



Question 19. What is meant by redemption of debentures by 'Purchase in the Open Market'?

Answer: A company, if authorised by its Articles of Association, can redeem its own debentures by purchasing them in the open market. This is advantageous for several reasons

- (i) It would be saving the amount of interest on debentures purchased and cancelled.
- (ii) Sometimes the own debentures are being sold at a discount. It would enable the company to save money equal to the amount of discount i.e., profit on redemption of debentures.
- (iii) Debentures so purchased may be kept alive as investment. In need of fund, they can again be sold off in the market.

Objectives There may be the following objectives for purchasing own debentures in the open market

- (i) For immediate cancellation of debentures.
- (ii) For investment in the own debentures.

Question 20. Under which head is the 'Debenture Redemption Reserve' shown in the Balance Sheet.

Answer: The Debenture Redemption Reserve is shown on the Liabilities side of the Balance Sheet under the head Reserve and Surplus .

***** END *****