UNIT –I
ACCONTING FOR SHARE CAPITAL AND DEBENTURES

1. Define company. Write two features of company.

Ans. A company is a voluntary association of persons recognized by law, having distinctive name and common seal, formed to carry on business for profit with capital divisible into transferable shares, limited liability, a corporate body, and perpetual succession.

According to section 2(20) of the Companies Act 2013 "a company means a company incorporated under this Act or under any previous company law,"

The following are the features of company:

(i)Separate Legal Entity: A company formed and registered under the Companies Act is a legal entity separate and distinct from its members. It may contract, sue and be sued in its own name. It has no physical body and exists only in the eyes of law.

(ii)Artificial Person: A company is an artificial person created by law and existing only in contemplation of law. It is intangible and invisible having no body and no soul. It is an artificial person because it does not come into existence through natural birth and it does not possess the physical attributes of a natural person.

(iii)Transferability of shares: Shareholders have the right to transfer their shares. The shares of a company are freely transferable and can be sold or purchased in the stock exchange. However, in the case of a private company, certain restrictions are placed on the rights of a member to transfer his shares.

(iv)Limited Liability: It means that the liability of the shareholders is limited upto the value of the shares held by them. Once the shareholders have paid the full nominal value of the shares they have agreed to take, they cannot be held responsible for any of the debts of the company which cannot be met from company's assets.

2. What is a private company?

Ans. According to section 2 (68) of the Indian companies Act.2013, a private company is one having a minimum paid capital as may be prescribed and which has the following features :-

(i) The number of membership does not exceed 200 members.
(ii) Restricts the right of transfer of shares.
(iii) Does not invite the public to purchase its shares and debenture.

3. What is public company?

Ans. According to section 2 (71) of Indian companies Act 2013, a public company means a company which is not a private company and has a minimum paid up capital as may be prescribed.

It means that a public company is a company which:

(i) Need not limit its members to 200 members.
(ii) Does not restrict the right of its member to transfer their share.
(iii) Invite the public to purchase its shares & debentures.

A public company can be formed at least by 7 (seven) persons and there is no limit on the maximum number of its member.

4. Write three benefits or privileges of a private company as compared to a public company (Exemptions).

Ans.: The following are the main privileges/ exemptions of private company:-

(i)A private company can be started with two (2) members whereas a public company requires at least seven (7) members.

(ii)A private company can work with two directors, whereas a public company must have minimum three directors.

(iii)It is not necessary for a private company to issue a prospectus, where as it is essential for a public company.

5. Distinguish between public company and private company.

Ans.

Private Company	Public Company
(i)The minimum number of member is 2 (two) and maximum is 200 (two hundred).	(i)The minimum number of member is 7 (seven) and members is unlimited.
(ii)It cannot invite general public for purchase of share .	(ii)It can invite the general public for purchase of share.
(iii) Minimum two directors are required.	(iii)Minimum three directors are required.
(iv)Transfer of share is restricted.	(iv)Transfer of shares is freely allowed.
(v)In case of private company the word Pvt. Ltd. must be used.	(v) In case of public company only the word Ltd. is used.
(vi) It need not issue prospectus.	(vi)It is compulsory to issue a prospectus or a statement in lieu of prospectus.

6. What is a share? Name the different types of shares.

Ans. The capital of a company is divided into a number of equal parts known as shares . A share is the interest of the shareholder in the company measured by a sum of money for the purpose of liability and interest.

Types of shares: There are two types of shares:

(i) Equity shares

(ii) Preference shares.

7. What are Equity shares? Write three features of Equity shares.

Ans.: Equity shares were earlier known as ordinary shares. The holders of these shares are the real owners of the company. They have a voting right. They have control over working of the company. Equity shareholders are paid dividend after paying it to the preference shareholders. Equity share capital cannot be redeemed during the life time of the company.

Features Equity shares:-

(i)Equity share capital remains permanently with the company.

(ii)Equity shareholders have voting rights.

(iii)The rate of dividend on equity capital depends upon the availability of surplus funds.

8. Write three advantages and disadvantages of Equity shares.

Ans. Advantages of Equity shares:
(i)Permanent capital: Equity shareholders provide the permanent funds of a company.

(ii) No charge on fixed assets: For issue of equity shares, a company is not required to mortgage its assets.

(iii)Voting Rights: Equity shareholders are the real owners of the company who have the voting rights.

