SYLLABUS

Class – B.Com. III Sem.

Subject – Corporate Account

UNIT – I	Issuing of share, forfeiture, re-issue of shares & buy back of share, redemption of preference shares, issue & redemption of debentures.
UNIT – II	Final accounts of companies (including calculation of managerial remuneration). Declaration of dividend, profit & loss appropriation account & disposal of profits. Calculation of pre & post incorporation profit/loss.
UNIT – III	Valuation of goodwill & shares, methods of valuation, accounts of public utility companies (electricity company)
UNIT – IV	Meaning of holding & subsidiary company, preparation of consolidated balance sheet of a holding company with one subsidiary company, accounting for liquidation of a companies.
UNIT – V	Accounting for merger as per AS-14, internal reconstruction of company as per Indian accounting standard 14 (excluding intercompany holding & reconstruction scheme)

UNIT-I
ISSUE OF SHARE
Ordinary Shares (Equity Share)

Equity shares capital means all share capital which is not preference share capital. In other words, a share or share capital which does not give the definition of preference shares or preference share capital, is equity share capital.

Equity shareholders receive dividend out of profits as recommended by the Board of directors and as declared by the shareholders in an annual general meeting but after preference shares have been paid their fixed dividend.

Moreover, equity shareholders have a right to vote on every resolution placed in the meeting and the voting right shall be in proportion to the paid up equity capital. Unless a company issue equity shares with differential rights.

Preference Shares

Preferences shares with reference to any company limited by shares are those which carry:

(a) A right to be paid a fixed amount of dividend or the amount of dividend, calculated at a fixed rate, e.g., 10% nominal value of shares and also.
(b) A right to be paid the amount of capital paid up as such shares in the event of winding up of the company.

The articles share capital is the sum of total of preference shares.

Those of Preference Shares

These may be of the following types:

1. **Cumulative Preference Shares:** These share are entitled to dividend at a fixed rate whether there are profits or not. The company pays dividend if it has sufficient profits. In case the company does not have sufficient profits, dividend on cumulative preference shares will go on accumulating till it is fully paid off, such arrears are carried forward to the next year and are actually paid out of the subsequent years' profits. In the case of winding up of the company, the arrears of dividend on these shares are payable only if the article of association contains express provision in this respect. It may be noted, that all preference shares are presumed to be cumulative unless expressly stated in the articles to be non-cumulative.
2. **Non-cumulative Preference Shares:** Non-cumulative preference shares are those shares on which the arrears of dividend do not accumulate. If in a particular year there are no profits are inadequate, the shareholders shall not get anything or receive a partial dividend and they cannot claim the arrears of dividends in the subsequent year. In simple words, on such shares the unpaid dividends do not accumulate but lapse, i.e., the shareholders lose them forever.
3. **Participating Preference Shares:** The holders of such shares are entitled to receive dividend at a fixed rate and, in addition, they have a right to participate in the surplus profits along with equity shareholders after dividend at a certain rate has been paid to equity shareholders, there are surplus assets, then the holders of such shares shall be entitled to share in the surplus assets as well. Such shares can be issued only if there is a clear provision in the memorandum or articles of association or the terms of issue.
4. **Non-participating Preference Shares:** The holders of such shares are entitled to only a fixed rate of dividend and do not participate further in the surplus profits. If the articles are silent, all preference shares are deemed to be non-participating.
5. **Convertible Preferences Shares:** the holder of such shares have a right to convert these shares into equity shares within a certain period.
6. **Non-convertible Preference Shares:** The preference shares, where the holders have no right to convert their shares into equity shares are known as non-convertible preferences shares. Unless otherwise stated preference shares are assumed to be non-convertible.
7. **Redeemable Preference Shares:** ordinarily, the amounts received by the company on shares is not returned except on the winding up of the company. A company limited by shares, if authorised by its articles, may issue preference shares which are to be redeemed or repaid after

a certain fixed period. Thus, the amounts received on such shares can be returned during the life-time of the company. Such shares are termed as redeemable preferences shares.

CLASSES OF CAPITAL

In view of the stages involved in collecting the money on shares, the shares capital of a company may be classified as follow:

(1) Authorised Capital: It is the capital which is stated in company's memorandum of association with which the company intends to be registered. It is called the nominal or registered capital. It is the maximum amount of shares capital which a company is authorised to raise by issuing the shares.

