



Question 15. Can the company purchase its own debentures?

Answer: Yes, a company, if authorised by its Articles of Association, can purchase its own debentures in the open market. The main purposes of such purchase may be as follows

(i) A company may purchase its own debenture for immediate cancellation for reducing the debenture liability especially in case when the interest rate on its debenture is higher than the market rate of interest.

(ii) A company may also purchase its own debentures with the motive of investment and sell them at higher price in future and thereby earn profit.

Question 16. What is meant by redemption of debentures by conversion?

Answer: Debentures are usually redeemed in cash but sometimes privilege is given to the debenture holders to exchange their debentures either for shares or for new debentures of the company. The redemption of debentures by means of shares or new debentures is known as redemption by conversion and the debentures which carry such a right is called convertible debentures.

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