par
Discount	Par
Par	Premium
Premium	Premium
Discount	Premium

ACCOUNTING

Bank A/c Dr
To Debenture Application & Allotment A/c

Case 1: Issued At Par and Redeemed At Par

Debenture Application & Allotment A/c Dr
To Debentures A/c

Case 2: Issued At Premium and Redeemed At Par

Debenture Application & Allotment A/c Dr
To Debentures A/c
To Securities Premium

Case 3: Issued At Discount and Redeemed At Par

Debenture Application & Allotment A/c Dr
Discount on Issue of Debentures A/c Dr
To Debentures A/c

Case 4: Issued At Par and Redeemed At Premium

Debenture Application & Allotment A/c Dr
Loss on Issue of Debentures A/c Dr
To Debentures A/c
To Premium on Redemption of Debentures

Case 5: Issued At Premium and Redeemed At Premium

Debenture Application & Allotment A/c Dr
Loss on Issue of Debentures A/c Dr
To Debentures A/c
To Premium on Redemption of Debentures
To Securities Premium

Case 6: Issued At Discount and Redeemed At Premium

Debenture Application & Allotment A/c Dr
Loss on Issue of Debentures A/c Dr
Discount on Issue of Debentures A/c Dr
To Debentures A/c
To Premium on Redemption of Debentures

DEBENTURES AS A COLLATERAL SECURITY

No Accounting Entry Method

Only disclosure

Accounting Entry Method

Debenture Suspense A/c Dr
To Debenture A/c

DISCOUNT / LOSS ON ISSUE OF DEBENTURES

- Must be written off completely before the expiry of the life of the concerned debenture
- Ideal time to write off is the life of the debenture based on the Matching principle

Amount to be written off each year:

- If Debentures are to be redeemed in lump sum
 - SLM over the life of the debentures
- If Debentures are redeemed in instalments
 - Ratio in which the effective amount of debenture has been used each year

Accounting entry

Securities Premium	Dr
P & L A/c	Dr
	To Discount on issue of Debentures

INTEREST ON DEBENTURES

- Calculated at the fixed rate on the face value of the debentures
 - Not on the issue price
- TDS is deducted

Accounting Entries

- Making Interest Due

Debenture Interest	Dr
	To Debenture holder
	To TDS from Debenture Interest

- Payment of Interest

Debenture holder	Dr
	To Bank

- Payment of TDS

TDS from Debenture Interest	Dr
	To Bank

- Charging P & L

P & L	Dr
	To Debenture Interest

INTEREST ON DEBENTURES

- In Case Debenture Interest is both accrued and due

Debenture Interest Dr
 To Outstanding Debenture Interest
 To TDS from Debenture Interest

- In Case Debenture Interest is accrued but not due

Debenture Interest Dr
 To Interest accrued but not due on Debentures
 To TDS from Debenture Interest



EXERCISE

On April 2016, X Ltd issued 100 13% Debentures of Rs 100 each at a discount of 10%. The Debentures are redeemable at par.

Prepare Discount on Debentures Account when:

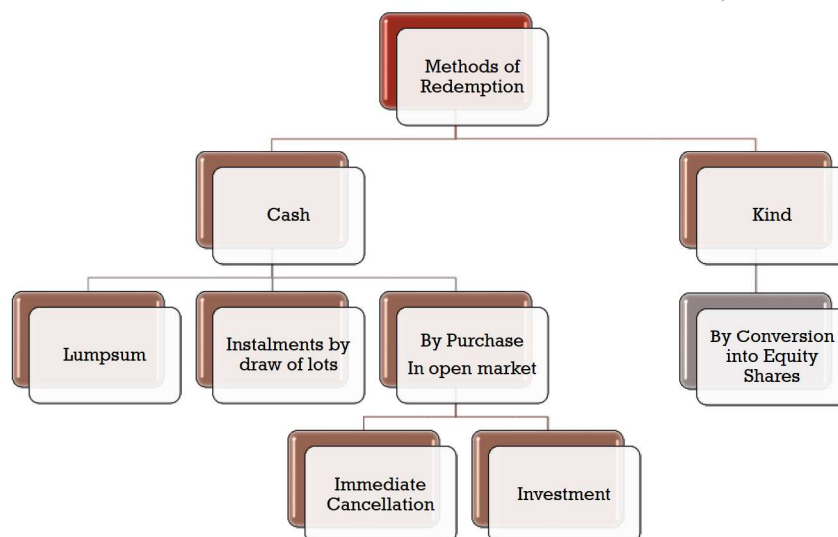
- such debentures are redeemable after 5 years
- Such debentures are redeemable by equal annual drawings in 5 years



