

Maharashtra State Board Class 12 Secretarial Practice Solutions

Chapter 4 Issue of Debentures

1A. Select the correct answer from the options given below and rewrite the statements.

Question 1.

A company cannot issue _____ with voting rights.

- (a) Equity shares
- (b) Debentures
- (c) Securities

Answer:

- (a) Equity shares

Question 2.

A company can issue _____ convertible debentures.

- (a) Only Partly
- (b) Only fully
- (c) Partly or fully

Answer:

- (c) Partly or fully

Question 3.

Money from _____ Account is used for redemption of debentures.

- (a) Capital
- (b) Debenture Redemption Reserve
- (c) Profit or Loss

Answer:

- (b) Debenture Redemption Reserve

Question 4.

_____ protects the interest of debenture holders.

- (a) Debenture Trustees
- (b) Debenture holders
- (c) Redemption Reserve

Answer:

- (a) Debenture Trustee

Question 5.

Secured debentures must be redeemed within _____ from the date of its issue.

- (a) 10 days
- (b) 10 years
- (c) 15 years

Answer:

- (b) 10 years

Question 6.

A company issuing _____ debenture must create a charge on the assets of the company.

- (a) Secured
- (b) Unsecured
- (c) Redeemable

Answer:

- (a) secured

Question 7.

Debenture certificate must be issued within _____ of allotment of debentures.

- (a) 3 months
- (b) 6 months
- (c) 60 days

Answer:

- (b) 6 months

Question 8.

The details of allotment of Debentures must be entered in _____

- (a) Register of debenture
- (b) Register of members

(c) Register of creditors

Answer:

(a) register of debenture

Question 9.

A company that issues a prospectus or invites more than 500 persons to buy its debenture has to appoint _____

(a) Register of companies

(b) Debenture holders

(c) Debenture trustees

Answer:

(c) Debenture Trustees

Question 10.

The contract between the company and Debenture trustees of companies is called as _____

(a) Debenture trust deed

(b) Letter of offer

(c) Prospectus

Answer:

(a) Debenture Trusts Deed

Question 11.

Procedure for allotment of Debenture should be completed within _____ from the date of receipt of applications.

(a) 6 months

(b) 3 months

(c) 60 days

Answer:

(c) 60 days

1B. Match the pairs.

Question 1.

Group 'A'		Group 'B'	
a)	Debenture Trustees	1)	Power to issue debentures
b)	Debenture holders	2)	Protects interest of shareholders
c)	Charge on assets	3)	Secured debentures
d)	Board of Directors	4)	NCLT
e)	Debenture certificate	5)	No voting rights
		6)	Unsecured debentures
		7)	Protects interest of debenture holders
		8)	Voting rights
		9)	Proof of ownership of shares
		10)	Issued within 6 months of allotment of debentures

Answer:

Group 'A'	Group 'B'
a) Debenture Trustees	7) Protects interest of debenture holders
b) Debenture holders	5) No voting rights
c) Charge on assets	3) Secured debentures
d) Board of Directors	1) Power to issue debentures
e) Debenture certificate	10) Issued within 6 months of allotment of debentures

1C. Write a word or term or a phrase that can substitute each of the following statements.

Question 1.

Type of resolution needed to issue convertible debentures.

Answer:

Special Resolution

Question 2.

Account to be created for the redemption of debentures.

Answer:

Debenture Redemption Reserve Account

Question 3.

Institution appointed by the company to protect the interest of debenture holders.

Answer:

Debenture Trustee

Question 4.

Period within which secured debenture should be redeemed.

Answer:

10 years

Question 5.

Type of debentures on which the company has to create a charge on its assets.

Answer:

Secured Debenture

Question 6.

The document contains terms and conditions agreed upon by the company and the Debenture trustees.

Answer:

Debenture Trust Deed

Question 7.

The time period within which the procedure for allotment of debenture is to be completed from the date of receipt of applications.

Answer:

60 days

Question 8.

Period within which debenture certificate must be issued by a company.

Answer:

6 months

Question 9.

An institution that redresses grievances of debenture holders.

Answer:

Debenture Trustee/NCLT

Question 10.

The authority has the power to issue debentures.

