



Question 17. How would you deal with 'Premium on Redemption of Debentures'?

Answer: When the debentures are redeemed at a price more than its face value or the par value, then it is said that the debentures are redeemed at premium. The difference between the redeemed price and the par value is regarded as a capital loss and this loss is written off till the redemption of the debentures.

The Premium on Redemption of Debenture is shown on the Liabilities side of the Balance Sheet under the head of Current Liabilities and Provisions until debentures are redeemed.

Accounting Treatment for Premium on Redemption on Debentures

At the Time of the issue of Debenture

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank/Debenture Allotment A/c Dr			
	Loss on Issue of Debenture A/c Dr			
	To Debenture A/c			
	To Premium on Redemption of Debenture A/c			
	(Being debenture are issued with the term of redemption at premium)			

For Loss Written off

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Profit and Loss A/c Dr			
	To Loss on Issue of Debenture A/c			
	To Debenture A/c			
	(Being loss on issue of debenture written off)			

At the time of Redemption of Debentures

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Debenture A/c Dr			
	Premium on Redemption A/c Dr			
	To Debenture Holders A/c			
	(Being amount of debentures due to debenture holders)			

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