REDEMPTION OF DEBENTURES (SEC 71)

- Discharging the liability on account of Debentures
 - By Cash or
 - By issue of shares
- Redeemable debentures may be **redeemed**:
 - after a **fixed number** of years; or
 - any time after a **certain number of years** has elapsed since their issue; or
 - on giving a **specified notice**; or
 - by **annual drawing**.
- Redemption of debentures must be done according to the terms of issue of debentures and any deviation therefrom will be treated as a default by the company.
- Where a company fails to redeem the debentures on the date of maturity or fails to pay the interest on debentures when they fall due,
 - The Tribunal may, on the application of any or all the holders of debentures or debenture trustee and, after hearing the parties concerned, direct, by order, the company to redeem the debentures forthwith by the payment of principal and interest due thereon.
- Profit/gain on redemption of debentures is of capital nature and transferred to Capital Reserve A/c

REDEMPTION OF DEBENTURES (SEC 71)



REDEMPTION OF DEBENTURES

Sources of Redemption of Debentures

Profit

- DRR created out of Profits available for Dividend
- DRR generally 10% of the value of debentures nominal value
- DRR has sole use of redemption of Debentures
- In case of fully convertible Debentures DRR is not required
- In Partly convertible Debentures- DRR only for non convertible portion
- Company should deposit or invest before 30 April each year an amount equal to 15% of the amount of Debentures maturing during the year in prescribed modes
- This amount only to be used for the redemption

Capital

- Where DRR is not created i.e. no amount is set aside out of profits for redemption of debentures
- Few companies exempted and can redeemed 100% out of capital

Profit and Capital both

REDEMPTION OF DEBENTURES

Debenture Redemption Reserve (DRR)

- Created by setting aside a part of the divisible profits every year and investment of the amount in some safe investments (usually fixed income products)
- Resource for Financing and NOT the Source of Redemption
- Section 71 of the Companies Act 2013 covers the requirement of creating a debenture redemption reserve account.
- Purpose
 - To arrange the cash resources required
 - To avoid liquidity crisis at the time of redemption

Debenture Redemption Reserve Investment (or Debenture Redemption Fund).

- Investment of the amount appropriated to DRR
- In the last year or at the time of redemption of debentures, Debenture Redemption Reserve Investments are encashed
- The amount so obtained is used for the redemption of debentures.

ADEQUACY OF DEBENTURE REDEMPTION RESERVE (DRR)

- As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019

S. No	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
1	All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures	No DRR is required
2	Other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013	DRR will be as applicable to NBFCs registered with RBI (as per (3) below)
3	For listed companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above): All listed NBFCs (registered with RBI under section 45-IA of the RBI Act,) and listed HFCs (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures	No DRR is required
a.	Other listed companies for both public as well as privately placed debentures	No DRR is required
b.	Other listed companies for both public as well as privately placed debentures	No DRR is required
4	For unlisted companies (other than AIFIs and Banking Companies as specified in Sr. No. 1 above)	
a.	All unlisted NBFCs (registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures	No DRR is required
b.	Other unlisted companies	DRR shall be 10% of the value of the outstanding debentures issued

INVESTMENT OF DEBENTURE REDEMPTION RESERVE (DRR) AMOUNT

Rule 18 (7) - Companies (Share Capital and Debentures) Amendment Rules, 2019

- The following companies:
 - All listed NBFCs
 - All listed HFCs
 - All other listed companies (other than AIFIs, Banking Companies and Other FIs); and
 - All unlisted companies which are not NBFCs and HFCs
- Shall in respect of debentures issued, **Deposit or Invest**
 - A sum not less than 15% of the amount of its debentures maturing during the year ending on the 31 March of next year
 - On or before 30 April each year
 - In any one or more:
 - Deposits with any scheduled bank, free from charge or lien;
 - Unencumbered securities of the Central or State Government
 - Unencumbered securities mentioned in Section 20 (a) to (d) and (ee) of the Indian Trusts Act, 1882
 - Unencumbered bonds issued by any other company notified under Section 20 (f) of Indian Trusts Act, 1882
- The amount deposited or invested should not be utilised for any purpose other than for the redemption of debentures maturing during the year

