



Question 10. What is meant by conversion of debentures? Describe the method of such a conversion.

Answer: The debentures can also be redeemed by converting them into shares or new debentures. If debenture holders find that the offer is beneficial to them they may convert his/her debentures into shares or new debentures after the expiry of a specified period of time, then this whole process is known as redemption of debentures by conversion.

It is worth mentioning here that in such a case no Debenture Redemption Reserve is required because no funds are required for redemption.

If a debenture holder exercises the conversion option, then the issue price of shares must be equal to or less than the amount actually received from debentures. The accounting treatment in that case will be as follows:

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Debentures A/c Dr To Debenture Holders' A/c (Being debentures are redeemed)			
	Debenture Holders' A/c Dr To Share/Debentures (New) A/c (Being amount due to debenture holders is discharged)			

***** END *****