

Ch. 4 Issue of Debenture

- Provisions for issues of debentures as per Companies Act, 2013.
- Procedure of issue of Debenture
- Debenture Trust Deed

Provisions for issues of debentures as per Companies Act, 2013.

1) <u>No voting rights</u>

- Debenture holders have no voting rights.
- Debenture holders are creditors of the company and so they do not have any voting rights except in matters affecting them.

2) Types of Debentures

A company can issue

- secured or unsecured debentures
- convertible debentures or non-convertible debentures.

To issue convertible debentures, a Special Resolution has to be passed in the General Meeting.

All debentures are redeemable in nature.

3) Payment of interest and redemption :

- Debentureholders get Interest.
- Debentures are redeemable aftaer a fixed period of time.

4) Debenture Certificate :

• Company has to issue Debenture certificate to the debentureholders within 6 months of allotment of Debentures.

5) Create Debenture Redemption Reserve :

- Company has to create a Debenture Redemption Reserve(DRR) account out of profits of the company.
- This money can be used only for redemption of debentures.
- As per companies (Share Capital and Debentures) Amendment Rules 2019, MCA(Minisstry of corporate affair) has removed DRR requirement for Listed companies, NBFCs(Non banking financial co.) and Housing Finance Companies.

6) Appoint of Debenture Trustees :

- If the company issues prospectus or invites more than 500 people, company has to appoint one or more Debenture Trustees.
- Debenture trustees protect the interest of the debenture holders.
- Company has to enter into a contract with them called as Debenture Trust Deed.

7) **Debentures Trustees can approach NCLT :**

- If the company is in default in repaying the principal amount on maturity, the Debenture Trustees can approach National Company Law Tribunal.
- NCLT can direct a defaulting company to repay the principal amount or interest.

8) Punishment for contravention of provisions of the Companies Act :

• If the company fails to comply with any provisions of the Act, then the company and its officers shall be liable to pay fine or imprisonment or both as prescribed in the Act.

Q.Explain briefly the Procedure for issue of Debenture

1) **Board Meeting** : In the Board Meeting following resolution will have to be passed :

- amount and type of debentures to be issued
- approve prospectus
- approve appointment of Debenture Trustees and get their written consent.
- authorize Board to create charge on assets of the company.

2) Filing with Registrar of Companies :

Secretary has to file the Special resolution and copy of Prospectus, offer letter / Letter of offer with Registrar of Companies within 30 days of Board Meeting.

3) <u>**Obtain Credit Rating</u>** : Company gets its debentures rated by one or more Credit Rating Agencies. The ratings must be mentioned in the prospectus/offer letter/Letter of offer.</u>

4) <u>Enter into underwriting agreement</u>: Company enters into an underwriting agreement for underwriting its debenture issue.

5) <u>Issue prospectus / letter of offer / offer letter</u> : Company issues prospectus, if it is inviting the public to buy its debentures.

6) **Open Separate Bank Account :** Company opens a separate bank account in a scheduled Bank to receive the money from the debenture applicants.

7) <u>Receiving application money</u>: Subscribers will submit their application along with the required amount to the specified bank within the time period mentioned in the prospectus

8) <u>Hold Board Meeting</u> : After the issue closes, a Board Meeting is held to decide and approve allotment of debentures.

9) <u>Issue of Debenture certificate</u>: The allotment procedure has to be completed within 60 days from the receipt of application money. Company has to issue Debenture certificate within 6 months of allotment of debentures.

10) <u>Make entries in Register of Debenture holders</u>: Secretary has to make entries in the Register of Debenture holders within 7 days after the Board approval of allotment. However, if debentures are issued in demat form, company does not maintain the Register of Debenture holders.

Q. Answer in brief

Debenture Trust Deed :

- Company enters into a contract with one or more <u>Debenture Trustees</u>.
- The terms and conditions of the agreement is written in the <u>Debenture Trust</u> <u>Deed.</u>
- It is a <u>legal instrument</u> conveying the assets of a company to the Trustees.
- The Deed also defines the <u>rights of debenture holders</u> and the <u>duties and powers</u> <u>of Debenture Trustees</u>.
- Company has to execute the Deed within <u>3 months</u> of closure of the issue.
- Members as well as debenture holders can <u>inspect the deed</u> and also <u>get a copy</u> of it by paying a certain fee.



Nirmala memorial foundation college of commerce &science.

OCM department.

RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS

RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS :

Business cannot function in isolation. It depends upon the society for its input and output. It is conducted with the help of various interest groups such as investors, owners, employees etc. Interest of all these should be balanced and properly protected.



RESPONSIBILITIES TOWARDS OWNERS:

• Owners are the persons who own the business and they are responsible for the profits or losses and they contribute the capital and bear the risks. Following are the responsibilities towards owners.

• 1) Reasonable Profit:

• Business should earn reasonable profit. Profit facilitates growth and expansion. It will bring financial stability.

• 2) Exploring Business Opportunities:

• Opportunity is the scope available for business unit to expand, grow and diversify the business. Businessmen should be alert to find such opportunities. For success of the business it is very crucial and so whenever they arise it should be explored.





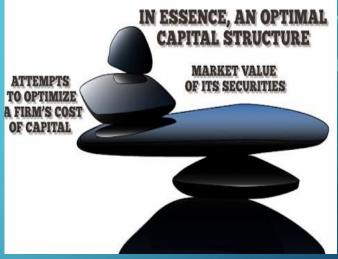
RESPONSIBILITIES TOWARDS OWNERS:

• 3) Optimum Use of Capital:

Available capital should be used carefully and efficiently. Business risks should be considered. Management should give attention to the safety of the capital.

•4) Minimise Wastages:

Business organisations can maximise profitability by minimising wastages. Wastage of time, money, manpower should be minimised.





RESPONSIBILITIES TOWARDS OWNERS: 5) Efficient Business: Scarce resources should be utilised at optimum level.

- Efficient use of resources will increase profitability and productivity so that business can be conducted more efficiently.
- 6) Fair Practices on Stock Exchange:
- All sorts of unfair practices related to stock
 exchange like insider trading, providing wrong and
 secret information etc. should be avoided. Share
 prices are artificially increased or decreased which will lead to loss to common investors.





RESPONSIBILITIES TOWARDS OWNERS:

•7) Expansion and Diversification:

 For expansion and diversification, business should be growing & developing. Business should undertake R and D (Research and Development) of various projects so that they can face market competition.

• 8) Periodic information:

Owners should get complete and accurate
 Information about the financial position. Business
 Should disclose information through reports, circulars
 etc.





P. Effective Use of owners' Funds:
Owners' funds must be utilized in the best possible manner. It should give short term and long term returns in time.

- 10) Creating Goodwill:
- Management should develop and
 maintain good public image. A well
 reputed company commands a lot of
 respect and trust in the market.





CH:6 RESPONSIBILITIES TOWARDS INVESTORS

NMFC OCM DEPT

RESPONSIBILITIES TOWARDS INVESTORS:

Investors provide finance to the company. They are creditors of business.

1) Proper Conduct of Meetings:

Company should call meetings of investors and provide information about the business. Proper notices of meeting should be sent to them. In period of crisis, investors should be taken into confidence. Factors responsible for failure should be known to the invester.



RESPONSIBILITIES TOWARDS INVESTORS: 2) Return on Investment :



Investors invest their money in business and accept risk factor. They should get fair returns on investment regularly in the form of interest. Following points should be considered.

a.Fair returns on investment. b. Safety of investment. c. Steady appreciation of business.



3) Handling Grievances:

A company should handle investor's grievances, if any. There should be effective methodology for this. All queries regarding any other issue must be answered in a satisfactory way.

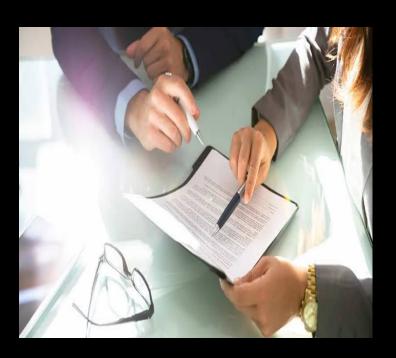
RESPONSIBILITIES TOWARDS INVESTORS:



4) Maintain Transparency:

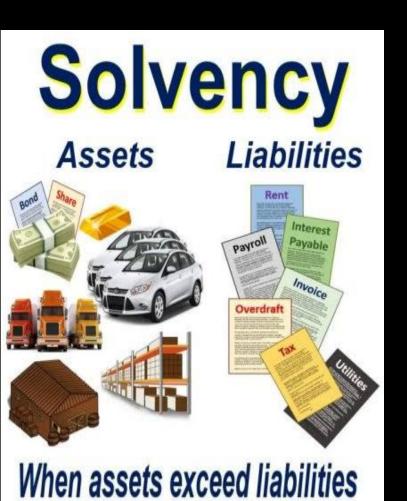
Investors provide long term capital as well as working capital to run business efficiently. So it should maintain high degree of transparency in its operation

5) Proper Disclosure of Information:



Management should present full and factual information to investors. They should get regular reports, circulars and statement of profit. The financial performance of the company must be provided correctly so that prospective investors can take right decisions to invest in future. All this will ensure them that their investment is safe.