ACCOUNTING

Journal Entries

▪ After allotment of debentures

- For setting aside the fixed amount of profit for redemption

Profit and Loss A/c Dr.
 To Debenture Redemption Reserve A/c

- For investing the amount set aside for redemption

Debenture Redemption Reserve Investment A/c Dr.
 To Bank A/c

- For receipt of interest on Debenture Redemption Reserve Investments

Bank A/c Dr.
 To Interest on Debenture Redemption Reserve Investment A/c

- For transfer of interest on Debenture Redemption Reserve Investments (DRRI)

Interest on Debenture Redemption Reserve Investment A/c Dr.
 To Profit and loss A/c

(Interest is received each year through cash/bank account and it is not re-invested)

ACCOUNTING

Journal Entries

▪ At the time of redemption of debentures

- For encashment of Debenture Redemption Reserve Investments

Bank A/c Dr.
 To Debenture Redemption Reserve Investment A/c

- For amount due to debentureholders on redemption

▪ At par

Debentures A/c Dr.
 To Debentureholders A/c

▪ At premium

Debentures A/C Dr.
 Premium on Redemption of debentures Dr.
 To Debentureholders A/c

▪ At discount

Debentures A/C Dr.
 To Debentureholders A/c
 To Gain on redemption of Debentures A/c

- For payment to debentureholders

Debentureholders A/c Dr.
 To Bank A/c

- After redemption of debentures, DRR transferred to General Reserve

DRR A/c Dr.
 To General Reserve

DEBENTURE REDEMPTION FUND

Debenture Redemption Fund/ Sinking Fund for Redemption of Debentures

- As per Division I of Schedule III, a reserve specifically represented by earmarked investments shall be termed as 'fund'. Thus, DRR and DRF are basically the same
- DRF to be maintained for 100% of the amount payable to the debentureholders

Non-cumulative Debenture Redemption Fund

- In harmony with AS 13, interest on Debenture Redemption Fund Investment is credited to P&L A/c
- Annual appropriation = Amount payable at the time of redemption / no. of years.

Cumulative Debenture Redemption Fund

- As against AS 13, interest on Debenture Redemption Fund Investment is credited to **Debenture Redemption Fund A/c** and also invested along with amount of annual appropriation
- Annual appropriation depends on the following:
 - Amount payable at the time of Redemption including premium
 - Time of Redemption of Debentures
 - Expected rate of Interest on investments
- Calculated with the help of Sinking Fund Table

ACCOUNTING

Journal Entries

At the end of First year

- For setting aside the fixed amount of profit for redemption

Profit and Loss A/c Dr.
To Debenture Redemption Fund A/c

- For investing the amount set aside for redemption

Debenture Redemption Fund Investment A/c Dr.
To Bank A/c

At the end of second and subsequent years

- For receipt of interest on Debenture Redemption Fund Investments

Bank A/c Dr.
To Interest on Debenture Redemption Fund Investment A/c

- For transfer of interest on Debenture Redemption Fund Investments (DRRI)

Interest on Debenture Redemption Fund Investment A/c Dr.
To Debenture Redemption Fund A/c

- For setting aside the fixed amount of profit for redemption

Profit and Loss A/c Dr.
To Debenture Redemption Fund A/c

- For investing the amount set aside for redemption along with interest received on Debenture Redemption Fund Investment A/c

Debenture Redemption Fund Investment A/c Dr.
To Bank A/c

ACCOUNTING

- **At the end of last year**

- For receipt of interest on Debenture Redemption Fund Investments

Bank A/c Dr.
To Interest on Debenture Redemption Fund Investment A/c

- For transfer of interest on Debenture Redemption Fund Investments (DRRI)

Interest on Debenture Redemption Fund Investment A/c Dr.
To Debenture Redemption Fund A/c

- For setting aside the fixed amount of profit for redemption

Profit and Loss A/c Dr.
To Debenture Redemption Fund A/c

- For encashment of Debenture Redemption Fund Investments

Bank A/c Dr.
Debenture Redemption Fund A/c Dr (in case of loss)
To Debenture Redemption Fund Investment A/c
To Debenture Redemption Fund A/c (in case of profit)

