

Treatment of Discount/Loss on Issue of Debentures

1. (Ex. Q. 41). X Ltd. issued 3,000, 10% Debentures of ₹ 100 each at a discount of 5% on 1st April, 2015. As per the terms of issue, debentures are to be redeemed at the end of five years. Show the amount of discount to be written off from Statement of Profit and Loss every year.

Solution:

Amount of discount to be written off from Statement of Profit and Loss every year:

$$\begin{aligned} \text{Nominal Value of Debentures} &= 3,000 \times ₹ 100 \text{ each} \\ &= ₹ 3,00,000 \end{aligned}$$

5% Discount on Issue of Debentures *i.e.*, ₹ 15,000.

$$\text{Discount on Issue of Debentures to be written off each year} = \frac{₹ 15,000}{5} = ₹ 3,000.$$

Note: Debentures are to be redeemed on maturity, *i.e.*, at the end of 5 years. Therefore, Discount on Issue of Debentures is written off equally in 5 years.

2. [Ex. Q. 42 (Amended)]. A limited company issued ₹ 1,00,000; 9% Debentures of ₹ 100 each at a discount of 6% on 1st April, 2016. These debentures are to be redeemed equally in 5 annual instalments starting from 31st March, 2017. Discount on Issue of Debentures is written off from Statement of Profit and Loss.

Pass the Journal entries for Issue of Debentures and writing off the discount.

Solution:

Nominal Value of 9% Debentures = ₹ 1,00,000

6% Discount on Issue of Debentures = ₹ 6,000

Discount on Issue of Debentures to be written off during five years, if redeemed in five equal annual instalments.

Amount of Discount on Issue of Debentures to be written off = ₹ 6,000.

Calculation of amount of discount to be written off each year:

Year ended	Debentures Outstanding (₹)	Ratio	Discount to be Written off (₹)
31st March, 2017	1,00,000	5	$6,000 \times 5/15 = 2,000$
31st March, 2018	80,000	4	$6,000 \times 4/15 = 1,600$
31st March, 2019	60,000	3	$6,000 \times 3/15 = 1,200$
31st March, 2020	40,000	2	$6,000 \times 2/15 = 800$
31st March, 2021	20,000	1	$6,000 \times 1/15 = 400$
		15	

In the Books of ...
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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 April 1	Bank A/c To Debentures Application and Allotment A/c (Being application money received for 1,000; 9% Debentures)	...Dr.	94,000	94,000

April 1	Debentures Application and Allotment A/c Discount on Issue of Debentures A/c To 9% Debentures A/c (Being 1,000; 9% Debentures of ₹ 100 each allotted at 6% discount)	...Dr. ...Dr.	94,000 6,000	1,00,000
2017 March 31	Statement of Profit and Loss (Finance Cost) To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off)	...Dr.	2,000	2,000
2018 March 31	Statement of Profit and Loss (Finance Cost) To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off)	...Dr.	1,600	1,600
2019 March 31	Statement of Profit and Loss (Finance Cost) To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off)	...Dr.	1,200	1,200
2020 March 31	Statement of Profit and Loss (Finance Cost) To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off)	...Dr.	800	800
2021 March 31	Statement of Profit and Loss (Finance Cost) To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off)	...Dr.	400	400

Discount on Issue of Debentures Account will be as follows:

DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT					
Dr.			Cr.		
Date	Particulars	₹	Date	Particulars	₹
2016 April 1	To 9% Debentures A/c	6,000	2017 March 31	By Statement of Profit and Loss (Finance Cost)	2,000
			March 31	By Balance c/d	4,000
		6,000			6,000
2017 April 1	To Balance b/d	4,000	2018 March 31	By Statement of Profit and Loss (Finance Cost)	1,600
			March 31	By Balance c/d	2,400
		4,000			4,000
2018 April 1	To Balance b/d	2,400	2019 March 31	By Statement of Profit and Loss (Finance Cost)	1,200
			March 31	By Balance c/d	1,200
		2,400			2,400
2019 April 1	To Balance b/d	1,200	2020 March 31	By Statement of Profit and Loss (Finance Cost)	800
			March 31	By Balance c/d	400
		1,200			1,200
2020 April 1	To Balance b/d	400	2021 March 31	By Statement of Profit and Loss (Finance Cost)	400
					400
		400			400

