

CUET · ACCOUNTANCY · CLASS XII · CODE 301

Issue and Redemption of Debentures

CUET unit: Company Accounts → Debentures

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Snapshot

- A debenture is a written acknowledgement of debt under the company's common seal carrying a fixed rate of interest; it is borrowed (loan) capital, not owned capital. Section 2(30) of the Companies Act, 2013 includes Debenture Inventory, Bonds and any other securities whether or not creating a charge on the company's assets.
- Core topics: (a) classifying debentures, (b) journalising their **issue** under six terms-of-issue combinations (par/discount/premium × redeemable at par/premium), (c) writing off Discount/Loss on Issue, (d) accounting for **interest** with TDS, and (e) **redemption** in four modes — lump sum, instalments (draw of lots), open-market purchase, and conversion.
- CUET tests this chapter heavily for journal-entry recognition (especially the "Loss on Issue" entry), numerical questions on number of debentures issued for consideration other than cash, the writing-off sequence (Securities Premium Reserve first, then Statement of P&L), and DRR/DRI rules under the Companies Act, 2013.

Detailed Notes

2.1 Core concepts

- **Meaning.** "Debenture" comes from the Latin *debere* (to borrow); it is a written instrument acknowledging debt under the common seal, containing a contract to repay principal after a specified period and to pay interest at a fixed rate, usually half-yearly or yearly on fixed dates (NCERT §2.1, p. 75–76).
- **Statutory definition.** Under §2(30) of the Companies Act, 2013, 'Debenture' includes Debenture Inventory, Bonds and any other securities of a company whether constituting a charge on the company's assets or not (NCERT §2.1, p. 76).
- **Bond vs Debenture.** Bonds are also instruments acknowledging debt — traditionally issued by Government, now also by semi-government and non-governmental organisations; the two terms are used interchangeably (NCERT §2.1, p. 76).
- **Shares vs Debentures.** Share = ownership / owned capital, debenture = debt / borrowed capital; return on shares is **dividend** (appropriation of profit), on debentures is **interest** (charge on profit, payable even if no profit); shareholders have voting rights, debentureholders do not; debentures are usually secured, shares

are not; debentures can be converted into shares only if the issue so provides (NCERT §2.2, p. 76).

- **Types — Security:** Secured (charge — fixed on a specific asset or floating on general assets) vs Unsecured/Naked (no specific charge; normally not issued) (NCERT §2.3.1, p. 76–77).
- **Types — Tenure:** Redeemable (payable on expiry of the specified period in lump sum or instalments, at par or at premium) vs Irredeemable / Perpetual (no undertaking to repay; repayable only on winding-up or after a very long period) (NCERT §2.3.2, p. 77).
- **Types — Convertibility:** Convertible (fully or partly convertible into equity shares / other security at the option of the company or holder) vs Non-Convertible (most debentures fall in this category) (NCERT §2.3.3, p. 77).
- **Types — Coupon Rate:** Specific Coupon Rate Debentures (carry a fixed or floating rate) vs Zero Coupon Rate Debentures (no specified interest rate — issued at a substantial discount; the discount is treated as the interest) (NCERT §2.3.4, p. 77).
- **Types — Registration:** Registered Debentures (names, addresses and holdings recorded in the company's register; transferable only by a regular transfer deed) vs Bearer Debentures (transferable by mere delivery; interest paid against coupon attached to the instrument) (NCERT §2.3.5, p. 78).
- **Issue of debentures for cash.** Procedure parallels share issue — applications received against prospectus, money collected in one instalment or in instalments on application/allotment/calls (NCERT §2.4 and §2.4.1, p. 78–80).
- **Issue at par / premium / discount.** Issue **at par** = issue price equals face value; **at premium** = issue price exceeds face value, premium credited to Securities Premium Reserve A/c (shown under Reserves and Surplus); **at discount** = issue price less than face value, "Discount on Issue of Debentures A/c" debited (NCERT §2.4.1, §2.4.2, §2.4.3, p. 79–83). The Companies Act, 2013 does **not** impose any restriction on the issue of debentures at a discount (NCERT §2.4.2, p. 81).
- **Issue for consideration other than cash.** When debentures are issued to a vendor as purchase consideration for assets, journal entries mirror those of shares for consideration other than cash; the debentures may be issued at par, at premium or at discount, and the number of debentures issued = $\text{Purchase Consideration} \div \text{Issue Price per debenture}$ (NCERT §2.6 + Illustration 11 Note 2, p. 87–93).
- **Goodwill / Capital Reserve on purchase of business.** If purchase consideration exceeds net assets taken over, the excess is debited to **Goodwill A/c**; if it is less, the difference is credited to **Capital Reserve A/c** (NCERT §2.6 + Illustrations 11–12, p. 91–92).
- **Issue as collateral security.** Debentures issued in addition to a primary security as security for a loan from a bank/FI are called debentures issued as collateral security. Two accounting methods: (i) **No journal entry** — only a note in the balance sheet below "Long-term borrowings"; (ii) **Debenture Suspense A/c Dr. To Debentures**