(2) Issue Capital: It is that part of the authorised capital which is actually offered (issued) to the public for subscription. Therefore, the issued capital can never be more than the authorised capital. It can at the most be equal to the nominal capital. The balance of nominal capital remaining to be issued is called 'unissued capital'.

(3) Subscribed Capital: It is that part of the issued capital which has been actually subscribed by the public. In other words, it is that part of issued capital for which the applications have been received from the public and shares allotted to them.

(4) Called-up Capital: It is that part of nominal value of issued capital which has been called-up or demanded on the shares by the company. Normally, a company does not collect the full amount of shares it has allotted.

(5) Paid-up Capital: It is that part of the called-up capital which has actually been received from the shareholders.

(6) Reserve Capital: It is that part of the uncalled capital which cannot be called by the company except in the event of its winding up.

<u>Issue of Shares at par- issued at its face value</u>

	Account	
Transaction	**Debit**	**Credit**
(1)Receipt of application money	Bank	Share Application
(2)Application Money in respect of shares allotted	Share Application	Share capital
(3)Refund in respect of rejected applications	Share application	Bank
(4)Adjustment of excess application money towards	Share application	Share Allotment
allotment	Share application	Calls-in-advance
(5)Adjustment of excess application money Towards calls-	Share allotment	Share capital
in-advance	Bank	Share allotment
(6)When allotment is made and the money Becomes due	Share call	Share capital
(7)Receipt of allotment money	Calls-in-advance	Share call
(8)Where a call is made for the call money due		
(9)Adjustment of money in calls-in-advance		Share call a/c
Towards the call account	Bank	
(10)Receipt of call money		

ISSUE OF SHARES AT PREMIUM

The term 'Securities' has been defined under Section 2(45AA) inserted by Companies (Amendment) Act, 2000. The premium is an amount in excess of par value or nominal value or face value of the securities (shares). Where a company issues securities at a premium whether for cash or for a consideration other than cash, a sum equal to aggregate amount of premiums on these securities shall be transferred to Securities Premium Account. The Securities Premium Account may be applied by the company:

(a) in paying up unissued shares of the company to be issued to the members of the company as fully paid bonus shares:
(b) in writing off the preliminary expenses of the company;
(c) in writing off the expenses of or commission paid or discount allowed on any issue of shares or debentures of the company.
(d) In providing for the premium payable on the redemption of any redeemable preference shares or any debentures of the company.
(i) A company may issue shares at a premium, i.e, at a value greater than its face value. Premium so received shall be credited to a separate account called **Securities Premium Account.**

Journal Entries

(a) If the premium is paid with application money, the following entries will be passed:

(i) Bank Account Dr.
To Share Application A/c
(Being share application money along with premium received)

(ii) Share Application Account Dr.
To Share Capital A/c
To Securities Premium A/c
(Share application money transferred to share capital A/c and Securities Premium A/c)

If the Securities Premium is received along with the allotment money, then the following entries will be passed

(i) Share Allotment Account Dr.
To Share Capital A/c
To Securities Premium A/c
(Being the allotment money and securities premium money due on …….. shares)

(ii) Bank Account Dr.
To Share Allotment Account
(Being the receipt of allotment along with share premium)

Note-According to Section 78 of the Companies Act, 1956 Securities Premium account may be used in following purposes only:

(i) For the issue of fully paid bonus shares to the members of the company;
(ii) For writing off preliminary expenses of the company;
(iii) For writing off the expenses of the commission paid or discount allowed on any issued of shares of debentures of the company; and
(iv) For providing premium payable on the redemption of any redeemable preference shares or debentures of the company.

ISSUE OF SHARES AT A DISCOUNT

Discount means a price which is less than nominal value or face value of a share. If share of Rs. 10 is issued at Rs. 8, then, 10-8, i.e., the amount of Rs.2 is discount.
When shares are issued at a price which is lower than market price but not below the face value of the shares, such an issue is not an issue at a discount.

1. A company shall not issue shares at discount except in the Company of a class already issued, if the following conditions are fulfilled, namely:
   (i) The issue of the shares at a discount is authorised by a resolution passed by the company in general meeting and sanctioned by the company in general meeting and sanctioned by the Company Law Boards;
   (ii) The resolution specifies the maximum rate of discount at which the share are to be issued;
   (iii) Not less than one year has at the date of issue elapsed since the date on which the company was entitled to commence business; and

(iv) The shares to be issued at discount are issued within two moths after the date on which the issue is sanctioned by the Company Law Board or within such extend time as the Company Law Board May allow.

