

SAI TUTORIALS

Date:- 11.01.24
Time : 3 Hours]

[Total Marks : 80

Sub:- Secretarial Practice

- Note :** (i) All questions are compulsory.
(ii) Figures to the right indicate full marks for the questions.
(iii) Figures to the left indicate question numbers.
(iv) Answer to every question must start on a new page.

Q. 1. (A) Select the correct answer from the options given below and rewrite the sentences : (5) [20]

- (1)is related to money and money management.
(a) Production (b) Marketing (c) Finance
- (2) Secured debentures must be redeemed within from the date of its issue.
(a) 10 days (b) 10 years (c) 15 years
- (3) India has a depository system.
(a) sole (b) multi (c) single
- (4) Dividend is to be paid to the shareholders within from the date of declaration.
(a) 30 days (b) 40 days (c) 20 days
- (5) Accumulated dividend is paid to preference shares.
(a) redeemable (b) cumulative (c) convertible

(B) Match the pairs : (5)

Group 'A'	Group 'B'
(a) Investment in debentures	(1) Deals with acquisition and use of capital
(b) Financial market	(2) Must inform stock exchange about dividend declaration
(c) Price of shares mentioned in prospectus	(3) Trading of financial securities
(d) Corporate finance	(4) Safe and secured investment
(e) Listed company	(5) Must inform government about dividend declaration
	(6) Fixed price issue method
	(7) Risky investment
	(8) Trading of commodities
	(9) Deals with acquisition and use of assets
	(10) Book-Building Method

(C) State whether the following statements are True or False : (5)

- (1) Dividend can be paid out of capital.

- (2) Deposit can be accepted for a maximum of 6 months.
- (3) Depository bank stores the shares on behalf of GDR holder.
- (4) Securities market is an unorganised market place in India.
- (5) Bonus shares are fully paid-up shares.

(D) Correct the underlined word and rewrite the following sentences : (5)

- (1) Depositors are owners of the company.
- (2) Retained earnings is an external source of finance.
- (3) To rate its debentures, a company appoints underwriters.
- (4) Companies sell fresh shares for the first time to the public in secondary market.
- (5) Preference shareholders get dividend from residual profits.

Q. 2. Explain the following terms/concepts : (Any FOUR) (8)

- (1) Production Cycle
- (2) Overdraft
- (3) Employee Stock Purchase Scheme (ESPS)
- (4) Depository Participant (DP)
- (5) Rate of Dividend
- (6) Rights Issue

Q. 3. Study the following cases/situations and express your opinion : (Any TWO) (6)

(1) Sunflower limited company proposes to issue debentures to the public to raise funds. After discussions, the Board of Directors have decided to issue secured, redeemable, non-convertible debentures with a tenure of ten years.

Please advise the Board on the following matters :

- (a) Should the company appoint Debenture Trustee?
- (b) Should the company create a charge on its assets?
- (c) Can the tenure of debentures be less than ten years?

(2) ABC Company Ltd. is an eligible public company as per the Companies Act, 2013, with reference to accepting public deposits :

- (a) Can the company accept deposits in joint names?
- (b) Can the company accept deposits from its members?
- (c) Can the company accept secured deposits?

(3) Joy Ltd. Company is a newly incorporated company. It wants to raise capital for the first time by issuing equity shares :

- (a) Should it go to primary market or secondary market to issue its shares?
- (b) Should it offer its shares through public offer or rights issue?
- (c) What will be the issue of equity shares by Joy Ltd. Co. called as, – IPO or FPO?

Q. 4. Distinguish between the following : (Any THREE) (12)

- (1) Fixed Capital and Working Capital
- (2) Transfer of Shares and Transmission of Shares
- (3) Dematerialisation and Rematerialisation
- (4) Primary Market and Secondary Market

Q. 5. Answer in brief : (Any TWO) (8)

- (1) State the features of bond.
- (2) Explain any four advantages of depository system to investors.
- (3) Explain the features of interest.

Q. 6. Justify the following statements : (Any TWO) (8)

- (1) The Board of Directors can refuse transfer of shares.
- (2) The Securities and Exchange Board of India (SEBI) is the regulator for the securities market in India.
- (3) Unpaid dividend cannot be used by the company.
- (4) A company can issue duplicate share certificate.

Q. 7. Attempt the following : (Any TWO) (10)

- (1) Write a letter to the member informing him about the payment of interim dividend electronically.
- (2) Write a letter to the debentureholder informing him about the payment of interest through interest warrant.
- (3) Draft a letter of thanks to the depositor of a company.