3. (Ex. Q. 43). A company issued 9% Debentures of ₹ 10,00,000 at 8% discount, redeemable at par. The debentures are to be redeemed by drawings method in the following manner:

Year-end	Amount (Face Value) (₹)
2	1,00,000
3	2,00,000
4	3,00,000
5	4,00,000

Calculate the amount of discount on debentures to be written off each year.

Solution:

Nominal Value of 9% Debentures = ₹ 10,00,000

8% Discount on Issue of Debentures = ₹ 80,000

Year	Debentures Outstanding (₹)	Ratio	Discount to be Written off (₹)
1	10,00,000	10	$80,000 \times 10/40 = 20,000$
2	10,00,000	10	$80,000 \times 10/40 = 20,000$
3	9,00,000	9	$80,000 \times 9/40 = 18,000$
4	7,00,000	7	$80,000 \times 7/40 = 14,000$
5	4,00,000	4	$80,000 \times 4/40 = 8,000$
		40	

4. On 1st April, 2014, Kohinoor Ltd. had issued 21,000, 10% Debentures of ₹ 100 each at a discount of 5% redeemable at a premium of 5% as follows:

On 31st March, 2017	3,000 Debentures;
On 31st March, 2018	5,000 Debentures;
On 31st March, 2019	6,000 Debentures;
On 31st March, 2020	7,000 Debentures.

How much loss will be written off each year by the company?

Solution: Amount of Loss on Issue of Debentures = ₹ 2,10,000 (i.e., 10% of ₹ 21,00,000)

Calculation of amount of loss to be written off each year:

Year ended 31st March,	Debentures Outstanding (₹)	Ratio	Discount to be Written off (₹)
2015	21,00,000	21	$2,10,000 \times 21/101 = 43,663$
2016	21,00,000	21	$2,10,000 \times 21/101 = 43,663$
2017	21,00,000	21	$2,10,000 \times 21/101 = 43,664$
2018	18,00,000	18	$2,10,000 \times 18/101 = 37,426$
2019	13,00,000	13	$2,10,000 \times 13/101 = 27,030$
2020	7,00,000	7	$2,10,000 \times 7/101 = 14,554$
		101	

5. On 1st October, 2015, Nimrat Ltd. issued 20,000, 10% Debentures of ₹ 100 at ₹ 71 each redeemable at par as follows:

On 31st March, 2017	3,000 Debentures;
On 31st March, 2018	5,000 Debentures;
On 31st March, 2019	6,000 Debentures;
On 31st March, 2020	6,000 Debentures.

How much discount will be written off each year by the company?

Solution: Amount of Discount on Issue of Debentures = ₹ 5,80,000 (i.e., 20,000 Debentures × ₹ 29).

Calculation of amount of Discount to be written off each year:

Year ended 31st March,	Debentures Outstanding (₹)	Ratio	Discount to be Written off (₹)
2016	20,00,000 (for 6 Months)	10	$5,80,000 \times 10/65 = 89,231$
2017	20,00,000 (for 12 Months)	20	$5,80,000 \times 20/65 = 1,78,462$
2018	17,00,000 (for 12 Months)	17	$5,80,000 \times 17/65 = 1,51,692$
2019	12,00,000 (for 12 Months)	12	$5,80,000 \times 12/65 = 1,07,077$
2020	6,00,000 (for 12 Months)	6	$5,80,000 \times 6/65 = 53,538$
		65	

6. KT Ltd. issued ₹ 2,00,000, 10% Debentures of ₹ 100 each at a discount of 5%. The terms of issue provide the repayment in 4 equal annual instalments. KT Ltd. has a balance of ₹ 5,00,000 in Securities Premium Reserve. The company decided to write off discount on issue of debentures from Securities Premium Reserve in proportion of amount used.

