



Question 3. State the meaning of 'Debentures issued as a Collateral Security'.

Answer: Collateral security is given in addition to the primary security to the loan provider. In case when a company takes some loan it may issue debentures for additional security besides the primary security to that particular bank or financial institution. Here it is to be remembered that issue of debenture in ordinary course is different from issue of debenture as collateral security, in ordinary course debenture holders are entitled to get interest at an specified coupon rate whereas in case of debenture issued as collateral security the holder of these debenture is not entitled to any such interest.

But in case of any default in payment of principle or interest of loan it may recover its amount from the issue of such debenture in the secondary market. Here it should be remembered that first of all the primary security will be sold after that debenture as collateral security will be used.

Question 4. What is meant by Issue of debentures for consideration other than Cash'?

Answer: When a company purchase some assets it is supposed to pay the purchase consideration in cash but sometimes due to lack of sufficient fund, company may issue debenture for the payment of such purchase consideration. This is known as issue of debenture for consideration other than cash.

The issue of debenture for consideration other than cash serves the purpose of both the vendor as well as of the purchaser (company). From the purchaser's point of view, purchasing an asset against the issue of debentures requires no additional cost for raising loans or arranging funds immediately.

On the other hand, the vendor gets interest on the amount of debentures received. In this case, payment is deferred by issue of debentures and interest is paid for time lag. Here it should be remembered that such debentures may be issued at par, premium or discount to the vendor.

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