2. Where a company has passed a resolution authorizing the issue of shares at a discount, it may apply to the Company Law Board for an order sanctioning the issue, on such application the Board may make an order if it thinks proper to do so, sanctioning the issue on such terms and conditions as it thinks fit.
3. Every prospectus relating to the issue of shares shall contain particulars of the discount allowed on the issue of shares.

A company can issue shares at a discount, i.e., value less than the face value

Journal Entry

The following journal entry is passed on the issue of the shares at a discount at the times of allotment:

Share Allotment Account Dr.
Discount on the Issue of Shares Account Dr.
To Share Capital Account

CALLS IN ARREARS AND CALLS IN ADVANCE

Calls in Arrears-

If any amount has been called by the company either as allotment or call money and a shareholder has not paid that money, this is known as calls in arrears. On such calls in arrears, If there is a provision in the Articles of Association, the company can charge interest **@ 5% for the period for which such amount remained in arrears from the shareholders.**

Calls in Advance-

calls received in advance and. Generally interest is paid on such calls according to the provisions of the Articles of Association but such rate **should not exceed 6% per annum.**

Bank A/c Dr. (amount received on calls)
Calls in Arrears A/c Dr. (amount not received on calls)

To share I/II Call money A/c (amount of call money due)

FORFEITURE OF SHARES

When a shareholder fails to pay calls, the company, if empowered by its articles, may forfeit the shares.

Journal Entries

The following entry is passed at the time of forfeiture of shares.

Share Capital Account Dr. (with the **called amount** (Nominal) On such shares **as capital**)
Securities Premium A/c Dr. **(If not received)**
To Discount on Issue of Shares **(If shares are issued at discount Initially)**

To Calls in Arrears a/c (amount unpaid on calls/Allotment)

To Share forfeited A/c (with the amount already received)

RE ISSUE OF FORFEITED SHARES

Bank A/c Dr. (Amount received on such reissue)
Discount on the Issue of Shares A/c Dr. (with original rate of discount and originally were issued at discount)

Shares Forfeited A/c Dr. (Loss on reissue of shares)
To Share Capital A/c (with face value of shares)
To Securities Premium A/c (If shares are reissued at premium)

Note:- If Shares forfeited account is showing credit balance after reissue of all forfeited shares, such profit should be treated as capital profit and the amount relating to shares reissued will be transferred to capital reserve by passing the following entry:

Shares Forfeited Account Dr.
To Capital Reserve A/c

When all Forfeited Shares are not issued
When all forfeited sharers shares are not issued, i.e., only a part of such shares is reissued, then amount of surplus in forfeited account related to these shares should be transferred to capital Reserve instead of Whole amount.

SURRENDER OF SHARES

When a shareholder gives up his shares to the company voluntarily and sacrifices all his rights, it is known as surrender of shares. There is no provision in Table A of the Companies Act regarding surrender of shares and a company cannot possible accept the surrender of fully paid up shares as it amounts to purchase of its own shares which is prohibited by Sec. 77. Sometimes Articles of Association empowers the directors to accept surrender of shares. Ultimate effect of surrender of shares and forfeiture of shares is the same because in both cases membership of the shareholder comes to an end. The main point of difference between the two is that surrender is at the initiative of the shareholders while forfeiture is at the initiative of the company.
Accounting record for surrender of shares is the same as that of forfeiture.

BUY BACK OF SHARES

The provisions regulating buy back of shares are contained in Section 77A, 77AA and 77B of the Companies Act,1956. These were inserted by the Companies (Amendment) Act,1999. The Securities and Exchange Board of India (SEBI) framed the SEBI(Buy Back of Securities) Regulations,1999 and the Department of Company Affairs framed the Private Limited Company and Unlisted Public company (Buy Back of Securities) rules,1999 pursuant to Section 77A(2)(f) and (g) respectively.

Objectives of Buy Back: Shares may be bought back by the company on account of one or more of the following reasons
i. To increase promoters holding
ii. Increase earning per share
iii. Rationalise the capital structure by writing off capital not represented by available assets.
iv. Support share value
v. To thwart takeover bid
vi. To pay surplus cash not required by business
Infact the best strategy to maintain the share price in a bear run is to buy back the shares from the open market at a premium over the prevailing market price.

