

Issue & Redemption of Debentures

Meaning

A debenture is a written instrument issued by a company acknowledging a ~~share~~ debt, with a promise to repay the principal and pay interest at a fixed rate on stated dates. Sec 2(30) Co. Act.

Debenture = Borrowed Capital

<- creditor of co.
<- not owner

Key Features

1. Fixed rate of interest - a charge on profits.
2. Repayable after fixed period (term loan).
3. No voting rights in company affairs.
4. May be secured by charge on assets.
5. Issued in series with pari-passu clause.

Types of Debentures

- (a) Security : Secured / Unsecured (Naked)
- (b) Tenure : Redeemable / Irredeemable (Perp.)
- (c) Registration: Registered / Bearer
- (d) Convertibility: ~~FCD~~ FCD / PCD / NCD
- (e) Coupon : Specific rate / Zero-coupon
- (f) Priority : First mortgage / Second mortgage

Mnemonic : 'S.T.R.C.C.P' - the six lenses.

Debentures v/s Shares

Shareholder = OWNER ; Debentureholder = CREDITOR

Dividend (appr. of profit) v/s Interest (charge).

Shares not redeemed in life of co. (exc. pref.) ;

Debentures redeemed at stated maturity.

Shares cannot be issued at discount (post 2013) ;

Debentures CAN be issued at a discount.

Issue at Par (face = issue price)

Step 1 - On application :

Bank A/c	Dr. X	
To Debenture Application A/c		X

Step 2 - On allotment :

Deb. Application A/c	Dr. X	
To % Debentures A/c		X

Issue at Premium (issue > face)

Premium = Issue price - Face value.

Bank A/c	Dr.	(Issue)
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To % Deb A/c (Face)

← capital reserve

To Sec. Premium Res. (Prem.)

← Sec 52

Issue at Discount

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Issue price < Face value. Loss to the company.

Discount on Issue of Deb. is a ~~loss~~ capital loss, shown under 'Other Non-Current Assets' till written off against Sec. Premium / Stmt of P&L.

Journal entry :

Bank A/c	Dr. Issue	
Disc. on Issue of Deb. A/c	Dr. Disc.	
To % Debentures A/c		Face

Six Cases (issue X redemption)

Mnemonic - PP / PD / PR / DP / DR / DD

- (i) Par - Par : no extra entry
- (ii) Par - Premium : Loss on Issue arises
- (iii) Disc - Par : Discount on Issue only
- (iv) Disc - Premium : Discount + Loss both
- (v) Prem - Par : Securities Premium only
- (vi) Prem - Premium : Premium + Loss on Iss.

Loss on Issue = Premium on Red.

<- provided at
<- the time of issue

Note : 'Loss on Issue of Deb.' is written off in the year of issue itself (Guidance Note, ICAI).

Premium on Red. = liability on credit side.

Other Modes of Issue

(A) For Consideration other than Cash

When a vendor sells assets to the company and is paid by issuing debentures (not cash).

Step 1 - Purchase of assets :

Sundry Assets A/c	Dr. V	
To Vendor A/c		V

Step 2 - Settlement :

Vendor A/c	Dr. V	
To % Debentures A/c		N

$$\text{No. of Deb} = \frac{\text{Purchase Price}}{\text{Issue Price}}$$

(round DOWN to whole number of debentures)

If price > face -> issue at ~~discount~~ premium ;

If price < face -> issue at discount.

(B) As Collateral Security

Collateral = subsidiary / secondary security

given to a lender in addition to principal one.

Method 1 - No entry (just disclose in Notes).

Method 2 - Pass an entry :

Deb. Suspense A/c	Dr. F	
To % Debentures A/c		F

Suspense A/c shown as a deduction from Deb.

Interest, DRR & Redemption

Interest on Debentures

$$\text{Int.} = \text{FV} \times \text{Rate} \times n / 12$$

<-charge,
<-not appr.

n = months for which interest is due.

TDS @ 10% u/s 193 if int > ~~Rs. 10,000~~ threshold.

Int. on Deb. A/c	Dr. I	
To Debentureholders		I-T
To TDS Payable		T

DRR & DRI (Rule 18, Co. Rules 2014)

DRR \geq 10% of Nominal Value of Deb.

DRI = 15% of Deb. to be redeemed

DRR : transfer from P&L Appropriation, before redemption begins. AIFI / Banks / NBFC exempt.

DRI : invest by 30 April every year in Govt. securities / FDs. Encashed on redemption.

Modes of Redemption

1. Lump-sum at maturity (bullet payment)
2. Instalments by draw of lots (annual)
3. Purchase in open market / 4. Conversion