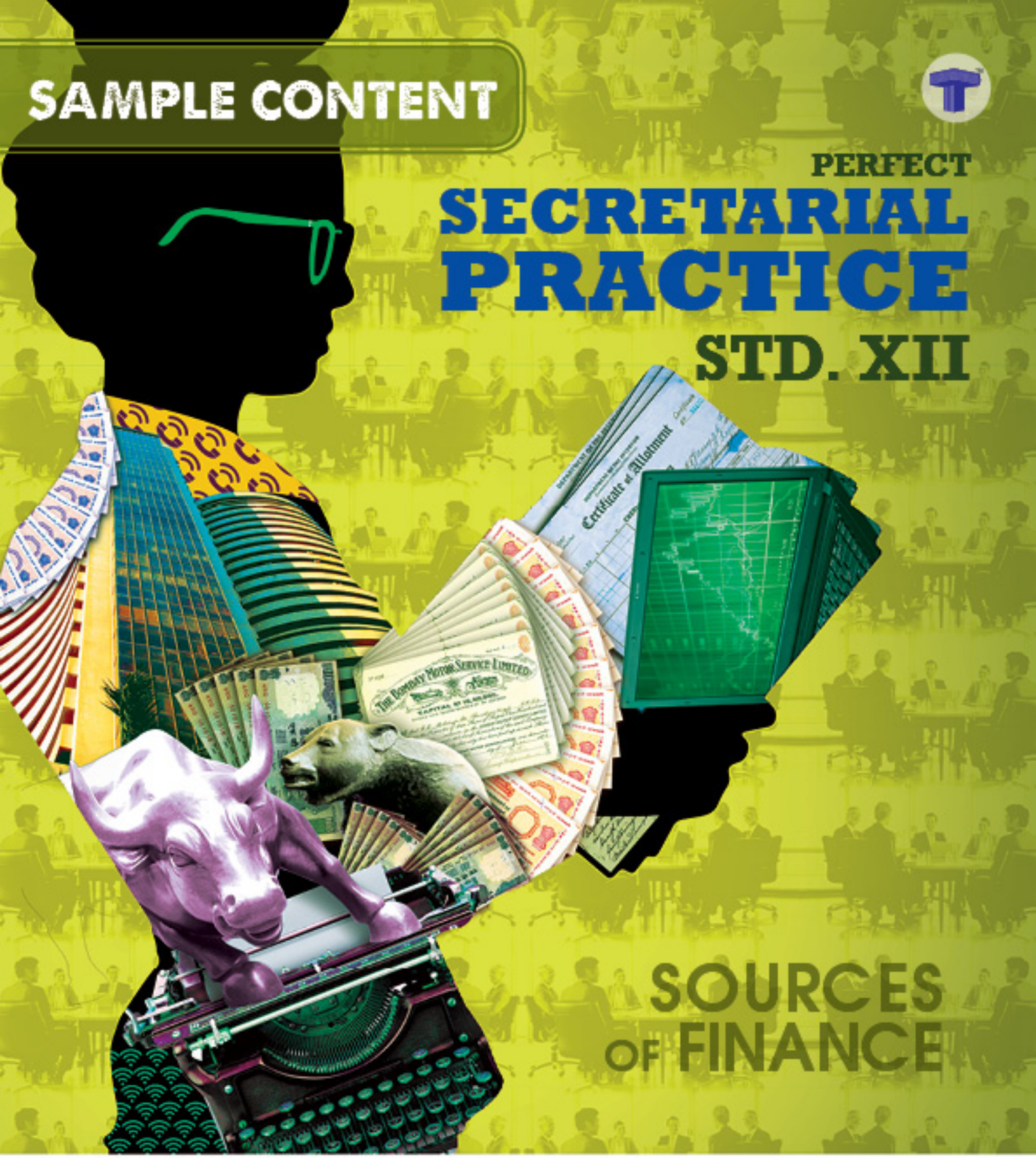
SAMPLE CONTENT

PERFECT

SECRETARIAL PRACTICE

STD. XII



SOURCES OF FINANCE

Target Publications Pvt. Ltd.

Written as per the revised syllabus prescribed by the Maharashtra State Board of Secondary and Higher Secondary Education, Pune.

STD. XII Commerce
Secretarial Practice

SAMPLE CONTENT

Salient Features:

- Exhaustive coverage of syllabus in Question Answer Format.
- Covers answers to all Textual Questions, Board Questions (Mar 08 – July 18).
- Relevant Marking Scheme for Each Question.
- Includes Additional Important Questions for better preparation.
- Mnemonics to facilitate easy answer recall.
- Quick Recap at the end of each chapter to facilitate quick revision.
- Two Model Question Papers as per the latest paper pattern.
- Includes Board Question Papers of 2017, 2018 and March 2019.
- Simple and Lucid language.
- Includes GG - our very own mascot.

Printed at: **Repro India Ltd.,** Mumbai

© *Target Publications Pvt. Ltd.*
No part of this book may be reproduced or transmitted in any form or by any means, C.D. ROM/Audio Video Cassettes or electronic, mechanical including photocopying; recording or by any information storage and retrieval system without permission in writing from the Publisher.