Q. 8. Answer the following questions : (Any ONE) (8)

- (1) What is Preference Shares? Explain its types.
 - (2) Explain the provisions of Companies Act, 2013 for issue of debentures.
-

Q. 1. (A)

- (1) Finance
- (2) 10 years
- (3) multi
- (4) 30 days
- (5) Cumulative

Q. 1. (B)

- (a) Investment in debenture – Safe and secured investment
- (b) Financial market – Trading of financial securities
- (c) Price of shares mentioned in prospectus – Fixed price issue method
- (d) Corporate finance – Deals with acquisition and use of capital
- (e) Listed company – Must inform stock exchange about dividend declaration

Q. 1. (C)

- (1) False
- (2) False
- (3) True
- (4) False
- (5) True

Q. 1. (D)

- (1) Depositors are creditors of the company.
- (2) Retained earnings is an internal source of finance.
- (3) To rate its debentures, a company appoints credit rating agency.
- (4) Companies sell fresh shares for the first time to the public in primary market.
- (5) Equity shareholders get dividend from residual profits.

Q. 2. (1) Production Cycle :

- (a) Production cycle comprises of all activities related to the transformation of raw materials into finished goods. In other words, it refers to the process of conversion of raw materials into finished or consumable products. This production cycle has several distinct components, involving the design of products, their incorporation into a production schedule, manufacturing activities and a cost accounting feedback loop. These four areas are mostly managed and controlled by different departments like engineering, materials management, production and accounting departments, respectively.
- (b) The need and requirements of working capital depend upon the period of production cycle. If the production cycle period is longer, the firm requires more amount of working capital and vice versa.

(2) Overdraft :

- (a) Overdraft is an arrangement made between company having current account with the bank. It is an arrangement made with the bank wherein a company is allowed to overdraw i.e. withdraw money in excess of available balance, up to a certain credit limit sanctioned by the bank. Within this predetermined limit, any number of withdrawals are allowed. Repayment may be made as and when cash is deposited during the time period.
- (b) Overdraft is a kind of temporary loan on which the bank charges interest on the actual amount overdrawn. The overdraft facility is extended on the basis of collateral security of goods or sometimes even on the personal assets of the customer.

(3) Employee Stock Purchase Scheme (ESPS) :

- (a) Employee Stock Purchase Scheme (ESPS) is one of the important methods of offering shares to the existing employees. Under this scheme, the company offers certain equity shares to its existing employees at a discounted price which they can buy at a future date. The company deducts certain amount from the salary of the employees towards the payment for the shares.
- (b) Under this scheme, different number of shares can be offered to different categories of employees. Shares issued through ESPS should be immediately listed. ESPS shares will have a minimum of one year lock-in period from date of allotment. Company has to fulfill the provisions of SEBI (Shares Based Employee Benefits) Regulations, 2014. Company also has to get the approval of the shareholders through a Special Resolution to offer ESPS.

(4) Depository Participant (DP) :

- (a) The financial intermediary which provides depository services is called Depository Participant (DP). It is an agent of depository. It is required to be registered under SEBI Act, 1992. It avails rights and carries out obligations as mentioned under SEBI (Depository and Participants) Regulations of 1996. It acts as a connecting link between depository and the investor. It directly deals with investors (customers) and sends statement of accounts at regular intervals to the investors. It works like a securities bank and helps in dematerialisation of securities.
- (b) Depository Participant credits Demat (Securities) Account for purchase, Rights shares, receipt of Bonus shares, etc., handles instant transfers of payouts like interest, dividend, etc. It settles the transactions electronically. The following entities can work as DPs : Financial institutions, banks, approved foreign banks, custodians responsible for overseeing operations of assets/fund, stock brokers, clearing corporation, Non Banking Financial Company (NBFC), registrar to an issue or share transfer agents, etc. DP prepares and maintains

account of securities of each investor. Every DP has its own unique number for identification.

(5) Rate of Dividend :

- (a) Rate of Dividend expressed as a percentage or yield, is a financial ratio that shows how much a company pays out in dividend each year relative to its stock price. The companies which generate healthy profits often pay out dividends at higher rate.
- (b) The Board of Directors in the Board Meeting decide the rate of dividend and amount of dividend to be paid. The rate of final dividend is approved by the shareholders by passing an Ordinary Resolution at the Annual General Meeting. The shareholders may reduce the rate of dividend recommended by the Board of Directors but cannot increase the rate of dividend. Preference shareholders are entitled to receive dividend at fixed and pre-determined rate. However, equity shareholders get dividend at fluctuating rate.

(6) Rights issue :

- (a) Rights issue means offering of shares by the company to all its existing equity shareholders in the proportion to their existing shareholding in the company. When the company wants to raise further capital to fulfill its financial needs, it can issue shares to its existing equity shareholders in proportion to their existing shareholding before they are issued to public. Such an issue of shares is called Rights Issue of Shares.
- (b) Rights shares are sold to the existing shareholders at a price which is lesser than its market price. If a shareholder does not respond to the rights issue offer within the stipulated time, it is implied that he is not interested in the offer and the company can offer the unsold shares to new investors.