RESPONSIBILITIES TOWARDS INVESTORS:

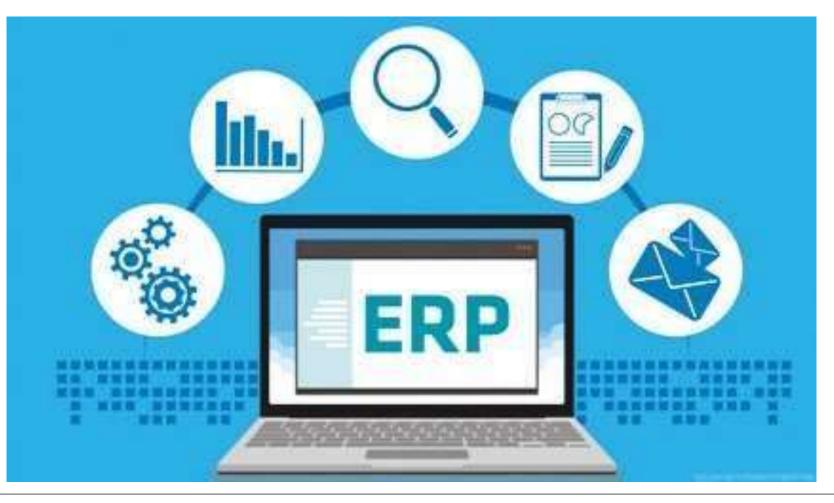


6) Maintain Solvency and Prestige: Business should maintain sound financial position, solvency, prestige and goodwill to satisfy investors. Business should take continuous efforts for research, innovation and expansion programme.

THE END

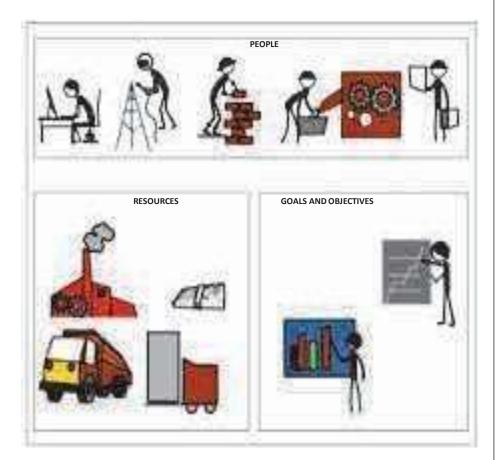


Enterprise Resource Planning (ERP)



What is an Enterprise?

- "An enterprise is a group of people and other resources working together for a common goal".
- An enterprise may consist of different sections such as manufacturing or production, planning, sales, purchase, finance, distribution etc.
- Each department will have their own duties and responsibilities and they are working to achieve the objective which is set for the enterprise.



What is Resource?

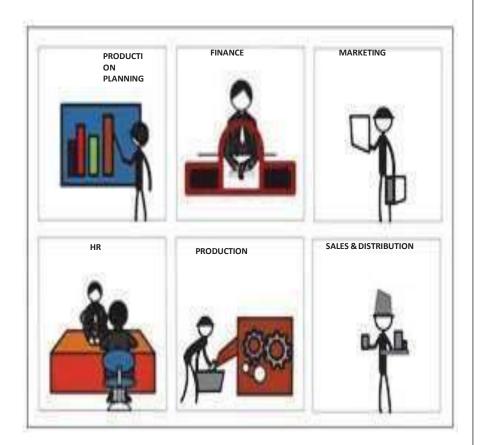
- There are different types of resources in an enterprise like men, material, money and machine.
- Information system can be designed for various departments of an enterprise so that accurate and timely data can be provided to the concerned persons.

What is Planning?

 Planning helps managers to improve future performance, by establishing objectives and selecting a course of action, for the benefit of the organisation.