Resources of Buy Back
A Company can purchase its own shares from
(i) free reserves; Where a company purchases its own shares out of free reserves, then a sum equal to the nominal value of the share so purchased shall be transferred to the capital redemption reserve and details of such transfer shall be disclosed in the balance-sheet or
(ii) securities premium account; or
(iii) proceeds of any shares or other specified securities. A Company cannot buyback its shares or other specified securities out of the proceeds of an earlier issue of the same kind of shares or specified securities.

Procedure for buy back

a. Where a company proposes to buy back its shares, it shall, after passing of the special/Board resolution make a public announcement at least one English National Daily, one Hindi National daily and Regional Language Daily at the place where the registered office of the company is situated.
b. The public announcement shall specify a date, which shall be "specified date" for the purpose of determining the names of shareholders to whom the letter of offer has to be sent.
c. A public notice shall be given containing disclosures as specified in Schedule I of the SEBI regulations.
d. A draft letter of offer shall be filed with SEBI through a merchant Banker. The letter of offer shall then be dispatched to the members of the company.
e. A copy of the Board resolution authorising the buy back shall be filed with the SEBI and stock exchanges.
f. The date of opening of the offer shall not be earlier than seven days or later than 30 days after the specified date
g. The buy back offer shall remain open for a period of not less than 15 days and not more than 30 days.
h. A company opting for buy back through the public offer or tender offer shall open an escrow Account

Sources from where the shares will be purchased

The securities can be bought back from
(a) existing security-holders on a proportionate basis;
Buyback of shares may be made by a tender offer through a letter of offer from the holders of shares of the company or
(b) the open market through
(i). book building process;
(ii) stock exchanges or
(c) odd lots, that is to say, where the lot of securities of a public company, whose shares are listed on a recognized stock exchange, is smaller than such marketable lot, as may be specified by the stock exchange;

BONUS SHARES

The term *bonus* means an extra dividend paid to shareholders in a joint stock company from surplus profits. When a company has accumulated a large fund out of profits - much beyond its needs, the directors may decide to distribute a part of it amongst the shareholders in the form of bonus. Bonus can be paid either in cash or in the form of shares. Cash bonus is paid by the company when it has large accumulated profits as well as cash to pay dividend. Many a time, a company is not in a position to pay bonus in cash in spite of sufficient profits because of unsatisfactory cash position or because of its adverse effects on the working capital of the company. In such a position, the company pays a bonus to its shareholders in the form of shares; a free share thus issued is known as a **bonus share**.
A bonus share is a free share of stock given to current/existing shareholders in a company, based upon the number of shares that the shareholder already owns. While the issue of bonus shares increases the total number of shares issued and owned, it does not increase the value of the company. Although the total number of issued shares increases, the ratio of number of shares held by each shareholder remains constant.
Whenever a company announces a bonus issue, it also announces a "Book Closure Date" which is a date on which the company will ideally temporarily close its books for fresh transfers of stock. Read "Book Closure" for a better understanding.
An issue of bonus shares is referred to as a **bonus issue**.
Depending upon the constitutional documents of the company, only certain classes of shares may be entitled to bonus issues, or may be entitled to bonus issues in preference to other classes

Share premium:

Depending on several factors relating to company, financial position, future prospects etc. a company can issue shares at par, at premium or at discount. Promoters strategy to have a proper mix of capital and reserves to strengthen capital base of the company and to have a precedence of issue of shares at premium so that in future shares can be issued at premium is also an important strategical decision. Many closely held companies have adopted practice of issuing shares at substantial premium with a view to keep authorized and paid-up capital low book value of share high, EPS high and incidentally to reduce cash outflow on account of dividend (which is paid as a percentage of paid up share capital and also on account of filing fees for higher authorized capital.

Share premium account:

Any sum collected in respect of issue of shares (except interest for delayed payment of allotment or call money) over and above paid-up of face value of shares is considered as share premium. This is a capital receipt and is not in nature of income or revenue receipt. This is to be shown as Reserve under the head 'Reserves and Surplus" in the balance sheet of the company as per provisions of the Companies Act. Share premium can be utilized only for purposes which are permitted under the Companies Act, 1956. Any other use is considered as reduction of capital which can be made only with approval of court. The provisions of Companies Act prohibit use of share premium account for declaration of dividend.

