

# ACCOUNTING FOR DEBENTURES

**Debenture** is an acknowledgement of a debt in writing, given under the seal of the company, containing a contract for the repayment of the principal sum at a specified date and for the payment of interest at a fixed rate until the principal sum is repaid.

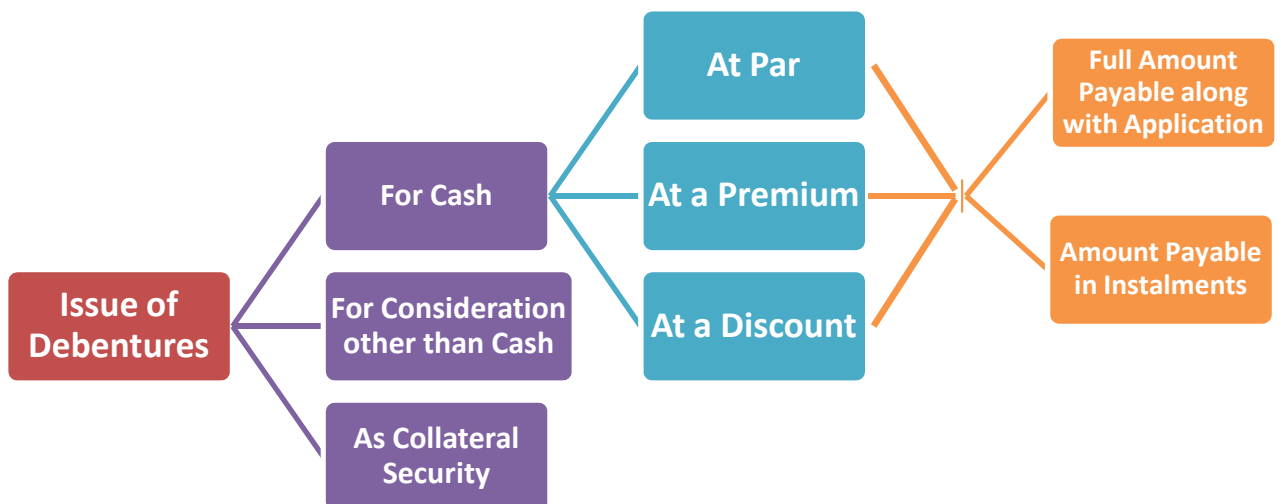
## TYPES OF DEBENTURE

Permanence	Security	Convertibility	Negotiability	Priority
Redeemable	Secured/Mortgage	Convertible <ul style="list-style-type: none"> <li>• <i>Fully Convertible</i></li> <li>• <i>Partly Convertible</i></li> </ul>	Registered	First Mortgage
Irredeemable	Unsecured/Naked	Non-Convertible	Bearer	Second Mortgage

## ACCOUNTING FOR DEBENTURE

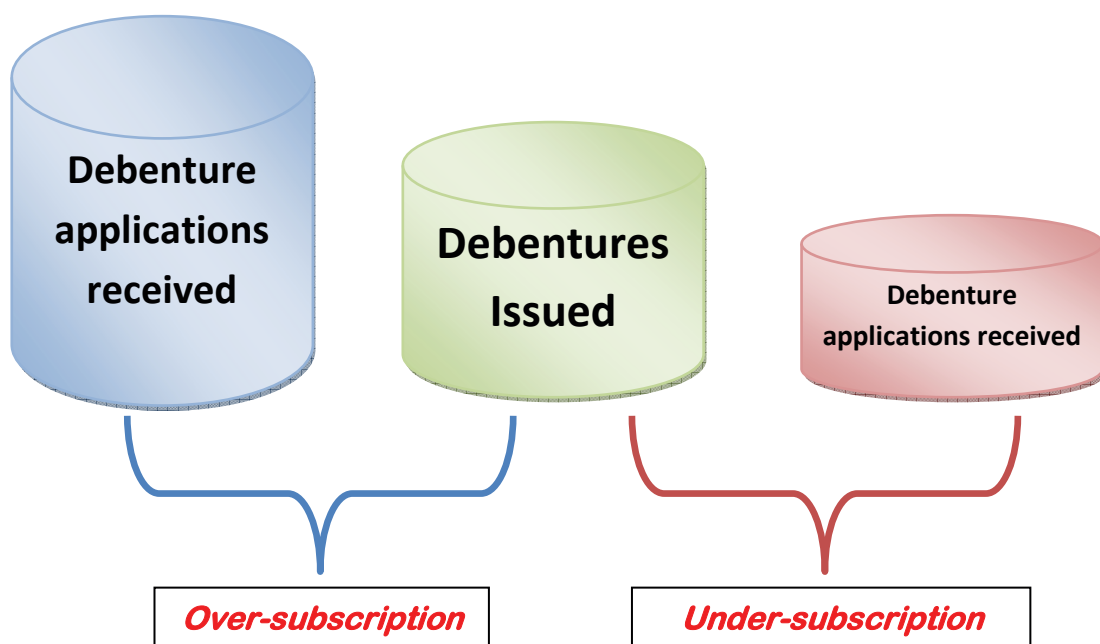
- (i) When debentures are issued;
- (ii) When provision for its redemption is made; and
- (iii) When ultimately debentures are redeemed.