Q. 3. (1)

- (a) Yes. Sunflower Limited Company should appoint debenture trustee, as it is mandatory to appoint trustee as and when company decides to issue secured debentures.
 - (b) All secured debentures are to be secured by creating charge over assets and therefore, company should create charge over assets.
 - (c) Yes. The tenure of debentures can be less than 10 years, but not advisable as debenture capital is a long-term borrowed capital.
- (2)**
- (a) Yes. ABC Company Ltd. can accept the deposits in joint names, but there should not be more than three names.
 - (b) Yes. ABC Company Ltd. is an eligible public company as per the Companies Act, 2013 and thus, authorised to accept deposits from its members.

- (c) Yes. ABC Company Ltd. can issue (accept) secured deposits by creating charge over its tangible assets and by appointing deposit trustees for the same.
- (3) (a) Joy Ltd. Company should go to primary market to issue its shares first time to investors/public.
- (b) Joy Ltd. Company should offer its shares through public offer to raise capital for the first time.
- (c) The issue of equity shares by Joy Ltd. Company is called as Initial Public Offer (IPO).

Q. 4. (1) Fixed Capital and Working Capital :

Fixed Capital	Working Capital
1. Meaning	
Fixed capital refers to that portion of total capital which is invested in fixed assets such as land, building, equipment, etc.	Working capital refers to the firm's investments in short-term assets viz. cash, short-term securities, account receivable and payable as well as inventories, etc.
2. Nature	
Fixed capital remains in the business for a long period of time i.e. for more than one year.	Working capital remains in the business for a short period of time and circulates into the business.
3. Purpose	
It is not used to produce goods and services.	It is used to produce goods and services.
4. Sources	
Fixed capital is funded through different sources such as issue of shares, debentures, bonds and borrowing long-term loans from financial institutions.	Working capital is funded from different sources such as borrowing short-term loans, accepting public deposits, trade credit, etc.
5. Objectives	
Investors invest the funds in fixed capital to earn future profits.	Investors invest their funds in working capital to get immediate returns.
6. Risks involved	
Investments made in fixed capital is more risky.	Investments made in working capital is comparatively less risky.

(2) Transfer of Shares and Transmission of Shares :

Transfer of Shares	Transmission of Shares
1. Meaning	
The passing of shares voluntarily or deliberately by one shareholder to another person by entering into a contract with the buyer is called transfer of shares.	The passing of ownership of a member's shares to his legal representative due to operation of law i.e. on death, insolvency or insanity of the member is called transmission of shares.
2. When Done?	
Transfer of shares takes place when the member wants to sell his shares or give his shares as gift to other person.	Transmission of shares takes place when the member dies or becomes insolvent or insane.
3. Nature of Action	
Transfer of shares is a voluntary or deliberate action initiated by the member.	Transmission of shares is an involuntary action. It is due to operation of law i.e. death, insanity or insolvency of the member.
4. Parties Involved	
In transfer of shares, two parties are involved viz. the shareholder who is called as transferor and the buyer who is called transferee.	In transmission of shares, only one party gets involved i.e. the nominee of the member in case of death of the member or the legal representative in the case of insanity or insolvency.
5. Instrument of Transfer	
For transfer of shares, instrument of transfer is required. It is a contract between the transferor and transferee.	No instrument of transfer is required for transmission of shares.
6. Initiated by	
The transferor i.e. the member initiates the process of transfer.	Legal representative or official receiver or nominee of the concerned member initiates the process of transmission.

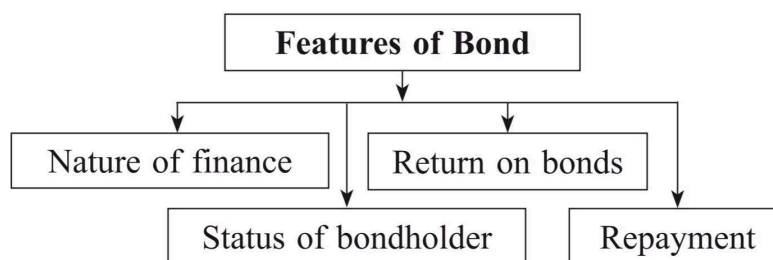
(3) Dematerialisation and Rematerialisation :

Dematerialisation	Rematerialisation
1. Meaning	
The process in which shares and securities in the physical form are converted into an electronic form is called dematerialisation.	The process in which shares and securities in an electronic form are converted into physical form is called rematerialisation.
2. Conversion	
Shares or securities are converted from original physical form into an electronic/digital form.	Shares or securities are converted from an electronic form again into physical form.
3. Use of form	
For dematerialisation of securities, Dematerialisation Request Form (DRF) is used by the investors and submitted to DP.	For rematerialisation of securities, Rematerialisation Request Form (RRF) is used by the investors and submitted to DP.
4. Sequence	
Dematerialisation is an initial process. It is primary and main function of depository. Original securities are dematerialised.	Rematerialisation is a reverse process. This is a secondary and supporting function of depository. Already dematerialised securities are rematerialised.
5. Identification of securities	
Demated securities do not have distinctive numbers for identification. They are fungible i.e. interchangeable.	Remated securities are in the form of Physical certificate. These securities are given distinctive numbers by the issuer company for their identification.
6. Securities maintenance authority	
The depository is the custodian and record keeping authority of the dematerialised securities.	The issuer company is the record keeping authority of rematerialised securities. Investor is the custodian of rematerialised securities.

