



Q16. A company issued debentures of the face value of Rs,5,00,000 at a discount of 6% on January 01, 2001. These debentures are redeemable by annual drawings of Rs,1,00,000 made on December 31 each year. The directors decided to write off discount based on the debentures outstanding each year. Calculate the amount of discount to be written-off each year. Give journal entries also.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2001 Jan 1	Bank A/c Dr To Debenture Application and Allotment A/c (Being debenture application money received)		4,70,000	4,70,000
Jan 1	Debenture Application and Allotment A/c Dr Discount on Issue of Debenture A/c Dr To Debenture A/c (Being debenture application money transferred to debenture account)		4,70,000 30,000	5,00,000

$$\text{Amount of Discount on Issue of Debenture} = 5,00,000 \times \frac{6}{100} = 30,000$$

Year	Debenture Outstanding	Ratio	Amount Written off Every Year
2001	5,00,000	5	$30,000 \times \frac{5}{15} = 10,000$
2002	4,00,000	4	$30,000 \times \frac{4}{15} = 8,000$
2003	3,00,000	3	$30,000 \times \frac{3}{15} = 6,000$
2004	2,00,000	2	$30,000 \times \frac{2}{15} = 4,000$
2005	1,00,000	1	$30,000 \times \frac{1}{15} = 2,000$
		15	₹ 30,000

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2001 Dec 31	Profit and Loss A/c Dr To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off)		10,000	10,000
2002 Dec 31	Profit and Loss A/c Dr To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off)		8,000	8,000

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2003				
Dec 31	Profit and Loss A/c Dr To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off)		6,000	6,000
2004				
Dec 31	Profit and Loss A/c Dr To Discount on Issue of Debentures A/c (Being discount on issue of debenture written off)		4,000	4,000
2005				
Dec 31	Profit and Loss A/c Dr To Discount on Issue of Debentures A/c (Being discount on issue of debentures written off)		2,000	2,000

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