Answer:

Board of Directors

1D. State whether the following statements are True or False.

Question 1.

Debenture holders have no voting rights.

Answer:

True

Question 2.

The company cannot issue non-convertible debentures.

Answer:

False

Question 3.

Special Resolution is needed to issue convertible debentures.

Answer:

True

Question 4.

Debentures holders are paid interest.

Answer:

True

Question 5.

Debenture Trustees cannot approach NCLT to redress grievances of debenture holders.

Answer:

False

Question 6.

All secured debentures should be redeemed within 20 years from the date of their issue.

Answer:

False

Question 7.

The company has to create a charge on its assets when it issues secured debentures.

Answer:

True

Question 8.

Debenture Trustees are appointed to protect shareholders.

Answer:

False

Question 9.

Debentures certificate should issue within 6 months of allotment of debentures.

Answer:

True

Question 10.

After allotment of Debentures names of Debenture holders is entered in the Register of Members.

Answer:

True

1E. Find the odd one.

Question 1.

Debenture holders, Interest, Dividend

Answer:

Dividend

Question 2.

Debenture Trustee, Court, NCLT

Answer:

Court

Question 3.

Secured debenture, convertible debenture, Irredeemable debenture

Answer:

Irredeemable

Question 4.

Debenture Trustee, Trust deed, Shareholder.

Answer:

Shareholder

1F. Complete the sentences.

Question 1.

A legal instrument conveying the assets of a company to the Debenture trustees is called _____

Answer:

Debenture Trust Deed

Question 2.

To protect the interest of Debenture holders a company appoints _____

Answer:

Debenture Trustee

Question 3.

On receipt of application and money, the procedure for allotment of debentures should be completed within _____

Answer:

60 days

Question 4.

Authority to create charge on company's assets is with the _____

Answer:

Debenture Trustee

Question 5.

Secured debentures should be redeemed within _____

Answer:

10 years

Question 6.

To stop a company from incurring further liabilities, the Debenture trustee can approach _____

Answer:

NCLT

Question 7.

A company which issues prospectus or invites more than 500 persons to subscribe for its debentures, has to appoint _____

Answer:

Debenture Trustee

Question 8.

Return on investment on debenture is called _____

Answer:

Interest

Question 9.

For public issue of debentures of ₹ 100 crores, minimum subscription should be _____

Answer:

75%

Question 10.

For public issue or rights issue of convertible debentures, as per SEBI, a company must obtain _____

Answer:

Consent of shareholder

1G. Select the correct option from the bracket.

Question 1.

Group 'A'		Group 'B'	
a)	Debenture Trustees	1)
b)	2)	Charge on assets
c)	Register of Debenture	3)
d)	4)	Debenture certificate
e)	No voting rights	5)

(Issued within 6 months of allotment, Names of debenture holders, Secured debentures, Trust Deed, Debenture holders)

Answer:

Group 'A'	Group 'B'
(1) Debenture Trustees	(a) Trust deed
(2) Secured debenture	(b) Charge on assets

(3) Register of Debenture	(c) Name of debenture holders
(4) Issued within 6 months of allotment	(d) Debenture certificate
(5) No voting rights	(e) Debenture holder

1H. Answer in one sentence.

Question 1.

Who are the debenture holders?

Answer:

Debenture holders are the applicants who purchase the debentures of the company. They are the creditors of the company.

Question 2.

What do debenture holders receive as a return on Investment?

Answer:

Debenture holders receive interest on investment.

Question 3.

Whom does the company appoint to protect the interest of debenture holders?

Answer:

Debenture Trustees are appointed to protect the interest of debenture holders.

Question 4.

Within what period should secured debenture be redeemed?

Answer:

Within 10 years, secured debenture should be redeemed.

Question 5.

Name of the document which acts as an agreement between company and trustee.

Answer:

The debenture Trust deed is a document that acts as an agreement between the company and the Trustee.

Question 6.

Who has the authority to create charges on assets of a company?

Answer:

Debenture Trustees have the authority to create charges on the assets of a company.

Question 7.

Name of the meeting in which approval for increasing the borrowing powers of the Board is passed.