Share premium is a capital receipt and it is contributed by shareholders while subscribing or applying for shares to be issued by the company. Therefore, when a company issues shares at a premium, it receive share application money, allotment money and call money etc. from shareholders which consists some portion towards share capital and other towards premium.

Share premium is not 'profit' or 'gain':

Share premium is capital receipt and contributed as such by the shareholders. The amount of premium is neither 'profit' nor 'gain' of the company, it is capital receipt to be accounted for as share premium. This amount cannot be credited in the profit and loss account of the company. This is not received as consideration for any goods sold or services rendered by the company. It is worth to mention that share premium is not treated as any item of 'income' as defined in S. 2(24) or as a business profit or gain u/s 28. Therefore, share premium account cannot be included in 'accumulated profits' of the company. It is capital receipt and is in nature of shareholders funds right from beginning. Any question as to "whether capitalized or not" cannot be raised for share premium. Because only profits can be kept as revenue reserve or they can be capitalized and transferred to capital reserve.

Utilization of Share Premium

C. S. 78 (2) provides five purposes for which alone the share premium account may be applied without attracting consequence of reduction of the share capital. These are:

(i) Issue and pay up fully paid bonus shares to be issued to the members;
(ii) to write-off preliminary expenses of the company;
(iii) to write-off expenses of issue of shares or debentures or under-writing commission paid or discount allowed on such issues;
(iv) To pay premium on the redemption of redeemable shares or debentures issued by the company;
(v) Purchase of its own shares or other specified securities in terms of section 77A.

Any other use or application of the proceeds of the share premium account will be treated as a reduction of the company's share capital and the provisions of the 1956 Act dealing with this subject stand attracted. The share premium account cannot be used otherwise than for the specific purposes mentioned above.

RIGHT SHARES

Whatever shares of the further issue of capital, an existing shareholder is entitled to take, are known as right shares.

Privileged Subscription: On the basis of above description what capital is taken up by the existing shareholders, it is known as privileged subscription.

Right to right shares is held in abeyance: Where any instrument of transfer of shares has been delivered to any company for registration and the transfer of such shares has not been registered by the company, it shall keep in abeyance in relation to such shares any offer of right shares till such registration is made (Sec. 206A). This provision has been added by the Companies Amendment Act, 1988.

REDEEMABLE PREFERENCE SHARES

- Preference shares cannot be redeemed **unless they are fully paid up**. In other words partly paid-up shares cannot be redeemed.
- Preference shares can be redeemed either out of profits which would be available for dividend or out of the proceeds of a fresh issue of shares made with the object of redemption. These shares cannot be redeemed out of the proceeds of fresh issue of debentures or out of the sale proceeds of any property of the company
- When Preference shares are redeemed out of profits available for distribution as dividend, a sum equal to the nominal amount of the shares so redeemed must be transferred out of profits to a reserve account to be called **'Capital Redemption Reserve Account'.** Such reserve can be used for issuing fully paid bonus shares to the shareholders. .

Redemption out of Profit

As the act permits the redemption of shares out of the profits, which are otherwise liable for dividend, transfer to capital redemption reserve account must be made only from out of such divisible profits.

Profits otherwise available for dividend (Transfer to capital redemption reserve Account is allowed from these	Profits not available for dividend (Transfer to capital redemption reserve account is not allowed from these profits)
1.General reserve	1.Security premium account
2.Reserve fund	2.Forfeited shares account
3.Dividend equalization fund	3.Profit prior to incorporation
4.Insurance fund	4.Capital reserve
5.Workmen's compensation fund	5.Development rebate reserve
6.Workmen's accident fund	
7.Voluntary debenture redemption account	
8.Voluntary debenture sinking fund	
9.Profit and loss account	

PROCEDURE FOR SOLVING PROBLEMS

- First of all see whether the redeemable preference shares are fully paid up or partly paid up. If partly paid up, make the following journal entries to make them eligible for redemption because fully paid shares can be redeemed.
  - Debit Preference Share Final Call A/c
    Credit Preference Share Capital A/c
  - Debit Bank A/c
    Credit preference Share Final Call Account

2.
Debit Redeemable Preference Shares Capital A/c (With face value)
Debit Premium on Redemption A/c (With premium to be paid on Redemption)
Credit Preferences shareholders A/c (Total amount to be paid on Redemption)

Make entry for Fresh issue of equity shares either with premium or with Discount
Debit Bank Account (with amount actually received)
Debit Discount on Issue of Shares (If shares are issued at discount)
Credit Equity Share Capital (with face value of shares issued)

