

Issue of Debentures

Debenture is a loan taken by the company from the general public in small denomination. It is a fixed – interest bearing security. Interest is payable at a fixed rate on a fixed date. Debenture repaid at a specified future date. Debentures can be bought and sold in the stock market.

Debenture holders are the creditors of the company. They have no voting rights. Debentures cannot be forfeited for non payment of call money.

Interest on Debentures is an expense and debited to the Profit & Loss A/c. In the Company Balance Sheet, Debentures are shown as “Secured Loans”. Debentures can be converted into shares

Debentures are secured loans. There maybe a specific or floating charge which is created by the company. Specific charge means the debentures are secured by a charge is a mortgage on specific assets. These assets cannot be sold without the consent of the debenture holders. If these assets are sold the amount received on its sale will be first used to repay the debenture holders. Floating charge means the charge is created on all the assets of the company

Debentures are payable to a registered holder are not easily transferable. Bearer Debentures are transferable by delivery. It is like a Negotiable instruments .No record is kept by the company .of Bearer Debentures. Interest is paid to the holder of these Debentures.

Issue of Debentures can be made at par or at a discount or at premium. If the issue is made at Discount the discount is shown under the heading of Miscellaneous Expenses and written off over the period of Debentures.

If the Debentures are issued at a premium the premium on issue is credited to a separate Account.

Journal Entry for issue of debentures:

Cash / Bank A/c Dr.

Discount of issue of debentures A/c Dr.

Loss on Issue of debentures A/c Dr.

To Debentures A/c

To Premium on issue of debentures A/c

To Premium on redemption of debentures A/c

Debentures will be repaid by the company after a specific period. These Debentures can be redeemed at par or premium or at a discount. If the debentures are to be redeemed at a premium then the Premium on redemption of debentures should be credited to a separate A/c called as Premium on Redemption of Debentures and debited to Loss on issue of Debentures A/c. This loss will be written off over the period of Debentures.

MULTIPLE CHOICE QUESTIONS

1. Which of the following statements is true?
 - (a) A debenture holder is an owner of the company
 - (b) A debenture holder can get his money back only on the liquidation of the company
 - (c) A debenture issued at a discount can be redeemed at a premium
 - (d) A debenture holder receives interest only in the event of profits
2. Which of the following statements is false?
 - (a) At maturity, debenture holders get back their money as per the terms and conditions of redemption
 - (b) Debentures can be forfeited for non payment of call money
 - (c) In company's balance sheet, debentures are shown under secured loans
 - (d) Interest on debentures is charged against profits
3. Debenture premium cannot be used to _____.
 - (a) Write off the discount on issue of shares or debentures
 - (b) Write off the premium on redemption of shares or debentures
 - (c) Pay dividends
 - (d) Write off capital loss
4. Loss on issue of debentures is treated as _____.
 - (a) Intangible asset
 - (b) Current asset
 - (c) Current liability
 - (d) Miscellaneous expenditure
5. Which of the following is/are true with respect to debentures?
 - (a) They can be issued for cash
 - (b) They can be issued for consideration other than cash
 - (c) They cannot be issued as collateral security
 - (d) Both (a) and (b) above
6. Which of the following is false?
 - (a) A company can issue redeemable debentures
 - (b) A company can issue debentures with voting rights
 - (c) A company can buy its own shares
 - (d) A company can buy its own debentures
7. Which of the following statements is false?
 - (a) Debenture is a form of public borrowing
 - (b) It is customary to prefix debentures with the agreed rate of interest
 - (c) Debenture interest is a charge against profits
 - (d) The issue price and redemption value of debentures cannot differ

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8. Which of the following is true with regard to 10% Debentures issued at a discount of 20%?
- (a) The carrying amount of debentures gets reduced each year at a rate of 20%
 - (b) Issue price and the carrying amount of debentures are equal
 - (c) At the time of redemption, the debenture holder will be paid the issue price
 - (d) The face value and the carrying amount of debentures are equal
9. Discount on issue of debentures is a _____.
- (a) Revenue loss to be charged in the year of issue
 - (b) Capital loss to be written off from capital reserve
 - (c) Capital loss to be written off over the tenure of the debentures
 - (d) Capital loss to be shown as goodwill
10. Which of the following is false with respect to debentures?
- (a) They can be issued for cash
 - (b) They can be issued for consideration other than cash
 - (c) They can be issued as collateral security
 - (d) They can be issued in lie of dividends
11. Which of the following is not a characteristic of Bearer Debentures?
- (a) They are treated as negotiable instruments
 - (b) Their transfer requires a deed of transfer
 - (c) They are transferable by mere delivery
 - (d) The interest on it is paid to the holder irrespective of identity
12. When debentures are issued as collateral security, the final entry for recording the transaction in the books is _____
- (a) Credit debentures a/c and debit cash a/c
 - (b) Debit debenture suspense a/c. and credit cash a/c
 - (c) Debit debentures suspense a/c and credit debenture a/c
 - (d) Debit cash a/c & credit the loan a/c. for which security is given
13. As per the Companies Act, "Interest accrued and due on debentures" should be shown
- (a) Under Debentures
 - (b) As Current Liabilities
 - (c) As provisions
 - (d) As a reduction of bank balance
14. Mortgage debentures are those debentures which are secured either on the particular asset called fixed charge or on the _____ asset of the company called floating charge.
- (a) general
 - (b) particular
 - (c) none
 - (d) no opinion
15. Interest is paid to the person who produces the interest coupon attached to debenture in case of _
- (a) Bearer Debentures
 - (b) Registered Debentures
 - (c) All types of Debentures
 - (d) None of these

