

## 1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 04 (Class XII, Semester – 2)
Module Name/Title	Issue of Debentures – Basics – Part 1
Module Id	leac_20201
Pre-requisites	Knowledge of Issue of Shares, Sources of Finance, Rules of Debit and Credit
Objectives	<p>After going through this lesson, the learners will be able to:</p> <ul style="list-style-type: none"><li>• Meaning of Debentures</li><li>• Types of Debentures</li><li>• Difference between Shares &amp; Debentures</li><li>• Journal Entries Passed to Record Issue of Debentures for Cash – at Par/Discount/Premium in case of Full/Under/Over Subscription</li><li>• Disclosure of Debentures in the Balance Sheet of a Company</li></ul>
Keywords	Debentures, Types of Debentures, Shares Vs Debentures, Difference between Shares & Debentures, Debentures in Balance Sheet

## 2. Development Team

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### 1. Meaning of Debenture

**Debenture:** The word 'Debenture' has been derived from a Latin word 'debere' which means to borrow.

Debenture is a written instrument acknowledging a debt under the common seal of the company. It

contains a contract for repayment of principal after a specified period or at intervals or at the option of the company and for payment of interest at a fixed rate payable usually either half-yearly or yearly on fixed dates.

Debenture is a written instrument  
ACKNOWLEDGING A DEBT  
under the common seal of the company.

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CONTRACT FOR REPAYMENT OF PRINCIPAL

- after a specified period or
- at intervals or
- at the option of the company

and

FOR PAYMENT OF INTEREST AT A FIXED RATE  
payable usually either half-yearly or yearly on fixed dates.

According to section 2(30) of The Companies Act, 2013 'Debenture' includes Debenture Inventory, Bonds and any other securities of a company whether constituting a charge on the assets of the company or not.

**BOND:** Bond is also an instrument of acknowledgement of debt. Traditionally, the Government used to issue bonds, but these days even semi-government and non-governmental organisations also issue bonds. The terms 'Debentures' and 'Bonds' are now being used inter-changeably or not.

## 2. Types of Debentures



Debentures can be classified into various categories on several different basis. Before having detailed discussion let's have a bird's eye view from the following chart:

**CHART SHOWING TYPES OF DEBENTURES**

on the Basis of

REGISTRATION		SECURITY		TENURE		CONVERTIBILITY		COUPON RATE	
1.2a		1.2b		1.2c		1.2d		1.2e	
Registered Debenture	Bearer Debenture	<div>↓</div>		<div>↓</div>		<div>↓</div>		Specific Rate Debenture	Zero Coupon Debenture
		Secured Debenture	Unsecured Debenture			Convertible Debentures	Non-convertible Debentures		
				Redeemable Debenture	Irredeemable Debenture				

### EXPLANATION OF DIFFERENT TYPE OF DEBENTURES



1.2a From the View Point of 'REGISTRATION'
<div>   </div>
<div> <b>REGISTERED DEBENTURES</b> <b>BEARER DEBENTURES</b> </div>
<b>(i) Registered Debentures:</b> Registered debentures are those debentures in respect of which all details including names,

addresses and particulars of holding of the debentureholders are entered in a register kept by the company. So, on transfer of such debentures, it is mandatory to inform the company.

- Such debentures can be transferred only by executing a 'Regular Transfer Deed'.

**(ii) Bearer Debentures:**

Bearer debentures are the debentures, which can be transferred by way of mere delivery and the company does not keep any record of the debentureholders. Interest on such debentures is paid to the holder or to the person who produces the interest coupon attached to such debentures.

1.2b From the Point of View of 'SECURITY'	
	
SECURED DEBENTURES	UNSECURED DEBENTURES



**(i) Secured Debentures:**

Secured debentures refer to those debentures where 'a charge is created on the assets' of the company for the purpose of payment in case of default. The charge may be fixed or floating. A fixed charge is created on a specific asset whereas a floating charge is on the all assets of the company excluding those which are already mortgaged.

- The fixed charge is created against those assets which are held by a company for use in operations not meant for sale whereas, floating charge involves all assets excluding those assigned to the secured creditors.

**(ii) Unsecured Debentures:**

Unsecured debentures do not have a specific charge on the assets of the company. However, a floating charge may be created on these debentures by default. Normally, these kinds of debentures are not issued.

1.2c From the Point of View of 'TENURE'	
	
REDEEMABLE DEBENTURES	IRREDEEMABLE DEBENTURES

**(i) Redeemable Debentures:**

Redeemable debentures are those which are repayable on the expiry of the specific period either in lump sum or in instalments during the life time of the company. Debentures can be redeemed either at par or at premium.