Disadvantages of Equity shares:

(i) No Trading on Equity Shares: If only equity shares are issued, the company cannot take the advantage of trading on equity.

(ii)Inflexibility: Equity share is a permanent source of capital. It cannot be returned even when it is lying idle.

9. What are preference shares? Write two features of preference share.

Ans. Preference shares are those share which get two preferences over equity sharers in respect to:
(i)the payment of dividend;
(ii)the repayment of capital during winding up.

Features of preference shares:
(i)Preference shares have priority over payment of dividend and repayment of capital.
(ii)Preference shareholders do not have voting rights.

10. Briefly explain the different types of preference shares.

Ans.: Preference shares are of the following types:
(i)Cumulative preference shares: These shares have a right to claim dividend for those years also for which there were no profits.

(ii)Non Cumulative preference shares: The holders of these shares have no claim for the arrears of dividend.

(iii)Redeemable Preference shares: The preference shares which are redeemed on expiry of a fixed period of time are known as redeemable preference shares.

(iv)Irredeemable preference shares: The preference shares which are not redeemed during the life time of a company are known as irredeemable preference share.

(v)Participating preference shares: The preference shares which get share in the surplus profit of the company are known as participating preference shares.

(vi)Non-participating preference shares: The preference share, which get a fixed rate of divided only are known as non-participating preference shares.

(vii)Convertible preference shares: The preference shares which get converted into equity shares are known as convertible preference shares.

(viii)Non-convertible preference shares: The preference shares which do not get converted in to equity shares are known as non-convertible preference shares.

11. Write two advantages and two disadvantages of preference shares.
Ans. Merits/ Advantages of preference shares:

(i)Long term Funds: There is no need to mortgage property on these shares.

(ii)No Security Required: There is no need to mortgage property on these shares.

Demerits / Disadvantages of preference shares:-
(i)Permanent Burden: Permanent burden on the company to pay a fixed rate of dividend before paying anything on other shares.

(ii) No voting Rights: The preference shareholders generally do not carry voting rights. They cannot participate in the management.

12. Distinguish between Equity shares and preference shares.
Ans.

Basis	Equity Share	Preference Shares.
1.Divided	Equity Shareholders get dividend after preference shareholders.	Preference shareholders get dividend before equity shareholders.
2.Refund of capital	Equity shareholders get repayment of capital after preference shareholders at the time of winding up.	Preference shareholders get repayment of capital before equity shareholders at the time of winding up.
3.Voting Right	Equity shareholders have voting right.	Preference shareholders do not have voting right.
4.Face Value	The face value equity share is generally low.	The face value of preference shares is generally high.

13. Define Sweat Equity Shares.
Ans. Sweat Equity shares mean equity shares issued by the company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available intellectual property rights.

14. Name the statutory books and statistical books maintained by a company.

Ans. Statutory books are those which a limited company is under statutory obligation to maintain at its registered office with a view to safeguard the interests of shareholders and creditors.

Main statutory books are:

(i) Register of Investments held and their names.
(ii) Register of charges.
(iii) Register of Members.
(iv) Register of debenture holders.
(v) Annual Returns.
(vi) Minutes books.
(vii) Register of contracts.
(viii) Register of Directors.
(ix) Register of directors shareholdings.
(x) Register of fixed deposits, etc.

Statistical Books: In order to keep a complete record of numerous details of certain transactions and activities of the company the following statistical books are usually maintained by joint stock companies in addition to the statutory books. The keeping of such books is optional.

The main statistical books are:

(i)Share Application and Allotment Book.
(ii) Share Calls Book.
(iii)Share Certificate Book.
(iv) Debentures Application and Allotment Book.
(v) Debentures Calls Book.
(vi) Debentures Calls Book.
(vii) Register of share Transfers.
(viii) Dividend Book.
(ix) Debenture Interest Book.
(x) Register of share Warrants, etc.

15. What is share capital? Name and explain the different types of share capital.

Ans. Share capital means the capital raised by the company by the issue of shares.

The main divisions of share capital are:

(i) Nominal or Registered or Authorised Capital: Authorised Capital is the capital with which a company is registered and this amount is mentioned in the capital clause of the Memorandum of Association.

(ii) Issued Capital: Issued capital is that portion of authorised share capital for which offers have been invited for subscription.

(iii) Subscribed Capital: Subscribed Capital is that portion of issued share capital which has actually been subscribed and allotted to the public.

(iv)Called-up Capital: Called-up capital is that portion of Subscribed Share Capital which the company actually demanded from the shareholders.