A/c, with Debenture Suspense shown as a deduction from debentures in notes to accounts (NCERT §2.7, p. 93–96).

- **Six terms of issue + redemption combinations.** (i) Par–par, (ii) Discount–par, (iii) Premium–par, (iv) Par–premium, (v) Discount–premium, (vi) Premium–premium. When debentures are **redeemable at a premium**, the premium payable on redemption is debited to "Loss on Issue of Debentures A/c"; when issued at discount and redeemable at premium, the discount + premium together are debited to Loss on Issue (NCERT §2.8 + Notes after entries, p. 97–99).
- **Premium on Redemption.** A liability of the company payable in future; it is a provision shown under "Non-current liabilities → Long-term Borrowings" until the debentures are redeemed (NCERT §2.8 Note 2, p. 99).
- **Interest on debentures.** Interest is calculated on the **nominal value** at the coupon rate; it is a **charge** against profit and must be paid whether or not the company has earned profit; the company must deduct TDS at the prescribed rate where applicable (NCERT §2.9 and §2.9.1, p. 104). Journal entries — Debenture Interest A/c Dr. To Income Tax Payable / To Debentureholders; Debentureholders A/c Dr. To Bank; Statement of P&L Dr. To Debenture Interest A/c at year-end (NCERT §2.9.1, p. 104).
- **Writing off Discount / Loss on Issue.** Discount or loss on issue is a **capital loss** and is written off in the year of issue itself. Order: first from **Securities Premium Reserve** [§52(2)] to the extent of its balance, then the balance from **Statement of Profit and Loss** (NCERT §2.10, p. 106). Within 12 months → "Other Current Assets"; beyond 12 months → "Other Non-Current Assets" (NCERT §2.4.2, p. 81).
- **Redemption — four methods.** (1) Payment in lump sum; (2) Payment in instalments (specific debentures identified by **draw of lots**); (3) Purchase in open market for immediate cancellation; (4) Conversion into shares or new debentures (only for convertible debentures) (NCERT §2.11, p. 110).
- **Sources of redemption.** Out of capital or out of profits (NCERT §2.11, p. 111).
- **DRR (Debenture Redemption Reserve) under Companies Act, 2013.** All-India financial institutions registered with RBI, banking companies, NBFCs registered with RBI, Housing Finance companies registered with NHB, and listed companies as well as unlisted companies (per the categories specified) are exempted from creating DRR and may redeem out of capital; for "other unlisted companies", DRR adequacy is **10% of the value of outstanding debentures** (NCERT §2.11, p. 111).
- **DRI (Debenture Redemption Investment).** Companies are required to invest/ deposit, on or before April 30, an amount **not less than 15%** of the debentures maturing during the year ending March 31 of the next year, in specified deposits/ securities (scheduled bank deposit free from charge; Central/State Govt securities; securities under §20 of the Indian Trusts Act; bonds notified under §20(f) of that Act). The DRI amount cannot be used for any purpose except redemption of debentures maturing during that year (NCERT §2.11, p. 111).