**(ii) Irredeemable Debentures:**

Irredeemable debentures are also known as *Perpetual Debentures* because the company does not give any undertaking for the repayment of money borrowed by issuing such

debentures. These debentures are repayable on the winding-up of a company or on the expiry of a long period.

#### 1.2d From the Point of View of 'CONVERTIBILITY'

	
<b>CONVERTIBLE DEBENTURES</b>	<b>NON-CONVERTIBLE DEBENTURES</b>



##### (i) Convertible Debentures:

Debentures which are convertible into equity shares or in any other security either at the option of the company or the debentureholders, are called convertible debentures. These debentures are either fully convertible or partly convertible.

##### (ii) Non-Convertible Debentures:

The debentures which cannot be converted into shares or in any other securities are called Non-convertible debentures. Mostly debentures issued by the companies fall in this category.

#### 1.2e From 'COUPON RATE' Point of View

	
<b>SPECIFIC COUPON RATE DEBENTURES</b>	<b>ZERO COUPON RATE DEBENTURES</b>

##### (i) Specific Coupon Rate Debentures:

These debentures are issued with a specified 'Rate of Interest', which is called the coupon rate. The specified rate may either be fixed or floating. The floating interest rate is usually tagged with the Bank Rate.

##### (ii) Zero Coupon Rate Debentures (Deep Discount Debentures/Bonds):


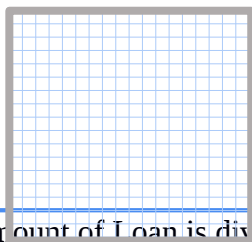
These debentures do not carry a specific rate of interest. In order to compensate the investors, such debentures are issued at substantial discount and the difference between the Nominal Value and the Issue Price is treated as the amount of interest related to the duration of the debentures.

### 3. DISTINCTION BETWEEN DEBENTURES & SHARES

S. No.	BASIS	EXPLANATION
1.	<b>OWNERSHIP</b>	A 'Share' represents ownership of the company whereas a debenture is only an acknowledgement of Debt. A share is a part of the owned capital whereas a debenture is a part of borrowed capital.
2.	<b>RETURN</b>	The 'Return on Shares' is known as 'Dividend' while the 'Return on Debentures' is called 'Interest'. The rate of return on shares may vary (differ) from year

		<p>to year depending upon the profits of the company but the rate of interest on debentures is prefixed and remains the same.</p> <p>The payment of dividend is an appropriation of profits, Whereas, the payment of interest is a charge on profits and is to be paid even in case of insufficient profits or losses.</p>
3.	<b>REPAYMENT</b>	<p>Normally, the amount of Shares is not returned during the life of the company.</p> <p>Whereas, generally, the debentures are issued for a specified period and repayable on the expiry of that period.</p>
4.	<b>VOTING RIGHT</b>	Shareholders enjoy voting rights whereas debenture-holders do not normally enjoy any voting right.
5.	<b>SECURITY</b>	Shares are not secured by any charge whereas the Debentures are generally secured and carry a fixed or floating charge over the assets of the company.
6.	<b>CONVERTIBILITY</b>	<p>Shares cannot be converted into debentures.</p> <p>Whereas, debentures can be converted into shares, if the terms of issue provide so and in that case, these are called Convertible Debentures.</p>

**4. How Debentures are ‘Different’ from ‘Loan’** { \* Not Evaluated but increases clarity }

<b>LOAN</b>	<b>DEBENTURES</b>
	
Loan is a Lump Sum amount borrowed by a person (natural/artificial) from an individual or a bank or any other finance company.	When the amount of Loan is divided into small units which are issued to public or other investors (fulfilling the process of prospectus & through Primary Market) to raise debt, these units are termed as ‘Debentures’.
<b>Example</b> , XYZ Ltd. borrowed ₹5 Crore from	<b>Example</b> , XYZ Ltd. issued 50,000 units

a Billionaire Harshit or from State Bank of India, it is termed as 'Loan'.	of 9% Debentures of ₹1,000 each to Public or big investors like, Insurance Co.s & Mutual Fund Companies to raise funds.
Loan is taken from one person or one company.	By issuing debentures, burden of loan is divided among a large number of people.

## 5. ISSUE OF DEBENTURES & VARIOUS MODES OF ISSUE

The procedure for the issue of debentures is more or less same as that for the issue of shares.

- The interested investors apply for debentures on the basis of the prospectus issued by the company.
- The company may either ask for the entire amount to be paid on application or by means of instalments, on application, on allotment and on various calls.
- Debentures can be issued
  - at Par
  - at a Premium; or
  - at a discount.