Balbharati Registration No.: 2018MH0022 **TEID: 13190** P.O. No. 151117

PREFACE

Secretarial Practice is a subject that compiles the knowledge and skills a Company Secretary should posses. The competency of the company secretary lies in conducting valid correspondence between the Board of Directors and the public, thereby acting as a front face of the organization.

We present to you **"Std. XII Commerce: Secretarial Practice"** with a revolutionary fresh approach towards content thus laying a platform for an in-depth understanding of the subject.

This book has been written according to the revised syllabus and guidelines as per the State Board and covers answers not only to the textual questions but also for board question papers from March 2008 to July 2018.

In addition to this, we have included extra questions in each lesson that not only aim at covering the entire topic but also make students ready to face the competition. The sub-topic wise classified "Question and Answer" format of this book helps students in easy comprehension.

Furthermore, we have provided model answers to each question in the form of pointers which makes it easy for students to memorize and reproduce the answers in their examinations.

We have incorporated "Mnemonics" to facilitate easy answer recall. Every chapter ends with a Quick Recap to facilitate quick revision of the lesson learnt. The book also includes two model question papers as per the latest paper pattern. The model questions are provided with relevant marking schemes so as to highlight the importance of each question.

We are sure this study material will turn out to be a powerful resource for students and facilitate them in understanding the concepts of this subject in the most lucid way.

The journey to create a complete book is strewn with triumphs, failures and near misses. If you think we've nearly missed something or want to applaud us for our triumphs, we'd love to hear from you.

Please write to us on: *mail@targetpublications.org*

Best of luck to all the aspirants!

Yours faithfully,
Publisher

Edition: Second

Gyan Guru (GG)

We present to you our mascot 'GG', who has been proudly introduced by us for the very first time. GG is a student-buddy who pops up throughout the book and draws your attention to important bits of knowledge also termed as 'Good to Know'. These 'Good to Know' sections help you understand a concept distinctly with a corresponding example from your immediate environment. This is our initiative in education that helps linking learning to life and we're hopeful that you are going to love it.

SAMPLE CONTENT

Disclaimer

This reference book is transformative work based on textual contents published by the Maharashtra State Board of Secondary and Higher Secondary Education. We the publishers are making this reference book which constitutes as fair use of textual contents which are transformed by adding and elaborating, with a view to simplify the same to enable the students to understand, memorize and reproduce the same in examinations.

This work is purely inspired upon the course work as prescribed by the Maharashtra State Board of Secondary and Higher Secondary Education, Pune. Every care has been taken in the publication of this reference book by the Authors while creating the contents, the Authors and the Publishers shall not be responsible for any loss or damages caused to any person on account of errors or omissions which might have crept in or disagreement of any third party on the point of view expressed in the reference book.

© reserved with the Publisher for all the contents created by our Authors.

No copyright is claimed in the textual contents which are presented as part of fair dealing with a view to provide best supplementary study material for the benefit of students.

BOARD PAPER PATTERN

Time: 3 Hours **Total Marks: 80**

Q.1. Objective type questions: **[15]**

Includes three sub-questions of five marks each. All sub-questions are compulsory.

(A) Select the correct answer from the possible choices given below and rewrite the statements:

Five sub-questions. Each sub question carries three options. *[one mark each]*

(B) Match the pairs:

It contains 5 points in Group 'A' and 10 options in Group 'B'. *[one mark each]*

(C) Write a word or phrase or a term which can substitute each of the following statements:

Five sub-questions will be given. *[one mark each]*

Q.2. Distinguish between the following: **[15]**

(Any three out of five) *[5 marks each]*

Q.3. Write short notes on: **[15]**

(Any three out of five) *[5 marks each]*

Q.4. State with reasons, whether the following statements are True or False: **[15]**

(Any three out of five) *[5 marks each]*

[**1 mark**→ For stating True or False; **4 marks** → Reasons (Minimum four reasons are expected)]

Q.5. Answer in brief: **[10]**

(Any two out of four) *[5 marks each]*

[Out of the four questions, three will be asked on business correspondence with debenture holders and depositors]

Q.6. Answer the following: **[10]**

(Any one out of two)

[Out of the two questions, one will be asked on business correspondence with members]

Total: 80

Scheme of Evaluation		
		Marks
(A)	Written Examination	80
(B)	Project (with Viva)	20
	Total:	**100**

(A) Unitwise Weightage

Sr.No.	Units	Marks	Marks With Option
1.	Business Finance	07	12
2.	Sources of Business Finance	18	28
3.	Role of a Secretary in Capital Formation	12	22
4.	A. Issue of Debentures	12	17
	B. Deposits		
	C. Depository and Dematerialization		
5.	Declaration and Payment of Dividend	07	12

SAMPLE CONTENT

6.	A. Correspondence with Members	17	27
	B. Correspondence with Debenture holders		
	C. Correspondence with Depositors		
7.	A. Financial Markets	07	12
	B. Stock Exchange		
	Total:	**80**	**130**

