

Chapter 9- Issue of Debentures

Question 1

Define Debentures.

Answer: Debenture is a written document or an instrument that is issued by the enterprise acknowledging a debt. It comprises of the terms of repayment of principal and also payment of interest.

Question 2

Mention the types of Debentures.

Answer: An enterprise may issue different types of debentures which can be categorised as follows:

- From the security point of view
- From redemption point of view
- From records point of view
- From a priority point of view
- From the point of view of coupon rate
- From convertibility point of view

Question 3

What is the Issue of Debentures?

Answer: An enterprise issues the prospectus inviting people to subscribe debentures of an enterprise. The enterprise can also make some private placement of the debentures following the prescribed procedure.

Question 4

Give the meaning of interest on debentures.

Answer: Interest on debentures is computed at a fixed rate on its nominal or face value payable quarterly, half-yearly or annually with accordance to the terms of the issue.

Question 5

Debentures are shown in the balance sheet of an enterprise of a company under the head of,

- Non-current liabilities
- Current liabilities
- Share capital

- None of these

Answer: Non-current liabilities

Question 6

Debenture holders are,

- Owners of a company
- Lenders of the company
- Vendors of the company
- Customers of the company

Answer: Lenders of the company

Question 7

Debenture interest is paid,

- At a predetermined rate
- At variable rate
- At a rate based on the net profit of the company
- At a rate as determined by the company from time to time

Answer: At a predetermined rate

Question 8

What is the minimum subscription?

Answer: According to Section 39 (1) of the Companies Act, 2013, an enterprise cannot allot securities until and unless the minimum subscription given in the prospectus is received. Hence, the Act does not specify the minimum subscription but has to be decided by the company itself.

Question 9

What is the oversubscription of Debentures?

Answer: The oversubscription of debentures refers to, the company has received applications for more number of debentures that it has actually issued. In such a scenario, the enterprise may make allotment by any of the following 3 options mentioned below:

- First alternative – Rejecting excess applications
- Second alternative – Partial or pro-rata allotment
- Third alternative – A combination of the above mentioned 2 alternatives

Question 10

What is the under-subscription of Debentures?

Answer: The under-subscription of debentures refers to, that the applications have been received for a lesser number of debentures than offered for subscription.

Question 11

Define redeemable debentures.

Answer: Redeemable debentures are those debentures that are repayable by the enterprise at the end of a particular period or by instalments during the existence of a company.

Question 12

Define first debentures.

Answer: The debentures which have to be paid back before the other debentures are referred to as the first debentures.

Question 13

Explain the term 'Debentures Trust Deed'.

Answer: The company issuing debentures to the public is required to appoint the trustees and perform (execute) a Trust Deed. The trustees are bound to protect the interest of the debenture holders via the powers granted by the Trust Deed.

Question 14

When the debentures are issued at a discount, the discount must be written off

- After the debentures have been redeemed
- Within 5 years of the issue of debentures
- During the life of the debentures
- None of the above

Answer: During the life of the debentures

Question 15

At the time of issue of debentures, debentures a/c is,

- Credited by the amount received
- Credited by the issue price of the debentures
- Credited by the nominal value of the debentures
- None of the above

Answer: Credited by the nominal value of the debentures