



Question 10. What is discount on issue of debentures?

Answer Debenture is said to have been issued at discount where an applicant is required to pay a total sum less than the face value of the debenture. The excess of the face value over the issue price is regarded as the discount. When debentures are issued at a discount, cash account is debited with net sum received, the discount on debentures account is debited with the amount of discount allowed and the debentures account is credited with the full nominal value of the debentures.

Here it is worth mentioning that there is no legal restriction on the companies for issuing debentures at discount. Maximum limit for discount on debentures is also not prescribed by the Companies Act. However, this Act requires that the amount of discount must be shown on the assets side of the Balance Sheet till written off under the head "Miscellaneous Expenditure."

Question 11. What is meant by '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" debentures are redeemed.

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