(B) Weightage to Objectives

Sr. No.	Objectives	Marks	Marks with Option	Percentage
1.	Knowledge	15	15	18.75
2.	Understanding	20	40	25.00
3.	Application	25	40	31.25
4.	Skill	20	35	25.00
	Total:	**80**	**130**	**100.00**

(C) Weightage to Type of Questions

Sr. No.	Type of Questions	Marks	Marks with Option	Percentage
1.	Objective Type	15	15	18.75
2.	Short Answers	55	95	68.75
3.	Long Answers	10	20	12.50
	Total:	**80**	**130**	**100.00**

Contents

Sr. No.	Topic Name	Page No.
1.	Business Finance	1
2.	Sources of Business Finance	21
3.	Role of a Secretary in Capital Formation	56
4.	Issue of Debentures	85
5.	Deposits	98
6.	Depository and Dematerialization	112
7.	Declaration and Payment of Dividend	124
8.	Correspondence with Members	138
9.	Correspondence with Debenture holders	162
10.	Correspondence with Depositors	174
11.	Financial Markets	185
12.	Stock Exchange	197
	Model Question Paper - I	215
	Model Question Paper - II	217
	Board Question Paper : March 2017	219
	Board Question Paper : July 2017	221
	Board Question Paper : February 2018	223
	Board Question Paper : July 2018	225
	Board Question Paper : February 2019	227

Note: All Textual questions are represented by * mark.

SAMPLE CONTENT

04. Issue of Debentures

Introduction

OPQ Ltd. was founded with an objective to be at the forefront of innovation in developing machinery for farming practices. It had set up a dedicated research & development wing to serve this purpose. In less than a year's time, the R & D Dept. came up with several suggestions that would serve as viable alternatives to traditional farming practices. Now, the promoters of OPQ Ltd. had to finance the dual expenses of research as well as production. The result of research was unprecedented and hence required additional capital to fund production activities. The promoters of the company sat together to discuss this issue. They had two options: raising capital through equity issue and raising capital through debenture issue. However, the promoters were not in favour of increasing the number of owners. They chose to issue debentures instead as they do not carry ownership rights. Also, with time the debentures can be repaid reducing the overall liability of the company.

In this chapter, we will learn the provisions and procedures related to the issue of debentures, conversion of debenture into shares and redemption of debentures.

Debenture

Meaning of Debenture:

- The term 'debenture' is derived from the Latin word *'debere'* which means 'to owe something to someone'.
- Debenture is an acknowledgement of debt issued by a company under its common seal.
- It is like a certificate of loan, evidencing the fact that the company is liable to pay a specified amount with interest to the holder of the debenture.
- A company, whether public or private, may raise borrowed capital by issuing debentures to the general public at any point of time.
- Debenture may be issued at par, at premium or at discount.
- According to Section 292 of the Indian Companies Act, Board of Directors has the sole authority to issue debentures.
- The person who purchases the debenture is called debenture holder. He is the creditor of the company and receives a fixed amount of interest on the loan provided by him.
- Although the money raised by the debenture becomes a part of company's capital structure, it is not considered as share capital.

Definitions of Debenture:

- According to Section 82 of the **Companies Act** – 'Debenture to any member of the company is a movable property, transferable in the manner provided by the Articles of Association'.
- According to **Oxford Dictionary** – 'Debenture is a certificate issued by a company acknowledging that it has borrowed money on which interest is being paid'.

Statutory Provisions related to Issue of Debentures

***Q.1. Write a short note on: Legal provisions for Issue of Debentures. [5]**

Ans: A debenture is a certificate of loan issued by a company under its common seal acknowledging a debt due to its holders. A person purchasing a debenture is called as debenture holder. He eventually becomes the creditor of the company. Also, he is entitled to receive fixed rate of interest.

The **legal provisions** regarding the issue of debentures are as follows:

[Mnemonic: MP & **R**ajasthan **VISIT]**

i. Mode of Issue:

- Debentures can be issued publicly by issuing a prospectus or privately through private placements.

SAMPLE CONTENT

ii. Permission of SEBI:

- The company has to obtain consent of SEBI (Securities Exchange Board of India), if issue of debenture exceeds ₹ 1 crore.

iii. Register of Debentures:

- As per the Companies Act, a separate register of Debenture holders should be maintained by the company.
- It must contain - names, addresses, occupation of debenture holders, number of debentures allotted, their distinctive numbers, the amount of debentures etc.

iv. Voting Rights:

- Debenture holders have **no voting rights** in the company's general meeting of share holders, but they may have separate meeting or votes on issues related to debentures.
- They may call meeting or can vote on matters like dispute on rate of interest of debentures, non-receipt of debenture certificate, conversion of debentures into shares etc.

v. Issue by Public as well as Private Companies:

- A public company can issue debentures only after receiving a trading certificate or commencement of business certificate whereas a private company can issue debentures immediately after incorporation.

vi. Security against Debentures:

- Secured debentures refer to the debentures which are secured against specific assets of the company such as a factory or a plot of land, etc.
- It is mandatory for all the companies to issue only secured debentures as Companies (Amendment) Act, 2000 prohibits issue of unsecured debentures.

