

MEANING OF KEY TERMS USED IN THE CHAPTER

- | | |
|---|--|
| 1. Debenture | Debenture is a written acknowledgement of Debt issued by the company.

According to Section 2(30) of the Companies Act, 2013, 'Debenture' includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not. |
| 2. Debentureholder | Debentureholder is the person to whom debentures are issued. |
| 3. Issue of Debentures for Cash | It means issue of debentures against consideration being received in cash. |
| 4. Issue of Debentures for Consideration other than Cash | It means issue of debentures against consideration not being received in cash but received in kind, <i>i.e.</i> , assets or services. |
| 5. Issue of Debentures as Collateral Security | It means that the debentures have not been issued for consideration received in cash or in kind but have been issued as a security for loan taken. |
| 6. Issue of Debentures at Par | It means that the issue price and the nominal (face) value of debentures are same. |
| 7. Issue of Debentures at Premium | It means that the issue price of the debenture is higher than its nominal (face) value. |
| 8. Issue of Debentures at Discount | It means that the issue price of the debenture is lower than its nominal (face) value. |
| 9. Redemption of Debentures at Par | It means that the redemption value and the nominal (face) value of debenture is same. |
| 10. Redemption of Debentures at Premium | It means that the redemption value of the debenture is higher than its nominal (face) value. |
| 11. Interest on Debentures | It is the cost of servicing the loans raised by the issue of debentures. |

CHAPTER SUMMARY

- **Debenture:** Debenture is a written acknowledgement of a debt by the company. It contains the terms for the repayment of the principal debt on a specified date and for payment of interest at a fixed per cent until the principal sum is paid.
- **Disclosure of Debentures in Company's Balance Sheet:** As per Schedule III of the Companies Act, 2013, *Debentures are shown in the Balance Sheet as Long-term Borrowings under Non-current Liabilities. But debentures, shown as Long-term Borrowings and payable within 12 months from the date of Balance Sheet or within the period of Operating Cycle is shown as Current Maturity of Long-term Debts under Short-term Borrowings under the head Current Liabilities. Interest Accrued (due and not due) is shown as Other Current Liability under Current Liabilities.*
- **Characteristics of a Debenture**
 - (i) A debenture is a written document or certificate which acknowledges the debt by the company.
 - (ii) The debenture certificate is issued under the common seal of the company, if the company has a common seal.
 - (iii) Mode and period of payment of principal and interest is fixed and is stated in the debenture.
 - (iv) Rate of interest is fixed and is stated in the debenture.
 - (v) The debt taken by issue of debentures is usually secured by a charge on the assets of the company.
 - (vi) It is considered as an *external equity* or *Long-term Borrowings* of the company.
- **Types of Debentures**
 - (i) *Secured Debentures* are those debentures which are secured either on a particular asset or on all the assets of the company in general.
 - (ii) *Unsecured Debentures* are those debentures which are not secured by any charge on assets of the company.
 - (iii) *Redeemable Debentures* are those debentures which will be repaid by the company at the end of a specified period.
 - (iv) *Irredeemable Debentures* are those debentures which are not repayable during the life of the company.
 - (v) *Registered Debentures* are those debentures, where the name, address and number of debentures held by the debentureholders are registered with the company.
 - (vi) *Unregistered or Bearer Debentures* are those debentures which can be transferred to any other person by mere delivery. No record of such debentureholders is maintained by the company.
 - (vii) *First Debentures* are those debentures which are to be repaid before the other debentures.
 - (viii) *Second Debentures* are those debentures which are to be repaid after the first debentures.
 - (ix) *Specific Coupon Rate Debentures* are those debentures which carry specified rate of interest.
 - (x) *Zero Coupon Debentures (Bonds)* are those debentures which do not carry any rate of interest.
 - (xi) *Convertible Debentures* are those debentures which can be converted into shares after a specified period.
 - (xii) *Fully Convertible Debentures (FCD)* are those debentures where the whole amount is to be converted into Equity Shares.
 - (xiii) *Partly Convertible Debentures (PCD)* are those debentures where only a part of the amount of debenture is convertible into Equity Shares.
 - (xiv) *Non-Convertible Debentures* are those debentures that are not convertible into shares of the company.
- **Debentures Trust Deed** is a document created by the company whereby trustees are appointed to protect the interest of debentureholders before they are offered for public subscription.

- **Issue of Debentures:** Debentures like shares, can be issued for: (i) cash and (ii) consideration other than cash. These debentures can be issued at: (a) par or (b) premium or (c) discount.

Accounting for issue of debentures for cash is the same as the accounting for issue of shares with one change, *i.e.*, the word 'Share' shall be replaced by 'Debentures' and 'Share Capital' by 'Debentures'. The terms used for the issue of shares will be changed at the time of issue of debentures.

<i>Terms for Issue of Shares</i>	<i>Terms for Issue of Debentures</i>
1. Shares Application/Allotment/First Call ... etc.	1. Debentures Application/Allotment/First Call ... etc.
2. Share Capital	2. Debentures
	3. Discount on Issue of Debentures

Note: Premium on the issue of shares or debentures is called **Securities Premium**.

- **Premium on Redemption of Debentures: Disclosure in the Balance Sheet**

- If debentures are shown as 'Long-term Borrowings', then it is shown in the Equity and Liabilities Part of the Balance Sheet under the head 'Non-Current Liabilities' and sub-head 'Other Long-term Liabilities'.*
- If debentures are shown as 'Short-term Borrowings', then it is shown in the Equity and Liabilities part of the Balance Sheet under the head 'Current Liabilities' and sub-head 'Other Current Liabilities'.*
- If debentures are shown as 'Current Maturities of Long-term Debts', then it is shown under the head 'Current Liabilities' and sub-head 'Other Current Liabilities'.*

- **Interest on Debentures** is considered as an expense. It is a charge against the profit of the company and is payable whether the company earns profit or not.

- **Issue of Debentures for Consideration other than Cash:** A company can issue debentures to the vendors as a payment for the purchase of the assets, such an issue of debentures is known as **issue of debentures for consideration other than cash**.

- **Issue of Debentures as Collateral Security** means issue of debentures as a subsidiary or secondary security. Collateral security means additional security, *i.e.*, in addition to the prime security. It is only to be realised when the prime security fails to pay the amount of the loan.

Debentures issued as Collateral Security may or may not be recorded in the books of account. If an accounting entry is not passed, it is disclosed under the loan. If an accounting entry is passed, it is shown below the loan first as Debentures Issued and thereafter Debentures Suspense Account is deducted.

- **Writing off Discount or Loss on Issue of Debentures** Discount or Loss on Issue of Debentures is written off in the year it is incurred, *i.e.*, in the year debentures are allotted. It may be written off from Securities Premium, and/or from Statement of Profit & Loss. Accounting entry will be as follows:

Securities Premium A/c	...Dr.
And/or	
Statement of Profit & Loss	...Dr.
To Discount or Loss on Issue of Debentures A/c	