



Question 5. Explain the different terms for the issue of debentures with reference to their redemption.

Answer: Debentures can be issued at par, at premium and at discount in the same way they can be redeemed at par and at premium. Debentures can never be redeemed at discount. The following are the six situations under which debentures can be issued to their redemption.

(i) **Issue at Par and Redeemable at Par:** When the debentures are issued and are redeemed at their face value, then the following Journal entry is passed.

(i) **Issue at Par and Redeemable at Par** When the debentures are issued and are redeemed at their face value, then the following Journal entry is passed.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	debenture Application A/c Dr To Debentures A/c (Being debentures application money transferred to debentures account)			

(ii) **Issue at Premium and Redeemable at Par** When the debentures are issued at premium and redeemable at par, then the following Journal entry is passed. As premium is a gain for a company so it is credited in the Journal entry.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	Debenture Application A/c Dr To Debentures A/c To Security Premium A/c (Being debentures issues at premium and redeemable at par)			

(iv) **Issue at Discount and Redeemable at Par** When the debentures are issued at discount and redeemable at par, then the following Journal entry is passed. As discount is a loss for a company so it is debited in the Journal entry.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	Debenture Application A/c Dr Discount on issue of Debenture A/c To Debenture A/c (Being debentures issues at discount and redeemable at par)			

(v) Issue at Premium and Redeemable at Premium When debentures are issued at par and redeemable at premium, then the following Journal entry is passed. In such case, the company did not suffer any loss at the time of issue but there will be loss at the time of redemption.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	Debenture Application A/c Dr Loss on Issue of Debenture A/c To Debenture A/c To Premium on Redemption of Debenture A/c (Being debentures issues at par and redeemable at premium)			

(vi) Issue at Discount and Redemption at Premium When the debentures are issued at discount and redeemable at premium, then the following Journal entry is passed.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c Dr To Debenture Application A/c (Being debentures application money received)			
	Debenture Application A/c Dr Loss on Issue of Debenture A/c Dr To Debenture A/c To Securities Premium A/c To Premium on Redemption of Debentures A/c (Being debentures issues at premium and redeemable at premium)			

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