Calculate the amount of discount on debentures to be written off each year.

Give Journal entries for Issue of Debentures and writing off the discount.

Solution: Amount of Discount on Issue of Debentures to be written off = ₹ 10,000.

Calculation of amount of Discount to be written off each year:

Year ended	Debentures Outstanding (₹)	Ratio	Discount to be Written off (₹)
1st	2,00,000	4	4,000
2nd	1,50,000	3	3,000
3rd	1,00,000	2	2,000
4th	50,000	1	1,000
		10	

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c To Debentures Application and Allotment A/c (Being the debentures application money received for 2,000 debentures)	...Dr.	1,90,000	1,90,000
(ii)	Debentures Application and Allotment A/c Discount on Issue of Debentures A/c To 10% Debentures A/c (Being the allotment of 2,000; 10% Debentures of ₹ 100 each)	...Dr. ...Dr.	1,90,000 10,000	2,00,000

Ist Year (iii)	Securities Premium Reserve A/c ...Dr. To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off from Securities Premium Reserve)	4,000	4,000
IInd Year (iv)	Securities Premium Reserve A/c ...Dr. To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off from Securities Premium Reserve)	3,000	3,000
IIIrd Year (v)	Securities Premium Reserve A/c ...Dr. To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off from Securities Premium Reserve)	2,000	2,000
IVth Year (vi)	Securities Premium Reserve A/c ...Dr. To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off from Securities Premium Reserve)	1,000	1,000

Dr. DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT Cr.					
Date	Particulars	₹	Date	Particulars	₹
Ist Year beginning	To 10% Debentures A/c	10,000	Ist Year at the end	By Securities Premium Reserve A/c	4,000
		10,000		By Balance c/d	6,000
					10,000
IInd Year beginning	To Balance b/d	6,000	IInd Year at the end	By Securities Premium Reserve A/c	3,000
		6,000		By Balance c/d	3,000
					6,000
IIIrd Year beginning	To Balance b/d	3,000	IIIrd Year at the end	By Securities Premium Reserve A/c	2,000
		3,000		By Balance c/d	1,000
					3,000
IVth Year beginning	To Balance b/d	1,000	IVth Year at the end	By Securities Premium Reserve A/c	1,000
		1,000			1,000
					1,000

7. Reynolds Ltd. issued 10,000; 9% Debentures of ₹ 100 each at a discount of 6% redeemable at 6% premium in instalments as follows:

Year I	—	1,000;
Year II	—	2,000;
Year III	—	3,000;
Year IV	—	2,000;
Year V	—	Balance.

Show the Loss on Issue of Debentures Account till it is completely written off.

Solution: Amount of Loss to be written off = ₹ 10,00,000 × 12/100 = ₹ 1,20,000.

Calculation of amount of loss to be written off each year:

Year ended	Debentures Outstanding (₹)	Ratio	Loss on Issue of Debentures Written off (₹)
I	10,00,000	10	1,20,000 × 10/32 = 37,500
II	9,00,000	9	1,20,000 × 9/32 = 33,750
III	7,00,000	7	1,20,000 × 7/32 = 26,250
IV	4,00,000	4	1,20,000 × 4/32 = 15,000
V	2,00,000	2	1,20,000 × 2/32 = 7,500
		32	