### Important Notes:

- In case of a public issue of debentures, minimum subscription of 75% is must.** Otherwise company will have to cancel that issue and refund the money of applicants within prescribed time.
- Companies Act 2013 or any other government agency doesn't put any restriction on issue of debentures at premium or at discount.** Moreover, there is no restriction as regard to 'Rate of Discount' or 'Premium' on Issue of Debentures.

### MODES OF ISSUE OF DEBENTURES

1.5a FOR CASH	1.5b FOR CASH WITH TERMS OF REDEMPTION	1.5c FOR CONSIDERATION OTHER THAN CASH	1.5d AS COLLATERAL SECURITY
<u>At PAR</u> <u>At PREMIUM / At DISCOUNT</u> Case 1. Single Instalment Case 2. Two Instalment	Case 1. Par / Par Case 2. Premium / Par Case 3. Discount / Par Case 4. Par / Premium Case 5. Discount / Premium Case 6. Premium /	Case 1. For Purchase of Asset Case 2. For Purchase of Business Case 3. To Promoters / Under-Writerws	Method 1 – When Journal Entry is not Passed Method 2 –When Journal Entry is

<b>Case 3. Several Instalment</b>	<b>Premium</b>		<b>Passed</b>
<b>There can be following three situations:</b> <b>A. FULL SUBSCRIPTION</b> <b>B. UNDER SUBSCRIPTION</b> <b>C. OVER SUBSCRIPTION</b>			

## 6. ISSUE OF DEBENTURES FOR CASH

**6.1 Issue of Debentures at PAR** - Debentures are said to be issued at par when their issue price is equal to the face value. The journal entries recorded for such issue are as under:

**(a) SINGLE INSTALMENT** - If full amount of debentures is received in one instalment:

### JOURNAL

DATE	PARTICULARS	LF	DR. Amt. in ₹	CR. Amt. in ₹
	<b><u>On receipt of the application money</u></b> Bank A/c <span style="float: right;">Dr.</span> To Debenture Application & Allotment A/c (Being application money received.)			
	<b><u>On Allotment of debentures</u></b> Debenture Application & Allotment A/c <span style="float: right;">Dr.</span> To % Debentures A/c (Being debentures allotted.)			

**(b) TWO INSTALMENTS** - If full amount of debentures is received in two instalments:

### JOURNAL

DAT E	PARTICULARS	L F	DR. Amt. in ₹	CR. Amt. in ₹
	<b><u>(i) On receipt of application money</u></b> Bank A/c <span style="float: right;">Dr.</span> To Debenture Application A/c (Application money received.)			
	<b><u>(ii) For adjustment of applications money on allotment</u></b> Debenture Application A/c <span style="float: right;">Dr.</span>			



	<b>To % Debentures A/c</b> (Application money transferred to Debentures A/c.) <hr/> <b>(iii) For allotment money due</b> <b>Debenture Allotment A/c</b> <span style="float: right;"><b>Dr.</b></span> <b>To % Debentures A/c</b> (Allotment money due.) <hr/> <b>(iv) On receipt of allotment money</b> <b>Bank A/c</b> <span style="float: right;"><b>Dr.</b></span> <b>To Debenture Allotment A/c</b> (Allotment money received.) <hr/>		

**(c) MORE THAN TWO INSTALMENTS - If debenture money is received in more than two instalments –**

Besides Journal Entries in Case (b) following two entries will be passed for every additional instalment.

#### JOURNAL

DATE	PARTICULARS	LF	DR. Amt. in ₹	CR. Amt. in ₹
	<b>(i) On making the first call</b> <b>Debenture First Call A/c</b> <span style="float: right;"><b>Dr.</b></span> <b>To Debentures A/c</b> (First Call money due.) <hr/> <b>(ii) On the receipt of first call</b> <b>Bank A/c</b> <span style="float: right;"><b>Dr.</b></span> <b>To Debenture First Call A/c</b> (First Call money received.) <hr/>			

#### Additional entries:

**Note:** Similar entries will be passed for the Second call and final call. However, normally the whole amount is collected on application or in two instalments, i.e., on application and allotment.

#### Illustration 1

**[Under-Subscription i.e. Application Received for Debentures are less than Application Invited for]**

Lekhankan Gyan Limited issued 10,000, 12% debentures of ₹ 100 each payable ₹ 30 on application and remaining amount on allotment. General public applied for 9,000 debentures which were fully allotted, and allotment money was also duly received.