Answer:

An Extra-Ordinary General Meeting, a resolution regarding the increase in borrowing powers of Board is passed.

Question 8.

Within what period should the debenture certificate be issued?

Answer:

A period of 6 months is required to issue a debenture certificate.

Question 9.

What is the minimum subscription that a company must collect for an issue of debentures of ₹ 100 crores?

Answer:

The minimum subscription that a company must collect for an issue of debentures of Rs.100 crores is 75% of the base issue size.

Question 10.

When should the company appoint a credit rating agency?

Answer:

In order to credit rating of securities, the company can appoint a Credit Rating Agency.

1I. Correct the underlined word and rewrite the following sentences.

Question 1.

The details of debenture holders are entered in the Register of Members.

Answer:

The details of debenture holders are entered in the Register of the debenture.

Question 2.

Secured debentures must be redeemed within 15 years from the date of its issue.

Answer:

Secured debentures must be redeemed within 10 years from the date of its issue.

Question 3.

A company issuing irredeemable debentures must create a charge on the assets of the company.

Answer:

A company issuing Secured Debentures must create a charge on assets of the company.

Question 4.

Return on investment on debentures is the dividend.

Answer:

Return on investment on debentures is Interest.

Question 5.

Debenture Trustees redress the grievances of shareholders.

Answer:

Debenture Trustees redress the grievances of Debenture holders.

Question 6.

Debenture certificates are issued within 3 months of allotment of debentures.

Answer:

Debenture certificates are issued within 6 months of allotment of debentures.

Question 7.

The procedure for allotment of debentures should be completed within 90 days from the date of receipt of applications.

Answer:

The procedure for allotment of debentures should be completed within 60 days from the date of receipt of applications.

Question 8.

To rate its debentures a company appoints underwrites.

Answer:

To rate its debentures a company appoints a Credit Rating Agency.

1J. Arrange in proper order.

Question 1.

- (a) Obtain Credit Rating
- (b) Entry in register of debenture
- (c) Receive application with money

Answer:

- (a) Obtain Credit Rating
- (b) Receive application with money
- (c) Entry in register of debenture

Question 2.

- (a) Issue debenture certificate
- (b) Issue prospectus
- (c) Open Bank Account

Answer:

- (a) Issue prospectus
- (b) Open Bank Account
- (c) Issue debenture certificate

Question 3.

- (a) Hold Board Meeting for allotment
- (b) Issue debenture certificate
- (c) Receive application with money

Answer:

- (a) Hold Board Meeting for allotment
- (b) Receive application with money
- (c) Issue debenture certificate

2. Explain the following terms/concepts.

Question 1.

Debenture Certificate

Answer:

A debenture Certificate is an acknowledgment issued by a company with its common seal and signature against debenture issued. It includes all the information of debenture issued, its face value, rate of interest details of debenture holder, etc. A debenture certificate should be issued by the company within 6 months -from the debenture's allotment.

Question 2.

Debenture Trustee

Answer:

Debenture Trustees are institutions that are responsible to protect the interest of debenture holders. If the company invites more than 500 persons to buy debentures, then it has to appoint one more debenture trustee. The company issuing secured debentures also must appoint a debenture trustee. The company enters into a contract with debenture trustee

Question 3.

Charge on Assets

Answer:

Charge on assets means the right of the lender to be paid from a borrower's asset if the debt is not paid on time. Every year the company must report its total debts secured by a charge on assets. The value of the charge should be adequate to cover the entire debenture issued.

Question 4.

Debenture Trust Deed

Answer:

Debenture Trust Deed is an agreement between the company and debenture trustees. It is a legal instrument stating a relationship between the company and the trustee. It covers all terms of conditions to be followed by the debenture trustee.

3. Study the following case/situation and express your opinion:

1. Rose limited company proposes to issue debenture to the public to raise funds. After discussion, the Board of directors has decided to issue secured, Redeemable non-convertible debentures with a tenure of ten years. Please advise the board on the following matters:

Question (a).

Should the company appoint a Debenture trustee?

Answer:

The company should appoint debenture trustees as they are responsible to protect the interests of debenture holders and they are the link between the company and Debenture holders.

Question (b).

Should the company create a charge on its assets?