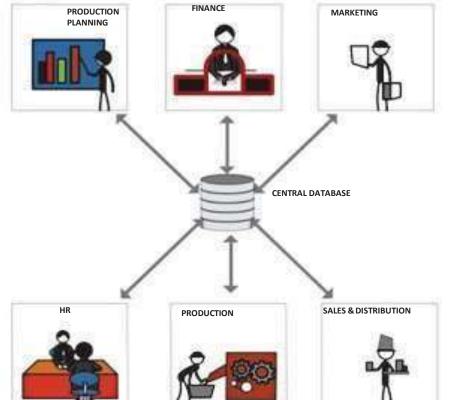
An enterprise with no or little Communication between departments

- In some enterprises, different departments function independently.
- So the information that is produced by each department may be available only to the top management of the department and it is not available to the other departments.

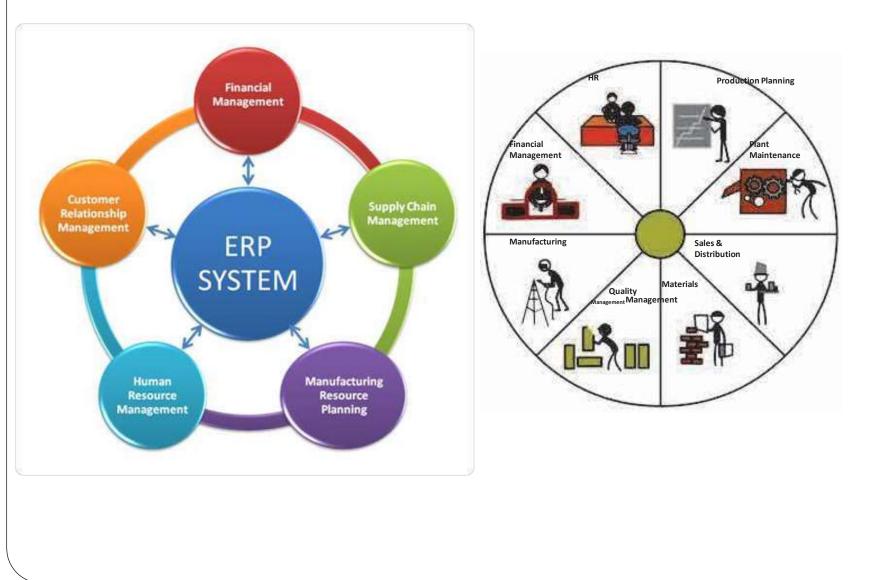


Enterprise with Central Database

- An enterprise can be considered as a system and all its departments as its sub systems.
- Information about the entire enterprise can be stored in a centralized database and it is made available to all departments



Functional Units of ERP



Financial module

- This module is the core of many ERP software packages.
- It can collect financial data from various functional departments and generate valuable financial reports.
- Financial reports include balance sheets, general ledger, trial balance, financial statements, etc.

Manufacturing module

- Manufacturing module contains necessary business rules to manage the entire production process.
- This module of ERP enables an enterprise to combine technology and business processes to get integrated solutions.

 It also provides freedom to change manufacturing and planning methods as and when required.



Production planning module :

- This module is used for optimising the utilisation of available resources and helps the organisation to plan their production.
- This module identifies the materials required, allocates optimal resources using data and sales forecasting with the sales data.

HR module :

- HR stands for Human Resource.
- HR module maintains an updated and complete employee database including personal information, salary details, attendance, performance, promotion, etc. of all employees in an enterprise.



Inventory control module :

- This module covers processes of maintaining the appropriate level of stock in the warehouse.
- It is responsible for identifying the inventory requirements and setting the target of the stock items required.



Purchasing module :

- Purchase Module helps for generating purchase order evaluating the supplier, and billing.
- It is closely connected with the inventory, finance and production planning module.

Marketing module :

• Marketing module : Marketing module is used for monitoring and tracking customer orders, increasing customer satisfaction and for eliminating credit risks.

Sales and distribution module :

- This module helps for tracking enquiries, order placement, order scheduling, dispatching and invoicing.
- This module is closely integrated with the ecommerce website of the organization.



Quality management module :

- This module is used for managing the quality of the product.
- The quality management module fulfills the following functions-Quality planning, Quality inspection and Quality control.