Dr.		LOSS ON ISSUE OF DEBENTURES ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
1st Year beginning	To 9% Debentures A/c	60,000	1st Year at the end	By Statement of Profit and Loss (Finance Cost)	37,500	
	To Premium on Redemption of Debentures A/c	60,000		By Balance c/d	82,500	
		1,20,000			1,20,000	
2nd Year beginning	To Balance b/d	82,500	2nd Year at the end	By Statement of Profit and Loss (Finance Cost)	33,750	
		82,500		By Balance c/d	48,750	
		82,500			82,500	
3rd Year beginning	To Balance b/d	48,750	3rd Year at the end	By Statement of Profit and Loss (Finance Cost)	26,250	
		48,750		By Balance c/d	22,500	
		48,750			48,750	
4th Year beginning	To Balance b/d	22,500	4th Year at the end	By Statement of Profit and Loss (Finance Cost)	15,000	
		22,500		By Balance c/d	7,500	
		22,500			22,500	
5th Year beginning	To Balance b/d	7,500	5th Year at the end	By Statement of Profit and Loss (Finance Cost)	7,500	
		7,500			7,500	
		7,500			7,500	

8. On 1st April, 2014, Sunstar Ltd. issued 10,000, 12% Debentures of ₹ 100 each at a discount of 5%, redeemable as follows:

On 31st March, 2015	2,000 Debentures;
On 31st March, 2016	3,000 Debentures;
On 31st March, 2017	3,000 Debentures;
On 31st March, 2018	2,000 Debentures.

You are to pass the Journal entries and prepare Discount on Issue of Debentures Account.

Solution:

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Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2014 April 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the debentures application money received)		9,50,000	9,50,000
April 1	Debentures Application and Allotment A/c ...Dr. Discount on Issue of Debentures A/c ...Dr. To 12% Debentures A/c (Being 10,000; 12% Debentures of ₹ 100 each allotted at 5% discount)		9,50,000 50,000	10,00,000
2015 March 31	Statement of Profit and Loss (Finance Cost) ...Dr. To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off)		20,000	20,000
2016 March 31	Statement of Profit and Loss (Finance Cost) ...Dr. To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off)		16,000	16,000
2017 March 31	Statement of Profit and Loss (Finance Cost) ...Dr. To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off)		10,000	10,000
2018 March 31	Statement of Profit and Loss (Finance Cost) ...Dr. To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off)		4,000	4,000

Dr.		DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2014 April 1	To 12% Debentures A/c	50,000	2015 March 31	By Statement of Profit and Loss (Finance Cost)	20,000	
			March 31	By Balance c/d	30,000	
		50,000			50,000	
2015 April 1	To Balance b/d	30,000	2016 March 31	By Statement of Profit and Loss (Finance Cost)	16,000	
			March 31	By Balance c/d	14,000	
		30,000			30,000	
2016 April 1	To Balance b/d	14,000	2017 March 31	By Statement of Profit and Loss (Finance Cost)	10,000	
			March 31	By Balance c/d	4,000	
		14,000			14,000	
2017 April 1	To Balance b/d	4,000	2018 March 31	By Statement of Profit and Loss (Finance Cost)	4,000	
					4,000	
		4,000			4,000	

Working Note:**Calculation of amount of Discount to be written off each year:**

Year ended 31st March,	Debentures Outstanding (₹)	Ratio	Discount to be Written off (₹)
2015	10,00,000	10	$50,000 \times 10/25 = 20,000$
2016	8,00,000	8	$50,000 \times 8/25 = 16,000$
2017	5,00,000	5	$50,000 \times 5/25 = 10,000$
2018	2,00,000	2	$50,000 \times 2/25 = 4,000$
		25	

9. (Ex. Q. 44). Kitply Ltd. issued ₹ 2,00,000, 10% Debentures at a discount of 5%. The terms of issue provide the repayment at the end of 4 years. Kitply Ltd. has a balance of ₹ 5,00,000 in Securities Premium Reserve. The company decided to write off discount on issue of debentures from Securities Premium Reserve in the first year. Pass the Journal entry.