ACCOUNTING

- For amount due to debentureholders on redemption

- **At par**

Debentures A/c Dr.
To Debentureholders A/c

- **At premium**

Debentures A/c Dr
Premium on Redemption of debentures Dr
To Debentureholders A/c

- **At discount**

Debentures A/c Dr
To Debentureholders A/c
To Gain on redemption of Debentures A/c

- For payment to debentureholders

Debentureholders A/c Dr.
To Bank A/c

- After redemption of debentures, DRR transferred to General Reserve

DRR A/c Dr.
To General Reserve

ILLUSTRATION

- ABC Ltd. issued 15% 40,000 Debentures of Rs 100 each on Jan 1, 2014
- Debentures Redeemable at A premium of 10% after 5 years
- Debenture Redemption Fund is created and money invested in 5% Govt securities at par
- Investments to be made in multiple of Rs100 only
- Rs 1 invested per annum at 5% over 5 years amount to Rs 5.5256.
- Investments realised Rs 35,00,000 on 31st Dec, 2018
- Bank balance on 31st Dec, 2018 was Rs 15,00,000 before receipt of interest and sale of Govt, securities.
- Calculations to be made in the nearest rupee
- Accounts closes every year on Dec, 31.

SOLUTION

Amount to be appropriated = $(40,00,000 + 4,00,000) / 5.5256 = 7,96,294$ (approx)

15% Debentures Account					
Date	Particulars	Rs	Date	Particulars	Rs
Dec 31, 2014	To Balance c/d	40,00,000	Jan 1, 2014	By Bank A/c	40,00,000
Dec 31, 2015	To Balance c/d	40,00,000	Jan 1, 2015	By Balance b/d	40,00,000
Dec 31, 2016	To Balance c/d	40,00,000	Jan 1, 2016	By Balance b/d	40,00,000
Dec 31, 2017	To Balance c/d	40,00,000	Jan 1, 2017	By Balance b/d	40,00,000
Dec 31, 2018	To Debentureholders	40,00,000	Jan 1, 2018	By Balance b/d	40,00,000

Debenture Holders Account					
Date	Particulars	Rs	Date	Particulars	Rs
Dec 31, 2018	To Bank	44,00,000	Dec 31, 2018	By 15% Debentures	40,00,000
			Dec 31, 2018	By Premium on Redemption of Debentures	4,00,000
	TOTAL	44,00,000		TOTAL	44,00,000

SOLUTION

Debenture Redemption Fund Account					
Date	Particulars	Rs	Date	Particulars	Rs
31-Dec-14	To Balance C/d	7,96,294	31-Dec-14	By P&L	7,96,294
31-Dec-15	To Balance C/d	16,32,403	01-Jan-15	By Balance B/d	7,96,294
			31-Dec-15	By Interest on DRF Inv A/c	39,815
	TOTAL	16,32,403	31-Dec-15	By P&L	7,96,294
				TOTAL	16,32,403
31-Dec-16	To Balance C/d	25,10,317	01-Jan-16	By Balance B/d	16,32,403
			31-Dec-16	By Interest on DRF Inv A/c	81,620
			31-Dec-16	By P&L	7,96,294
	TOTAL	25,10,317		TOTAL	25,10,317
31-Dec-17	To Balance C/d	34,32,126	01-Jan-17	By Balance B/d	25,10,317
			31-Dec-17	By Interest on DRF Inv A/c	1,25,515
			31-Dec-17	By P&L	7,96,294
	TOTAL	34,32,126		TOTAL	34,32,126
			01-Jan-18	By Balance B/d	34,32,126
31-Dec-18	To General Reserve	44,67,925	31-Dec-18	By Interest on DRF Inv A/c	1,71,605
			31-Dec-18	By DRF Inv A/c (Profit on sale of DRFI)	67,900
			31-Dec-18	By P&L	7,96,294
	TOTAL	44,67,925		TOTAL	44,67,925