Answer:

The company should create a charge on its assets because if the company failed to repay the amount to debenture holders, assets can be realized and the claim can be settled.

Question (c).

Can the tenure of debentures be less than ten years?

Answer:

The maximum tenure of redemption of secured debenture is 10 years. It can be less than 10 years. It shows the strong liquidity position of a company.

2. Violet Ltd. Company plans to raise ₹ 10 crores by issuing debentures. The Board of Directors has some queries. Please advise them on the following:

Question (a).

Can the company issue unsecured debentures?

Answer:

In India, as per the guidelines of SEBI, the issue of unsecured debenture is prohibited. So, the company can't issue unsecured debenture.

Question (b).

Can they issue irredeemable debentures?

Answer:

The company can issue irredeemable debenture if it is permitted by the Ministry or department of central government or by RBI. It can be issued for a maximum period of 30 years.

Question (c).

As the company is offering debenture to its members, can such debentures have normal voting rights?

Answer:

As the company is offering debentures to its members, such debentures have no normal voting rights. It can enjoy the voting rights on the matters associated with them.

3. DDS financial plans to raise ₹ 10 crores by issuing secured, Non-convertible debentures. However, as per the Articles of Association, the board of directors has authority only to raise up to 5 crores. They are also considering whether to go for a private placement or make a public offer. Please advise them on the following:

Question (A).

What can be the maximum tenure of the debentures to be issued?

Answer:

All the secured debentures should be redeemed for 10 years. Only those companies permitted by RBI/ Dept. Of corporate affairs can issue debentures of more than 10 years but less than 30 years.

Question (b).

Is the proposed issue within the borrowing powers of the board?

Answer:

The proposed issue is not within the borrowing powers of the Board of Directors. If they want to increase their borrowing powers, they have to get the approval of shareholders.

Question (c).

Within what period should the company issue a Debenture certificate?

Answer:

A debenture certificate should be issued within 6 months from the date of allotment of debentures.

4. Answer in brief.

Question 1.

State any four provisions of the Companies act 2013 for the issue of debenture?

Answer:

The company can issue debentures to the public. But to issue debentures, companies need to follow provisions.

Following are the provisions of the Companies Act, 2013:

1. No Voting Rights:

A Company cannot issue debentures with voting rights. Debentures are the creditors of the company and hence, they do not have any voting rights. However, they can enjoy voting rights on the matters associated with them.

2. Payment of interest and redemption:

A debenture holder is responsible to get fixed interest on their investment from the company. The rate of interest is decided at the time of the issue of the debenture. A Company shall redeem the debentures after a specific period of time. It is a temporary capital of a company.

3. Debenture Certificate:

The company issues debenture certificates to the debenture holders. It should be issued by the company within six months from the date of allotment of debentures.

4. Create Debenture Redemption Reserve:

The company has to create a Debenture Redemption Reserve Account out of the profits of the company. Debenture Redemption Reserve is created for the payment of dividends and redemption of debentures only As per the Companies Amendment Act, 2019 no Listed companies, NBFC's and Housing Finance Companies require Debenture Redemption Reserve.

Question 2.

What is Debenture Trust Deed?

OR

Write a note on Debenture Trust Deed.

Answer:

- A debenture is a loan document that helps the company to raise long-term loans from the Market.
- A person who purchases debenture of a company is called a debenture holder.
- A debenture holder is a creditor of the company and cannot participate in the management of the company.
- The company appoints debenture trustees to protect the interest of debenture holders.
- The company enters into the contract with debenture trustees, which is called as 'Debenture Trust Deed'.
- The company can enter into a contract with one or more debenture trustees.
- The Terms and Conditions of debenture trustees are written into the debenture trust deed.
- It is a legal instrument conveying the assets of the company to the trustees.
- Debenture Trust Deed is a right of debenture holder and duty of debenture trustees.
- A company has to execute a trust deed within 3 months of the closure of the issue.
- Member and debenture holder can inspect the copy of the deed and also get the copy by paying a certain fee.

Question 3.

Who are debentures trustees?