(v)Paid-up Capital: Paid-up Capital is that portion of the Subscribed Share Capital which has been paid by the shareholders.

(vi)Reserve Capital: Reserve Capital is that portion of the Subscribed Share Capital which has not been already called up, and the company has by special resolution, resolved that it can be called up only in the event of the company being wound up. This capital cannot be called except in the case of winding up. The aim of reserve capital is to protect the interest of the creditors of the company.

16. What is Reserve Capital? Distinguish between Reserve Capital and Capital Reserve.
Ans. Meaning of Reserve Capital: see above

Distinguish between Reserve Capital and Capital Reserve:

Basis	Reserve Capital	Capital Reserve
1.Nature	It is a part of uncalled capital.	It is the accumulated capital profit.
2.Requirement	The Companies Act 2013 nowhere requires the creation of reserve capital.	For transferring the amounts of various capital profits, the capital reserve account is required to be opened in the books of the company.
3.Procedure	To create reserve capital, the company has to pass a special resolution.	There is no such requirement for creation of capital reserve.
4.Disclosure	It is usually not shown in the Balance Sheet.	It is shown under the head Reserve & Surplus in the Balance Sheet.
5.Time of Receipt	Being an uncalled capital, the amount is receivable only at the time of liquidation of the company.	Surplus in the Balance Sheet. n The amount of capital reserve is already received.

17. Define stock.

Ans. The conversion of the fully paid up shares of a member into a single fund is known as stock. As per Section 61, Companies Act, 2013, the company can convert its shares which are fully paid up, into stock.

18. What is Employees Stock Option Scheme (ESOS)
Ans. Employees Stock Option Scheme means the option given to the whole time directors, officers, or employees of a company, which give such directors, officers or employees the benefit or right, but not the obligation, to purchase or subscribe at a future date, the securities offered by the company at a pre-determined price.

19. What is Employees Stock Purchase Scheme (ESPS)?

Ans. It is scheme under which the company offers shares to its employees as part of a public issue or otherwise.

20. Name the methods of raising of share capital.
Ans. Ordinarily there are two methods which are followed by companies for raising their capital. They are: (i) Private Placement. (ii) Public Subscription.

21. What is Private Placement?

Ans. Private Placement of shares implies issue and allotment of shares to a select group of persons. In other words, an issue which is not a public issue but offer to a selected group of persons is called Private Placement of Shares.

22. What is Public Subscription?
Ans. When a company, intending to issue shares, makes an offer or invitation to the general public to subscribe for its shares through the issue of prospectus, it is called raising of capital through Public Subscription.

23. What is Full Subscription?

Ans. When the total number of shares applied for by the public is equal to the total number of shares offered to the public, is known as full subscription.

24. What is under-subscription?

Ans. When the total number of shares applied for by the public is less than the total number of shares offered to the public for subscription, is known as under-subscription.

25. What is over-subscription?

Ans. When the total number of shares applied for by the public is more than the total number of shares offered to the public for subscription, is known as over-subscription.

26. What is Minimum Subscription?
Ans. Minimum Subscription means the amount which, in the opinion of the Directors , is the minimum to be raised by the issue of shares so as to provide for the following requirements:
(i)For the payment of purchase price of any property purchased or agreed to be purchased,
(ii)For the payment of preliminary expenses, including underwriting commission and brokerage on issue of shares,
(iii)For the payment of any moneys borrowed by the Company for the above purposes,
(iv)For working capital, and
(v)For any other expenditure required for the usual conduct of business operations.
Companies Act 2013 has not prescribed the minimum subscription. However, according to SEBI guidelines minimum subscription has been fixed at 90% of the issued amount.

27. What do you mean by issue of shares at premium? State the utilisation of Securities Premium Reserve A/C.

Ans. When a company issues shares, equity or preference, at a price higher than the face value of the shares, the shares are said to be issued at premium.

Utilisation of Securities Premium Reserve A/C:

According to Section 52(2) of the Companies Act 2013, the amount of Securities Premium Reserve may be used only for the following purposes:

(i) In writing off the preliminary expenses of the company.
(ii)For writing off the expenses, commission or discount allowed on issue of shares or debentures of the company.
(iii)For issuing fully paid bonus shares.
(iv) For providing for the premium payable on redemption of preference shares or debentures of the company.
(v) For buy back of its own shares and other securities as per section 68.

