



Definition, Type and Issue of Debentures



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A Debenture is a unit of loan amount. When a company intends to raise the loan amount from the public it issues debentures. A person holding debenture or debentures is called a debenture holder. A debenture is a document issued under the seal of the company. It is an acknowledgment of the loan received by the company equal to the nominal value of the debenture. It bears the date of redemption and rate and mode of payment of interest. A debenture holder is the creditor of the company.

As per section 2(12) of Companies Act 1956. Debenture includes debenture stock, bond and any other securities of the company whether constituting a charge on the company's assets or not.

TYPES OF DEBENTURES

Debenture can be classified as under :

1. From security point of view

(i) Secured or Mortgage debentures : These are the debentures that are secured by a charge on the assets of the company. These are also called mortgage debentures. The holders of secured debentures have the right to recover their principal amount with the unpaid amount of interest on such debentures out of the assets mortgaged by the company. In India, debentures must be secured. Secured debentures can be of two types :

(a) First mortgage debentures : The holders of such debentures have a first claim on the assets charged.

(b) Second mortgage debentures : The holders of such debentures have a second claim on the assets charged.

(ii) Unsecured debentures : Debentures which do not carry any security with regard to the principal amount or unpaid interest are called unsecured debentures. These are called simple debentures.

2. On the basis of redemption



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- (i) Redeemable debentures : These are the debentures which are issued for a fixed period. The principal amount of such debentures is paid off to the debenture holders on the expiry of such period. These can be redeemed by annual drawings or by purchasing from the open market.
 - (ii) Non-redeemable debentures : These are the debentures which are not redeemed in the life time of the company. Such debentures are paid back only when the company goes into liquidation.
3. On the basis of Records
- (i) Registered debentures : These are the debentures that are registered with the company. The amount of such debentures is payable only to those debenture holders whose name appears in the register of the company.
 - (ii) Bearer debentures : These are the debentures which are not recorded in a register of the company. Such debentures are transferrable merely by delivery. Holder of these debentures is entitled to get the interest.
4. On the basis of convertibility
- (i) Convertible debentures : These are the debentures that can be converted into shares of the company on the expiry of predecided period. The term and conditions of conversion are generally announced at the time of issue of debentures.
 - (ii) Non-convertible debentures : The debenture holders of such debentures cannot convert their debentures into shares of the company.
5. On the basis of priority
- (i) First debentures : These debentures are redeemed before other debentures.
 - (ii) Second debentures : These debentures are redeemed after the redemption of first debentures

ISSUE OF DEBENTURES

By issuing debentures means issue of a certificate by the company under its seal which is an acknowledgment of debt taken by the company.

The procedure of issue of debentures by a company is similar to that of the issue of shares. A Prospectus is issued, applications are invited, and letters of allotment are issued. On rejection of applications, application money is refunded. In case of partial allotment, excess application money may be adjusted towards subsequent calls.

Issue of Debenture takes various forms which are as under :

1. Debentures issued for cash
2. Debentures issued for consideration other than cash
3. Debentures issued as collateral security.

Further, debentures may be issued

- (i) at par, (ii) at premium, and (iii) at discount

OVER SUBSCRIPTION

Company if receives applications for number of debentures that exceed the number of debentures offered for subscription, it is called over subscription. There can be following treatment of the excess application money received :

- (a) The total amount of excess number of applications is refunded in case the applications are totally rejected.

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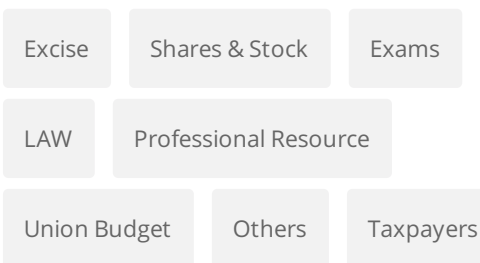
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(b) The amount of excess application money is totally adjusted towards amount due on allotment and calls

--- in case partial allotment is made,

--- the excess amount is adjusted towards sums due on allotment and rest of the

amount is refunded.



ISSUE OF DEBENTURES AT PREMIUM AND AT DISCOUNT

Debentures are said to be issued at premium when these are issued at a value which is more than their nominal value. For example, a debenture of Rs 100 is issued at Rs 110. This excess amount of Rs 10 is the amount of premium. The premium on the issue of debentures is credited to the Securities Premium A/c as per section 78 of the Companies Act, 1956.

ISSUE OF DEBENTURES AT DISCOUNT

When debentures are issued at less than their nominal value they are said to be issued at discount. For example, debenture of Rs 100 each is issued at Rs 90 per debenture. Companies Act, 1956 has not laid down any conditions for the issue of debentures at a discount as have been laid down in case of issue of shares at discount. However, there should be provision for issue of such debentures in the Articles of Association of the Company.

ISSUE OF DEBENTURES FOR CONSIDERATION OTHER THAN CASH

When a company purchases some assets and issues debentures as a payment for the purchase, to the vendors it is known as issue of debentures for consideration other than cash. Debentures can be issued to vendors at par, at premium and at discount.

ISSUE OF DEBENTURES AS COLLATERAL SECURITY

Collateral security means security given in addition to the principal security. It is a subsidiary or secondary security. Whenever a company takes loan from bank or any financial institution it may issue its debentures as secondary security which is in addition to the principal security. Such an issue of debentures is known as issue of debentures as collateral security. The lender will have a right over such debentures only when company fails to pay the loan amount and the principal security is exhausted. In case the need to exercise this right does not arise debentures will be returned back to the company. No interest is paid on the debentures issued as collateral security because company pays interest on loan.

In the accounting books of the company issue of debentures as collateral security can be credited in two ways.

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(i) No journal entry to be made in the books of accounts of the company :
Debentures are issued as collateral security. A note of this fact is given on the liability side of the balance sheet under the heading Secured Loans and Advances.

(ii) Entry to be made in the books of account the company
A journal entry is made on the issue of debentures as a collateral security, Debentures suspense A/c is debited because no cash is received for such issue.

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Thanks sir for explanations. it is very much useful for examinitaion purpose

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thanx I got may answer that only secured debentures are valid in Indai that is crux.....


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