## ISSUE OF DEBENTURES



Collection received In Lump Sum	Collection received In Instalments
<p><b><u>A. Issued at par</u></b></p> <p>Bank A/C.....Dr. To Debentures A/C</p>	<p>Bank A/C Dr. To Debenture Application A/C <i>(receipt of application money)</i></p> <p>Debenture Application A/C Dr. To Debentures A/C <i>(transfer of application money to Debentures A/C)</i></p> <p><b>Debenture Allotment A/C Dr.</b> <b>To Debentures A/C</b> <i>(Debenture Allotment money due)</i></p>
<p><b><u>B. Issued at discount</u></b></p> <p>Bank A/C.....Dr. Discount on issue of debentures A/C.....Dr. To Debentures A/C</p>	<p><b>Debenture Allotment A/C Dr.</b> <b>Discount on issue of debentures A/C.....DR</b> <b>To Debentures A/C</b></p> <p><b>Debenture Allotment A/C Dr.</b> <b>To Debentures A/C</b> <b>To Securities Premium A/C</b></p>
<p><b><u>C. Issued at premium</u></b></p> <p>Bank A/C.....Dr. To Debentures A/C To Securities Premium A/C</p>	<p>Bank A/C Dr. To Debenture Allotment A/C <i>(receipt of Debenture allotment money)</i></p> <p>Debentures Call A/C Dr. To Debentures A/C <i>(Debenture Call money due)</i></p> <p>Bank A/C Dr. To Debentures Call A/C <i>(receipt of Debenture call money)</i></p>

### Over & Under Subscription



<i>Under-subscription</i>	<i>Over-subscription</i>
Less number of applications received than the number of Debentures offered for subscription.	More number of applications received than the number of Debentures offered for subscription.
<i>Treatment</i>	
Accounting is done for the number of debentures subscribed.	⇒ Rejecting excess applications and refunding excess application money. ⇒ Pro-rata allotment ⇒ Combining the above two options.

### **ILLUSTRATION 1**

A Ltd issued 40000, 9% Debentures of Rs. 50 each payable on application 20%, on allotment 40% and on making call 40%.

Record necessary Journal entries.

- (A.) Applications received for 40000 debentures.
- (B.) Applications received for 35000 debentures.
- (C.) Applications received for 41000 debentures and it was decided to refund the excess application money.
- (D.) Applications received for 56000 debentures, application of 36000 debentures were accepted in full, applicants for 8000 debentures were allotted 4000 debentures and remaining applications were rejected.
- (E.) Debentures are issued at a premium of 20%, premium money payable on (i) application/ (ii) allotment.
- (F.) Debentures issued at a discount of 10%, discount being adjustable on allotment.

## Treatment of Premium on Redemption at the time of Issue of Debentures

Issue Price?	Redemption Price?
(a) Issued at par	(a) Redeemed at par
(b) Issued at premium	(b) Redeemed at premium
(c) Issued at discount	(c) Redeemed at discount



- (a) Issued at par and redeemable at par
- (b) Issued at discount and redeemable at par
- (c) Issued at premium and redeemable at par
- (d) Issued at par and redeemable at premium
- (e) Issued at premium and redeemable at premium
- (f) Issued at discount and redeemable at premium

### **D. Issued at par and redeemable at premium**

Bank A/C .....	DR	100
<b>Loss on issue of debentures A/C</b> .....	DR	10
To Debentures A/C		100
To <b>Prem. on Redemption of debentures A/C</b>		10

### **E. Issued at premium and redeemable at premium**

Bank A/C .....	DR	110
<b>Loss on issue of debenture A/C</b> .....	DR	5
To Debentures A/C		100
To Securities Premium A/C		10
To <b>Prem. on redemption of debentures A/C</b>		5

### **F. Issued at discount and redeemable at premium**

Bank A/C .....	DR	90
<b>Loss on issue of Debentures A/C</b> .....	DR **	15
To Debentures A/C		100
To <b>Prem. on redemption of debentures A/C</b>		5

\*\* Loss on issue of debentures = discount on issue + Premium on redemption



## **ILLUSTRATION 2**

ABC Ltd. issued 30,000, 6% debentures of Rs. 100 each. 60% of the issue was underwritten by Delton. Applications for 28,000 debentures were received by the company. Determine the liability of Delton.