- **Redemption — lump sum journal entries.** At par: Debentures A/c Dr. / To Debentureholders → Debentureholders A/c Dr. / To Bank. At premium: Debentures A/c Dr. + Premium on Redemption of Debentures A/c Dr. / To Debentureholders → Debentureholders A/c Dr. / To Bank (NCERT §2.12, p. 112–113).
- **Redemption — instalments.** Actual debentures to be redeemed are picked by **draw of lots**; entries: Debentures A/c Dr. / To Debentureholders → Debentureholders A/c Dr. / To Bank (NCERT §2.12.2, p. 116).
- **Redemption — open market purchase.** Two situations: (a) Bought at price below face value: Debentures A/c Dr. / To Bank / To Profit on Redemption — profit transferred to **Capital Reserve**; (b) Bought above face value: Debentures A/c Dr. + Loss on Redemption Dr. / To Bank — loss transferred to Statement of P&L (NCERT §2.13, p. 130).
- **Redemption — conversion.** Debentures can be converted into equity shares or new debentures, which may be issued at par, premium or discount. Only the **actual proceeds** of the original debentures (not the face value) are used to determine the number of shares to be issued if the original debentures were issued at a discount (NCERT §2.14 + §2.11, p. 111, 133).
- **Over-subscription.** A company cannot allot more debentures than offered; excess money may be retained for adjustment against allotment/calls; money on wholly rejected applications must be refunded (NCERT §2.5, p. 85).

2.2 Definitions to memorise

Term	Definition	Page
Debenture	Written instrument acknowledging debt under the company's common seal, containing a contract for repayment of principal after a specified period and payment of interest at a fixed rate	75–76
Bond	Instrument of acknowledgement of debt issued by Government, semi-government and non-governmental bodies; used interchangeably with debenture	76
Secured (Mortgage) Debenture	Debenture on which a charge (fixed on a specific asset or floating on general assets) is created on the assets of the company	76–77
Irredeemable / Perpetual Debenture	Debenture for which the company gives no undertaking of repayment; repayable only on winding-up or after a long period	77
Zero Coupon Rate Debenture	Debenture carrying no specified interest rate; issued at a substantial discount, the discount being treated as interest	77
Bearer Debenture	Debenture transferable by mere delivery; interest paid against the coupon attached	78
Collateral Security	A subsidiary or additional security besides the primary security offered when a company obtains a loan	93

Term	Definition	Page
Discount on Issue of Debentures	Excess of face value over issue price when debentures are issued below par; a capital loss written off from Securities Premium Reserve, balance from Statement of P&L	81, 106
Loss on Issue of Debentures	Amount debited when debentures are redeemable at a premium (= premium on redemption; with discount added when issued at discount and redeemable at premium)	99
Premium on Redemption of Debentures	Amount payable in excess of face value at redemption; a provision shown under Non-current Liabilities → Long-term Borrowings	99
Debenture Redemption Reserve (DRR)	Reserve created out of profits, equal to 10% of outstanding debentures, for "other unlisted companies" — exempted entities need not create it	111
Debenture Redemption Investment (DRI)	At least 15% of debentures maturing during the next financial year, invested/deposited on or before April 30 in specified instruments	111
Draw of Lots	Method of identifying the specific debentures to be redeemed when redemption is in instalments	116
Own Debentures	Debentures of the company purchased by it from the open market and held as investments	130, 135

2.3 Diagrams / processes to remember

- **Types of Debenture/Bond tree** — classifies debentures across five axes (Security; Tenure; Mode of Redemption/Convertibility; Coupon Rate; Registration) — useful for "Which of the following is NOT a basis of classification?" questions (NCERT p. 78).
- **Methods of Redemption of Debentures chart** — four boxes: Payment in Lump Sum / Payment in Instalments / Purchase in Open Market / Conversion into Shares or New Debentures (NCERT p. 110).
- **Six terms-of-issue combinations table** (six journal-entry forms in §2.8) — memorise which combinations require "Loss on Issue" vs only "Discount on Issue" (NCERT p. 97–99).
- **Writing-off sequence** — Securities Premium Reserve first, balance from Statement of Profit and Loss (Illustrations 16(b), 18, 20, NCERT p. 102, 107–108).

2.4 Common confusions / NTA trap points

- **"Discount on Issue" vs "Loss on Issue"**. Discount on Issue is debited only when debentures are issued at a discount and redeemable **at par**. The moment they are redeemable **at a premium**, the entire discount + redemption premium go to **Loss on Issue of Debentures** — students routinely pick the wrong account head (NCERT §2.8 Note 1, p. 99).