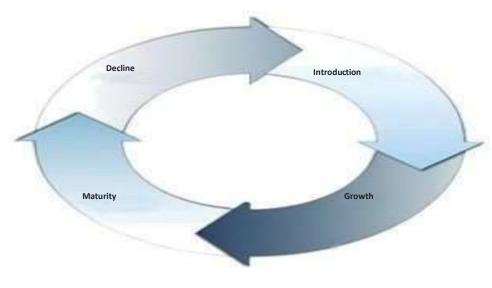


ERP and related technologies

- Product Life Cycle Management (PLM)
- Management Information System (MIS)
- Supply Chain Management (SCM)
- Customer Relationship Management(CRM)
- Decision Support System (DSS)

Product Life Cycle Management (PLM)

 Product Life Cycle Management is the process of managing the entire life cycle of a product.
 Product life cycle is used for determining the lifespan of a product.



 It consist of 4 phases: development and introduction of a new product, then its growth in the market, its maturity and at last its decline if it cannot compete with similar products of other companies.

Management Information System (MIS)

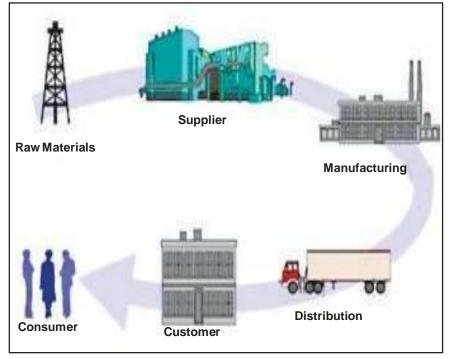
- M- Management is the end user of the data that is decision maker.
- I- information is the processed data
- S-system is the integration and holistic view of the enterprise.

MIS will collect relevant data from inside and outside an enterprise. This data is processed and stored in a centralized database and is made available to its users whenever it is needed.



Supply Chain Management (SCM)

- The supply chain consists of all the activities associated with moving goods from the supplier to the customer.
- It begins with collecting raw materials and ends with receiving the goods by the consumer.



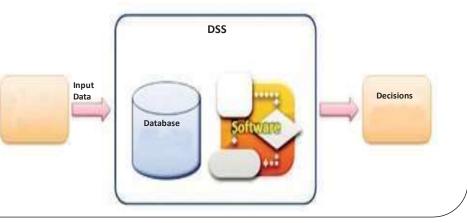
Customer Relationship Management(CRM)

- CRM covers methods and technologies used by companies to manage their relationships with clients. It is not only the responsibility of customer service group or IT team.
- It includes the capture, storage and analysis of customer information.



Decision Support System (DSS)

- Decision Support Systems are interactive, computerbased systems that aid users in judgment and choice activities.
- It is a computer program application that analyses business data and presents it so that users can make business decisions more easily.
- DSS focuses on providing help in analysing situations rather than providing right information in the form of various types of reports.



ERP and Internet

- New trend in ERP development and use involves vendors making the software available to client companies on the internet. The communication between the server where an ERP system is installed and many clients(End-User Pc's) is done through the internet.
- A cloud ERP makes it easier and more secure for businesses to manage their information. These systems can be maintained by a company who specializes in upkeep on servers and databases, keeping them secure, and can make it easier to scale as your business grows.

Benefits of ERP

- Improved resource utilization : An enterprise can plan and manage its resources effectively by installing ERP software. So the wastage or loss of all types of resources can be reduced, and improved resource utilization can be ensured.
- Better customer satisfaction : Customer satisfaction means meeting maximum customers' requirements for a product or service. Using an ERP system, a customer will get more attention and service of an enterprise without spending more money and time.

Provides accurate information : In today's competitive world, an enterprise has to plan and manage the future cleverly. To achieve this an enterprise needs high quality, relevant, updated and accurate information.

