



Question 6 What is 'Capital Reserve'?

Answer: Capital Reserve is a reserve that is created out of capital profits. Capital profits are those profits arising out of those activity which are not part of the business operations e.g., premium on issue of share and debentures, profits of sale of fixed asset, profit on redemption on debenture and profit on reissue of forfeited share and so on.

A capital reserve can be utilised for meeting the future capital losses. Here it is to be remembered that capital reserve cannot be used for distributing dividend to the share holders but bonus shares can be issued out of the capital reserve.

Question 7 What is meant by a 'Irredeemable Debenture'?

Answer: Irredeemable Debentures are those debentures which may not be redeemed during the life of a Company. They can only be paid off in the event of winding up of the Company. The holder of such debenture will enjoy interest on these debentures throughout the life of the company. Now-a-days no company issue irredeemable debentures.

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