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SOLUTION

Debenture Redemption Fund Investment Account					
Date	Particulars	Rs	Date	Particulars	Rs
31-Dec-14	To Bank	7,96,300	31-Dec-14	By Bal c/d	7,96,300
01-Jan-15	To Balance b/d	7,96,300	31-Dec-15	By Balance c/d	16,32,400
31-Dec-15	To Bank	8,36,100			
	TOTAL	16,32,400		TOTAL	16,32,400
01-Jan-16	To Balance b/d	16,32,400	31-Dec-16	By Balance c/d	25,10,300
31-Dec-16	To Bank	8,77,900			
	TOTAL	25,10,300		TOTAL	25,10,300
01-Jan-17	To Balance b/d	25,10,300	31-Dec-17	By Balance c/d	34,32,100
31-Dec-17	To Bank	9,21,800			
	TOTAL	34,32,100		TOTAL	34,32,100
01-Jan-18	To Balance b/d	34,32,100	31-Dec-18	By Bank	35,00,000
31-Dec-18	To Deb Redemption Fund A/c	67,900			
	TOTAL	35,00,000		TOTAL	35,00,000

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SOLUTION

Bank A/c					
Date	Particulars	Rs	Date	Particulars	Rs
31-Dec-18	To Balance b/d	15,00,000	31-Dec-18	By Debenture Holders	44,00,000
31-Dec-18	To Interest on DRF Inv A/c	1,71,605			
31-Dec-18	To Deb Redemption Fund Inv A/c	35,00,000	31-Dec-18	By Balance c/d	7,71,605
	TOTAL	51,71,605		TOTAL	51,71,605

Premium on Redemption of Debentures Account					
Date	Particulars	Rs	Date	Particulars	Rs
31-Dec-14	To Balance C/d	4,00,000	01-Jan-14	By Loss on Issue of Debentures	4,00,000
31-Dec-15	To Balance C/d	4,00,000	01-Jan-15	By Balance B/d	4,00,000
31-Dec-16	To Balance C/d	4,00,000	01-Jan-16	By Balance B/d	4,00,000
31-Dec-17	To Balance C/d	4,00,000	01-Jan-17	By Balance B/d	4,00,000
31-Dec-18	To Debenture Holders A/c	4,00,000	01-Jan-18	By Balance B/d	4,00,000

REDEMPTION OF DEBENTURES BY CONVERSION

- Under Section 71 (1) of the Companies Act, 2013, a company may issue debentures with an option to convert such debentures into shares, either wholly or partly at the time of redemption.
- Provided that the issue of debentures with an option to convert such debentures into shares, wholly or partly, should be approved by a **special resolution** passed at a duly convened general meeting.
- As per Rule 18 (7) of the Companies (Share Capital and Debentures) Rules, 2014, in case of partly convertible Debentures- DRR should be created only for non convertible portion. In case of fully convertible Debentures, DRR is not required
- The amount of Debentures to be converted into shares cannot be more than the amount originally received at the time of issue of debentures as it would amount to issue of shares at discount, if debentures are to be converted before the redemption date. However, if the conversion is done at or after the redemption date, amount due on redemption of debentures will be taken into consideration.

ACCOUNTING: REDEMPTION BY CONVERSION

▪ **Issued at Par - Redeemable at Par**

Debenture Dr (With nominal value)
To Debenture holder A/c

Debenture holder A/c Dr
To Equity Share Capital

▪ **Issued at Par - Redeemable at Premium**

Debentures Dr
Premium on Redemption Dr
To Debenture holder A/c

Debenture holder A/c Dr
To Equity Share Capital

ACCOUNTING: REDEMPTION BY CONVERSION

Issued at Discount - Redeemable at Par : Before maturity

▪ Debentures Dr
To Discount on issue of Debentures
To P & L
To Debenture holder
Debenture holder A/c Dr
To Equity Share Capital

Issued at Discount - Redeemable at Par: After redemption date

Debenture Dr
To Debenture holder A/c

Debenture holder A/c Dr
To Equity Share Capital

ILLUSTRATION

X Ltd had issued 5,000 10% debentures of Rs 100 each on 1st April 2015 at a discount of 10% redeemable after 4 years. The company proceeds to redeem the debentures on 31 March 2018.

It may be presumed that discount on issue of debentures is written off uniformly over a period of 4 years.

