



Question 3. Describe the meaning of 'Debenture Issued as Collateral Securities'. What accounting treatment is given to the issue of debentures in the books of accounts?

Answer: When a company takes a loan, it has to give some security, it may do so by giving debentures to the party from whom loan is taken. If on the due date principal is paid back by the Company and interest is also paid, the loan-giver will return the debentures to the Company and then they will be cancelled by the Company,

If the Company makes a default, the bank may either keep the debenture and become debenture-holder or sell them and realise money. This type of issue by the Company is called Issue of Debenture as Collateral Security.

When debentures are issued by the company, they are not really alive and no accounting entry is made in the books of the Company for it. Only a note is given in the balance sheet for it as under

Balance Sheet

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Loan (Secured by the issued of Debentures of ₹ As Collateral Security)			
Debentures (In addition to these debentures, debentures of ₹ has been issued as Collateral Security)			

If accounting record for these debentures is to be made Debentures Suspense A/c is debited and debentures A/c credited, debentures are shown in the liability side and balance of debentures Suspense A/c is shown in the assets side of the Balance Sheet. When debt is paid off by the Company, Debentures A/c is debited and Debentures Suspense A/c is credited.

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