

DISCOUNT OR LOSS ON ISSUE OF DEBENTURES

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Discount or loss on issue of debentures and premium on redemption are capital losses. They are shown in the balance sheet under the head "Miscellaneous Expenditure". Being the losses, they are to be written off against capital reserve or security premium A/c. In its absence it is written off to P & L A/c during the life of debentures. The entry is

Capital reserve/ Security premium A/c/ P & L A/c Dr
To Discount / Loss on issue of debentures A/c.

REDEMPTION OF DEBENTURES

Redemption of debentures refers to the discharge of liability on account of debentures. It simply means repayment of debentures. As per Companies Act, the debentures should be redeemed in accordance with the terms and conditions of issue

The following entries are passed for redemption of debentures.

- a. When debentures are redeemed at par
 - i. Debentures A/c Dr
To debenture holders A/c
 - ii. Debenture holders A/c Dr
To Bank A/c
- b. When debentures are redeemed at premium
 - i. Debentures A/c Dr
Premium on redemption A/c Dr
To debenture holders A/c
 - ii. Security premium/ General reserve/P&L A/c Dr
To Premium on redemption A/c
 - iii. Debenture holders A/c Dr
To Bank A/c

Sources of redemption of debentures

Debentures can be redeemed out of the following sources

1. Redemption out of fresh issue.

A company may issue new shares or debentures or both for redeeming the existing debentures.

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 Premium on redemption A/c Dr
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 To Premium on redemption A/c
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 To Bank A/c

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Illustration 17

Moon Ltd 10%, 5000 debentures of Rs.100 each, redeemable at 5% premium. The company issued 40000 equity shares of Rs.10 each at 10% premium and 1000, 9% debentures of Rs.100 each at par *for the purpose of redemption. Pass journal entries.*

Solution

10% Debentures A/c Dr		500000	
Premium on redemption A/c Dr		25000	
To Debenture holders A/c			525000
(10% debentures due for redemption)			
Bank A/c Dr		440000	
To Equity share capital A/c			400000
To Security premium A/c			40000
(issue of 40000 equity shares at 10% premium for redemption)			
Bank A/c Dr		100000	
To 9% Debentures A/c			100000
(issue of 1000 debentures of Rs.100 each)			
Security premium A/c Dr		25000	
To Premium on redemption A/c			25000
(provision for redemption premium)			
Debenture holders A/c Dr		525000	
To Bank A/c			525000
(payment to debenture holders)			