(4) Primary Market and Secondary Market :

Primary Market	Secondary Market
1. Meaning	
A security market in which new issues of securities i.e., new shares and debentures are arranged and organised is called primary market.	A security market in which existing securities are purchased and sold repeatedly is called secondary market.
2. Mode of investment	
In the primary market, direct investment is made. Securities are obtained directly from the issuer company.	In the secondary market, indirect investment is made. Securities are obtained from other stakeholders.
3. Parties in action	
Two parties involved in the primary market are (i) company and (ii) investors.	Parties involved in the secondary market are only investors.
4. Intermediary	
In the primary market, underwriters act as intermediaries.	In the secondary market, brokers act as intermediaries.
5. Value of security	
In the primary market, the price of the security is fixed as it is determined by the company.	In the secondary market, the price of the security is fluctuating as it is determined by the changing forces of demand and supply of security in the market.

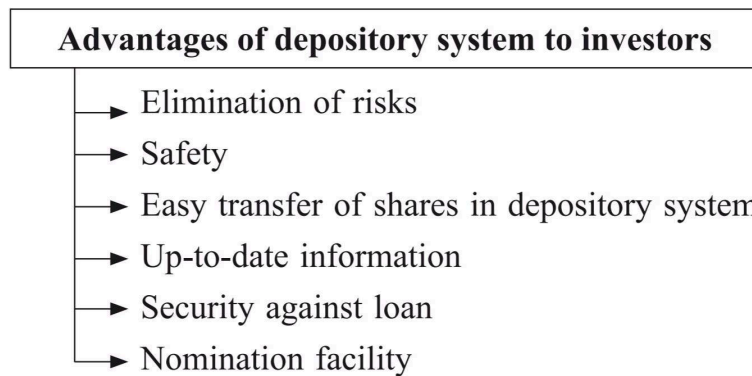
Q. 5. (1) The features of bond are shown in the following chart :



The features of bond are explained as under :

- (a) **Nature of finance:** Bond is a debt security. It is a debt or loan finance. The bondholders provide long-term finance to the company. Usually, company issues bonds for longer periods such as 5 years, 10 years, 25 years, 50 years, etc.
- (b) **Status of bondholder :** Bondholder is a lender of the company. Hence, bondholders are creditors of the company. The bondholders are not the owners of the company. So, they cannot attend and participate in the general body meetings of the company. They do not have voting right and hence, they cannot participate in the management of the company.

- (c) **Return on bonds** : The bondholders are entitled to receive return on their investment in the form of interest at fixed rate. Interest on the bonds may be either paid at regular interval or on the maturity date along with principal amount.
- (d) **Repayment** : All bonds have maturity date. On maturity date, the repayment of principal amount along with interest (if not paid) is made by the company to the bondholder.
- (2) The advantages of depository system to investors are shown in the following chart :

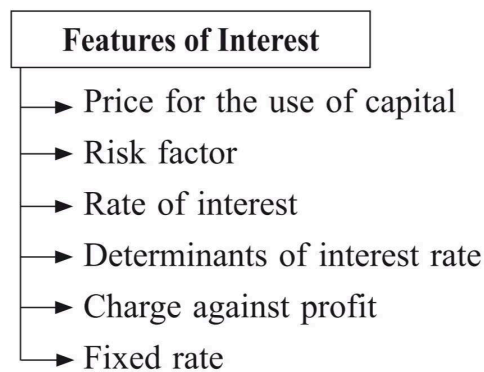


The advantages of depository system to investors are explained as follows :

- (a) **Elimination of risks** : The depository system totally eliminates all the risks connected with physical certificates such as the risks of bad deliveries, misplacement, loss, theft, mutilation, forgery, delays, etc.
- (b) **Safety** : In this system, the depository is the custodian of securities in electronic form. It is the most safe and secured mode of holding securities. The complete system works as per the provisions made under the Depository Act, 1996. It is supervised by the Securities and Exchange Board of India (SEBI). In order to prevent (avoid) unexpected debit or credit or both, the investor, by giving instructions to Depository Participant (DP) can turn demat account to “freeze or lock” mode.
- (c) **Easy transfer of shares in depository system** :
- Physical or mental exertion (efforts) in filling transfer forms and depositing the documents are avoided.
 - The stamp duty payable on transfer of physical securities (shares) is not applicable. Such payment is saved.
 - Processing time required in transfer of securities is minimised. Neither the securities nor is the cash tied up for long time.
- (d) **Up-to-date information** : Up-to-date information in respect to the status of holdings and transactions is provided to the investors by the DP and sometimes by depository.
- (e) **Security against loan** : The banks and other financial institutions prefer to give loans and advances on the security of dematerialised shares and other securities.

