



Question 2. Distinguish between a debenture and a share. Why debenture is known as loan capital? Explain.

Answer The following are the difference between Shares and Debentures

Basis of Difference	Shares	Debentures
Nature	Share holders are the owners of the company.	Debenture holders are Creditors of the company.
Voting Rights	Share holders have the voting rights.	Debenture holders do not have any voting rights.
Returns	Share holders are entitled for returns in the form of dividend, which may vary from year to year.	Debenture holders are entitled for returns in the form of interest, which is fixed.
Conversion	Shares cannot be converted into debentures.	Debentures can be converted into shares.
Obligations of Return	Dividend is appropriation of profit. Dividend will not be paid if losses are incurred by the company.	Interest is charged against profit, interest is payable even if there is no profit.
Risk	Investment in Shares is unsecured.	If debentures are secured against asset, they are less risky as the risk involved is secured against the assets.
Issue	The issue of shares at discount need adherence to the restrictions imposed by the Section 79 of the Company Act.	There are no such restrictions for issuing debentures on discount.
Payment at Liquidation	Payment to the share holders is made after settlement of all external liabilities, i.e., after debenture holders.	Payment to the debenture holders is made before the share holders.

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