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16. Which of the following statements is true?
(a) A debenture holder is an owner of the company
(b) A debenture holder can get his money back only on the liquidation of the company
(c) A debenture issued at a discount can be redeemed at a premium
(d) A debenture holder receives interest only in the event of profits
17. In the Balance Sheet of a company, Debenture Redemption Premium Account appears under the head _____
(a) Share Capital (b) Reserves & Surplus
(c) Secured Loans (d) Miscellaneous Expenditure
18. In the Balance Sheet of a company, Loss in issue of Debenture Account appears under the head _____
(a) Share Capital (b) Reserves & Surplus
(c) Secured Loans (d) Miscellaneous Expenditure
19. Interest on Debentures is calculated on _____
(a) its face value (b) its issue price (c) its book value (d) its cost price
20. In Balance Sheet of a company, interest accrued but not due on debentures appears under the head _____
(a) Secured Loans (b) Unsecured Loans
(c) Current Liabilities Provisions (d) Contingent Liabilities
21. When debentures are issued as collateral security, the final entry for recording the transaction in the books is _____.
(a) Credit Debentures A/c and debit Cash A/c
(b) Debit Debenture Suspense A/c and credit Cash A/c
(c) Debit Debenture Suspense A/c and credit Debentures A/c
(d) Debit Cash A/c and credit the Loan A/c for which security is given
22. The under writing commission in case of issue of debentures can't exceed :
(a) 2% (b) 2.5% (c) 3% (d) 5%
23. A debenture holder gets :
(a) Dividend (b) Right prescribed in articles
(c) Ownership of the company (d) Interest at fixed rates
24. Loss on issue of debentures is generally written off in :
(a) 5 years (b) 10 years (c) 15 years (d) Over the period of redemption
25. A Ltd. issued 10,000 12% Debentures of ₹10 each at par which are redeemable at the end of each year in equal lots in 5 years at a premium of 30%. The amount of loss on redemption of debentures to be written off in fourth and fifth year will be :
(a) ₹10,000, Nil (b) ₹4,000, 4000 (c) ₹6,000, 6000 (d) ₹4,000, 2000

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26. T Ltd. has issued 14% Debentures of ₹20,00,000 at a discount of 10% on April 01, 2004 and the company pays interest half-yearly on June 30, and December 31 every year. On March 31, 2006, the amount shown as "interest accrued but not due" in the Balance Sheet will be
- (a) ₹70,000 shown in current liabilities (b) ₹2,10,000 under current liabilities
(c) ₹1,40,000 shown along with debentures (d) ₹2,80,000 under current liabilities
27. On May 01, 2004 U Ltd. issued 7% 10,000 convertible debentures of ₹100 each at a premium of 20%. Interest is payable on September 30 and March 31 every year. Assuming that the interest runs from the date of issue, the amount of interest expenditure debited to profit and loss account for the year ended March 31, 2005 = ?
- (a) ₹70,000 (b) ₹58,333 (c) ₹84,000 (d) ₹64,167
28. W Ltd. issued 20,000, 8% debentures of ₹10 each at par, which are redeemable after 5 years at a premium of 20%. The amount of loss on redemption of debentures to be written off every year = ?
- (a) ₹40,000 (b) ₹10,000 (c) ₹20,000 (d) ₹8,000
29. T Ltd. purchased land and building from U Ltd. for a book value of ₹2,00,000. The consideration was paid by issue of 12% Debentures of ₹100 each at a discount of 20%. The debentures account is credited with _____.
- (a) ₹2,60,000 (b) ₹2,50,000 (c) ₹2,40,000 (d) ₹1,60,000
30. P Ltd. issued 5,000, 12% debentures of ₹100 each at a premium of 10%, which are redeemable after 10 years at a premium of 20%. The amount of loss on redemption of debentures to be written off every year = ?
- (a) ₹15,000 (b) ₹40,000 (c) ₹10,000 (d) ₹8,000
31. On May 1, 2003, Y Ltd. issued 7% 40,000 convertible debentures of ₹100 each at a premium of 20%. Interest is payable on September 30 and March 31, every year. Assuming that the interest runs from the date of issue, the amount of interest expenditure debited to profit and loss account for the year ended March 31, 2004 = ?
- (a) ₹2,80,000 (b) ₹2,33,333 (c) ₹3,36,000 (d) ₹2,56,667
32. A Ltd. took over the assets of ₹6,60,000 and liabilities of ₹80,000 of B Ltd. for an agreed purchase consideration of ₹6,00,000 payable 10% in cash and the balance by the issue of 15% Debentures of ₹100 each at 10% discount.
The number of debentures to be issued is _____
- (a) 6,600 (b) 6,000 (c) 5,400 (d) 4,500
33. A Ltd. took over the assets of ₹3,00,000 and liabilities of ₹10,000 of B Ltd. for an agreed purchase consideration of ₹2,70,000 to be satisfied by the issue of 15% Debentures of ₹100 each at 20% premium.
- (a) Goodwill A/c is to be debited with ₹20,000
(b) Capital Reserve A/c is to be debited with ₹20,000
(c) Goodwill A/c is to be credited with ₹20,000
(d) Capital Reserve A/c is to be credited with ₹20,000