Pass the journal entries in the following cases:

- I. Debentures are redeemable by conversion into shares of Rs 100 each
 - a. At par
 - b. At a premium of 25%

- II. Debentures are redeemable at a premium of 10% by conversion into shares of Rs100 each (assuming loss on redemption of debentures is being written off uniformly)
 - a. At par
 - b. At a premium of 25%

SOLUTION: CASE 1

▪ Due entry

Debentures	Dr	5,00,000	
	To Discount on issue of Debentures		12,500
	To P & L	37,500	
	To Debenture holder		4,50,000

▪ For issue of equity shares at par

Debenture holder A/c	Dr	4,50,000	
	To Equity Share Capital		4,50,000

▪ For issue of equity shares at premium of 25%

Debenture holder A/c	Dr	4,50,000	
	To Equity Share Capital		3,60,000
	To Security Premium		90,000
	(3600 shares= 4,50,000/125)		

SOLUTION : CASE 2

- **Due entry**

Debentures	Dr	5,00,000	
Premium on Redemption of Debentures A/c		50,000	
	To Discount on issue of Debentures		12,500
	To Loss on issue of Debentures		12,500
	To P & L		75,000
	To Debenture holder		4,50,000

- **For issue of equity shares at par**

Debenture holder A/c	Dr	4,50,000	
	To Equity Share Capital		4,50,000

- **For issue of equity shares at premium of 25%**

Debenture holder A/c	Dr	4,50,000	
	To Equity Share Capital		3,60,000
	To Security Premium		90,000

REDEMPTION OF DEBENTURES BY PURCHASE

- Purchase of debentures by the company from the stock market, usually at lower price than the issue price.
- Require authorization by article of association
- Debentures may be purchased for
 - Immediate cancellation
 - As Investment, popularly known as 'Own Debentures'

ACCOUNTING: PURCHASE OF DEBENTURES

For Immediate Cancellation: No Sinking Fund Exists

If Redeemable at par

Debentures Dr
 *Loss on Cancellation of Debentures
 To Bank
 *To Gain on Cancellation of Debentures

If Redeemable at premium

Debentures Dr
 Premium on Redemption of Debentures Dr
 *Loss on Cancellation of Debentures Dr
 To Bank A/c
 *To Gain on Cancellation of Debentures

Note: Gain or loss shall be calculated after taking into account the premium on redemption

REDEMPTION OF DEBENTURES BY PURCHASE

- Gain or Loss on cancellation of Debentures is of capital nature

Gain on Cancellation of Debentures Dr
 To Capital Reserve

Capital reserve Dr
 Security Premium Dr
 P/L Dr
 To Loss on Cancellation of Debentures

ACCOUNTING: PURCHASE OF DEBENTURES

For Immediate Cancellation: Sinking Fund Exists

For encashment of Debenture Redemption Fund Investments

Bank A/c Dr.

*Debenture Redemption Fund A/c Dr (in case of loss)

To Debenture Redemption Fund Investment A/c

*To Debenture Redemption Fund A/c (in case of profit)

If Redeemable at par

Debentures Dr

*Loss on Cancellation of Debentures

To Bank

*To Gain on Cancellation of Debentures

If Redeemable at premium

Debentures Dr

Premium on Redemption of Debentures Dr

*Loss on Cancellation of Debentures Dr

To Bank A/c

*To Gain on Cancellation of Debentures

Note: Gain or loss shall be calculated after taking into account the premium on redemption

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ACCOUNTING: PURCHASE OF DEBENTURES

- Gain or Loss on cancellation of Debentures is of capital nature, but will be routed through DRF a/c

- **In case of Gain on cancellation of Debentures**

Gain on Cancellation of Debentures Dr

To Debenture Redemption Fund A/c

Debenture Redemption Fund A/c Dr

To Capital reserve A/c

- **In case of loss on cancellation of Debentures**

Debenture Redemption Fund A/c Dr

To Loss on Cancellation of Debentures

After redemption of debentures, DRR transferred to General Reserve

DRR A/c Dr.

To General Reserve

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ILLUSTRATION

- X Ltd. had issued on 1st April, 2016 1,000 15% debentures of Rs 100 each for a period of 5 years.
- Interest on debentures is payable half yearly on 30 September and 31 March each year.
- On 30 September 2019 the company purchased 200 debentures at Rs 95 each for immediate cancellation.
- It is presumed that before the cancellation of debentures, the company has the balance in DRR A/C equal to 10% of the nominal value of the whole lot of 1,000 15% debentures issued on 1 April 2016.
- Pass the journal entries in the books of X Ltd for the purchase and immediate cancellation of debentures.