vii. Power to Issue under Section 292(1):

- The power to issue debentures rests with the **Board of Directors.**
- Such right could be exercised by passing a resolution in the Board meeting.

viii. Terms of Issue and Redemption:

- Redemption of debentures means repayment of the amount of debentures by the company.
- Debentures can be issued at par, at premium or at a discount. For e.g. A debenture with the face value of ₹ 100 can be issued at ₹ 100 (at par) / at ₹ 110 (at premium) / at ₹ 90 (at discount).
- However, at the time of redemption of debentures, it can be redeemed at par or at premium but not at discount. For e.g. A debenture with the face value of ₹ 100 can be redeemed at ₹ 100 (at par) / at ₹ 110 (at premium) but not at ₹ 90 (at discount).

Conditions for valid Issue of Debentures

***Q.2.** **Write a short note on: Conditions for Issue of Debentures.** **[July 17][5]**

Ans: A debenture is a certificate of loan issued by a company under its common seal acknowledging a debt due to its holders. A person purchasing a debenture is called as debenture holder and eventually becomes the creditor of the company. Also, he is entitled to receive fixed rate of interest.

All Joint Stock Companies can issue debentures at any point of time. Debentures may be issued at par, at premium or at a discount. However, a company needs to fulfill certain **conditions** for a valid issue of debentures.

These are as follows:

- When the debentures are to be issued to the general public, a public company needs to file a copy of 'Prospectus' with the Registrar. But when the company issues debentures privately, a 'statement in lieu of prospectus' is to be filed with the Registrar.

SAMPLE CONTENT

- The amount received by the company shall be deposited in a Schedule Bank.
- Allotment of debentures may be made by the Board of Directors. Allotment must be communicated to the applicants by sending a letter of allotment.
- Allotment work must be completed within **120 days** from the date of issue of prospectus.
- The basis of allotment must be absolute and unconditional and as per terms noted in application form.
- After complying with all the necessary norms, 'Debenture Certificate' must be delivered to holder within **3 months** of allotment.

Procedure relating to Issue of Debentures

***Q.3. What is Debenture? Explain in detail procedure for Issuing Debenture.**

[Mar 09, 13, Oct 08] [10]

Ans: A debenture is a certificate of loan issued by a company under its common seal acknowledging a debt due to its holders. A person purchasing a debenture is called as debenture holder. He eventually becomes the creditor of the company. Also, he is entitled to receive fixed rate of interest.

A company secretary is involved in the entire process of issue of debentures. He has to complete all statutory formalities in proper order. The procedure of issuing debentures is as follows:

i. Board Resolution:
- According to Indian Companies Act, the Board of Directors is required to pass a resolution in the Board meeting.
- The resolution should clearly specify number of debentures to be issued, face value of debentures, rate of interest payable, terms of redemption etc.

ii. Resolution by Shareholders:
- If the value of debentures issued exceeds the aggregate paid up capital and free reserves, then in such case, a resolution is needed to be passed in general meeting of the shareholders.

iii. Consent of SEBI:
- If the issue value of debentures exceeds ₹ 1 crore or more, then permission of SEBI is mandatory.

iv. Approval of Stock Exchange:
- Prior approval of stock exchange is required before the company issues prospectus to the public.

v. Credit Rating:
- Credit rating is the evaluation of the credit worthiness of a business concern.
- As per the guidelines laid down by SEBI, 2000, the company has to get its debentures rated by two recognized credit rating agencies, and it should be disclosed in the prospectus.

Good to Know:

- *As of March 2016, there are 6 credit rating agencies namely:*

Credit Rating Information Services of India Ltd. (CRISIL)
Fitch Ratings India Pvt. Ltd.
Investment Information and Credit Rating Agency Ltd. (ICRA)
Credit Analysis & Research Ltd. (CARE)
Brickwork Ratings India Pvt. Ltd.
SME Rating Agency of India Ltd. (SMERA)

vi. Trust Deed:
- Trust deed needs to be built between the company and trustees.
- Trustees are responsible for protecting the interest of debenture holders and redressing their grievances or complaints, if any.
- If a company makes default, the trustees can take the necessary steps to provide justice to the debenture holders.

SAMPLE CONTENT

- The trustees ensure that the mortgaged property is kept insured and maintained in proper condition.
- In case of default, the trustees are given the power to sell and realize the security without the aid of the court.

vii. Issue of Prospectus:
- Prospectus is a medium of advertisement for issue of debenture.
- It has to be filed with Registrar before issuing it to the public.

viii. Receiving Applications and Allotting Debentures:
- Arrangements are to be made by company for receiving application and application money through company's banker.
- Thereafter, resolution needs to be passed by Board for allotment of debentures.

ix. Issue of Debenture Certificate:
- After resolution is passed in the board meeting, debentures are issued to investors within 3 months from the date of allotment.
- Debenture certificates are prepared by the secretary and signed by at least 2 directors.
- Debentures are credited in Demat account, if they are in dematerialized form.

x. Register and Index of Debenture Holders:
- Post allotment, all details of debenture holders are to be recorded in register of debenture holders.
- If number of holders exceeds 50, the company will be required to maintain index of debenture holders.