Credit Securities Premium (If shares are issued at premium)

- Provide premium to be paid on redemption of preference shares out of securities premium account (from fresh issue or existing balance) or profit and loss account or general reserve etc.
  Debit Securities Premium A/c **or** Profit & Loss Account **or** General Reserve
  Credit Premium on Redemption Account s
- if redemption is to be made out of profits:
  Debit Profit & Loss **or** General Reserve A/c etc.
  Credit Capital Redemption Reserve Account (**with nominal value of shares)**

- Payment will be made to the preference shareholders by passing the following entry.
  Debit Preferences Shareholders A/c
  Credit Bank Account
- If redemption of preference sharers is made by conversion of some other shares, then the following entry will be passed:
  Debit Preferences Share Capital A/c
  Credit New Share Capital A/c
- Sometimes capital redemption reserve account is utilised for issuing fully paid bonus shares. In such a case the following entries will be passed.
  - When decision is taken to issue bonus shares
    Debit Capital Redemption Reserve A/c Or Securities Premium A/c Or Any other Reserve (Specifically mentioned in the question)
    Credit Bonus to Equity Shareholders A/c
  - When issue of bonus shares is made
    Debit Bonus to Equity Shareholders A/c
    Credit Equity Share Capital A/c

Note- If certain Shareholders **could not be traced** for payment then the amount due to them remain in " Preference Shareholders Account " and will be shown in **Current Liabilities** in Balance Sheet.

DEBENTURES

Debentures is a document evidencing debt to the debenture holder, generally secured by a fixed or floating charge.

The definition of 'debentures' as contained in section 2(12) of the Companies Act does not explain the term. It simply reads "debenture includes debenture stock, bonds and any other securities of a company whether constituting a charge on the assets of the company or not."

Debentures are bonds issued in acknowledgement of any indebtedness. Generally, however, they are issued under the company's seal contain a provision for the repayment of principal sum at the appointed date and the payment of interest at fixed rate.