### **Solution:**

Gross liability of Delton being 60% of 30,000 debentures = 18,000 debentures

Less: Marked applications (assumed 60%) i.e.,  $60/100 \times 28,000 = 16,800$  debentures

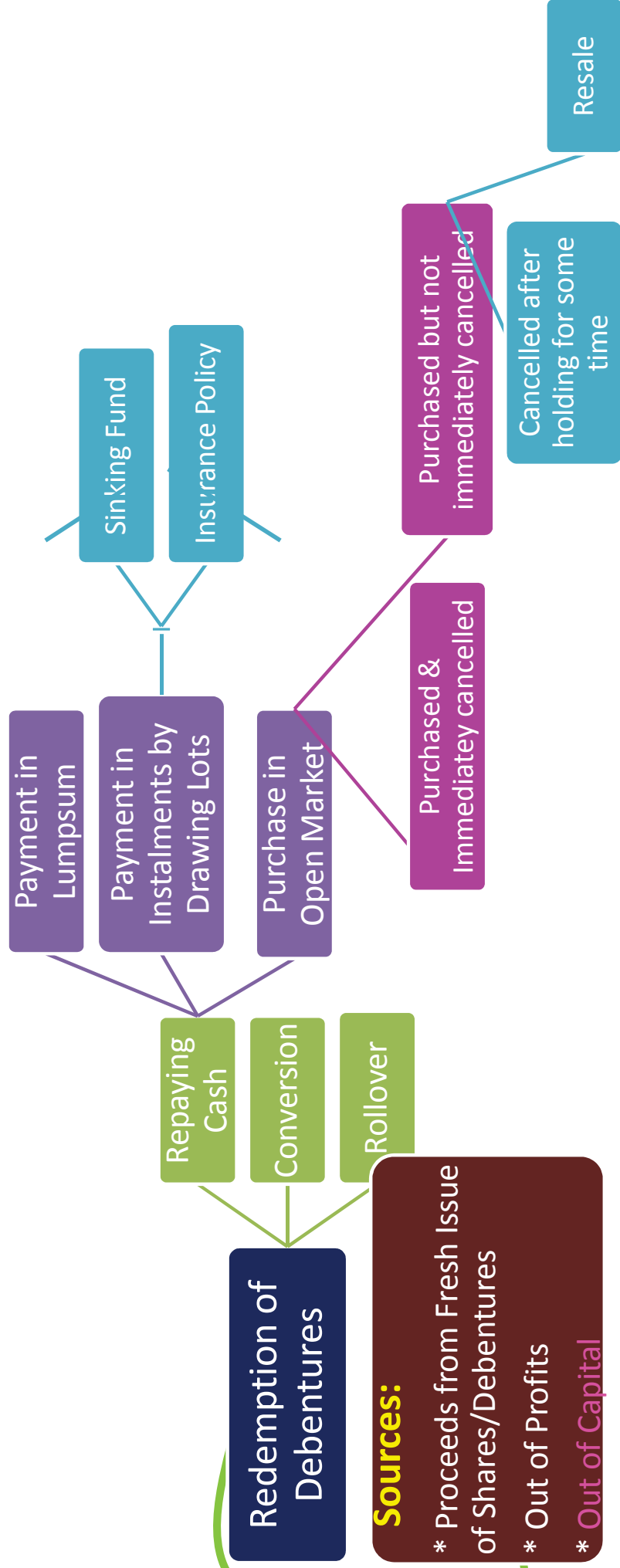
Net liability of Delton = 1,200 debentures

Alternatively Delton's liability can be determined in the following way:

Number of debentures not subscribed for by the public =  $(30,000 - 28,000) = 2,000$  debentures

Delton's liability = 60% of 2,000 debentures = 1,200 debentures

# REDEMPTION OF DEBENTURES



## COMPUTATION OF TAXABLE INCOME & TAX PAYABLE

### STEP—1

<b>Computation of Tax Payable of Mr.X , a resident individual for the Assessment Year 2023-24 relating to the Previous Year 2022-23</b>	
<u>PARTICULARS</u>	<u>Rs.</u>
Income from Salary	**
Income from House Property	**
Income from Profit & Gains from Business & Profession	**
Income from Capital Gains	**
Income from Other Sources	**
<b>GROSS TOTAL INCOME</b>	**
Less— <u>Deduction under the chapter VI A</u> From under section 80C to 80U	**
<b>TAXABLE INCOME or TOTAL INCOME</b>	**