(f) **Nomination facility** : Individual investors can take benefits of nomination facility. Investors can declare their nominees by informing their names to their Depository Participant (DP). This makes the process of transmission easier after the death of the investor.

(3) The features of interest are shown in the following chart :



The features of interest are explained as follows :

- (a) **Price for the use of capital** : Interest is the reward or price paid for the productive services provided by the capital.
- (b) **Risk factor** : There is direct relation between the risk and interest. If risk undertaken is higher, its reward in the form of interest will also be higher. Conversely, lower the risk, less will be interest.
- (c) **Rate of interest** : The rate of interest is always mentioned in percentage, on the amount of principal. Interest is always expressed as certain percentage per annum on principal, e.g. interest @ 10% per annum on ₹ 1,00,000 is ₹ 10,000.
- (d) **Determinants of interest rate** : The rate of interest is fixed or determined by certain factors such as money supply in the economy, fiscal policy adopted by the government, volume of lending and borrowing, rate of inflation, etc.
- (e) **Charge against profit** : The payment of interest is a fixed charge against the profit. It is not linked to profit. The company is required to pay interest, even if there is no profit or insufficient profit.
- (f) **Fixed rate** : Usually, the rate of interest is fixed and pre-determined, at the time of borrowing or issue of securities. It is payable at a fixed rate at regular interval of time.

Q. 6. (1) The Board of Directors is empowered by provisions made in the Articles of Association to refuse registering transfer of shares on the following grounds :

- (i) When the provisions for transfer of shares as given in the Articles of Association is not fulfilled by the member.
- (ii) When a company has a claim or lien on the shares, to recover any amount payable by the shareholder to the company.
- (iii) When the instrument of transfer is not accompanied by the share certificate.
- (iv) When the instrument of transfer is incomplete or not properly filled in.

- (v) When instrument of transfer is not according to the rules prescribed under the Companies Act.
- (2) (a) The Securities and Exchange Board of India (SEBI) was established by the Government of India in the year 1992 to regulate and promote the activities of stock exchanges in India.
- (b) In order to regulate and promote the stock exchanges, SEBI performs the following functions :
- (i) regulates the business in stock exchanges.
 - (ii) registers and regulates working of intermediaries.
 - (iii) promotes and regulates self-regulatory organisations.
 - (iv) prohibits fraudulent and unfair trade practices.
 - (v) promotes investors' education and training.
 - (vi) prohibits insider trading in securities.
- (c) SEBI has been given wide powers to regulate the activities of stock exchanges. These powers are :
- (i) power to direct the stock exchange to maintain the documents and records.
 - (ii) power to direct stock exchange to give information and explanation.
 - (iii) power to approve and amend bye laws of stock exchange.
- (d) All transactions in the stock exchanges are regulated and effected by the Securities Contracts (Regulation) Act, 1956. The stock exchanges protect investors' rights and interests through the strict enforcement of their rules and regulations.
- (3) (a) The dividend which has not been paid to the shareholders or claimed by the shareholders is called unpaid/unclaimed dividend. The company is required to transfer the amount of unpaid or unclaimed dividend to a separate account called Unpaid Dividend Account in any scheduled bank within 7 days, after the expiry of 30 days of declaration of dividend. It means this transfer should take place within 37 days from the date of declaration of dividend.
- (b) The company has to post on its website or any other website as suggested and approved by the Central Government, a statement which specifies names, last known addresses and unpaid amount due for payment to each shareholder, within 90 days of transfer of amount to Unpaid Dividend Account.
- (c) If the amount of unpaid dividend remains in the Unpaid Dividend Account for 7 years from the date of transfer to this account, a company is required to transfer such amount to "Investors' Education and Protection Fund" (IEPF).
- (d) Any person entitled to any amount transferred to IEPF is required to make an application for refund to the authority or committee appointed by the Central Government. Thus, unpaid/unclaimed dividend amount cannot be used or appropriated by the company.

- (4) (a) If the original share certificate is lost, mutilated, defaced, or torn and is surrendered to the company, the company can issue duplicate share certificate, if applied by the shareholder. The holder has to prove that share certificate is lost or destroyed.
- (b) In case of loss of share certificate, the company is required to give notice in the newspapers to declare about loss of share certificate and the finder, if any is asked to return it to the company. If no response is received from the public within the specified time limit, the company is allowed to issue a duplicate share certificate.
- (c) The company is required to issue duplicate share certificate within 3 months from the date of application received from its holder. The company issues duplicate share certificate only to the registered shareholders. The words “Duplicate Share Certificate” should be printed in bold letters on the duplicate share certificate to understand that it is duplicate share certificate.
- (d) If the company issues duplicate share certificate with prime motive to defraud, it has to pay heavy penalty.