28. Explain the provisions of Companies Act 2013 for issue of shares at a discount.
Ans. Shares are said to issue at discount if they are issued a price less than the face value.
Section 53 of the Companies Act 2013 provides that a company shall not issue shares at discount, except when sweat equity shares are issued.

According to section 54 of the Companies Act 2013, a company may issue sweat equity shares at a discount if the following conditions are fulfilled:

(i)The issue is authorised by a special resolution passed by the company.
(ii)Sweat equity shares must be of a class already issued. It means new class of shares cannot be issued as sweat equity shares.
(iii)The resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued.
(iv)Not less than one year has, at the date of such issue, elapsed since the date on which the company had commenced business.

29. What do you mean by Calls-in-Arrears? Mention the rate of interest on Calls-in-Arrears as per Table F.

Ans. The proportion of called-up capital which is not paid by the shareholder within a specified time is referred to as Calls-in-Arrears.

The rate of interest on Calls-in-Arrears as per Table F of the Companies Act 2013 is @10% p.a.

30. What do you mean by Calls-in-Advance? Mention the rate of interest on Calls-in-Advance as per Table F.

Ans. When the company accepts money paid by some shareholder for the calls not yet due, such amount is known as Calls-in-Advance.

The rate of interest on Calls-in-Advance as per Table F of the Companies Act 2013 is @12% p.a.

31. What is forfeiture of shares? State the consequences of forfeiture of shares. Discuss the procedure of forfeiture of shares.

Ans. If any shareholder fails to pay the amount due on allotment or any call within the specified period, the directors may cancel his shares. This is called forfeiture of shares.

The consequences of forfeiture of shares:
(i)The membership of the shareholder is terminated.
(ii)The amount of money paid on the forfeited of shares is seized by the company.
(iii)Ownership of the forfeited shares lies with the company.

Procedure of forfeiture of shares: A company must follow the following procedure for forfeiture of shares:

(i) Issue of notice: A notice must be served on the defaulting shareholders asking them to pay the outstanding call money together with interest on the outstanding calls, if any.

(ii) Period of notice: The notice must mention a future date on or before which payment must be made by the defaulting shareholder. The date must not be earlier than 14 days from the date of serving the notice.

(iii) Contents of notice: The notice must state the Board of Directors will forfeiture the shares as stated in the notice if the required payment is not made within the prescribed date mention in the notice.

(iv) Resolution of forfeiture: If the defaulting shareholder fails to comply with the requirement of the notice, a resolution effecting the forfeiture of shares must be passed in the meeting of the Board of Directors.

(v) Communication of forfeiture: The fact of forfeiture of shares must be communicated to the shareholder whose shares have been forfeited. A copy of the resolution of the Board of Directors to this effect is generally sent along with the letter.

32. Is forfeited shares reissued at a discount? If yes, what is the maximum amount of discount?

Ans. Yes forfeited shares are reissued at discount.

The maximum amount of discount allowed on reissue of forfeited shares should not exceed the amount standing as credit balance in Share Forfeiture A/C i.e. the amount received on forfeiture of such shares from the original holder.

33. What is Book Building? State the process of Book Building.
Ans. Every business organisation needs funds for its business activities. It can raise funds either externally or through internal sources. When the companies want to go for the external sources, they use various means for the same. Two of the most popular means to raise money are Initial Public Offer (IPO) and Follow on Public Offer (FPO).During the IPO or FPO, the company offers its shares to the public either at fixed price or offers a price range, so that the investors can decide on the right price. The method of offering shares by providing a price range is called book building method. This method provides an opportunity to the market to discover price for the securities which are on offer.
Book Building may be defined as a process used by companies raising capital through Public Offerings-both Initial Public Offers (IPOs) and Follow-on Public Offers (FPOs) to aid price and demand discovery. It is a mechanism where, during the period for which the book for the offer is open, the bids are collected from investors at various prices, which are within the price band specified by the

issuer. The process is directed towards both the institutional investors as well as the retail investors. The issue price is determined after the bid closure based on the demand generated in the process.

Book Building Process:

The principal intermediaries involved in a book building process are the companies, Book Running Lead Manager (BRLM) and syndicate members are the intermediaries registered with SEBI and eligible to act as underwriters. Syndicate members are appointed by the BRLM. The book building process is undertaken basically to determine investor appetite for a share at a particular price. It is undertaken before making a public offer and it helps determine the issue price and the number of shares to be issued.

