

- At discount: Here, debentures are issued at a price that is less than its nominal (face) value. Such amount of discount is debited to an account titled Discount on Issue of Debentures Account. Balance in such account is written off at the earliest but within the tenure of debentures. Since, it is a capital loss it is written off from Capital Reserve, if it has a balance. If it has no balance, it is written off from Securities Premium Reserve and/or from Statement of Profit and Loss.
- **Disclosure of Unamortised Discount (loss) on issue of Debentures:** Since, the balance in such account is written off over the life of debentures but within the tenure of debentures, it will have a debit balance. It will be disclosed in the books as follows:
  - i. **Under Current Assets:** That part of unamortised discount or loss on issue of debentures which is to be written off within a period of 12 months from the date of Balance Sheet or within the period of Operating Cycle is shown in the Balance Sheet under the head 'Current Assets' and sub-head 'Other Current Assets'.
  - ii. **Under Non-Current Assets:** That part of unamortised discount or loss on issue of debentures which is to be written off after a period of 12 months from the date of Balance Sheet or after the period of Operating Cycle is shown in the Balance Sheet under the head 'Non-Current Assets' and sub-head 'Other Non-Current Assets'.
- **Accounting Entries:** Entries can be explained as follows:
  - **If amount of debentures is received in Lump Sum:**
    - i. For receipt of Application Money:  
 Bank A/c ...Dr. (With application money received)  
 To Debentures Application and Allotment A/c
    - ii. For allotment of debentures:  
 Debentures Application and Allotment A/c ...Dr. (With the amount of application money on the allotted debentures)  
 To %Debentures A/c
    - iii. For Refund of Excess Application Money:  
 Debentures Application and Allotment A/c ...Dr. (With the application money refunded)  
 To Bank A/c
  - **If amount of debentures is received in instalments:**
    - i. For receipt of Application Money:  
 Bank A/c ...Dr. (With application money received)  
 To Debentures Application A/c
    - ii. For allotment of Debentures:  
 Debentures Application A/c ...Dr. (With the amount of application money on the allotted debentures)  
 To %Debentures A/c
    - iii. For adjustment of Excess Debentures Application Money:  
 Debentures Application A/c ...Dr. (With surplus application money on partially accepted applications)  
 To Debentures Allotment A/c
    - iv. For Refund of Excess Debentures Application Money:  
 Debentures Application A/c ...Dr. (With the application money refunded on rejected applications)  
 To Bank A/c
    - v. For Allotment Money Being Called:  
 Debentures Allotment A/c ...Dr. (With the amount due on Allotment)

• **Writing off Discount or loss on Issue of Debentures:**

- i. Discount or loss on Issue of Debentures is a Capital Loss for the company and is therefore, written off at the earliest but within the tenure of the debentures.
- ii. It is to be written off any time before the debentures are due for redemption.
- iii. It may be written off following any of the following options:
  - a. written off in the first year itself;
  - b. written off over the tenure of the debentures either by:
    - Fixed Instalment Method: In this method, it is written off in equal instalments every year.
    - Fluctuating Instalment Method: This method is used when debentures are redeemed on different dates by draw of lots. Discount or loss on issue of debentures is written off in the ratio of outstanding balance of nominal value of debentures.
- iv. It may be written off from Capital Reserve and/or from Securities Premium Reserve and/or from Statement of Profit and Loss.
- v. When the amount of discount/loss on issue of debentures is written off in parts, balance in the account will reduce by the amount of discount or loss written off. The balance so left in the account is shown under the Assets of the Balance Sheet as follows:
  - a. amount to be written off within 12 months of the Balance Sheet date or within the period of Operating Cycle, is shown as Other Current Assets under the head Current Assets; and
  - b. amount other than mentioned in (a) above is shown as Other Non-Current Assets under the head Non-current Assets.

**Accounting Entry**

Capital Reserve A/c ...Dr. (Amount Witten Off)  
and/or  
Securities Premium Reserve A/c ...Dr. (Amount Witten Off)  
and/or  
Statement of P&L (Finance Cost) ...Dr. (Amount Witten Off)  
To Discount or Loss on Issue of Debentures A/c