Q. 7. (1) A letter to the member informing him about the payment of interim dividend electronically :

TRISTAR TECH LIMITED

Registered Office: UG 50, Avior Complex,
L.D. Road, Main City, Hyderabad – 500 001
CIN : L08765 AP 1679 PLC300487

Phone : 040-59706549

Website : www.tristar.com

Fax : 040-59705345

E-mail : tristar@gmail.com

Ref. No. G/AP-D/212/23-24

Date : 20th June, 2023

Mrs. Mira Mehta
15, Vasant Villa,
Pokhran Road,
Thane – 400 601.

**Sub. : Payment of Interim Dividend through Electronic
Clearing Service (ECS), Direct Credit / NEFT**

Dear Madam,

It is with great pleasure that I am directed to inform you that the meeting of Board of Directors of Tristar Tech Limited held on Thursday, 15th June 2023 has decided and declared Interim Dividend @ ₹ 1.5 (i.e. 15%) per equity share of face value of ₹ 10 each.

As per the instructions given by you through your Depository Participant, we have transferred the amount of above stated Interim Dividend to your Banker for crediting your Bank Account, i.e. Dividend will be payable by electronic transfer. Your company has completed all the formalities as per the provisions relating to declaration and payment of dividend.

The details of dividend payable to you are given below :

1	2	3	4	5	6
No. of Equity Shares held on Record Date (June 17th, 2023)	Dividend per Share (₹)	Dividend Amount (₹)	DPID and Client ID No.	Date of Remittance	Bank Account (BOI)
200	₹ 1.5	₹ 300	IN 347601 42296590	20th June, 2023	636377899753 Bank of India

You are requested to check the credit of the amount in your Pass book or statement of accounts.

In accordance with the provisions of the Income Tax Act, 1961 the company has not deducted any tax at source in respect of dividend payment. However, dividend distribution tax is paid by the company.

Thanking you,

Yours faithfully,
For Tristar Tech Limited

Sign.
(Mr. Santosh Deshpande)
Company Secretary

(2) A letter to the debentureholder informing him about the payment of interest through interest warrant :

HARI OM FILMS LIMITED

Registered Office : Delta Tower, India Technology Park,
M.G. Road, Bengaluru – 560 002.
CIN : U54433 KT 2001 PLC094351

Phone : 080-44689912
Fax : 080-44686644
Ref. R/DH/07/23-24

Website : www.hariomfilms.com
E-mail : hariomfilms@gmail.com
Date : 19th July, 2023

Mrs. Devki Rana
Onyx Apartment,
V. P. Road, Sion,
Mumbai – 400 022.

Sub. : Payment of interest on debentures

Dear Madam,

I am directed to inform you that the Board of Directors, in their Board Meeting held on 17th July, 2023 has decided and passed a resolution in respect to payment of interest on your 300, 10% Non-convertible debentures of ₹ 100 each.

The details of payment of interest payable to you are as follows :

1	2	3		4	5	6	7
Folio No.	No. of Debentures	Distinctive Numbers		Gross Amt. of Interest (₹)	T. D. S. (10% On Interest)	Net Amt. of Interest (₹)	Interest Warrant No.
		From	To				
K 6240	300	11401	11700	₹ 3,000	NIL	₹ 3,000	IW 533

Please find the interest warrant attached herewith. Please detach the Interest Warrant along the perforated line.

Thanking you,

Yours faithfully,
For Hari Om Films Limited

Sign.
(Mrs. Simran Patil)
Company Secretary

Encl. : Interest Warrant

(3) A letter of thanks to the depositor of a company :

PENTA COOLERS LIMITED

Registered Office : 24 / 2, Suraj Complex, J. D. Road, Worli – 400 018.

CIN : L36842 MH 2002 PLC078674

Phone : 022-35673240

Website : www.pentacoolers.com

Fax : 022-35670923

E-mail : pentacoolers@gmail.com

Ref. No. T/DEP/32/23-24

Date : 7th May, 2023

Mr. Sharad Jadhav

78/68, Gunjan Enclave,

City Campus,

Thane – 400 604.

Sub. : Thanking Depositor for Fixed Deposit

Dear Sir,

We are immensely pleased to inform you that we have received an application from you dated 4th May, 2023 for investment of ₹ 2,00,000 in the fixed deposit, for a period of 3 years, as per the terms and conditions stated in the advertisement. We are thankful to you for the trust you have shown in our company and initiating a deposit of a substantial sum with us.

The details of deposit accepted from you are shown in the following schedule :

1	2	3	4	5	
Fixed Deposit Receipt No.	Amount of Deposit	Period of Deposit	Rate of Interest	Bank Details	
				Name of the Bank	Bank Account No.
C9032	₹ 2,00,000	3 years	8.5%	Bank of India	7454749

The Board of Directors is once again grateful to you for reposing confidence and showing interest in our company.

The company assures you best services in the future and also expects cooperation from your side.

Please find the Fixed Deposit Receipt enclosed herewith. Kindly acknowledge the same.