The following are the important points in book building process:

1. The Issuer who is planning an offer nominates lead merchant banker(s) as 'book runners'.
2. The Issuer specifies the number of securities to be issued and the price band for the bids.
3. The Issuer also appoints syndicate members with whom orders are to be placed by the investors.
4. The syndicate members put the orders into an 'electronic book'. This process is called 'bidding' and is similar to open auction.
5. The book normally remains open for a period of 5 days.
6. Bids have to be entered within the specified price band.
7. Bids can be revised by the bidders before the book closes.
8. On the close of the book building period, the book runners evaluate the bids on the basis of the demand at various price levels.
9. The book runners and the Issuer decide the final price at which the securities shall be issued.
10. Generally, the number of shares is fixed; the issue size gets frozen based on the final price per share.
11. Allocation of securities is made to the successful bidders. The rest bidders get refund orders.

32. Write two advantages and disadvantages of book building.

Ans. Two advantages of Book Building:

(a) Price of instrument is determined in a more realistic way on the commitments made by the prospective investors to the issue.

(b) Book building is a process of fixing price for an issue on feedback from potential investors on how they are willing to bid to pick up issues and instruments.

(c) The Issuer company saves advertising and brokerage commissions.

(d) Issuers can choose investors by quality.

Two Limitations of Book Building:

(a) Book building is appropriate for mega issues only. In the case of small issues, the companies can adjust the attributes of the offer according to the preferences of the potential investors. It may not be possible in big issues, since the risk-return preference of the investors cannot be estimated easily.

(b)There is a possibility of price rigging on listing as promoters may try to bailout syndicate members.

33. Write a note on Buy-Back of shares.

Ans. Buy-Back is a corporate action in which a company buys back its shares from the existing shareholders usually at a price higher than market price. When it buys back, the number of shares outstanding in the market reduces.
A buyback allows companies to invest in them. By reducing the number of shares outstanding on the market, buybacks increase the proportion of shares a company owns.

Buybacks can be carried out in two ways:
(i)Shareholders may be presented with a tender offer whereby they have the option to submit (or tender) a portion or all of their shares within a certain time frame and at a premium to the current market price. This premium compensates investors for tendering their shares rather than holding on to them.

(ii)Companies buy back shares on the open market over an extended period of time.

Sources of funds for buy-back of shares :
(i)Free Reserves; or
(ii)The Securities Premium Account; or
(iii)The proceeds of any shares or other specified securities.

The reasons/objectives/advantages for buy-back:

(i)To improve earnings per share;

(ii)To improve return on capital, return on net worth and to enhance the long-term shareholder value;

(iii)To provide an additional exit route to shareholders when shares are undervalued or are thinly traded;

(iv)To enhance consolidation of stake in the company;

(v)To prevent unwelcome takeover bids;

(vi)To return surplus cash to shareholders;

(vii)To achieve optimum capital structure;

(viii)To support share price during periods of sluggish market conditions;

(ix) To service the equity more efficiently.

Some of the disadvantages of buyback of shares are discussed below:

(i) Excess cash is used for buying back stocks it includes opportunity cost as well and company often neglects opportunities like expansion of its business units, boosting of sales, increasing their number employees. Hence company is not using that money for some productive work.

(ii) Stockholders may frame negative image of company in their mind that they are not finding good opportunities to expand their business and using their excess cost for buying back shares.

34. What is right issue of shares? State its advantages.

Ans. A rights issue is an invitation to existing shareholders to purchase additional new shares in the company. In a rights offering, each shareholder receives the right to purchase a pro-rata allocation of additional shares at a specific price and within a specific period (usually 16 to 30 days).

Advantages of Right Shares:

(a) Issuing of 'Right Share' is less expensive than the public offering as no brokerage, no commission is paid.

(b) This is a real savings to the firms. A public offering is comparatively costly.

(c) The cost of issuing 'Right' share is lower than the total cost of public issue.

(d) Since the 'Right' shares are offered to the existing shareholders on pro rata basis, ownership and control remain in the hands of the same group.

35. What is bonus issue of shares? State its objectives. Also State its advantages and disadvantages.
Ans. Bonus shares are additional shares given to the current shareholders without any additional cost, based upon the number of shares that a shareholder owns. These are company's accumulated earnings which are not given out in the form of dividends, but are converted into free shares.