Solution:**In the Books of Kitply Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c To Debentures Application and Allotment A/c (Being the debentures application and allotment money received)	...Dr.	1,90,000	1,90,000
(ii)	Debentures Application and Allotment A/c Discount on Issue of Debentures A/c To 10% Debentures A/c (Being the issue of 10% Debentures at 5% discount)	...Dr. ...Dr.	1,90,000 10,000	2,00,000
(iii)	Securities Premium Reserve A/c To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off from Securities Premium Reserve A/c)	...Dr.	10,000	10,000

10. (Ex. Q. 45). On 1st January, 2016, Raha Ltd. issued 8% Debentures, face value ₹ 6,00,000 repayable at 5% premium in equal proportions at the end of 5, 10 and 15 years. It has a balance of ₹ 10,000 in Securities Premium Reserve. The company decides to write off loss from Securities Premium Reserve.

Pass Journal entries. Also give Journal entries for writing off Loss on Issue of Debentures if the loss is written off in the first year.

Solution:**In the Books of Raha Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2016 Jan. 1	Bank A/c To Debentures Application and Allotment A/c (Being application and allotment money received for 8% Debentures)	...Dr.	6,00,000	6,00,000

Jan. 1	Debitures Application and Allotment A/c ...Dr. Loss on Issue of Debitures A/c ...Dr. To 8% Debitures A/c To Premium on Redemption of Debitures A/c (Being the allotment of 8% Debitures issued at par but redeemable at premium)		6,00,000 30,000	6,00,000 30,000
2017 March 31	Securities Premium Reserve A/c ...Dr. Statement of Profit and Loss (Finance Cost) ...Dr. To Loss on Issue of Debitures A/c (Being the loss on issue of debentures written off from Securities Premium Reserve and from Statement of Profit and Loss)		10,000 20,000	30,000

Working Note:

Nominal Value of Debitures Issued	₹ 6,00,000
Discount on Issue of Debitures	5%
Amount of Discount on Issue of Debitures	₹ 30,000

11. (Ex. Q. 46). Typhoo Ltd. issued 5,000, 9% Debitures of ₹ 100 each at a discount of 5% redeemable at the end of 5 years at a premium of 10%. Typhoo Ltd. has a balance of ₹ 2,00,000 in Securities Premium Reserve. Loss on Issue of debentures is to be written off equally over the life of debentures from Securities Premium Reserve to the extent possible. Pass the Journal entries for writing off the Loss on Issue of Debitures.

Solution:

In the Books of Typhoo Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Bank A/c ...Dr. To Debitures Application and Allotment A/c (Being the receipt of application and allotment money for 5,000; 9% Debitures of ₹ 100 each)		4,75,000	4,75,000
(ii)	Debitures Application and Allotment A/c ...Dr. Loss on Issue of Debitures A/c ...Dr. To 9% Debitures A/c To Premium on Redemption of Debitures A/c (Being 5,000; 9% Debitures of ₹ 100 each issued at 5% discount and redeemable at 10% premium)		4,75,000 75,000	5,00,000 50,000
1st Year (iii)	Securities Premium Reserve A/c ...Dr. To Loss on Issue of Debitures A/c (Being 1/5th of loss on issue of debentures written off)		15,000	15,000
IInd Year (iv)	Securities Premium Reserve A/c ...Dr. To Loss on Issue of Debitures A/c (Being 1/5th of loss on issue of debentures written off)		15,000	15,000
IIIrd Year (v)	Securities Premium Reserve A/c ...Dr. To Loss on Issue of Debitures A/c (Being 1/5th of loss on issue of debentures written off)		15,000	15,000

IVth Year (vi)	Securities Premium Reserve A/c To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)	...Dr.	15,000	15,000
Vth Year (vii)	Securities Premium Reserve A/c To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)	...Dr.	15,000	15,000

12. (Ex. Q. 47). Tetley Ltd. issued 10,000, 9% Debentures of ₹ 100 each at a discount of 5% redeemable at the end of 5 years at a premium of 10%. Tetley Ltd. has a balance of ₹ 50,000 in Securities Premium Reserve. Loss on Issue of debentures is to be written off equally over the life of debentures.