- **Premium on Redemption is a liability, not a reserve.** It sits under Non-current Liabilities (Long-term Borrowings), not under Reserves and Surplus. Securities Premium Reserve goes under Reserves and Surplus (NCERT §2.8 Note 2, p. 99).
- **Writing-off order.** First Securities Premium Reserve, then Statement of P&L — not the other way round (NCERT §2.10, p. 106).
- **Profit on cancellation of own debentures** → **Capital Reserve**, not General Reserve or Statement of P&L (NCERT §2.13 + Test your Understanding II Q8, p. 130, 136).
- **Excess of net assets over purchase consideration** → **Capital Reserve**; excess of purchase consideration over net assets → **Goodwill** (NCERT Illustrations 11–12, p. 91–92).
- **Issue of debentures at a discount is NOT prohibited** by the Companies Act, 2013 — students often tick "True" for the statement that the maximum discount is 10% (it is actually False per Test your Understanding I Q3) (NCERT §2.4.2, p. 81; p. 109).
- **Number of debentures issued for consideration other than cash** = Purchase Consideration ÷ **Issue Price** per debenture (not face value). When issued at discount, divide by (Face – Discount); when at premium, by (Face + Premium) (NCERT Illustration 13 workings, p. 93).
- **Interest on debentures is a charge** — payable even at a loss; goes through Statement of P&L, not Appropriation (NCERT §2.9, p. 104).
- **DRR exemptions.** All-India FIs, banking companies, NBFCs, HFCs and listed companies are exempted from creating DRR — students often miss the exemption list (NCERT §2.11, p. 111).
- **DRI 15% threshold.** Computed on debentures maturing during the year ending 31 March of the next year, deposited on or before 30 April (NCERT §2.11, p. 111).
- **Loss on Issue write-off period.** Within 12 months → Other Current Assets; beyond 12 months → Other Non-Current Assets (NCERT §2.4.2, p. 81).

2.5 Journal entry templates

(a) Issue at par, redeemable at par (NCERT §2.4.1, p. 79)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Bank A/cDr.		5,00,000	
	To 12% Debentures A/c			5,00,000
	(Being 5,000 debentures of ₹100 each issued at par, redeemable at par)			

(b) Issue at discount, redeemable at par (NCERT §2.4.2, p. 81)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Bank A/cDr.		4,75,000	
	Discount on Issue of Debentures A/cDr.		25,000	
	To 12% Debentures A/c			5,00,000
	(Being debentures issued at 5% discount, redeemable at par)			

(c) Issue at par, redeemable at premium (NCERT § 2.8, p. 99)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Bank A/cDr.		5,00,000	
	Loss on Issue of Debentures A/cDr.		35,000	
	To 12% Debentures A/c			5,00,000
	To Premium on Redemption of Debentures A/c			35,000
	(Being debentures issued at par redeemable at 7% premium; redemption premium debited to Loss on Issue)			

(d) Issue at discount, redeemable at premium (NCERT Illus. 18, p. 107)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Jul 1	Bank A/cDr.		45,50,000	
	Loss on Issue of Debentures A/cDr.		8,00,000	
	To 8% Debentures A/c			50,00,000
	To Premium on Redemption of Debentures A/c			3,50,000
	(Being 50,000 debentures of ₹100 issued at 9% discount, redeemable at 7% premium)			

(e) Issue for consideration other than cash (NCERT § 2.6, Illus. 13, p. 93)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Sundry Assets A/cDr.		28,80,000	
	To Vendor A/c			28,80,000
	Vendor A/cDr.		28,80,000	
	Discount on Issue of Debentures A/cDr.		1,20,000	
	To 12% Debentures A/c			30,00,000

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	(Being purchase consideration discharged by issue of 30,000 debentures of ₹100 at 4% discount)			

(f) Writing off Loss on Issue — first Securities Premium then P&L (NCERT § 2.10, p. 106)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Securities Premium Reserve A/cDr.		5,00,000	
	Statement of Profit and LossDr.		3,00,000	
	To Loss on Issue of Debentures A/c			8,00,000
	(Being Loss on Issue written off — first from Securities Premium balance, then balance from P&L)			

(g) Interest on debentures with TDS (NCERT § 2.9.1, p. 104)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Mar 31	Debenture Interest A/cDr.		60,000	
	To Income Tax Payable A/c			6,000
	To Debentureholders A/c			54,000
	(Being 12% interest due on debentures of ₹5,00,000; TDS @ 10%)			

(h) Redemption — at a premium (NCERT § 2.12, p. 113)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	12% Debentures A/cDr.		5,00,000	
	Premium on Redemption of Debentures A/c ...Dr.		35,000	
	To Debentureholders A/c			5,35,000
	Debentureholders A/cDr.		5,35,000	
	To Bank A/c			5,35,000
	(Being debentures redeemed at 7% premium)			

Practice MCQs

Q1. The word 'Debenture' has been derived from a Latin word which means:

- A. to repay
- B. to borrow
- C. to invest
- D. to mortgage

Q2. According to Section 2(30) of the Companies Act, 2013, 'Debenture' includes:

- A. Only secured debentures of a company
- B. Only those securities of a company that create a charge on the company's assets
- C. Debenture Inventory, Bonds and any other securities of a company whether constituting a charge on the assets of the company or not
- D. Only debentures issued through public offer

Q3. Which of the following is the correct distinction between a share and a debenture?