Objectives of issue of bonus shares:
(i) To award their shareholders,
(ii)To retain profits in business,
(iii)To keep it's a good cash liquidity position,
(iv)To take tax benefits (applicable to some countries),
(v)To benefit existing shareholders instead of seeking new additional capital,
(vi) To dilute market value per share to some extent.

Advantages of bonus shares:

From investors point of view:
(i)The investor doesn’t need to pay any tax upon receiving the bonus shares.
(ii)It is specifically beneficial for the investors who believe in the long-term story of the company and want to increase their investment in the same.

From Company’s point of view:
(i) Bonus issue allows the company to conserve cash for reinvesting back into the business.
(ii)Sometimes, the company may not be in a position to pay any cash, so bonus issue is the only means to satisfy the shareholders’ desire for a dividend.

Disadvantages of bonus shares:

From investors point of view:
(i) Not all investors may be interested in receiving the shares as a dividend; some may want liquidity for fulfilling other objectives. When such investors sell their bonus shares for generating liquidity, their stake in the company is reduced.
(ii)The stock dividend doesn’t give any extra wealth to the shareholders because share price drops by a proportionate amount to keep the market capital of the company same as before.

From Company’s point of view:
(i)Bonus issue increases the number of outstanding shares of the company and this will decrease the future EPS and cash dividend yield. This can have a negative impact on the market’s perceived value of the company.
(ii)The company doesn’t receive any cash upon issuing bonus shares. So, the company’s ability to raise money by follow-on offerings is reduced.

36. Explain the SEBI guidelines on bonus issue of a company.

Ans. SEBI guidelines on bonus issue of a company are as follows:

(i)No bonus shares shall dilute other issues: Issue of bonus shares shall not be made pending conversion of fully convertible debentures or partly convertible debentures unless sufficient number of shares is reserved for allotment to the holders of the said FCDs or PCDs after conversion.

(ii) **Bonus issue from free reserves:** Bonus shares can be issued only out of free reserves built out of genuine revenue profits or share premium collected in cash.

(iii) Revaluation reserve is not eligible: Reserve created by revaluation of assets cannot be capitalized for issue of bonus shares.

(iv)Issue in lieu of dividend: Bonus issue shall not be made in lieu of dividend.

(v) Partly paid shares are not eligible: Partly paid shares, if any, will not be eligible for bonus shares. Such partly paid shares, if any, must be made fully paid before a bonus issue is contemplated.

(vi) No default of payment of interest, etc: The issuing company shall not have defaulted in the payment of interest or principal in respect of fixed deposits and interest payment on dentures or repayment of principal on redemption of debentures. The company must be certain that it has not defaulted in respect of payment of statutory dues of the employees, such as contribution of provident fund, gratuity, bonus, etc.

(vii)Time within which bonus issue shall be made: A company which announces a bonus issue after the approval of its Board of Directors must implement the proposal within a period of six months from the date of such approval.

(viii)Bonus proposal cannot be withdrawn: A company which has announced its proposal to issue bonus shares cannot have the option to change its decision.

(ix) Provision in the articles: There must be a suitable provision in the Articles of Association of the company for capitalisation of reserves. If not, the company must pass a special resolution and incorporate a suitable provision in the Articles of Association, before initiating action for a bonus issue.

(x)Increase in authorized capital: Where necessary, before action on a bonus issue is taken, the company shall increase its authorised capital so as to permit the proposed bonus issue.

37. State the conditions for issue of bonus shares under the provision of Companies Act 2013

Ans. For a company to issue Bonus Shares the following conditions must be satisfied:

(i)There should be a provision in the Articles of Association for a Bonus Issue. If not, a Special Resolution is to be passed at the General Body Meeting for the issue of Bonus shares.

(ii)If the subsequent Bonus issue shares exceed Authorised Share Capital of the company, A Special Resolution is to be passed at the general Body for raising the Authorised Share Capital.

(iii) Checks to ensure that the company has not defaulted in payment of Principal or Interest in respect of Fixed Deposits or Debt Securities or any other employee statutory dues i.e. provident fund, gratuity, bonus, etc.

(iv)All partly paid-up shares are to be made fully paid up prior to the announcement of any Bonus Issue.

(v)Ordinary Resolution to be passed by the Board of Directors at Board Meeting for an issue of Bonus Shares, the decision on the ratio of share issuance and date time of General Meeting to be set.

(vi)Form E MGT within 30 days of Passing Board Resolution for Bonus Issue.