Give journal entries in the books of Lekhankan Gyan Ltd., and exhibit the relevant information in the Balance Sheet.

**Solution:**

**Books of Lekhankan Gyan Limited**

**JOURNAL**

DATE	PARTICULARS	LF	DR. Amt. in ₹	CR. Amt. in ₹
	Bank A/c Dr. To 12% Debenture Application A/c (Application money received for 9,000 debentures.)		2,70,000	2,70,000
	12% Debenture Application A/c Dr. To 12% Debentures A/c (Application money transferred to Debentures A/c.)		2,70,000	2,70,000
	12% Debenture Allotment A/c Dr. To 12% Debentures A/c (Amount due on 9,000 debentures on allotment @ ₹70 each.)		6,30,000	6,30,000
	Bank A/c Dr. To 12% Debenture Allotment A/c (Amount received on allotment.)		6,30,000	6,30,000
			18,00,000	18,00,000

**BALANCE SHEET OF Lekhankan Gyan LTD.**

as at 31<sup>st</sup> March, .....

	PARTICULARS	NOTE NUMB ER	Current Year Amt. in ₹	Previous Year Amt. in ₹
I.	<b>EQUITY AND LIABILITIES</b> <b>Non-current Liabilities</b> Long-term borrowings	(i)	9,00,000	
II.	<b>ASSETS</b> <b>Current Assets</b> Cash and cash equivalents	(ii)	9,00,000	

\* Relevant information only.

**Notes to Accounts:**

Note No.	PARTICULARS	Details (in ₹)	Amount (in ₹)
(i)	<b>Long-term borrowings</b> 9,000, 12% Debentures of ₹100 each 9,00,000		9,00,000
(ii)	<b>Cash and cash equivalents</b> Cash at bank		9,00,000

## 6.2 Issue of Debentures at DISCOUNT

When debentures are issued at a price less than the nominal value, it is said to be issued at a discount. For example, the issue of ₹100 debentures at ₹95, ₹5 being the amount of discount.

- The Companies Act, 2013 does not impose any restrictions upon the issue of debentures at a discount.
- The discount on issue of debentures has to be written off in the year of issue of debentures itself (as per the latest provisions).
- It has to be written off out of Securities Premium Reserve (if available or to the extent available) and any amount left will be charged in Statement of Profit & Loss.

### Illustration 2

TV Components Ltd., issued 10,000, 12% debentures of ₹100 each at a discount of 5%

payable as:                      ₹ 40 with application                      ₹ 55 on allotment

Show the journal entries including those for cash, assuming that all the instalments were duly collected. Also show the relevant portion of Company's Balance Sheet.

**Solution:**    **Books of TV Components Ltd.**

### JOURNAL

DATE	PARTICULARS	LF	DR. Amt. in ₹	CR. Amt. in ₹
	Bank A/c    D r. To 12% Debenture Application A/c (Receipt of application money for 10,000 debentures @ ₹40 each)		4,00,000	4,00,000
	12% Debenture Application A/c                      Dr. To 12% Debenture A/c (Transfer of application money to debenture account)		4,00,000	4,00,000
	12% Debenture Allotment A/c                      Dr. Discount on Issue of Debentures A/c                      Dr. To 12% Debenture A/c (Allotment money due on 10,000 debentures @ ₹55 each and allowed a discount @ ₹5 each.)		5,50,000 50,000 5,50,000	6,00,000

	Bank A/c To 12% Debenture Allotment A/c (Receipt of allotment money on debentures)	Dr.		5,50,000
			50,000	
	Securities Premium Reserve Or Statement of Profit and Loss A/c. To Discount on Issue of Debentures A/c. (Discount on issue of debentures written off)	Dr.		50,000

**BALANCE SHEET of TV Components Limited**  
as at 31<sup>st</sup> March, .....

	PARTICULARS	NOTE NUMBER	Current Year Amt. in ₹	Previous Year Amt. in ₹
I.	<b>EQUITY AND LIABILITIES</b>			
	<b>Shareholders' Funds</b>			
	Reserves and Surplus	(i)	yyy	
II.	<b>Non-current Liabilities</b>			
	Long-term borrowings	(ii)	10,00,000	
	<b>ASSETS</b>			
	<b>Current Assets</b>			
	Cash and cash equivalents	(iii)	9,50,000	

\* Relevant information only.