- A. Both shares and debentures represent ownership of the company
- B. The rate of dividend on shares is prefixed while the rate of interest on debentures may vary year to year
- C. Dividend is a charge on profits while interest on debentures is an appropriation of profits
- D. Payment of dividend is an appropriation of profits whereas payment of interest on debentures is a charge on profits and must be paid even if there is no profit

 **9 more MCQs + answer key**

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PYQ Alignment

This chapter is among the highest-yielding topics in 301 Accountancy on CUET, typically supplying ~10–12 MCQs per paper. NTA most often tests (i) the choice between

"Discount on Issue" and "Loss on Issue" given a stated issue/redemption combination, (ii) numerical sub-stems on the number of debentures to be issued for consideration other than cash at par/discount/premium, (iii) the writing-off sequence under §52(2) with a stated Securities Premium Reserve balance, (iv) the 10% DRR / 15% DRI thresholds under the Companies Act, 2013, and (v) the account credited for profit on cancellation of own debentures (Capital Reserve) and treatment of redemption premium (Long-term Borrowings).

CUET 2025 — Actual PYQs from this chapter

Q.2 (CUET 2025) G.S. Rai Company purchased assets of book value ₹98,000 from another firm. Purchase consideration paid by issuing 11% debentures of ₹100 each at 20% discount. Identify the number of debentures issued.

- A) 110 B) 200 C) 125 D) 960 Tests: §3 Issue of Debentures for Consideration other than Cash — at discount. Answer: Not in extracted key

Q.8 (CUET 2025) Journal entry: Bank A/c Dr ₹4,75,000; Loss on Issue of Debentures A/c Dr ₹75,000 To 12% Debentures A/c ₹5,00,000 To Premium on Redemption of Debentures A/c ₹50,000. If debentures were issued at 5% discount, find the premium on redemption rate.

- A) 5% B) 15% C) 20% D) 10% Tests: §4 Issue at Discount, Redeemable at Premium — back-computation of redemption premium rate. Answer: Not in extracted key

Q.22 (CUET 2025) A company issues 10,000 9% debentures of ₹100 at 5% discount redeemable at 5% premium. Loss on issue of debentures will be:

- A) ₹5,000 B) ₹10,000 C) ₹15,000 D) ₹20,000 Tests: §4 Loss on Issue of Debentures — combined discount + premium on redemption. Answer: Not in extracted key

Q.23 (CUET 2025) If debentures are issued at 5% discount and redeemable at 5% premium, find the premium rate.

- A) 5% B) 10% C) 15% D) 20% Tests: §4 Combined discount-plus-premium on redemption — total loss percentage. Answer: Not in extracted key

Q.44 (CUET 2025) Which account is credited when debentures are redeemed at premium?

- A) Debenture account B) Premium on redemption of debentures account C) Capital reserve account D) Securities premium account Tests: §5 Redemption at Premium — accounting at the time of issue and at redemption. Answer: Not in extracted key

CUET 2023 — Actual PYQs from this chapter

Q.12 (CUET 2023) AB Co. purchased assets worth ₹28,80,000. Debentures of ₹100 each issued at 4% discount in full satisfaction of purchase consideration. Number of debentures issued:

- A) 30,000 B) 28,800 C) 32,000 D) 27,693 Tests: §3 Issue of Debentures for Consideration other than Cash — number of debentures at discount. Answer: Not in extracted key

Q.33 (CUET 2023) Debentures issued for consideration other than cash include: (A) Issued to bank as additional security (B) Issued to vendor (C) Issued to public (D) Issued to creditor (E) Issued for cash

- A) (C),(B),(A),(E) only B) (A),(B),(D) only C) (A),(D),(C) only D) (B),(D),(E) only Tests: §3 Categories of Issue — for cash, for consideration other than cash, as collateral security. Answer: Not in extracted key



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