Pass the Journal entries for writing off the Loss on Issue of Debentures.

Solution:

JOURNAL OF TETLEY LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c To Debentures Application and Allotment A/c (Being the application and allotment money received)	...Dr.	9,50,000	9,50,000
	Debentures Application and Allotment A/c Loss on Issue of Debentures A/c To 9% Debentures A/c To Premium on Redemption of Debentures A/c (Being 10,000, 9% Debentures of ₹ 100 each issued at a discount of 5% redeemable at a premium of 10%)	...Dr. ...Dr.	9,50,000 1,50,000	10,00,000 1,00,000
Ist Year	Securities Premium Reserve A/c To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)	...Dr.	30,000	30,000
IInd Year	Securities Premium Reserve A/c Statement of Profit and Loss (Finance Cost) To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off up to the balance in Securities Premium Reserve and remaining from Statement of Profit and Loss)	...Dr. ...Dr.	20,000 10,000	30,000
IIIrd Year	Statement of Profit and Loss (Finance Cost) To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)	...Dr.	30,000	30,000
IVth Year	Statement of Profit and Loss (Finance Cost) To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)	...Dr.	30,000	30,000
Vth Year	Statement of Profit and Loss (Finance Cost) To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)	...Dr.	30,000	30,000

13. (Ex. Q. 48). Global Ltd. issued 10,000, 8% Debentures of ₹ 100 each redeemable at the end of 3 years at a premium of ₹ 9. Loss on Issue of debentures is to be written off equally over the life of debentures.

Pass the Journal entries for writing off the Loss on Issue of Debentures. Also prepare Loss on Issue of Debentures Account.

Solution:

JOURNAL OF GLOBAL LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the application and allotment money received)		10,00,000	10,00,000
	Debentures Application and Allotment A/c ...Dr. Loss on Issue of Debentures A/c ...Dr. To 8% Debentures A/c To Premium on Redemption of Debentures A/c (Being 10,000, 8% Debentures of ₹ 100 each issued, repayable at a premium of ₹ 9)		10,00,000 90,000	10,00,000 90,000
Ist Year	Statement of Profit and Loss (Finance Cost) ...Dr. To Loss on Issue of Debentures A/c (Being 1/3rd of loss on issue of debentures written off)		30,000	30,000
IInd Year	Statement of Profit and Loss (Finance Cost) ...Dr. To Loss on Issue of Debentures A/c (Being 1/3rd of loss on issue of debentures written off)		30,000	30,000
IIIrd Year	Statement of Profit and Loss (Finance Cost) ...Dr. To Loss on Issue of Debentures A/c (Being 1/3rd of loss on issue of debentures written off)		30,000	30,000

Dr.		LOSS ON ISSUE OF DEBENTURES ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
Ist Year beginning	To Premium on Redemption of Debentures A/c	90,000	Ist Year at the end	By Statement of Profit and Loss (Finance Cost)	30,000	
				By Balance c/d	60,000	
		90,000			90,000	
IInd Year beginning	To Balance b/d	60,000	IInd Year at the end	By Statement of Profit and Loss (Finance Cost)	30,000	
				By Balance c/d	30,000	
		60,000			60,000	
IIIrd Year beginning	To Balance b/d	30,000	IIIrd Year at the end	By Statement of Profit and Loss (Finance Cost)	30,000	
					30,000	
		30,000			30,000	

14. (Ex. Q. 49). On 1st April, 2014, X Ltd. issued 1,000, 10% Debentures of ₹ 100 each at a discount of 10% redeemable at par. Show the "Discount on Issue of Debentures Account" if (a) such debentures are redeemable after 4 years, and (b) such debentures are redeemable by equal annual drawings in 4 years. X Ltd. follows financial year as its accounting year.

