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CLASS: XII- ACCOUNTANCY

ISSUE AND REDEMPTION OF DEBENTURES

The word 'debenture' has been derived from the Latin word 'debere' which means 'to owe'.

Bond is also an instrument of acknowledgement of debt. It can be issued without prefixed rate of interest.

Debentures may or may not constitute a charge on the assets of the company.

Charge-According to Section 2(16) of Companies Act, 2013, "Charge means an interest or lien created on the property or assets of a company.

Fixed Charge-When the charge is created against specific assets of the enterprise, then such charge is called a fixed charge.

Floating charge-When the charge is created on the group of assets whose value is subjected to a change in quantity and value.

The Companies Act, 2013, has not specified the minimum and maximum rate of discount that can be allowed on debentures. Thus, the company can issue debentures at a price decided by it.

Discount on issue of debenture is a capital loss and the amount of discount is debited to a separate account titled 'discount on issue of debentures account'.

Discount on issue of debentures is shown on the assets side of the Balance Sheet partially under the sub head 'other non-current assets' and partially under 'other current assets'.

-The amount shown under other current assets is to be written off within 12 months of the date of balance sheet.

-The amount shown under other non-current assets is to be written off after 12 months of the date of balance sheet.

DRR-It is the amount set aside out of surplus, i.e. balance in statement of profit and loss for redeeming the debentures. (As per Section 71(4) of the Companies Act, 2013)

QUESTIONS

Q.1 Is the interest on debentures calculated at the fixed percentage on the issue price?

Q.2 In which account, gain on cancellation of own debentures transferred?

Q.3 LMN Ltd. purchased its own debentures of the face value of Rs 2,00,000 from the open market for immediate cancellation at Rs 92. Calculate the amount of gain on cancellation of own debentures.

Q.3 What percentage of nominal value of debentures is required to be invested in specified securities before the redemption of debentures?

Q.4 What do you mean by redemption of debenture by conversion?

- Q.5 Give the treatment of expenses on the purchase of own debentures.
- Q.6 Can we finance Redemption of Debentures without fresh Issue of capital?
- Q.7 Debentures can be converted into shares by debenture holders. How?
- Q.8 Is it essential for a company to create Debenture Redemption Reserve? Explain?
- Q.9 Is it possible for a company to redeem its debentures entirely out of capital? Illustrate.
- Q.10 How will you deal with the following:
- (i) Balance of Debenture Redemption Fund after debentures have been redeemed.
 - (ii) Premium on redemption of debentures.
- Q.11 Identify the sources of arranging funds for the redemption of debentures.
- Q.12 In what respect Premium on Issue of Debentures and Premium on Redemption of Debentures differ from each other?
- Q.13 State whether the following statements are true or false:
- (i) Debenture investment has nothing to do with terms of debentures.
 - (ii) Redemption of debenture imply the payment of interest in time.
 - (iii) Coupon rate is specified interest rate payable on debentures.
 - (iv) Primary security and collateral security are same.
- Q.14 Define debenture stock?
- Q.15 If debenture calls remain unpaid can the debentures be forfeited?

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