Answer:

1. Debentures Trustee is a person or institution which protects the interest of the debenture holders. The Trustees become the custodian of the assets on which charge has been created.
2. A company that issues a prospectus or invites more than 500 persons to buy its debentures has to appoint one or more Debentures Trustees. Companies issuing secured debentures also must appoint Debentures Trustee.
3. Debentures Trustee is appointed before prospectus or letter of offer/offer letter is issued or within 60 days after the allotment of the debenture. The Trustees must give written consent to act as Debenture Trustees.
4. According to SEBI Rules, 1993 "debentures trustee" means a trustee of a trust deed for securing any issue of debentures of a body corporate (section 2 (bb)). (Applicable to public companies only).
5. The trustee can appoint a nominee to the board of directors of the company. Before the trustee appoints the nominee, the following conditions must be satisfied:
 - Two consecutive defaults made by the company in payment of interest to the debenture holders; or
 - Default in the creation of security for debentures or default in the redemption of debentures.

5. Justify the following statements.

Question 1.

A company has to create a charge on its asset for issuing secured debenture.

Answer:

- A debenture is a debt instrument, which helps the company to raise long-term loans.
- A secured debenture is a debenture against which a charge has been created.
- In case, if the company has failed to make redemption of debenture or interest, in that case by the order of NCLT, the charged asset can be realized by the company and dues can be settled.
- Thus, it is rightly said that a company has to create a charge on its asset for issuing secured debenture.

Question 2.

Debenture trustees are appointed by a company issuing debentures.

Answer:

- Debenture trustees are appointed when the company issues a prospectus or invites more than 500 people.
- They are appointed to protect the interest and redress the grievances of debenture holders.
- Debenture trustees act as custodians of assets and create a charge on assets of the company on behalf of debenture holders.
- In case, the company failed to redemption of a debenture or its interest, then debenture trustees by the order of NCLT can realize the assets and settle the dues.
- Thus, it is rightly said that debenture trustees are appointed by the company for issuing debenture.

Question 3.

A company can issue only certain types of debentures.

Answer:

- The debenture holders are the creditors of the company. They offered borrowed capital to the company but cannot participate in the management of the company.
- Therefore, in order to protect the interest of debenture holders, SEBI, through its guidelines allowing companies to issue certain types of debentures in India.
- Therefore, the companies operating in India can issue secured debentures, convertible debentures, redeemable debentures to the applicant.
- It protects the interest of creditors in the company.
- Thus, it is rightly said that a company can issue only certain types of debentures.

6. Answer the following questions.

Question 1.

Briefly explain the provisions of the Companies Act, 2013 for the issue of debentures.

OR

State the statutory provisions related to the issue of debentures.

Answer:

The company can issue debentures to the public. But to issue debentures companies need to follow provisions.

Following are the provisions of the Companies Act, 2013:

1. No Voting Rights:

A Company cannot issue debentures with voting rights. Debentures are the creditors of the company and hence, they do not have any voting rights. However, they can enjoy voting rights on the matters associated with them.

2. Types of Debentures:

There are various types of debentures like secured and unsecured debentures, convertible and non-convertible debentures, redeemable and irredeemable debentures, registered and bearer debentures, etc. All the debentures are redeemable in nature. A special resolution is to be passed in the general meeting for issuing convertible debentures.

3. Payment of interest and redemption:

A debenture holder is responsible to get fixed interest on his investment from the company. The rate of interest is decided at the time of the issue of the debenture. A Company shall redeem the debentures after a specific period of time. It is a temporary capital of a company.

4. Debenture Certificate:

The company issues debenture certificates to the debenture holders. It should be issued by the company within six months from the date of allotment of debentures.

5. Create Debenture Redemption Reserve:

The company has to create a Debenture Redemption Reserve Account out of the profits of the company. Debenture Redemption Reserve is created for the payment of dividends and redemption of debentures only. As per the Companies Amendment Act, 2019 no Listed companies, NBFC's and Housing Finance Companies require Debenture Redemption Reserve.

6. Appointment of Debenture Trustees:

The company issuing debentures for more than 500 people or issuing prospectus has to appoint one or more Debenture Trustees. They are responsible to protect the interest of the debenture holders. Trustees are appointed by entering into the contract with the company which is called Debenture Trust Deed.