### STEP—2

#### ➤ IF ASSESSEE IS BELOW 60 YEARS

<u>TAXABLE INCOME</u>	<u>RATES</u>
Upto Rs. 2,50,000	Nil
Above Rs. 2,50,000 – 5,00,000	5%
Above Rs. 5,00,000 – 10,00,000	12,500 + 20%
Above Rs. 10,00,000	1,12,500 + 30%

#### ➤ IF ASSESSEE IS 60 YEARS AND ABOVE BUT BELOW 80 YEARS

<u>TAXABLE INCOME</u>	<u>RATES</u>
Upto Rs. 3,00,000	Nil
Above Rs. 3,00,000 – 5,00,000	5%
Above Rs. 5,00,000 – 10,00,000	10,000 + 20%
Above Rs. 10,00,000	1,10,000 + 30%

#### ➤ IF ASSESSEE IS 80 YEARS AND MORE

<u>TAXABLE INCOME</u>	<u>RATES</u>
Upto Rs. 5,00,000	Nil
Above Rs. 5,00,000 – 10,00,000	20%
Above Rs. 10,00,000	1,00,000 + 30%



➤ **SURCHARGE**

<b><u>RANGE OF INCOME</u></b>	<b><u>RATES</u></b>
<b>Rs. 50,00,000 to Rs. 1,00,00,000</b>	<b>10%</b>
<b>Rs. 1,00,00,000 to Rs. 2,00,00,000</b>	<b>15%</b>
<b>Rs. 2,00,00,000 to Rs. 5,00,00,000</b>	<b>25%</b>
<b>Rs. 5,00,00,000 to Rs. 10,00,00,000</b>	<b>37%</b>
<b>Above Rs. 10,00,00,000</b>	<b>37%</b>

**STEP—3**

**CALCULATION OF TAX LIABILITY**

<b><u>PARTICULARS</u></b>	<b><u>Rs.</u></b>
<b>Tax Payable (As per Rule)</b>	<b>**</b>
<b>Less- Rebate U/S 87A (Maximum Rs. 12500) [If Taxable Income does not exceed Rs. 5,00,000]</b>	<b>**</b>
	<b>**</b>
<b>Add – Surcharge (As per Rule)</b>	<b>**</b>
	<b>**</b>
<b>Add – Health and Education Cess @4%</b>	<b>**</b>
<b>GROSS TAX LIABILITY</b>	<b>**</b>
<b>Less- Tax Deducted at Source (TDS)</b>	<b>**</b>
<b>Less—Advance Tax</b>	<b>**</b>
<b>NET TAX LIABILITY</b>	<b>**</b>

## ADVANCE TAX (Sec—208)

The Assessee is liable to pay the advance tax. If the amount of advance tax is payable by the assessee during the year is Rs.10000 or more then he will be liable to pay the advance tax.

### ➤ DUE DATE OF PAYMENT OF ADVANCE TAX UNDER SECTION 211

<u>DUE DATE OF INSTALLMENT</u>	<u>AMOUNT PAYABLE</u>
On or before 15 <sup>th</sup> June	Not less than 15% of the advance tax payable
On or before 15 <sup>th</sup> September	Not less than 45% of the advance tax payable – Amount paid in earlier instalment (i.e 30%)
On or before 15 <sup>th</sup> December	Not less than 75% of the advance tax payable – Amount paid in earlier instalment (i.e 30%)
On or before 15 <sup>th</sup> March	The whole amount of advance tax liability – amount paid in earlier instalment / instalments (i.e 25%)

### ➤ Important Points

- ❖ Section of Advance tax 208 to 219
  
- ❖ An individual resident in India of the age of 60 years or more at any time during the previous year who does not have any income chargeable under the head “Profit & Gains of Business or Profession” is not liable to pay advance tax.
  
- ❖ An eligible assessee opting for computation of “Profit & Gains of Business or Profession” on presumption basis in respect of eligible business referred to in Sec 44AD(1) or in eligible profession referred to in Sec 44ADA(1), shall be required to pay the advance tax of the whole amount on or before 15<sup>th</sup> March of the Financial Year
  
- ❖ However any amount paid by way of advance tax on or before 31<sup>st</sup> March shall also be treated as advance tax paid during the Financial Year ending on that date.