(vii)Hold General Meeting and get the resolutions for the issue of Bonus Shares passed by the members at General Body Meeting

38. Name the different types of bonus issue. Mention the sources of issue of bonus shares.

Ans. Types of Bonus Issue:
1. Fully Paid Bonus Shares: When bonus shares are distributed free of cost in proportion of holding, it is called Fully Paid Bonus Shares.
2. Partly Paid Bonus Shares: When bonus is applied for converting partly paid shares into fully paid shares, it is called Partly Paid-up Bonus Shares.

Source of Bonus Issue:

Fully paid-up bonus shares can be issued out of following sources:
(i) Capital redemption reserve
(ii) Security premium reserve
(iii) Capital reserve (realised in cash)
(iv) Surplus in Statement of Profit and loss.
(v) General reserve
(vi) Investment allowance reserve
(vii) Sinking fund for redemption of debentures (after redemption)
(viii) Development rebate reserve.

Partly paid-up bonus shares can be issued from the following sources:
(i) Capital Reserve* (realised in cash)
(ii) Surplus in Statement of Profit and loss.
(iii) General reserve
(iv) Investment allowance reserve
(v) Development rebate reserve
(vi) Sinking fund for redemption of debentures (after redemption)

Note: Security premium account and capital redemption reserve account cannot be utilised for issuing partly paid bonus shares.

39. Distinguish between right shares and bonus shares.

Ans. The main difference between right shares and bonus shares are given below:

Basis	**Right shares**	**Bonus shares**
1. Meaning	Right shares are issued on discounted price to the existing shareholders and they have option to agree or deny the offer.	Bonus shares are issued free of cost to the shareholders in a certain ratio, other than a dividend.
2. Paid-up value of shares	Right shares can either be partly or fully paid-up depending upon the proportion of the value paid-up of the existing shares.	Bonus shares are always fully paid-up.
3. Price of the shares	Right shares are issued at a discounted price.	Bonus shares are issued free of cost.

4. Objective of such issue	The objective of issuing right shares is to raise further capital for the organisation.	The objective of bonus shares is to bring the market value of shares to a publicly attractive price.
5. Minimum subscription	Minimum subscription is mandatory.	Minimum subscription is not required.
6.Creation & Renunciation	These are additional shares created by the company and can be renounced partially or fully.	These shares are created from the company's profits, reserves & surplus and such renunciation option is not available.

40. What do you mean by Redemption of Preference Shares? Explain the Provisions of Companies Act 2013 relating to the Redemption of Preference Shares.

Ans. Redemption of preference shares means returning the preference share capital to the preference shareholders either at a fixed date or after a certain time period during the life time of the company provided company must complied certain conditions.

The Provisions regarding the Redemption of Preference Shares are given under section 55 of Companies Act 2013:

1) No company limited by shares shall, after the commencement of this Act, issue any preference shares which are irredeemable.

(2) A company limited by shares may, if so authorised by its articles, issue preference shares which are liable to be redeemed within a period not exceeding twenty years from the date of their issue subject to such conditions.

(3)Such shares cannot be redeemed unless they are fully paid up.

(4)Such shares can be redeemed either out of profits which would be available for dividend or out of the proceeds of a fresh issue of shares made with the object of redemption.

(5)When shares are redeemed out of profits available for distribution as dividend, a sum equal to the nominal amount of the shares so redeemed must be transferred out of profits to a reserve account to be called 'Capital Redemption Reserve Account'.

(6)Such reserve can be used for issuing fully paid bonus shares to the shareholders.

(7)Redemption of preference shares should not be regarded as a reduction of the authorised capital of the company and as such the reduced shares should remain part of the authorised capital and must be shown in the Balance Sheet.

41. What is Capital Redemption Reserve (CRR)? How is it created? Can it be utilised?

Ans. When shares are redeemed out of profits available for distribution as dividend, a sum equal to the nominal amount of the shares so redeemed must be transferred out of profits to a reserve account to be called 'Capital Redemption Reserve Account'.

CRR is created by transferring the following balances:
(i)General Reserve
(ii) Revenue Reserve
(iii) Surplus in Statement of Profit and Loss.
(iv) Dividend Equalisation Fund.
(v) Workmen's Compensation Fund.
(vi) Workmen' Accident Fund.

Balances not available for transfer to CRR:
(i) Capital Reserve.
(ii)Share Forfeiture.
(iii) Securities Premium Reserve A/C.
(iv) Profits Prior to Incorporation.
(v) Development Rebate Reserve.

