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शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce Sub. ACT Date 28.12.2020

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Issue and Redemption of Debentures (H.W)

Question 11:

What is meant by 'Premium on Redemption of Debentures'?

ANSWER:

When the debentures are redeemed at a price more than its face value or the par value, then it is said that the debentures are redeemed at premium. The difference between the redeemed price and the par value is regarded as a capital loss and this loss is written off till the redemption of the debentures. The Premium on Redemption of Debenture is shown in the Notes to Accounts under the sub-head of 'Other Long-term Liabilities'. The final balance is shown under the main head of 'Non-Current Liabilities' on the Equity and Liabilities side of the Company's Balance Sheet.

Accounting Treatment for Premium on Redemption on Debentures:

1. At the time of the Issue of Debenture:

Bank/Debenture Allotment A/c Dr.

Loss on Issue of Debenture A/c Dr.

To Debenture A/c

To Premium on Redemption

(Debenture issued with the term of redemption at premium)

2. At the time of Redemption of Debentures:

Debenture A/c Dr.

Premium on Redemption A/c Dr.

To Debentureholder A/c

(Amount of debentures due to debentureholders)

Question 12:

How are debentures different from shares? Give two points.

ANSWER:

Basis of Comparisons	Debentures	Shares
1. Meaning	Debentures are a part of loan, therefore, the debenture holders are the creditors of a company.	Shares form a part of capital, hence, share holders are the owner of a company.
2. Voting Rights	These do not carry any voting rights for their holders.	These carry voting rights for their holders.

Question 13:

Name the head under which 'discount on issue of debentures' appears in the Balance Sheet of a company.

ANSWER:

Discount on Issue of Debentures 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**

Question 14:

What is meant by redemption of debentures?

ANSWER:

Redemption of debenture means repayment of debentures by the company to the debenture holders. In other words, it implies the discharge of liabilities by repaying the amount due to the debenture holders as per the terms and conditions determined at the time of issue of debentures. Debentures may be redeemable at par, premium or discount, but, nowa days, these are mostly redeemable at par or premium. The redemption can be done out of profits or from the fresh issue of debentures or shares. Redemption of debentures may be done by the following methods:

1. In lump sum at the time of maturity,
 2. In instalments by draw of lots at the end of each year,
 3. By purchase in open market whenever price is below its face value,
 4. By converting debentures into shares or new debentures.
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Question 15:

Can the company purchase its own debentures?

ANSWER:

Yes, a company can purchase its own debentures provided it is authorised by its Article of Association. As per the Company Act, if a company is authorised by its Article of Association, only then it may purchase its own debentures from the open market. The main purposes of such purchase are as follows:

1. For immediate cancellation of debenture liability, if the interest rate on its debenture is higher than the market rate of interest.
 2. A company may also purchase its own debentures with the motive of investment and sell them at higher price in future and thereby earn profit.
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