• Information integrity : The

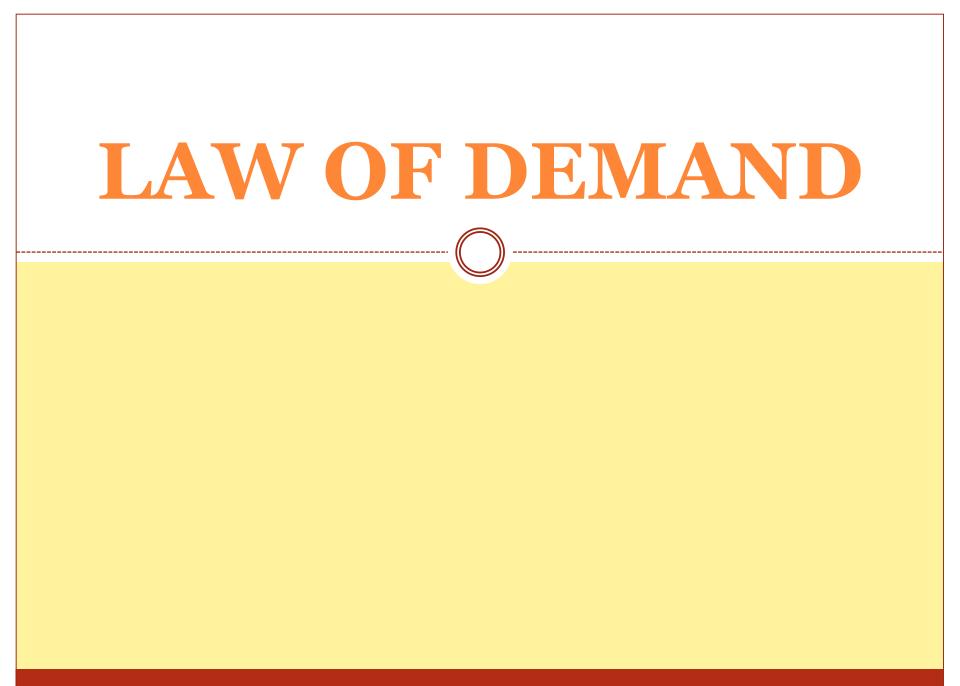
entire information about an enterprise is stored in a centralized database, so that complete visibility into all the important processes across various departments of an organisation can be achieved.

- Decision making capability : Accurate and relevant information given to decision makers will help them to take better decisions for running a system more smoothly.
- Increased flexibility : An ERP system allows organizations to be more flexible so that they can more easily adapt and capitalize on new business opportunities.

Future of ERP

- Artificial Intelligence services are impacting every facet of business operations.
- The concept of machine learning is going to revolutionize ERP. It will help businesses to achieve high levels of automation.
- Embedded business intelligence, analytics and data management features built into ERP will be the next future ERP.
- There will be more ERP transactions triggered by sensors and external systems or devices.

ECONOMICS



LAW OF DEMAND

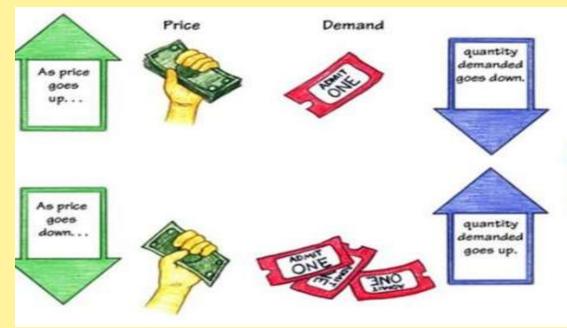
Introduction :

The law of demand was introduced by Prof. Alfred Marshall in his book, 'Principles of Economics', which was published in 1890.

The law explains the functional relationship between price and quantity demanded.

STATEMENT OF LAW OF DEMAND

• According to Prof. Alfred Marshall, "Other things being equal, higher the price of a commodity, smaller is the quantity demanded and lower the price of a commodity, larger is the quantity demanded."



SYMBOLIC REPRESENTATION

• Symbolically, the functional relationship between demand and price is expressed as :

•
$$Dx = f(Px)$$

• Where D = Demand for a commodity

$$x =$$
Commodity

$$f = Function$$

Px = Price of a commodity

DEMAND SCHEDULE

Price of commodity 'x' (Rs)	Quantity demanded of commodity 'x' (in kgs.)
50	1
40	2
30	3
20	4
10	5

> As shown in table when price of commodity 'x' is Rs 50, quantity demanded is 1 kg.

➢ When price falls from Rs 50 to Rs 40, quantity demanded rises from 1 kg to 2 kgs.

> Similarly, at price Rs 30, quantity demanded is 3 kgs and when price falls from Rs 20 to Rs 10, quantity demanded rises from 4 kg to 5 kgs

➢ Thus, as the price of a commodity falls, quantity demanded rises and when price of commodity rises, quantity demanded falls.

➤ This shows an inverse relationship between price and quantity demanded.

DEMAND CURVE

Demand Curve 30 Ξ Price ĒÐ

Quantity Demanded in kgs

➢ In fig. X axis represents the demand for the commodity and Y axis represents the price of commodity *x*.

