

Issue of Debentures for Cash

Debentures in the general course of business are issued for cash. This issue of debentures that happens can be of three kinds, just like an issue of shares, at par, at a discount, and at a premium. So let us take a look at all three and their respective accounting entries as well.

Issue at Par

Here the debentures will be issued exactly at their nominal price, i.e. not above or below the face value of the debentures. Now the company can decide to collect the cash all at once, in a lump sum. Or the money will be collected in installments, like with allotment, first call, second call, last call etc. Let us see the accounting journal entries for both these scenarios.

(A) Money Received in One Installment

Particulars		Amount	Amount
<u>Bank</u> A/c To Debenture Application & Allotment A/c (Being amount received in one installment)	Dr	Xxx	Xxx
Debenture Application & Allotment A/c To Debenture A/c (Being allotment being done)	Dr	Xxx	xxx

(B) Being Money Received in Two or More Installments

Particulars		Amount	Amount
Bank A/c To Debenture Application A/c (Being amount received on application)	Dr	Xxx	Xxx
Debenture Application A/c To Debenture A/c (Being allotment being done)	Dr	Xxx	xxx
Debenture Allotment A/c To Debenture A/c (Being allotment money becoming due)	Dr	Xxx	Xxx
Bank A/c To Debenture Allotment A/c (Being allotment money received)	Dr	Xxx	Xxx

Issue at Discount

When the debentures are issued at below face value, such issue of debentures is known as a discount issue. Like, say for example the debenture has a nominal value of 100/- but is issued for 90/-. Then such debentures are said to be issued at discount.

Discount on issue of debentures is treated as a capital loss and put under “Miscellaneous Expenses” on the asset side of the balance sheet until it can be written off. Then during the life of the debentures, such discount amount is written off by debiting it to the Profit and Loss A/c. It can also be charged against the Capital Profits of the company. The accounting entries for the issue of debentures on discount and the writing off the expense are as below,

Particulars		Amount	Amount
Debenture Allotment A/c	Dr	xxx	
Discount on Debenture A/c	Dr	xxx	
To Debenture A/c			Xxx
(Being allotment money becoming due)			
Bank A/c	Dr	xxx	
To Debenture Allotment A/c			xxx
(Being allotment money received)			

Issue at Premium

Now we come to the issue of debentures at a premium, that is when more money than the nominal value is charged. So if a debenture with a face value of 100/- is sold at 110/- then it is issued at a premium. The amount of the premium is charged to a special account known as Securities Premium Reserve Account. This account will be shown on the liabilities side of the Balance Sheet under the heading of Reserves and Surplus.

The accounting entries for the issue of debentures at a premium will be as below,

Debenture Allotment/Call A/c	Dr	Xxx	
To Debenture A/c			xxx
To Securities Premium A/c			xxx
(Being allotment/call money becoming due)			
Bank A/c	Dr	xxx	
To Debenture Allotment/Call A/c			xxx
(Being allotment/call money received)			

Issue of Debentures for Consideration other than Cash

Debentures can be issued for non-cash considerations. The company may have purchased assets from some vendors or acquired some other business. Then instead of paying cash, the company may issue debentures to such vendors. Such an issue for debentures can be at par, or for a discount or at a premium. Let us look at the accounting entries for all these possibilities.

Particulars		Amount	Amount
Asset A/c To Vendors A/c (Being asset purchased from vendor)	Dr	Xxx	xxx
Vendors A/c To Debentures A/c (Being debentures issued at par against the purchase of asset)	Dr	Xxx	xxx
Vendors A/c To Debentures A/c To Securities Premium A/c (Being debentures issued at a premium against the purchase of asset)	Dr	Xxx	xxx xxx
Vendors A/c Discount on Debentures A/c To Debentures A/c (Being debentures issued at a discount against the purchase of asset)	Dr Dr	Xxx Xxx	xxx

Issue of Debentures as Collateral Security

Debentures can also be issued by a company as collateral security against a bank loan or any such borrowings. A collateral security is like a parallel security which is provided along with the actual security against the loan taken. Debentures issued as such a collateral liability are a contingent liability for the company, i.e. the liability may or may not arise. Only when the company defaults on such a loan will this liability arise.

Generally, because it is a contingent liability no entry is passed in the books of the company against such an issue of debentures. However, if some companies opt to pass an entry to record such a transaction, the following entries may be passed

Particulars		Amount	Amount
Debentures Suspense A/c To Debentures A/c (Being debentures issued as a collateral security)	Dr	Xxx	Xxx
Debentures A/c To Debenture Suspense A/c (Being debentures cancelled on repayment of the loan)	Dr	Xxx	xxx