7. Debenture Trustees can approach NCLT:

Debenture Trustees have to redress the problem of debenture holders. Debenture Trustees can approach National Company Law Tribunal (NCLT) if the company fails to repay the principal amount on maturity or paying interest. NCLT can direct a defaulting company to repay the principal amount of interest.

8. Impose Restrictions:

Debenture Trustees can also approach NCLT when the company is not able to pay the principal amount of debentures, even after selling the company assets. In such a case, NCLT can order a company to restrict incurring further liabilities so as to protect the interest of the debenture holders.

9. Punishment for not complying with the provisions of the Companies Act:

If the company or any of its officers fails to comply with any of the provisions, then the company or the responsible officer who is in default will be liable to pay a fine or imprisonment or both as prescribed in the Act.

Question 2.

Explain briefly the procedure for the issue of debentures.

Answer:

A Company's Secretary is mainly responsible to supervise the process of issue of the debenture. As the employee of the company, the secretary has to look into the matter that company complies with all the provisions.

Procedure for Issue of Debentures:

- Board Meeting and Resolution
- EOGM and Shareholder's Approval
- Filing with Registrar of Companies
- Approval and Permission
- Credit Rating
- Underwriting Contract
- Trust Deed
- Issue of prospectus
- Open Bank Account with Scheduled Bank
- Receiving Applications and Allotment
- Board Meeting
- Issue Debenture Certificate
- Entries in register of member

1. Board Meeting and Resolution:

- Board Meetings should be conducted before issuing debentures. A resolution is passed before issuing debentures to the public. The resolution should specify the following points:
 - Amount and type of debentures to be issued with terms and conditions
 - Approve Prospectus/Offer Letter/Letter of Offer
 - Appointment of Debenture Trustees with their consent
 - Call Extra Ordinary General Meeting
 - Opening of Separate Bank Account to receive money from applicants

2. EOGM and Shareholder's Approval:

If the issue of debenture exceeds the limit of paid-up capital and free reserve, then the company needs to conduct extraordinary general meetings. An extraordinary General Meeting is held for passing a special resolution and getting the shareholder's approval related to the increase in the issue of debentures.

3. Filing with Registrar of Companies:

Secretary has to file the special resolution and copy of the prospectus with the Registrar of Companies. It has to be filed within 30 days of the board meeting.

4. Approval and Permission:

Permission of SEBI is compulsory, in case the issue of debenture exceeds ₹ 1 crore or more. Simultaneously, approval of the stock exchange is required to be taken before a prospectus is issued to the public. It is mandatory to list the debentures on the recognized stock exchange before issuing them to the public.

5. Credit Rating:

As per SEBI guidelines, the company has to get its debenture rated by two recognized credit rating agencies such as CRISIL, CARE, ICRA, etc.

6. Underwriting contract:

The company may enter into an underwriting agreement with underwriters for its public issue of debentures. The appointment of underwriters must be mentioned in the prospectus.

7. Trust Deed:

The Trust Deed has to be executed between the company and trustees. Trustees give a guarantee of protection of debenture holder's interest.

8. Issue of Prospectus/Letter of Offer/Offer Letter:

Company issues prospectus, if it is inviting the general public. An offer letter is issued if the company makes a private placement. Letter of Offer is issued for Right Issue (Offer to exist shareholders).

9. Appointment of Banker:

Issuing Company must appoint a 'Scheduled Bank' as a banker of the company. The company must open a separate account in the name of the company. This account is opened to receive the money from the applicants.

10. Receiving and Allotment of debenture:

A board meeting is held to decide and approve the allotment of debentures. Board also approves the creation of charges on the company assets. The company must make the arrangement to receive the application with application money. After Board Meeting, the company allows debentures to the applicants.

11. Issue of Debenture Certificate:

The allotment procedure has to be completed within 60 days from the receipt of application money. Debenture certificates are prepared by the secretary and issued to the debenture holders within 180 days from the date of allotment.

12. Entries in Register of Debenture:

If the debentures are issued in DEMAT form, the company does not maintain the Register of Debenture holders. After allotment, all details of debenture holders are entered in the register of the debenture. In case of debenture holders exceed 50, the company should maintain the 'Index of Debenture holders.'