Solution:

(a) Dr.		DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
2014 April 1	To 10% Debentures A/c	10,000	2015 March 31	By Statement of Profit and Loss (FC)	2,500	
				By Balance c/d	7,500	
		10,000			10,000	

2015	April 1	To Balance <i>b/d</i>	7,500	2016	March 31	By Statement of Profit and Loss (FC)	2,500
			7,500			By Balance <i>c/d</i>	5,000
							7,500
2016	April 1	To Balance <i>b/d</i>	5,000	2017	March 31	By Statement of Profit and Loss (FC)	2,500
			5,000			By Balance <i>c/d</i>	2,500
							5,000
2017	April 1	To Balance <i>b/d</i>	2,500	2018	March 31	By Statement of Profit and Loss (FC)	2,500

(b) Calculation of amount of discount to be written off each year:

Year ended	Debentures Outstanding (₹)	Ratio	Discount to be Written off (₹)
31st March, 2015	1,00,000	4	$4/10 \times 10,000 = 4,000$
31st March, 2016	75,000	3	$3/10 \times 10,000 = 3,000$
31st March, 2017	50,000	2	$2/10 \times 10,000 = 2,000$
31st March, 2018	25,000	1	$1/10 \times 10,000 = 1,000$
		10	

Dr. DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT Cr.					
Date	Particulars	₹	Date	Particulars	₹
2014	April 1 To 10% Debentures A/c	10,000	2015	March 31 By Statement of Profit and Loss (Finance Cost)	4,000
		10,000	March 31	By Balance <i>c/d</i>	6,000
					10,000
2015	April 1 To Balance <i>b/d</i>	6,000	2016	March 31 By Statement of Profit and Loss (Finance Cost)	3,000
		6,000	March 31	By Balance <i>c/d</i>	3,000
					6,000
2016	April 1 To Balance <i>b/d</i>	3,000	2017	March 31 By Statement of Profit and Loss (Finance Cost)	2,000
		3,000	March 31	By Balance <i>c/d</i>	1,000
					3,000
2017	April 1 To Balance <i>b/d</i>	1,000	2018	March 31 By Statement of Profit and Loss (Finance Cost)	1,000
		1,000			1,000

15. (Ex. Q. 50). Bandhan Ltd. issued 10,000, 7% Debentures of ₹ 100 each at a discount of ₹ 5 redeemable at the end of 5 years at a premium of 10%. The company has a balance in Securities Premium Reserve of ₹ 1,00,000. Loss on Issue of Debentures is to be written off equally over the life of debentures up to the amount of Securities Premium Reserve and balance from Statement of Profit and Loss.

Pass the Journal entries for writing off the Loss on Issue of Debentures. Also prepare Loss on Issue of Debentures Account.

Solution:

JOURNAL OF BANDHAN LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Ist Year	Securities Premium Reserve A/c ...Dr. To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)		30,000	30,000
IIInd Year	Securities Premium Reserve A/c ...Dr. To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)		30,000	30,000
IIIrd Year	Securities Premium Reserve A/c ...Dr. To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)		30,000	30,000
IVth Year	Securities Premium Reserve A/c ...Dr. Statement of Profit and Loss (Finance Cost) ...Dr. To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)		10,000 20,000	30,000
Vth Year	Statement of Profit and Loss A/c (Finance Cost) ...Dr. To Loss on Issue of Debentures A/c (Being 1/5th of loss on issue of debentures written off)		30,000	30,000