SOLUTION

15% Debentures A/c	Dr		20,000
To Bank A/c			19,000
To Gain on Cancellation of Debentures A/c			1,000
Gain on Cancellation of Debentures	Dr		1,000
To Debenture Redemption Fund A/c			1,000
Debenture Redemption Fund A/c	Dr		1,000
To Capital reserve A/c			1,000
Debenture Redemption Fund A/c	Dr.		2,000
To General Reserve			2,000

REDEMPTION OF DEBENTURES BY PURCHASE

For Investment: No sinking Fund

▪ Investment in Own Debentures	Dr	▪ P & L	Dr
To Bank		To Interest on Debenture	
▪ Interest on Debentures	Dr	▪ Interest on Investment in own Debentures	Dr
To Interest on investment in own Debentures		To P & L	
To Debenture holder		▪ TDS	Dr
To TDS from Debenture Interest		Debentureholder A/c	Dr
		To Bank	

REDEMPTION OF DEBENTURES BY PURCHASE

If Sold back

▪ Bank	Dr	Gain on Cancellation of Debentures	Dr
*Loss on sale	Dr	To Capital Reserve	
To Investment in own Debentures		Capital reserve	Dr
*To Profit on sale		Security Premium	Dr
* Loss or Gain is of revenue nature → to be transferred to P & L		P/L	Dr
		To Loss on Cancellation of Debentures	

If Set off against Debentures

Debenture	Dr
*Loss on cancellation of Debentures	Dr
To Investment in own Debentures	
*To Profit on cancellation of Debentures	

REDEMPTION OF DEBENTURES BY PURCHASE

For Investment: sinking Fund Exists

For encashment of Debenture Redemption Fund Investments

Bank A/c	Dr.
*Debenture Redemption Fund A/c	Dr (in case of loss)
	To Debenture Redemption Fund Investment A/c
	*To Debenture Redemption Fund A/c (in case of profit)

Investment in own Debentures	Dr
	To Bank

Interest on Debentures	Dr
	To Interest on investment in own Debentures
	To Debenture holder
	To TDS from Debenture Interest

REDEMPTION OF DEBENTURES BY PURCHASE

P & L	Dr
	To Interest on Debenture

Interest on Investment in own Debentures	Dr
	To Debenture Redemption Fund

TDS	Dr
Debentureholder A/c	Dr
	To Bank

If Sold back

Bank	Dr
*Loss on sale	Dr

To Investment in own Debentures

*To Profit on sale

* Loss or Gain on sale → to be transferred to DRF a/c

REDEMPTION OF DEBENTURES BY PURCHASE

If Set off against Debentures

Debenture	Dr
*Loss on cancellation of Debentures	Dr
To Investment in own Debentures	
*To Profit on cancellation of Debentures	
Gain on Cancellation of Debentures	Dr
To Debenture Redemption Fund	
Debenture Redemption Fund A/c	Dr
To Capital reserve A/c	
Debenture Redemption Fund	Dr
To Loss on Cancellation of Debentures	
After redemption of debentures, DRR transferred to General Reserve	
DRR A/c	Dr.
To General Reserve	

ILLUSTRATION

- X Ltd. had issued on 1st April, 2016 1,000 15% debentures of Rs 100 each for a period of 5 years.
- Interest on debentures is payable half yearly on 30 September and 31 March each year.
- On 30th September 2018, the company purchased 200 debentures at Rs 95 each for investment purpose and cancelled thereof on 30th September, 2019.
- It is presumed that before the cancellation of debentures, the company has the balance in DRR A/C equal to 10% of the nominal value of the whole lot of 1,000 15% debentures issued on 1 April 2016.
- Pass the journal entries in the books of X Ltd from 30 September 2018 to 30th September, 2019.

SOLUTION

30.9.18	Interest on Debentures a/c	Dr	7500	
	To Debentureholders a/c			7500
30.9.18	Debentureholders a/c	Dr	7500	
	To Bank a/c			7500
30.9.18	Investment in own Debentures	Dr	19,000	
	To Bank a/c			19,000
31.3.19	Interest on debentures	Dr	7,500	
	To Debentureholders a/c			6,000
	To Interest on investment in own debentures			1,500
31.3.19	Debentureholders	Dr	6,000	
	To bank			6,000
31.3.19	Pand L	Dr	15,000	
	To Interest on Debentures			15,000