**Notes to Accounts:**

Note No.	PARTICULARS	Details (in ₹)	Amount (in ₹)
(i)	<b>Reserves and Surplus</b> Securities Premium Reserve A/c <b>Less:</b> Discount on Issue of Debentures	Xxxx (50,000)	yyy
(ii)	<b>Long-term borrowings</b> 10,000, 12% Debentures of ₹100 each		10,00,000
(iii)	<b>Cash and cash equivalents</b> Cash at bank		9,50,000

### 6.3 Issue of Debentures at PREMIUM

Debentures are said to be issued at a premium when the issue price is more than the face value. For example, the issue of ₹100 debentures for ₹110, (₹10 is being the premium).

- The amount of premium is credited to Securities Premium Reserve account and is shown on the liabilities side of the balance sheet under the head “Reserves and Surpluses”.

#### Illustration 3

Covid Vaccine R & D Ltd., issued 2,000, 10% debentures of ₹100 each, at a premium of ₹10 per debenture payable as follows:

**On application ₹50; and**

**On allotment ₹60**

These debentures were fully subscribed and all money was duly received. Record the journal entries in the books of a company. Show how the amounts will appear in the Balance Sheet.

**Solution:**

**Books of Covid Vaccine R & D Ltd.**

#### JOURNAL

DATE	PARTICULARS	LF	DR. Amt. in ₹	CR. Amt. in ₹
	Bank A/c Dr. To 10% Debenture Application A/c (Application money received for 2,000 debentures @ ₹50 each.)		1,00,000	1,00,000
	10% Debenture Application A/c Dr. To 10% Debentures A/c (Transfer of application money to debenture account)		1,00,000	1,00,000
	10% Debenture Allotment A/c Dr. To 10% Debentures A/c To Securities Premium Reserve A/c (Allotment money due on debentures including the premium)		1,20,000	1,00,000 20,000
	Bank A/c Dr. To 10% Debenture Allotment A/c (Allotment money received)		1,20,000	1,20,000

**BALANCE SHEET of Covid Vaccine R & D Ltd.**  
as at 31<sup>st</sup> March, .....

	PARTICULARS	NOTE NUMB ER	Current Year Amt. in ₹	Previous Year Amt. in ₹
I.	<b>EQUITY AND LIABILITIES</b> <b>Shareholders' Funds</b> Reserves and Surplus	(i)	20,000	
II.	<b>Non-current Liabilities</b> Long-term borrowings	(ii)	2,00,000	
	<b>ASSETS</b> <b>Current Assets</b> Cash and cash equivalents	(iii)	2,20,000	

\* *Relevant information only.*

**Notes to Accounts:**

Note No.	PARTICULARS	Details (in ₹)	Amount (in ₹)
(i)	<b>Reserves and Surplus</b> Securities Premium Reserve		20,000
(ii)	<b>Long-term borrowings</b> 2,000, 10% Debentures of ₹100 each		2,00,000
(iii)	<b>Cash and cash equivalents</b> Cash at bank		2,20,000

**7. Over Subscription & Pro-rata Allotment**

When the number of debentures applied for is more than the number of debentures offered to the public, the issue is said to be over subscribed.

- A company, however, cannot allot more debentures than it has invited for subscription.
- The excess money received on over subscription may, however, be retained for adjustment towards allotment and the respective calls to be made in future.
- But the money received from applicants to whom no debentures have been allotted, will be refunded to them.

**Illustration 4**

X Limited Issued 10,000, 12% debentures of ₹100 each payable ₹40 on application and ₹60 on allotment. The public applied for 14,000 debentures.

Applications for 9,000 debentures were accepted in full; applications for 2,000 debentures were allotted 1,000 debentures and the remaining applications, were rejected. All money was duly received. Journalise the transactions.

**Solution:**

**Books of X Limited**

**JOURNAL**

DATE	PARTICULARS	LF	DR. Amt. in ₹	CR. Amt. in ₹
	Bank A/c Dr. To 12% Debenture Application A/c (Receipt of application money on 14,000 debentures @ ₹40.)		5,60,000	5,60,000
	12% Debenture Application A/c Dr. To 12% Debentures A/c (10,000 x 40) To Debentures Allotment A/c (Surplus Adjusted)		5,60,000	4,00,000 40,000 1,20,000
	To Bank A/c (Reject & Refund) (3,000 x 40) (Application money on 10,000 debentures transferred to Debenutire A/c, excess application money on 1,000 Debentures credited to Debenture Allotment and refunded on rejected applications for 3,000 debentures @ ₹40.)		6,00,000	6,00,000
	12% Debenture Allotment A/c Dr. To 12% Debentures A/c (10,000 x 60) (Amount due on allotment on 10,000 debentures @ ₹40.)		5,60,000	5,60,000
	Bank A/c Dr. To Debenture Allotment A/c (Allotment money received)			