DD is the demand curve which slopes downward from left to right due to an inverse relationship between price and quantity demanded.

ASSUMPTIONS OF LAW OF DEMAND

- **1** Constant level of income
- **2** No change in size of population
- **3** Prices of substitute goods remain constant
- **4** Prices of complementary goods remain constant
- **5** No expectations about future changes in prices
- 6 No change in tastes, habits, preferences, fashions etc.
- **7** No change in taxation policy



• State and explain the law of demand with assumption.



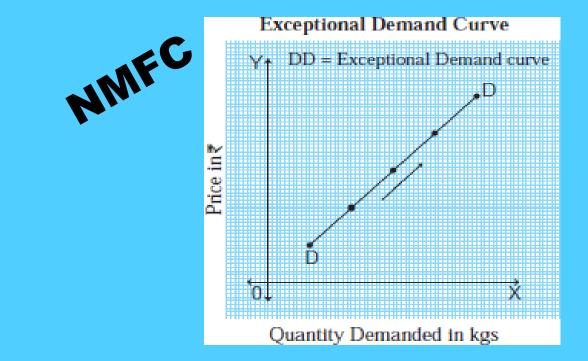
THANK YOU

EXCEPTIONS TO THE LAW OF DEMAND

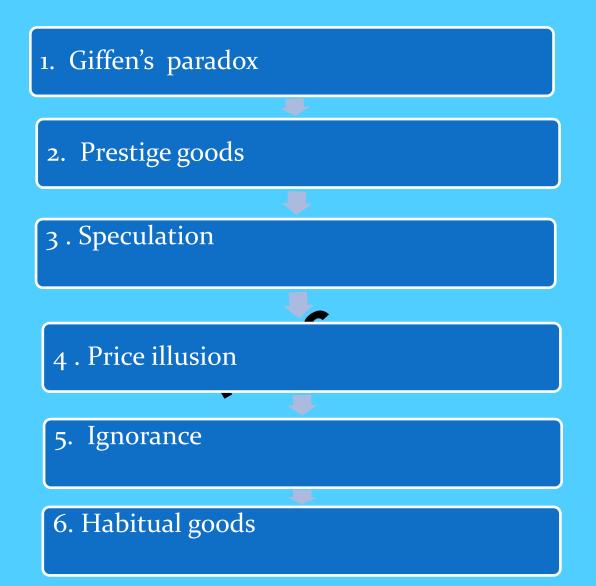


INTRODUCTION

There are certain exceptions to the law of demand. It means that under exceptional circumstances, consumer buys more when the price of commodity rises and buys less when price of commodity falls. In such cases, demand curve slopes upwards from left to right. i.e. the demand curve has a positive slope as shown in



EXCEPTIONS TO LAW OF DEMAND



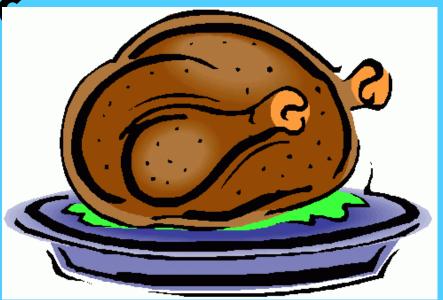
GIFFEN'S PARADOX

Inferior goods or low quality goods are those goods whose demand does not rise even if their price falls.

At times, demand decreases when the price of such commodities fall. Sir Robert Giffen observed this behaviour in England in relation to bread.

He noted that, when the price of bread declined, people did not buy more because of an increase in their real income or purchasing power. They preferred to buy superior good like meat. This is known as Giffen's paradox.





PRESTIGE GOODS

Expensive goods like diamond, gold etc. are status symbol. So rich people buy more of it, even when their prices are high.



SPECULATION

The law of demand does not hold true when people expect prices to rise still further.

In this case, although the prices have risen today, consumers will demand more in anticipation of further rise in price.

For example, prices of oil, sugar etc. tend to rise before Diwali. So people go on purchasing more at a high price as they anticipate that prices may rise during Diwali

PRICE ILLUSION

Consumers have an illusion that high priced goods are of a better quality. Therefore, the demand for such goods tend to increase with a rise in their prices.

For example, branded products which are expensive are demanded even at a high price.





IGNORANCE

Sometimes, due to ignorance people buy more of a commodity at high price.

This may happen when consumer is ignorant about the price of that commodity at other places.



