

Chapter 8 · Issue of Debentures

CBSE Class 12 Accountancy (055) · Part A · Unit 2 = 24 marks · Ultimate Revision Sheet

SYLLABUS ALERT TDS on debenture interest is **EXCLUDED** from the 2026-27 syllabus. Also note: only issue of debentures is prescribed — redemption is not.

60-SECOND RECALL

Debenture	Acknowledgement of DEBT . Holder is a creditor , not an owner.
Interest	A CHARGE against profit — paid even in a loss. Shown as Finance Cost .
Loss on issue	Written off in the year of allotment : first from Securities Premium , then from Statement of P&L (AS 16).
Collateral security	Secondary security. Two treatments — no entry , or a formal entry.
Balance sheet	Debentures → Non-Current Liabilities → Long-term Borrowings
Golden rule	Loss on issue arises from the redemption premium , not the issue discount alone.

1. Meaning & Debenture vs Share

DEFINITION A **debenture** is a document issued by a company under its common seal, acknowledging a **debt** and containing provisions for repayment of the principal and payment of interest at a fixed rate.

Basis	SHARE	DEBENTURE
Status	Owner of the company	Creditor of the company
Return	Dividend — an appropriation, only out of profit	Interest — a charge , paid even in a loss
Voting rights	Yes	No
Repayment	Repaid last	Repaid before shareholders
Security	Unsecured	Usually secured by a charge on assets
Convertibility	Cannot be converted	Can be convertible

Types: Secured / Unsecured · Registered / Bearer · Redeemable / Irredeemable · Convertible / Non-convertible · First / Second.

2. Issue for Cash — the three prices

AT PAR Bank A/c Dr. To Debenture Application & Allotment A/c
Debenture Application & Allotment A/c Dr. To 9% Debentures A/c

AT PREMIUM Debenture Application & Allotment A/c Dr.
To 9% Debentures A/c (face value)
To Securities Premium A/c (premium)

AT DISCOUNT *Debenture Application & Allotment A/c Dr.*

Discount on Issue of Debentures A/c Dr.

To 9% Debentures A/c (face value)

3. Issue Conditions — the six combinations

Debentures may be **issued** at par, premium or discount, and **redeemed** at par or premium. The redemption terms decide whether there is a **loss on issue**.

THE MASTER TABLE — learn this, it drives every question

Issued → Redeemed	Debit side of the entry	Credit side
Par → Par	Bank	Debentures
Discount → Par	Bank + Discount on Issue	Debentures
Premium → Par	Bank	Debentures + Securities Premium
Par → Premium	Bank + Loss on Issue	Debentures + Premium on Redemption
Discount → Premium	Bank + Loss on Issue (discount + redemption premium)	Debentures + Premium on Redemption
Premium → Premium	Bank + Loss on Issue	Debentures + Securities Premium + Premium on Redemption

WORKED EXAMPLE — the hardest case 1,000 debentures of ₹100 each issued at 10% discount, redeemable at 5% premium.

Face value = $1,000 \times 100 = ₹1,00,000$

Cash received = $1,000 \times 90 = ₹90,000$

Discount = ₹10,000 Premium on redemption = $1,00,000 \times 5\% = ₹5,000$

Loss on Issue = $10,000 + 5,000 = ₹15,000$

Bank A/c Dr. ₹90,000

Loss on Issue of Debentures A/c Dr. ₹15,000

To 9% Debentures A/c ₹1,00,000

To Premium on Redemption of Debentures A/c ₹5,000

TRAP Premium on Redemption of Debentures is a **LIABILITY** (Other Long-term Liabilities), not an expense. It is credited now and paid at redemption. Students often debit it.

4. Writing off Discount / Loss on Issue (AS 16)

THE OFFICIAL RULE — quoted in the syllabus Discount or loss on issue of debentures is written off in the year the debentures are allotted:

1. First from **Securities Premium Reserve**, if it exists
2. Then the balance from the **Statement of Profit & Loss** as a **Finance Cost**

ENTRY Securities Premium Reserve A/c Dr. (to the extent available)

Statement of Profit & Loss A/c Dr. (balance)

To Discount / Loss on Issue of Debentures A/c

5. Issue for Consideration Other Than Cash

TWO ENTRIES 1. Sundry Assets A/c Dr. (Goodwill Dr. if purchase price > net assets)

To Sundry Liabilities A/c To Vendor A/c

(Capital Reserve Cr. if net assets > purchase price)

2. Vendor A/c Dr. To Debentures A/c ($\pm$ Securities Premium / Discount)

No. of debentures = Purchase Consideration $\div$ Issue Price

Issue price = face value + premium, or face value - discount.

6. Debentures as Collateral Security

CONCEPT Collateral security is a secondary security given in addition to the primary security. If the loan is repaid, the debentures are returned; if not, the lender may keep them.

Method	Treatment
1. No entry	Only a note under Long-term Borrowings: "Bank Loan ₹X secured by issue of ₹Y debentures as collateral security"
2. Formal entry	Debenture Suspense A/c Dr. To Debentures A/c Both shown under Long-term Borrowings; Debenture Suspense is deducted from Debentures

7. Interest on Debentures

ENTRIES 1. Debenture Interest A/c Dr. To Debentureholders A/c

2. Debentureholders A/c Dr. To Bank A/c

3. Statement of Profit & Loss Dr. To Debenture Interest A/c

Interest = Face Value of Debentures $\times$ Rate $\times$ Period

Interest is always on **FACE** value, never on the issue price.

TRAP Interest is calculated on **face value** even when debentures were issued at a discount or premium. A ₹100 debenture issued at ₹90 still earns 9% on ₹100. And interest is a **charge** — payable even if the company makes a loss.

8. Question Triggers what the wording is really asking

If the question says...

Do this

"issued at par, redeemable at par"	Simplest entry — no discount, no loss
"issued at 10% discount, redeemable at par"	Discount on Issue Dr.
"issued at par, redeemable at 5% premium"	Loss on Issue Dr., Premium on Redemption Cr.
"issued at discount AND redeemable at premium"	Loss = discount + redemption premium
"Securities Premium Reserve balance ₹X exists"	Write off loss from it first , balance to P&L
"purchased assets worth ₹X, paid in debentures"	Assets Dr. → Vendor; Vendor Dr. → Debentures
"purchase price exceeds net assets"	Goodwill Dr.
"net assets exceed purchase price"	Capital Reserve Cr.
"debentures issued as collateral security"	Either no entry + note, or Debenture Suspense entry
"calculate interest for the year"	On face value , regardless of issue price
"company incurred a loss this year"	Interest is still paid — it is a charge

MOST-ASKED BOARD QUESTIONS

1. [4-6M] Pass journal entries for issue of debentures under various conditions.
2. [3-4M] Entries for debentures issued for consideration other than cash.
3. [3M] Write off loss on issue as per AS 16.
4. [3M] Distinguish between shares and debentures.
5. [1M] Is debenture interest a charge or an appropriation? → **Charge**
6. [1M] Where are debentures shown? → **Non-Current Liabilities** → **Long-term Borrowings**

THE HABIT THAT SCORES — Before writing any debenture entry, split the question into **issue condition** and **redemption condition**. The master table in Section 3 then gives you the entry directly. Loss on issue exists only when redemption is at a premium — that one fact resolves most of this chapter.