



Question 9. Can a company purchase its own debentures in the open market? Explain.

Answer: Yes, a company, if authorised by its Articles of Association, can purchase its own debentures in the open market. The main purposes of such purchase may be as follows

- (i) A company may purchase its own debenture for immediate cancellation for reducing the debenture liability especially in case when the interest rate on its debenture is higher than the market rate of interest.
- (ii) A company may also purchase its own debentures with the motive of investment and sell them at higher price in future and thereby earn profit.

When a company purchase its own debenture, in the open market it can happen in either of the two ways first debentures may be purchased at premium for cancellation and debenture may be purchase at discount for cancellation. The following will be the accounting treatment in both the situation

(i) If Debentures are Purchased at Discount for Cancellation :When the company purchase its own debentures at discount for cancellation, then the following Journal entries are recorded.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Own Debentures A/c Dr To Bank A/c (Being own debentures purchased in the open market)			
	Debenture A/c Dr To Own Debentures A/c To Profit on Redemption of Debenture A/c (Being own debentures cancelled)			
	Profit on Cancellation of Own Debentures A/c Dr To Capital Reserve A/c (Being profit on cancellation of own debentures transferred to capital reserve account)			

(ii) If Debentures are Purchased at Premium for Cancellation

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Own Debentures A/c Dr To Bank A/c (Being own debentures purchased in the open market)			
	Debenture A/c Dr Loss on Redemption of Debenture A/c Dr To Own Debentures A/c (Being own debentures cancelled)			

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