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SOLUTION

31.3.19	Interest on investment in own debentures	Dr	1,500	
	To P and L			1,500
30.9.19	Interest on debentures	Dr	7,500	
	To Debentureholders a/c			6,000
	To Interest on investment in own debentures			1,500
30.9.19	Debentureholders	Dr	6,000	
	To bank			6,000
30.9.19	15% Debentures a/c	Dr	20,000	
	To investment in own debentures			19,000
	To Gain on cancellation of Debentures			1,000
30.9.19	Gain on cancellation of Debentures	Dr	1,000	
	To Capital reserve			1,000
30.9.19	DRR	Dr	2,000	
	To General reserve			2,000

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CUM-INTEREST PRICE AND EX-INTEREST PRICE

- When debentures are purchased before the date of interest, a problem may arise whether the quoted price of debentures includes interest upto the date of purchase or not. Price may be quoted **Ex-interest** or **Cum-interest**.

- **Cum-Interest Price** : When the interest accrued from the last due date of interest to the date of transaction is included in the price quoted, it is called Cum-Interest price which is the total amount paid for the purchase of debentures.

Cum-Interest Price = Payment towards Capital Portion + Payment towards Interest accrued from the last due date of interest to the date of transaction.

- **Ex-Interest Price** : When the interest accrued from the last due date of interest to the date of transaction is not included in the price quoted, it is called Ex-interest price or Real Price.

Ex-Interest Price = Payment towards Capital Portion

ILLUSTRATION

- X Ltd. had issued on 1 April 2016 1,000 15% debentures of Rs 100 each for a period of 5 years.
- Interest on Debentures is payable half yearly on 30 September and 31 March each year.
- On June 1, 2018, the company purchased 200 debentures at an ex-interest price of Rs 95 for investment purposes.
- Presume that debentures are cancelled on 31 March 2019 and the company has the balance in DRR A/C equal to 10% of the nominal value of the debentures before cancellation of the debentures on 31 March 2019.
- Pass the journal entries in the books of X Ltd for the redemption of debentures including those related to interest till March 2019.

SOLUTION- EX INTEREST

1.06.18	Investment in own Debentures	Dr	19,000	
	Interest on Debentures a/c	Dr	500	
	To Bank a/c			19,500
30.9.18	Interest on Debentures a/c	Dr	7,000	
	To Debentureholders a/c			6,000
	To Interest on investment in own debentures			1,000
30.9.18	Debentureholders	Dr	6,000	
	To bank			6,000
31.3.19	Interest on debentures	Dr	7,500	
	To Debentureholders a/c			6,000
	To Interest on investment in own debentures			1,500
31.3.19	Debentureholders	Dr	6,000	
	To bank			6,000

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SOLUTION- EX INTEREST

31.3.19	15% Debentures a/c	Dr	20,000	
	To investment in own debentures			19,000
	To Gain on cancellation of Debentures			1,000
31.3.19	Gain on cancellation of Debentures	Dr	1,000	
	To Capital reserve			1,000
31.3.19	DRR	Dr	2,000	
	To General reserve			2,000
31.3.19	Pand L	Dr	15,000	
	To Interest on Debentures			15,000
31.3.19	Interest on investment in own debentures	Dr	2,500	
	To P and L			2,500

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SOLUTION- CUM INTEREST

1.06.18	Investment in own Debentures	Dr	18,500	
	Interest on Debentures a/c	Dr	500	
	To Bank a/c			19,000
30.9.18	Interest on Debentures a/c	Dr	7,000	
	To Debentureholders a/c			6,000
	To Interest on investment in own debentures			1,000
30.9.18	Debentureholders	Dr	6,000	
	To bank			6,000
31.3.19	Interest on debentures	Dr	7,500	
	To Debentureholders a/c			6,000
	To Interest on investment in own debentures			1,500
31.3.19	Debentureholders	Dr	6,000	
	To bank			6,000
31.3.19	15% Debentures a/c	Dr	20,000	
	To investment in own debentures			18,500
	To Gain on cancellation of Debentures			1,500
31.3.19	Gain on cancellation of Debentures	Dr	1,500	
	To Capital reserve			1,500
31.3.19	DRR	Dr	2,000	
	To General reserve			2,000
31.3.19	Pand L	Dr	15,000	
	To Interest on Debentures			15,000
31.3.19	Interest on investment in own debentures	Dr	2,500	
	To P and L			2,500

REFERENCES

- Corporate Accounting- Theory and practice by R. K. Sah
- Corporate Accounting by Bhushan Kumar Goyal