Conversion of Debentures into Shares

Meaning of Convertible Debentures:

Convertible debentures are the debentures that can be converted into equity shares of the company after a pre-determined period of time.

Types of Convertible Debentures:

Fully Convertible Debentures (FCD):
- These debentures can be converted into equity shares after a specific period of time.
- On conversion, debenture holder becomes member of the company.
- He is eligible for shares and rights of shareholders.

Partly Convertible Debentures (PCD):
- These type of debentures can be partly converted into equity shares and rest of the part continues to be debentures.
- For debentures converted into shares, debenture holder becomes member of the company and for the part which are still debentures; he continues to be a creditor of the company.

***Q.4. State the provisions related to Conversion of Debentures. [Mar 12] [5]**

Ans: A debenture is a certificate of loan issued by a company under its common seal acknowledging a debt due to its holders. A person purchasing a debenture is called as debenture holder. He eventually becomes the creditor of the company. Also, he is entitled to receive fixed rate of interest.

Section 81 (3) of the Companies Act, 1956 allows issue of convertible debentures.

Convertible debentures are the debentures that can be converted into equity shares of the company after a pre-determined period of time.

The **provisions** for conversion of debentures into shares are as follows:

i. Prospectus/Letter of offer:
- Prospectus of a company must contain time of conversion, rate of conversion and premium amount, if any.

ii. Letter of Option:
- The company has to issue letter of option to the debenture holders.
- This letter of option provides adequate details viz. option of conversion, conversion price, etc.

SAMPLE CONTENT

iii. Filing of Copy:
- A copy of 'Letter of Option' has to be filed with the SEBI before issuing it to the debenture holders.

iv. Rate of Conversion:
- The rate of conversion is generally fixed at the time of issue of debentures.
- If the amount of convertible debentures exceeds ₹ 50 lakhs and the premium price is not fixed, then the debenture holder should be given an option of compulsory redemption.

v. Rejection of Conversion Offer:
- If the debenture holder opts to redeem the debentures held by him rather than conversion then the amount has to be paid within one month from the date of option.
- Here, it should be noted that the price must not be less than face value.

***Q.5. Explain in detail the procedure for conversion of debentures into shares. [10]**

Ans: The procedure for conversion of debentures into shares is as follows:

i. Board Resolution:
- The conversion must be approved by the Board of Directors in the board meeting by passing a resolution.
- It must also be approved by the shareholders and debenture holders. A special resolution must be passed to that effect in the AGM.
- A copy of this resolution is to be filed with the Registrar of Companies within 30 days of its passing.

ii. Letter of Option:
- A letter of option is sent to debenture holder and one copy of the same is filed with the SEBI.

iii. Allotment of Shares:
- Once the debentures are converted into equity shares, a letter of conversion is sent to debenture holders.
- Also, the debenture holders are requested to return the debenture certificate.

iv. Change in Register of Charges:
- After the shares are allotted, company has to cancel the charges against the assets which were created at the time of issue of debentures.
- These changes are to be made in the Register of Charges.

v. Entry in Register of Members:
- Company is required to maintain a Register of Members in which the details about the share holders viz. names, addresses, date of allotment, serial numbers of shares are entered.

vi. Filing of Return of Allotment:
- A return of allotment is filed with the Registrar within 30 days of allotment of shares.

Redemption of Debentures

Q.6. What is meant by Redemption of Debentures? State the provisions regarding Redemption of Debentures. [5]

Ans: Debenture is a borrowed/loan capital. Hence, it has to be repaid to the debenture holders. This is termed as redemption of debentures. Debentures may be redeemed either out of the proceeds of a fresh issue of debentures and/or shares or by creating 'Debenture Redemption Reserve' by setting aside certain sums from annual profits of the company.

Provisions regarding Redemption of Debentures:

The provisions regarding redemption of debentures are as follows:

i. To create Debenture Redemption Reserve (DRR):
- As per the Section 117C of Companies Act, 1956, DRR needs to be created out of company's profit every year until such debentures are redeemed.
- Minimum 50% of the amount of debentures issued should be redeemed from DRR while the rest can be raised by issue of new equity shares / debentures.

SAMPLE CONTENT

ii. Default in Repayment:

- If the company defaults in repayment, debenture holders can file a complaint with 'Company Law Board'.
- They can direct the company to pay the principal amount along with interest.
- Secured debenture holders can approach the debenture trustees whereas unsecured debenture holders can file a suit in the court.
- The trustees have the right to sell off the assets of the company or can appoint a court receiver to repay the amount.

iii. Penalty for Default:

- The person responsible for disobeying the order of Company Law Board, shall be fined more than ₹ 500/- per day, till default continues.

Q.7. *State the procedure of redemption of debentures.