HABITUAL GOODS

Due to habit of consumption, certain goods like tea is purchased in required quantities even at a higher price.





المراجع (Practical Problems) المراجع ال

1. Vikram and Pradnya share profits and losses in the ratio 2:3 respectively. Their balance sheet as on 31st March 2018 was as under.

Liabilities	Amount (₹)	Assets	Amount (₹)
Creditors	1,05,000	Cash	7,500
Capitals :		Land & Building	37,500
Vikram	75,000	Plant	45,000
Pradnya	75,000	Furniture	3,000
		Stock	75,000
		Debtors	87,000
	2,55,000		2,55,000

Balance Sheet as or	a 31 st March, 2018
---------------------	--------------------------------

They agreed to admit Avani as a partner on 1st April 2018 on the following terms:

- 1 Avani shall have 1/4th share in future profits.
- 2. He shall bring ₹ 37,500 as his capital and ₹ 30,000 as his share of goodwill.
- 3. Land and building to be valued at ₹ 45,000 and furniture to be depreciated by 10%.
- 5. Provision for bad and doubtful debts is to be maintained at 5% on the Sundry Debtors.
- 6. Stocks to be valued ₹ 82, 500.

The capital A/c of all partners to be adjusted in their new profit and loss ratio and excess amount be transferred to their loan accounts.

Prepare Profit and Loss Adjustment Account, Capital Accounts and New Balance Sheet. (Ans: (Revaluation Profit 10,350, Capital Balance - Vikram 97,140, Pradnya 93,210, Avani 37,500, Balance Sheet Total - 3,32,850)

2. Amalendu and Sameer share profits and losses in the ratio 3:2 respectively Their balance sheet as on 31st March 2017 was as under.

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	10,000	Cash at bank	12,000
Amlendu capital	60,000	Sundry debtors	24,000
Sameer capital	40,000	Land & Building	50,000
General reserve	20,000	16,000	
		Plant and machinery	
		Furniture & fixture	8,000
	1,30,000		1,30,000

On 1st April 2017 they admit Paresh into partnership. The term being that:

1 He shall pay ₹ 16,000 as his share of Goodwill 50% amount of Goodwill shall be withdrawn by the old partners.

- 4. Furniture and Stock are to be depreciated by 10%
- 5. The Capitals of all partners should be adjusted in their new profit sharing ratio through Bank A/c.

Pass necessary Journal Entries in the books of the Partnership firm and a Balance sheet of new firm.

6. Vrushali and Leena are equal partners in the business. Their Balance sheet as on 31 March 2018 stood as under.

Liabilities	Amt. (₹)	Amt. (₹)	Assets	Amt. (₹)	Amt. (₹)
Sundry Creditors_	90,000	90,000	Cash in Bank		62,000
Capitals :			Debtors	31,000	
Vrushali	45,000	75,000	Less: R.D.D	1,000	30,000
Leena	30,000		Building		55,000
General Reserves		18,000	Machinery		24,000
			Bills Receivable		12,000
		1,83,000			1,83,000

Balance	Sheet	as	on	31	March	2018
Dulunce	Sheer	ub	on	J I	1 I GI CII	A 010

They decided to admit Aparna on 1st April 2018 on the following terms:

- 1. The Machinery and Building be depreciated by 10%. Reserve for Doubtful Debts to be increased by ₹ 5,000
- 2. Bills Receivable are taken over by Vrushali at the discount of 10%
- 3. Aparna should bring ₹ 60,000 as capital for her 1/4 th share in future profits.
- 4. The capital accounts of all the partners be adjusted in proportion in the new profit sharing ratio by opening current accounts of the partners.

Prepare Profit and Loss Adjustment A/c, Partner's capital A/c, Balance sheet of new firm.

(Ans : Revaluation loss - 14,100, Current A/c Vrushali 53,850, Leena 58,050, Balance Sheet 3,30,000)

7. The balance sheet of Medha and Radha who share profit and loss in the ratio 3:1 is as follows :

Liabilities	Amount (₹)	Assets	Amount (₹)
Sundry Creditors	80,000	Cash	78,000
Bills Payable	20,000	Sundry debtors	64,000
Bank overdraft	20,000	Stock	40,000
Capital A/c :		Plant & Machinery	60,000
Medha	1,20,000	Furniture	22,000
Radha	40,000	Land and Building	32,000
General reserve	16,000		
	2,96,000		2,96,000

Balance Sheet as on 31 March 2018