CRR can be used only for issuing fully paid bonus shares to the shareholders.

42. What is a debenture? Write three features of delectates.
Ans.: A debenture or bond is an acknowledgement of a debt. It is a document or certificate issued by a company under its seal as an acknowledgement of its debt. Holder of debenture certificate is called debenture holder.

Features of Debentures:

(i)Debentures are part of borrowed fund capital as debenture holders are considered as the creditors of the company.
(ii)The interest on debentures is paid at a fixed rate.
(iii)Debenture holders do not have voting rights.

43. Briefly explain the different types of debentures.
Ans. The debentures are of the following types :-
(i)Secured Debentures: These debentures are given a security on assets of the company.

(ii)Unsecured Debentures: The debentures are not given security on assets of the company.

(iii)Redeemable Debentures: These debentures are to be redeemed on the expiry of a certain period.

(iv)Irredeemable Debentures: Such debentures are not redeemable during the life time of the company.

(v)Convertible Debentures: The debentures which get converted into equity shares are known as convertible debentures.

(vi)Non – convertible debentures: The debentures which do not get converted equity shares are known as non-convertible debentures.

44. Distinguish between shares and Debentures.
Ans.

Shares	Debentures
(i)A share is a part of owned capital.	(i)A debenture is a part of borrowed capital.
(ii)Shareholders are the owners of the company.	(ii)Debenture holders are the creditors of the company.
(iii)Shareholders are paid dividend on the shares held by them.	(iii)Debenture holders are paid interest on debentures.
(iv)Equity shareholders have no right to get dividend in case of loss.	(iv) Debenture holders have right to get interest in case of loss also.
(v)No assurance of dividends on timely intervals.	(v)Guaranteed returns in terms of interest at regular intervals.
(vi)No refund during the lifetime of the company.	(vi)Redemption during the lifetime of the company after a certain stipulated period.

45.Name the different methods of issue of debenture.
Ans. The different methods of issue of debenture are:
(i) Issue of debenture for cash consideration.
(ii) Issue of debenture other than cash consideration.
(iii) Issue of debenture as collateral security.
(iv) Issue of debenture from redemption point of view.

46. What do you mean by issue of debenture as collateral security?
Ans. The term 'collateral security' implies additional security given for a loan. Where a company obtains a loan from a bank or insurance company and the security offered to the company is not sufficient, the company may issue its own debentures to the lender as collateral security against the loan. In such a case, the lender has the absolute right over the debentures until and unless the loan is repaid.

47. What is redemption of debenture? Name the different methods of redemption of debenture.
Ans. Redemption of debentures means payment of the amount of debentures by the company. When debentures are redeemed, liability on account of debentures is discharged.

The different methods of redemption of debenture are:
(i)Lump-sum payment at maturity.
(ii) Redemption of debentures by annual drawings.
(iii) Purchase of own debentures in the open market.
(iv) Conversion into shares or new debentures.

48. Write the sources of finance for redemption of debenture.
Ans. Amount require for the redemption of debentures may be managed by the company from the following sources:
(i) Redemption out of Capital i.e. redemption from the proceeds of fresh issue of shares and debentures.
(ii) Redemption out of profits.

49. Mention the SEBI guideline for redemption of debentures.

Ans. The SEBI guidelines for redemption of debentures are**:**
(i)The creation of Debenture Redemption Reserve (DRR) is obligatory only for non-convertible debentures and non-convertible portion of partly convertible debentures.
(ii)A company shall create DRR equivalent to at least 25% of the amount of debentures issued before starting the redemption of debentures.

50. Name the companies which are exempted (not required) from creating DRR.

Ans. The following companies are exempted (not required) from creating DRR:
(i)All India Financial Institutions (AIFIs) regulated by RBI.
(ii)Other Financial Institutions regulated by RBI.
(iii) Banking Companies for both public as well as privately placed debentures.
(iv) Housing Finance Companies registered with National Housing Bank.

51. What is DRR?
Ans. A debenture redemption reserve (DRR) is a provision stating that any Indian corporation that issues debentures must create a debenture redemption service in an effort to protect investors from the possibility of a company defaulting.

52. State the condition of investing 15% of the debentures maturing during the year.
Ans. As per Rule 18(7) (C**)** of the Companies Rules 2014, every company required to create DRR shall before 30th day of April of each year, deposit or invest, a sum which shall not be less than 15% of the amount of its debentures maturing during the year ending on 31st