OR

Write a short note on: Procedure of redemption of debentures. [Mar 16] [5]

Ans: The procedure for Redemption of Debentures is as follows:

i. Board Meeting:

- A resolution needs to be passed in the Board meeting for redemption of debentures.

ii. Intimation about Redemption:

- A letter intimating redemption needs to be sent to all debenture holders by the secretary of the company.
- The letter should provide information about redemption of debentures and should also request the debenture holders to surrender their debenture certificates.

iii. Refund:

- A secretary informs the banker to make the repayment to debenture holders.

iv. Change in Register of Debenture holders:

- Changes are to be made in Register of debenture holders, once the redemption process has been completed.

v. Changes in Register of Charges:

- Changes are to be made in the Register of Charges because the charges initially created on company's assets in favour of debenture holders are to be cancelled on the event of redemption.

vi. Intimation to Registrar of Companies:

- Company Secretary shall inform the Registrar about the details of redemption of debentures.

***Q.8. Write a short note on: Methods of Redemption of Debentures. [Mar 14, 15, Oct 11] [5]**

Ans: Debenture is a borrowed/loan capital. Hence, it has to be repaid to the debenture holders. This is termed as redemption of debentures. Redemption of debentures is possible by different methods:

i. Redemption after fixed period:

- Under this method, a notice is given by the company to debenture holder about the redemption that is due (maturity date).
- The debenture holder is then required to approach to company's banker to get the form of repayment.
- He needs to fill up the form and deposit the same along with the certificate in the company's office.
- Company's bank shall make payment to respective debenture holder after receiving the documents.

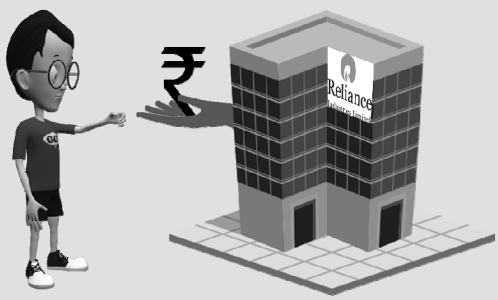
SAMPLE CONTENT

ii. Redemption by Annual Installments:

- Under this method, the company makes payment in two parts viz. principal amount and interest.
- For the said purpose, two coupons are attached to debentures. Out of which one is for getting refund of annual installments of principal amount and other is for getting the interest.
- Coupons are to be signed and deposited at company's banker.
- Accordingly refund is made by the bank on behalf of the company.

Good to Know:

- *In November 2003, Reliance Industries Ltd. had issued 6.25% - 8000 Secured Redeemable Non-Convertible Debentures of ₹10,00,000 each aggregating ₹800 crore. As per the terms of issue, the debentures were to be redeemed in six equal annual installments starting from the end of the 10th year from the date of allotment i.e. November 24, 2003. On November 24, 2015, the Company repaid the 3rd installment of redemption proceeds. After the payment of the 3rd installment of redemption, the face value of the debentures was reduced from ₹6,66,666.67 to ₹5,00,000.00 per debenture.*



iii. Redemption by Draw Method:

- Here, the company adopts the lottery method for redemption.
- Debentures are divided into different lots and then draw system is carried out.
- Lot drawn is paid back after giving them intimation regarding the repayment.
- In this way, all lots are refunded in order of draws.

iv. Redemption by Own Purchase Method:

- In this method, company purchases its own debentures from open market at a certain price.
- It then cancels the debentures.
- In this way, debentures are gradually redeemed.

v. Redemption by Fresh Issue Method:

- In this method, the debenture holders get new/fresh debentures in place of old ones.
- In other words, the old debentures are redeemed by the issue of new debentures.

Multiple Choice Questions

I. Select the correct answer from the possible choices given below and rewrite the statements: [1 mark each]

*1. A company raises debt capital through the issue of _____. **[July 17]**
(A) equity shares (B) preference shares **(C) debentures**

2. Debenture holder is _____ of the company. **[Mar 12]**
(A) owner (B) debtor **(C) creditor**

3. Debenture holders get income in the form of _____. **[Mar 10]**
(A) Dividend **(B) Interest** (C) Bonus

*4. Power to issue debentures rests with _____.
(A) Chairman (B) Secretary **(C) Board of Directors**

5. The word 'Debenture' is derived from the Latin word _____. **[Mar 09]**
(A) Debere (B) Debenture (C) Debire

SAMPLE COPY

6. Debenture cannot be redeemed _____.
(A) at par (B) at premium **(C) at discount**

*7. The company has to obtain consent of _____ if issue of debentures exceeds ₹ 1 crore. **[Mar 15]**
(A) SEBI (B) Registrar (C) National Stock Exchange

*8. Debenture certificate must be issued within _____ months of allotment. **[Mar 14]**
(A) 3 (B) 6 (C) 9

9. The _____ is an advertisement for the issue of debentures.
(A) memorandum of association
(B) articles of association
(C) prospectus

10. Debenture holder is entitled to receive _____ certificate from the company. **[Mar 08]**
(A) Share (B) Dividend **(C) Debenture**

11. Approval of _____ is required to be taken before prospectus is issued to the public.
(A) Stock Exchange (B) Public Company (C) Registrar

*12. Fully convertible debentures are converted into _____ shares on maturity. **[Mar 14, Oct 14]**
(A) equity (B) deferred (C) bonus