Thanking you,

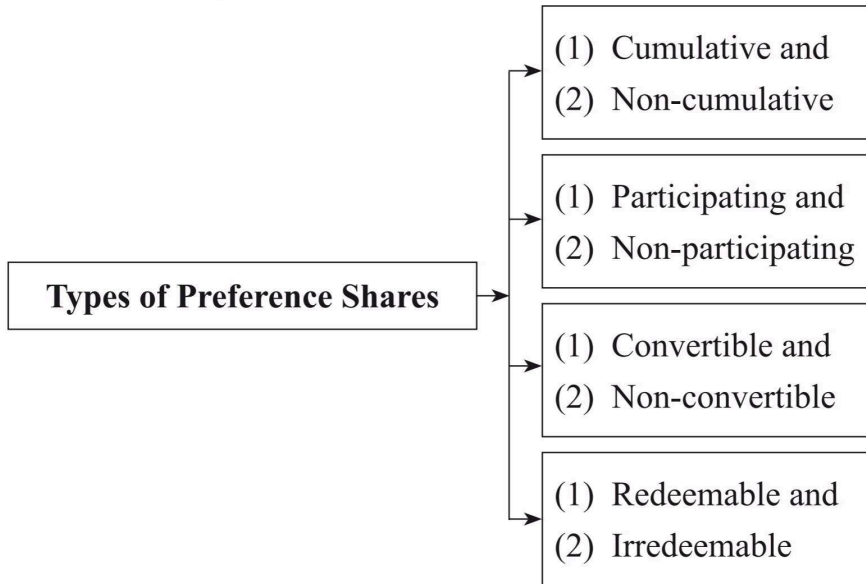
Yours faithfully,
For Penta Coolers Ltd.
Sign.
(Mr. Nayan Kashyap)
Company Secretary

Encl. : Fixed Deposit Receipt No. C9032

Q. 8. (1)

[A] Meaning : The preference shares are those shares which carry certain preferential rights distinct from the rights of equity shareholders. Preference shareholders are paid dividend before it is paid to the equity shareholders. Similarly, in the case of the winding-up of the company, preference share capital is refunded first.

[B] Types of Preference Shares : The different types of preference shares are shown in the following chart :



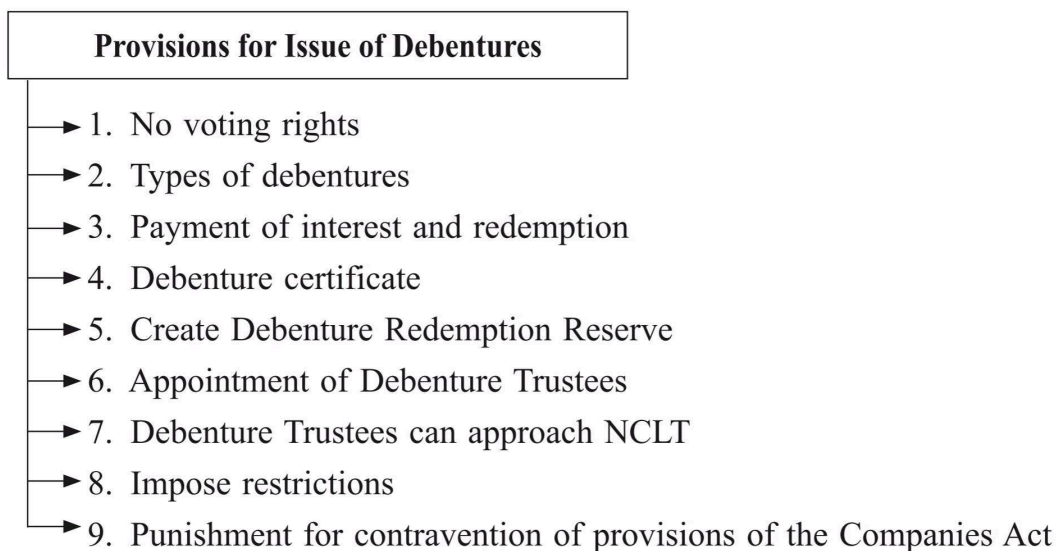
The different types of preference shares are explained as follows :

- (1) Cumulative Preference Shares :** Cumulative preference shares are those shares which have the right to claim a fixed dividend of the current year (if not paid) out of future profits. The dividend goes on accumulating unless paid. If the company is unable to earn sufficient profits in any year, the unpaid dividend shall be paid from the profit of the subsequent years. The accumulated arrears of dividend become payable before payment of dividend on equity shares. Preference shares are always cumulative unless otherwise stated in the Articles of Association.
- (2) Non-cumulative Preference Shares :** Non-cumulative preference shares are those shares in which shareholders get dividend only when the company earns profit in that particular year. Dividend, if not paid by the company in any year due to inadequate profit or loss, it does not accumulate. In such case, right to claim dividend lapses.
- (3) Participating Preference Shares :** Participating preference shareholders have the normal right to get fixed dividend and have the additional right to participate (receive additional amount) in the surplus profits left after paying dividend to equity shareholders up to a certain limit.
- (4) Non-participating Preference Shares :** Non-participating preference shareholders are entitled to get only dividend at fixed rate prescribed at the

time of issue. If the Articles of Association has no clear provisions then it is implied that the preference shares are non-participating.