TYPES OF DEBENTURES

Debentures may be classified according to the following characteristics, viz.,

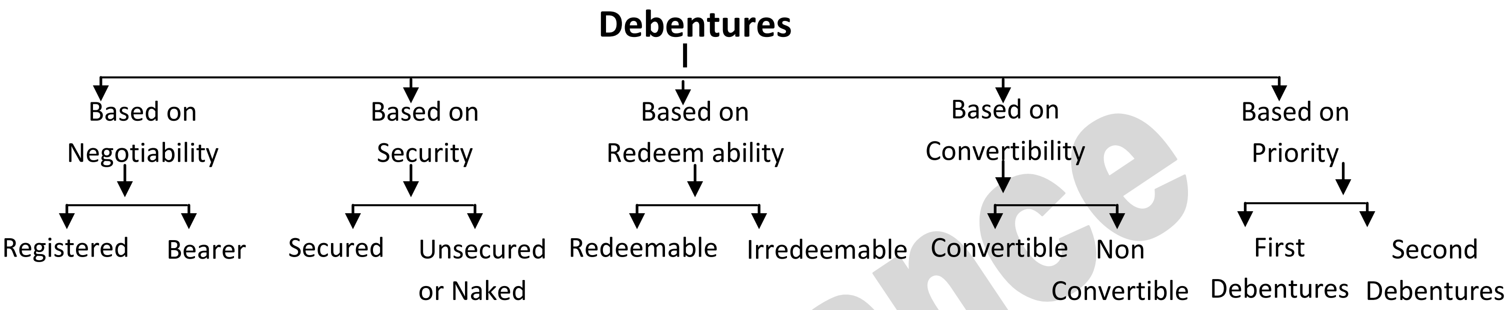
A. Negotiability,

B. Security,

C. Redeemability

D. Convertibility, and

E. Priority



1. **Classification according to Negotiability**
    1. **Registered debentures:** A registered debenture is one which is registered in the name of a holder in the books of the company.
    2. **Bearer debentures:** These debentures are payable to the bearer. These are negotiable instruments and therefore, transferable by mere delivery of the debenture to the transferee.
2. **Classification According to Security**
    1. **Secured debentures:** When some assets or property of the company are charged in favour of the debenture holders, the debentures are deemed to be secured.
    2. **Unsecured or Naked debentures:** Debentures that do not carry any charge on the assets of the company are unsecured or naked debentures. In such a case the debenture holder is an ordinary unsecured creditor of the company.
3. **Classification according to Permanence**
    1. **Redeemable debentures:** A redeemable debenture is one under which the principal money is paid-off to the debenture holder on the expiry of the fixed term. The company may redeem a certain number of debentures each year or option may be given to the company to redeem all of them by a specified date.
    2. **Irredeemable or perpetual debentures:** A debenture which contains no clause as to payment or which contains a clause that it shall to be paid back is called perpetual or irredeemable debentures.
4. **Classification according to Convertibility**
    1. **Convertible debentures:** Section 81(3) permits the issue of convertible debentures. It enables the issue of shares to debentures holders and creditors in exchange for the amount due to them where the terms of the issue of the debentures or loans provide for such exchange and such terms are approved both by the special resolution of the company and by the Central Government. Such debentures once converted into shares cannot be reconverted into debentures.
    2. **Non-convertible debentures:** When debentures do not give any option to their holders to convert them into preference or equity shares, such debentures are called non-convertible debentures.
5. **Classification according to Priority**
    1. **First debentures:** These are the debentures which are to be repaid in priority to other debentures which may be subsequently issued.
    2. **Second debentures:** These are the debentures which are to be paid after the 'first debentures' have been redeemed.

DEBENTURES STOCK

A company, instead of issuing individual debentures, evidencing separate and distinct debts, may create on loan fund known as ‘debenture stock divisible among a class of lenders each of whom is given a debenture stock certificate evidencing the parts of the whole loan to which he is entitled.

The difference between debenture and debenture stock is similar to that of between share and stock.

Share holder Compared with Debenture holder

1. Status
2. Voting right
3. Income
4. Approval of General Meeting
5. Charge against profits
6. Additional benefit
7. Discount on issue
8. Security
9. Petition for Winding up
10. Position at winding up

Debentures Trust Deed

When debentures are issued for public subscription, involving a considerable number of debenture holders, who do not have the time and expertise to look after their interests in the prosperities mortgaged or charged to them, they may appoint a few of them as trustees for the supervision of their common interest. A trust deed is executed conveying property to the trustees. Security is enforced or action is taken thereafter by the trustees instead of individual debenture holders.

Companies (Amendment) Act, 2000 has made it mandatory for every company to execute a debenture trust deed. The companies are hereafter barred from issuing unsecured debentures. Further debentures issued on private placement basis will also have to be backed by creation of security.

Who cannot be a Debenture Trustee

No person shall be appointed as a debenture trustee, if he:

(a) beneficially holds shares in the company;
(b) is beneficially entitled to moneys which are to be paid by the company to the debenture trustee;
(c) has entered into any guarantee in respect of principal debts secured by the debentures or interest thereon.

Rights or Remedies Debenture holders

1. Sale
2. Debenture holders action
3. Appointment or receiver
4. Foreclosure
5. Valuation of security and proof of balance

Issue of debentures:

a) for cash
b) for consideration other than cash
c) issued at par, payable at par
d) issued at discount, payable at par
e) issued at par, payable at premium
f) issued at discount, payable at premium
g) issued at par, payable at discount
h) issued at discount, payable at discount

Redemption of Debentures:

a) Redemption out of profit
b) Redemption out of capital
c) Conversion of debentures
d) Buy-back of debentures in open market

i) purchase of debenture for cancellation

Debentures A/c Dr. (Face value of debentures)
To Bank A/c (Actual amount paid)
To Profit on Redemption of debentures A/c(Amount of Profit on purchase)

Profit on Redemption of Debentures A/c Dr. (With amount of profit)
To Capital Reserve A/c

ii)purchase of debenture as an investment(cum-interest and ex-interest)
Own Debentures A/c Dr. (Actual purchase price)
Interest on Own Debentures A/c Dr. (Amount of interest)
To Bank A/c (Total amount paid)
On cancellation of own debentures:
Debentures A/c Dr. (face value of debentures)
Loss on cancellation of own Debentures A/c* Dr.
To Own Debentures A/c (purchase price of own debentures)
To Profit on cancellation of own Debentures A/c*
*any one item will appear at a time

Note: **Price quoted always taken as ex-interest unless otherwise stated in the question**.

Methods of Redemption:
a) Creation of sinking fund/debenture redemption fund
 i) cumulative sinking fund
 ii) non-cumulative sinking fund
Taking an insurance policy