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शक्तिउत्थानआश्रमलखीसरायबिहार

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Issue and Redemption of Debentures (H.W)

Question 6:

What is 'Capital Reserve'?

ANSWER:

Capital Reserve is a reserve that is created out of capital profits i.e. gains or profits arising from other than the normal activities of business operations i.e. activities other than sale or purchase of goods and services. This reserve is utilised to meet future capital losses, if any, and to issue bonus shares. It cannot be distributed as dividend among the share holders. The Capital Reserve is generated out of the following activities:

i. Premium on issue of shares.

ii. Premium on issue of debentures.

iii. Profit on redemption of debentures.

iv. Profit on sale of fixed assets.

v. Profit on reissue of forfeited shares.

vi. Profit prior to incorporation, etc.

Question 7:

What is meant by an 'Irredeemable Debenture'?

ANSWER:

Irredeemable Debentures are those debentures that are not repayable or redeemable by a company during its life time. These are repayable only at the time of winding up of the company. These are also known as Perpetual Debentures that means debentures having indefinite life. In India, now days, no company can issue irredeemable debentures.

Question 8:

What is a 'Convertible Debenture'?

ANSWER:

Convertible Debentures are those debentures that can be converted into equity shares after a specified period of time. These are of following two types:

i. **Fully Convertible Debentures**: When the whole amount of a debenture is convertible into equity shares worth of equivalent amount, then these debentures are called Fully Convertible Debentures. There is no need to maintain Debenture Redemption Reserves for such debentures.

ii. **Partly Convertible Debentures**: When only a part of the amount of a debenture is convertible into equity share, then these debentures are called Partly Convertible Debentures. In this regards, the Debenture Redemption Reserve is maintained only for the non-convertible part of the debenture.

Question 9:

What is meant by 'Mortgaged Debentures'?

ANSWER:

Mortgaged Debentures are those debentures that are secured against asset/s of a company. These are also known as secured debentures. If the debentures are secured against a particular asset, then it is called fixed charge whereas, if the debentures are secured against all the assets of a company, then it is called floating charge. In case the company fails to pay back the principal amount of debenture or fails to meet its interest obligations on the due date, then the debenture holders have the right to sell the mortgage asset in order to realise their amount due to the company.

Question 10:

What is discount on issue of debentures?

ANSWER:

When the debentures are issued at a price below its par value or face value, then it is said that the debentures are issued at discount. The difference between the issue price and the face value of the debenture is regarded as a capital loss.

As per the Revised Schedule VI of the Companies Act, Discount on Issue of Debentures is shown in the Notes to Accounts:

1. With the amount that is to be written off ***within 12 months*** from the date of Balance Sheet - Shown under ***Other Current Assets***

2. With the amount that is to be written off ***after 12 months*** from the date of Balance Sheet - Shown under ***Other Non-Current Assets***