13. A return of allotment is filed with the Registrar within _____ days of allotment.
(A) 30 (B) 60 (C) 90

14. The _____ can direct the company to repay the principal amount of debenture with interest.
(A) Company Law Board (B) Registrar (C) Shareholders

*15. In order to redeem old debentures, the company issues _____.
(A) assets (B) public deposits **(C) fresh debentures**

Match the Pairs

II. Match the correct pairs: **[1 mark each pair]**

***1.**

	Group "A"		Group "B"
i.	Debentures *[Type of capital]* **[Mar 14]**	a.	Repaid at any time
ii.	Redeemable debentures	b.	Proof of ownership
iii.	Convertible debentures	c.	Repaid on maturity
iv.	Debenture trustees **[Mar 15]**	d.	Security about repayment
v.	Secured debenture	e.	Converted into equity shares
		f.	Borrowed capital
		g.	Unsecured investment
		h.	Protects interest of debenture holders
		i.	Converted into stocks
		j.	Owned capital

Ans: (i – f), (ii – c), (iii – e), (iv – h), (v – d).

SAMPLE CONTENT

2.

	Group "A"		Group "B"
i.	Position of debenture holders **[Mar 08, Oct 14]**	a.	Owned capital
ii.	Reward of Debentures **[Oct 08]**	b.	Converted into preference shares
iii.	Meaning of Convertible debentures **[Mar 09, 12]**	c.	Owners of company
iv.	Meaning of Redeemable debentures	d.	Fixed rate of interest
		e.	Redemption of debentures after fixed period of time
		f.	Creditors of the company
		g.	Factoring
		h.	Converted into equity shares

Ans: **(i – f), (ii – d), (iii – h), (iv – e).**

One Word

III. **Write a word or a term or a phrase which can substitute each of the following statements: [1 mark each]**

*1. The person who has invested in the debentures of a company.
*2. The authority who can issue debentures.
3. The company which can issue debentures only after obtaining a certificate of commencement.
*4. The statement to be filed with registrar before the allotment in case the debentures are issued privately.
5. The place where the amount is to be deposited by the company which it receives from the applicants of debentures.
*6. A certificate issued to the debenture holder after allotment of debentures. **[Oct 15]**
7. An assessment of creditworthiness of a company as per the guidelines issued by the SEBI.
*8. An agreement to be executed with the trustees of debenture within 6 months if the debentures are secured.
9. The one who prepares debenture certificates of the company.
10. The account in which the debentures are credited, if in dematerialized form.
*11. The reserve created for the protection of interest of debenture holders. **[July 18]**
12. In this method, the company purchases its own debentures from the open market and gradually cancels it.

Ans:
1. Debenture holder
2. Board of Directors
3. Public Company
4. Statement in lieu of prospectus
5. Schedule Bank
6. Debenture certificate
7. Credit Rating
8. Trust deed
9. Secretary
10. Demat account
11. Debenture Redemption Reserve
12. Redemption by own purchase method

True or False

IV. **State with reasons, whether the following statements are True or False: [5 marks each]**

***1. Board of Directors has power to issue debentures.**

Ans: This statement is **TRUE.**

Reasons:

- A debenture is a certificate of loan issued by a company under its common seal acknowledging a debt due to its holders.
- A company whether public or private can raise finance itself by issuing debentures.

SAMPLE CONTENT

- The debentures can be issued to general public at any point of time. *(Public company can issue debentures only after obtaining a certificate to commence the business whereas, a private company can issue debentures immediately after incorporation)*
- Under Section 292 of the Indian Companies Act, the Board of Directors has the sole authority to issue debentures.
- In the board meeting, the Board of Directors is required to pass a resolution authorizing the secretary to complete the entire procedure of issue of debentures.
- Thereafter, the secretary has to complete the legal procedure relating to issue of debentures.

Thus, the power to issue debentures rests with Board of Directors.

***2. Debenture holders are the owners of the company. [Mar 10, Oct 15]**

Ans: This statement is **FALSE.** *[Debenture holders are creditors of the company]*

Reasons:

- A debenture is a certificate of loan issued by a company under its common seal acknowledging a debt due to its holders. A person who purchases a debenture is called as 'debenture holder'.
- Debenture holders are the creditors of the company.
- They are the people who provide loan to the company.
- For the loan provided, debenture holders receive a fixed rate of interest.
- This interest does not depend on the profits earned by the company.
- Unlike shareholders, debenture holders have no voting rights and cannot participate in the management of the company.

Thus, debenture holders are not the owners but creditors of the company.

***3. Convertible debentures can be converted into equity shares. [Mar 16]**

Ans: This statement is **TRUE.**

Reasons:

- Convertible debentures are the debentures that can be converted into equity shares of the company after a pre-determined period of time.
- The company has to give detailed information in respect to the conversion date, rate of conversion etc. in its prospectus when it issues convertible debentures.
- On conversion, debenture holders become the members of the company.
- However, if the amount of convertible debentures exceeds ₹ 50 lakhs and the premium price is not fixed, then the company is required to give option of compulsory redemption to its debenture holders. In such a case, the company cannot convert debentures into equity shares.

