



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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