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Issue and Redemption of Debentures

Types of Debentures

A company may issue different kinds of debentures which can be classified as under:

From the Point of view of Security

(a) Secured Debentures: Secured debentures refer to those debentures where a charge is created on the assets of the company for the purpose of payment in case of default. The charge may be fixed or floating. A fixed charge is created on a specific asset whereas a floating charge is on the general assets of the company. The fixed charge is created against those assets which are held by a company for use in operations not meant for sale whereas floating charge involves all assets excluding those assigned to the secured creditors.

(b) Unsecured Debentures: Unsecured debentures do not have a specific

a charge on the assets of the company. However, a floating charge may be created on these debentures by default. Normally, these kinds of debentures are not issued.

From the Point of view of Tenure

(a) Redeemable Debentures: Redeemable debentures are those which are payable on the expiry of the specific period either in lump sum or in Instalments during the life time of the company. Debentures can be redeemed either at par or at premium.

(b) Irredeemable Debentures: Irredeemable debentures are also known as Perpetual Debentures because the company does not given any undertaking for the repayment of money borrowed by issuing such debentures. These debentures are repayable on the on winding-up of a company or on the expiry of a long period.

From the Point of view of Convertibility

(a) Convertible Debentures: Debentures which are convertible into equity shares or in any other security either at the option of the company or the debentureholders are called convertible debentures. These debentures are either fully convertible or partly convertible.

(b) Non-Convertible Debentures : The debentures which cannot be converted into shares or in any other securities are called non- convertible debentures. Most debentures issued by companies fall in this category.