Thus, the above statement is true.

***4. Debentures are never redeemed by the company. [Feb 18, July 16]**

Ans: This statement is **FALSE.** *[It cannot be said that debentures are never redeemed by the company]*

Reasons:

- Debenture is an acknowledgement of debt created by a company under its common seal.
- Debenture capital represents owed funds, which means, it has to be repaid after the expiry of certain period of time, carrying a fixed rate of return.
- On the basis of redeemability, there are two types of debentures.

  Redeemable Debentures *(these are repaid by the company on the expiry of the specified time)*

SAMPLE CONTENT

Irredeemable Debentures *(Here, the repayment is not fixed. The company may repay them according to its convenience.)*

Therefore, it cannot be said that debentures are never redeemed by the company.

***5. 'Debenture Redemption Reserve' (DRR) is created for Redemption of deposits.**

Ans: This statement is **FALSE.** *[DRR is created for redemption of debentures]*

Reasons:

- Section 117C of the Companies Act requires every company issuing debentures has to transfer certain amount every year to DRR for the purpose of redemption of debentures.
- The amount credited to DRR should be purely utilized for the purpose of redemption of debentures.
- If a company fails to redeem the debentures on the date of maturity, then the Company Law Board will order the company to repay the principal amount along with interest due thereon.
- In case of partly convertible debentures, DRR is to be created for non-convertible portion only.

Thus, company creates DRR for the purpose of redemption of debentures and not for deposits.

Additional Questions for Revision

Q.1. State the procedure of Issue of Debentures. [Oct 12] [5]

Ans: *Refer Q.3.*

Q.2. Write a short note on: Procedure for conversion of debentures. [Mar 15, July 18] [5]

Ans: *Refer Q.5.*

Q.3. State with reasons, whether the following statements are True or False: [5 marks each]

i. Debenture holders are the creditors of the company. [Mar 15, Oct 08]

Ans: This statement is **TRUE.**

Reasons:

Refer IV. (2)

ii. Debenture is a Loan capital of the company. [Mar 08]

Ans: This statement is **TRUE.**

Reasons:

Refer IV. (2)

QUICK RECAP

Legal provisions for Issue of Debentures

[Mnemonic: MP & **R**ajasthan **VISIT]**

i. **M**ode of Issue
ii. **P**ermission of SEBI
iii. **R**egister of Debentures
iv. **V**oting Rights
v. **I**ssue by Public as well as Private Companies
vi. **S**ecurity against Debentures
vii. Power to **I**ssue under Section 292(1)
viii. **T**erms of Issue and Redemption

SAMPLE CONTENT

Procedure relating to Issue of Debenture

- Board Resolution
- Resolution by shareholders
- Consent of SEBI
- Approval of Stock Exchange
- Credit Rating
- Trust Deed
- Issue of Prospectus
- Receiving applications and allotting debentures
- Issue of Debenture Certificate
- Register and index of Debenture holders

Types of Convertible Debentures

- Fully Convertible Debentures (FCD)
- Partly Convertible Debentures (PCD)

Provisions related to Conversion of Debentures

i. Prospectus/Letter of offer
ii. Letter of Option
iii. Filing of Copy
iv. Rate of Conversion
v. Rejection of Conversion Offer

SAMPLE CONTENT

Procedure for conversion of Debentures into Shares

- Board Resolution is required to be passed
- Letter of option is sent to debenture holder and it's one copy is filed with SEBI.
- Shares are allotted
- Changes in Register of Charges is duly made
- Entry in Register of Members
- Return of allotment is to be filed with the Registrar

Provisions regarding Redemption of Debentures

i. To create Debenture Redemption Reserve (DRR)
ii. Default in Repayment
iii. Penalty for Default

Redemption of Debentures

Procedure

- Board Meeting is to be conducted
- Intimation about redemption to debenture holder
- Informing the banker to make the repayment
- Changes are done in Register of Debenture holder
- Changes are done in the Register of Charges
- Secretary informs the Registrar of Companies

Methods

i. Redemption after Fixed Period
ii. Redemption by Annual Installments Method
iii. Redemption by Draw Method
iv. Redemption by Own Purchase
v. Redemption by Fresh Issue Method

SAMPLE CONTENT

Std. XII
Commerce

AVAILABLE SUBJECTS:

- Economics
- Organization of Commerce & Management
- Secretarial Practice
- Commerce Mathematics & Statistics (Part - I)
- Commerce Mathematics & Statistics (Part - II)
- Book-Keeping & Accountancy
- Book-Keeping & Accountancy Solutions

BUY NOW

SALIENT FEATURES:

- Exhaustive coverage of syllabus based on the Paper Pattern
- Inclusion of previously asked Board Questions with Marking Scheme
- Coverage of relevant questions beyond the realms of the textbook
- Assessments at the end of every chapter for self-evaluation
- Model Question Papers to assess the level of preparation of students

Target Publications Pvt. Ltd.

88799 39712 / 13 / 14 / 15
mail@targetpublications.org
www.targetpublications.org