CISCE VIRTUAL LEARNING SERIES

LESSON: ISC ACCOUNTS

REDEMPTION OF DEBENTURES

September 29TH & 30TH, 2020

Response to Questions posed by students during the live Lesson:

<table>
<tr><th>S. No.</th><th>Questions</th><th>Answers</th></tr>
<tr><td>1.</td><td>Why do only the unlisted companies other than NBFCs and HFCs need to transfer 10% of nominal value to DRR and not the rest 5?</td><td>One of the recent measures taken by the government to boost the fear-ridden bond market, was its decision to do away with the requirement for all listed companies, unlisted NBFCs, and HFCs, to create a Debenture Redemption Reserve (DRR) for their outstanding debentures. According to the government this move would improve the ease of doing business and deepen the bond markets. All India Financial Services and Banking Companies, were, even earlier, exempted from this provision.</td></tr>
<tr><td>2.</td><td>Kindly explain the difference between listed and unlisted companies once again.</td><td>
<table>
<tr><th>Listed Companies</th><th>Unlisted Companies</th></tr>
<tr><td>A listed company is a company that is listed on a stock exchange, where its shares are freely tradable by using a demat account.

The listed shares can be sold by the shareholders without any hassles and also it is easy to find buyers for the listed shares.

According to the Provisions of the Companies Act, 2013, a listed company, need not create a DRR to redeem its debentures</td><td>An unlisted company is a company that is not listed on a stock exchange.

It is difficult to buy and sell the unlisted shares in the market. These shares can be bought or sold through a broker.

According to the Provisions of the Companies Act, 2013, an unlisted company (other than a NBFC and HFC) has to transfer from its profits, at least 10% of the total face value of debentures to be redeemed, before redemption begins, to Debenture Redemption Reserve A/c.</td></tr>
</table>
</td></tr>
</table>

S. No.	Questions	Answers
3.	What is the use of TDS Receivable (Collected) and why is it created?	The government uses the TDS Receivable as a tool to collect tax in order to minimise tax evasion on income at the time it is generated rather than at a later date. TDS is applicable on various incomes such as salary received, interest received, commission received, dividend received etc.
4.	Can Debentures be redeemed out of general reserve?	Yes, a DRR can be created from the General Reserve provided the company has a balance in its General Reserve A/c in the year in which the debentures are issued and thus, will be able to create a DRR from the accumulated profits at the end of the first year of the issue of debentures.
5.	What is the amount transferred to DRR, 10% or 25% of value of debentures?	As per the Government of India, Ministry of Corporate Affairs Notification dated 16th August 2019, the Companies (Share Capital & Debentures) Rules has been amended by removing Debenture Redemption Reserve requirement for listed companies, NBFCs and HFCs. Accordingly, the amendments relating to creation of Debenture Redemption Reserve (DRR): 1. Do ***not*** require the creation of a DRR of 25 per cent of the value of outstanding debentures in respect of ***listed companies, all NBFCs registered with RBI and for Housing Finance Companies registered with National Housing Bank (NHB) both for public issue as well as private placements.*** 2. For unlisted companies (other than NBFCs and HFCs), DRR would be **reduced** from the present level of 25 per cent **to <u>10 per cent of the outstanding debentures.</u>** Thus, all **unlisted companies** (other than NBFCs and HFCs) will transfer from their **profits,** before redemption begins**, <u>10%</u> of the total face value** of the debentures to be redeemed, to a new account called Debenture Redemption Reserve A/c.
6.	What is securities premium reserve?	A company may issue shares at a price above their nominal value or face value. The excess of the price above the nominal value is called securities premium which is a capital profit for the company and is shown under the heading 'Reserves and Surplus'.

<table>
<tr><th>S. No.</th><th>Questions</th><th>Answers</th></tr>
<tr><td>7.</td><td>What is the difference between Capital Reserve and Reserve Capital?</td><td>
<table>
<tr><th>Capital Reserve</th><th>Reserve Capital</th></tr>
<tr><td>It is created out of capital profits.</td><td>It is created out of uncalled capital.</td></tr>
<tr><td>It is disclosed in the company’s balance sheet under Equity and Liabilities, head- Shareholders’ Funds, subhead- Reserves and Surplus.</td><td>It is not disclosed in the company’s balance sheet.</td></tr>
<tr><td>It can be used during the life time of the company to write off capital losses.</td><td>It can be used only at the time of winding up of the company to pay off the creditors.</td></tr>
</table>
</td></tr>
<tr><td>8.</td><td>Which type of company do we consider if the question does not state anything about it?</td><td>As the provisions are different for different types of companies, the type of company redeeming the debentures will always be mentioned in the question.</td></tr>
<tr><td>9.</td><td>Should we write off the capital losses even if it is not mentioned in the question?</td><td>Yes, capital losses have to be written off in the year in which they occur even if it is not mentioned in the question.</td></tr>
<tr><td>10.</td><td>Please explain the brokerage point again.</td><td>If a company sells its Debenture Redemption Investment in the secondary market through a broker, it will have to pay a commission to the broker which is called brokerage. The amount paid as brokerage will be reduced from the gross sale price of the DRI in order to calculate its net sale proceeds.

Similarly, if a company purchases its Debenture Redemption Investment in the secondary market through a broker, it will have to pay a commission to the broker which is called brokerage. The amount paid as brokerage will be added to the purchase price of the DRI in order to calculate the total purchase price.</td></tr>
</table>