

SHERSHAH COLLEGE, SASARAM

FINANCIAL ACCOUNTS

BBA PART-I, PAPER-III

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DEBENTURES

Debenture – Debenture is the most common form of loan capital which is made available by investors on a long term basis. Large and financially sound companies may obtain some long term loan from financial institutions like LIC, IDBI, etc. When a co borrows money from investing people, it issues certificates which is stamped with the official seal of the co. These certificates are called Debentures.

According to the guideline issued by the controller of capital issues, the objectives of the issue of debentures can be among other things:-

1. Setting up of a new projects.
2. Expansion of existing project.
3. Normal capital expenditure for modernization.
4. To increase long term resources of the co for working capital requirements.

Types of debentures:-

Debentures can be classified according to security, permanence, priority, convertibility and negotiability.

1. Security point of view :-

- a) **Secured and mortgage debentures** - Secured and mortgage debentures are those debentures which are secured either on a particular asset called fixed charge or on the general assets called floating charge of the co including future one.
- b) **Unsecured or naked debentures** - Unsecured or naked debentures are those debentures which are not secured. A Co

merely promise to pay interest on due date and to repay the amount due on maturity date. Such as debentures are very risky from the investor's point of view.

2. **Permanence point of view :-**

- a) **Redeemable debentures** – These debentures are repayable as per the terms of issue. For eg. – After 5 years after the date of issue.
- b) **Irredeemable debentures** – It is also called perpetual debentures, these debentures are not repayable during the life time of the co. These are repaid only at the time of liquidation.

3. **Priority point of view :-**

- a) **First mortgage debentures** – These are those debentures which are repaid before other debentures are paid out.
- b) **Second mortgage debentures** - Second mortgage debentures are those debentures which are payable after satisfying the first debentures.

4. **Convertibility point of view :-**

- a) **Convertible debentures** – These are those debentures which will be converted into equity shares after a certain period of time from the date of its issue.
- b) **Non-convertible debentures** - Non-convertible debentures are debentures which cannot be converted into shares in future. As per the terms of issue, these debentures are repaid.

5. **Negotiability point of view :-**

- a) **Registered debentures** - Registered debentures are those debentures which are not easily transferable and cannot be transfer only by transfer deed, names, address, particulars of the debentures possessed by them are entered in the register. Interest are paid to one whose name appears in the register or order of the registered holder as expressed in the warrant issued by the co.
- b) **Bearer debentures** – These are the negotiable instruments payable to the bearer. No kind of record is kept by the co. in respect of the holders of such debentures. Payment of interest is made on the production of coupons attached with the debentures.