Dr.		LOSS ON ISSUE OF DEBENTURES ACCOUNT				Cr.
Date	Particulars	₹	Date	Particulars	₹	
Ist Year beginning	To 7% Debentures A/c	50,000	Ist Year at the end	By Securities Premium Reserve A/c	30,000	
	To Premium on Redemption of Debentures A/c	1,00,000		By Balance c/d	1,20,000	
		1,50,000			1,50,000	
IIInd Year beginning	To Balance b/d	1,20,000	IIInd Year at the end	By Securities Premium Reserve A/c	30,000	
		1,20,000		By Balance c/d	90,000	
					1,20,000	
IIIrd Year beginning	To Balance b/d	90,000	IIIrd Year at the end	By Securities Premium Reserve A/c	30,000	
		90,000		By Balance c/d	60,000	
					90,000	
IVth Year beginning	To Balance b/d	60,000	IVth Year at the end	By Securities Premium Reserve A/c	10,000	
		60,000		By Statement of Profit and Loss (Finance Cost)	20,000	
				By Balance c/d	30,000	
					60,000	
Vth Year beginning	To Balance b/d	30,000	Vth Year at the end	By Statement of Profit and Loss (Finance Cost)	30,000	
		30,000			30,000	

16. (Ex. Q. 51). On 1st May, 2016, Goodluck Ltd. issued 16,000, 9% Debentures of ₹ 100 each at a discount of 10% redeemable after five years. All the debentures were subscribed and allotment was made. Discount on issue of Debentures is to be written off over the life of the debentures.

Prepare the Balance Sheet (extract) as at 31st March, 2017 showing Discount on Issue of Debentures.

Solution:

BALANCE SHEET (EXTRACT) as at 31st March, 2017

Particulars	Note No.	₹
II. ASSETS		
1. Non-Current Assets		
Other Non-Current Assets	1	96,000
2. Current Assets		
Other Current Assets	2	32,000

Notes to Accounts

1. Other Non-Current Assets		₹
Discount on Issue of Debentures	1,28,000	
Less: Shown as Other Current Assets	32,000	96,000
(To be written off after 12 months from 31st March, 2017 or after the period of Operating Cycle)		
2. Other Current Assets		
Discount on Issue of Debentures		32,000
(To be written off within 12 months from 31st March, 2017 or within the period of Operating Cycle)		

Note: The amount of Discount on Issue of Debentures is ₹ 1,60,000 which is to be written off equally in 5 years, i.e., ₹ 32,000 every year. ₹ 32,000 is written off in the year ended 31st March, 2017 and the balance is shown in the Balance Sheet.

17. (Ex. Q. 52). On 1st June, 2015, R Energy Ltd. issued 10,000, 7% Debentures of ₹ 100 each at a discount of 10% redeemable at a premium of 10% at the end of five years. All the debentures were subscribed and allotment was made. Loss on issue of Debentures is to be written off over the life of the debentures.

Prepare the Balance Sheet (extract) as at 31st March, 2016 and 31st March, 2017 showing Loss on Issue of Debentures.

Solution:

BALANCE SHEET OF R ENERGY LTD. (EXTRACT) as at 31st March, 2016

Particulars	Note No.	₹
II. ASSETS		
1. Non-Current Assets		
Other Non-Current Assets	1	1,20,000
2. Current Assets		
Other Current Assets	2	40,000

Notes to Accounts

1. Other Non-Current Assets		₹
Loss on Issue of Debentures	1,60,000	
Less: Shown as Other Current Assets	40,000	1,20,000
(To the extent to be written off after 12 months from the date of Balance Sheet or after the period of Operating Cycle)		
2. Other Current Assets		
Loss on Issue of Debentures		40,000
(To the extent to be written off within 12 months from the date of Balance Sheet or within the period of Operating Cycle)		

BALANCE SHEET OF R ENERGY LTD. (EXTRACT)
as at 31st March, 2017

Particulars	Note No.	₹
II. ASSETS		
1. Non-Current Assets		
Other Non-Current Assets	1	80,000
2. Current Assets		
Other Current Assets	2	40,000

Notes to Accounts

1. Other Non-Current Assets		₹
Loss on Issue of Debentures	1,20,000	
Less: Shown as Other Current Asset	40,000	80,000
(To the extent to be written off after 12 months from the date of Balance Sheet or after the period of Operating Cycle)		
2. Other Current Assets		
Loss on Issue of Debentures		40,000
(To the extent to be written off within 12 months from the date of Balance Sheet or within the period of Operating Cycle)		