- (5) **Convertible Preference Shares** : Convertible preference shares are those preference shares in which holders have a right to convert their preference shares into equity shares. The conversion may take place within a certain fixed period.
- (6) **Non-convertible Preference Shares** : Preference shares which cannot be converted into equity shares are called non-convertible preference shares.
- (7) **Redeemable Preference Shares** : Preference shares which are redeemed after specific or certain fixed period of time are called redeemable preference shares. A company limited by shares, if authorised by the Articles of Association, can issue redeemable preference shares. Such shares must be fully paid. They are redeemed either out of distributable (divisible) profit or out of fresh issue of shares made specifically for redemption of preference shares.
- (8) **Irredeemable Preference Shares** : Irredeemable preference shares cannot be paid back during the existence of the company. They are paid back only in the event of winding-up of the company. However, as per Section 55 (1) of the Companies Act, 2013, the issue of irredeemable preference shares is not permitted.

(2) The provisions for issue of debentures as per Companies Act, 2013 are shown in the following chart :



Following are some of the provisions of the Companies Act, 2013 which a company has to comply while issuing debentures :

- (1) **No voting rights** : A company cannot issue debentures with voting rights. Debentureholders are the creditors of the company and so, they do not have any voting right except on the matters which can affect their interests.

- (2) **Types of debentures** : A company can issue secured or unsecured debentures and fully or partly convertible debentures or non-convertible debentures. For issuing convertible debentures, a Special Resolution must be passed in the annual general meeting of the shareholders. All debentures are redeemable.
 - (3) **Payment of interest and redemption** : As per the terms and conditions of the issue, company is required to redeem the debentures and pay interest.
 - (4) **Debenture certificate** : Debentureholder shall get the debenture certificate within 6 months of allotment of debentures.
 - (5) **Create Debenture Redemption Reserve** : Debenture Redemption Reserve Account has to be created out of profits of the company available for payment of dividend. As per the Companies (Share Capital and Debentures) Amendment Rules, 2019, MCA has removed this requirement for listed companies, NBFCs and Housing Finance Companies. This money has to be used only for redemption of debentures.
 - (6) **Appointment of Debenture Trustees** : If company issues prospectus or invites more than 500 people to purchase debentures, company has to appoint one or more Debenture Trustees to protect the interest of debentureholders. Company can appoint trustees by entering into a contract with them called as Debenture Trust Deed.
 - (7) **Debenture Trustees can approach NCLT** : Debenture Trustees are required to redress the complaints of debentureholders. If the company commits default in making payment of debentures, Trustees can approach the NCLT (National Company Law Tribunal), who can give order to a defaulting company to repay the principal amount or interest.
 - (8) **Impose restrictions** : When debenture Trustees came to the conclusion that the assets of company are insufficient to redeem the amount of debentures, they may approach NCLT. NCLT orders a company to restrict incurring further liabilities, so as to safeguard the interest of the debentureholders.
 - (9) **Punishment for contravention of provisions of the Companies Act** : Company and its officers are liable to pay fine or imprisonment or both, as specified in the Act, if the company fails to comply with any provisions of the Companies Act.
-

BOARD'S QUESTION PAPER (JULY 2022)

Time : 3 Hours]

[Total Marks : 80

- Note :*
- (i) All questions are compulsory.
 - (ii) Figures to the right indicate full marks for the questions.
 - (iii) Figures to the left indicate question numbers.
 - (iv) Answer to every question must start on a new page.

Q. 1. (A) Select the proper option from the options given below and rewrite the sentences : (5) [20]

- (1) refers to any kind of fixed assets.
(a) *Authorised capital* (b) *Issued capital* (c) *Fixed capital*
- (2) The holder of bond is of the company.
(a) *secretary* (b) *owner* (c) *creditor*
- (3) protects the interest of debentureholders.
(a) *Debenture trustees*
(b) *Debentureholders*
(c) *Redemption reserve*
- (4) Dividend is recommended by
(a) *Board of Directors* (b) *shareholders* (c) *depositors*
- (5) Money market is a market for lending and borrowing of funds for term.
(a) *short* (b) *medium* (c) *long*

(B) Write a word / term / phrase which can be substituted for each of the following statements : (5)

- (1) The value of share which is written on the share certificate.
- (2) Highest bid price in Book Building Method.
- (3) Company which can accept deposits from public up to 35% of its paid-up share capital and free reserves.
- (4) The shareholders who get dividend at a fluctuating rate.
- (5) The first stock exchange in India to be recognised under the Securities Contracts Regulation Act.

(C) State whether the following statements are True or False : (5)

- (1) Fixed capital is also referred as circulating capital.
- (2) Sweat equity shares are offered to directors or employees of a company.
- (3) Payment of interest on debentures does not depend on the profits of the company.
- (4) IEPF is the fund created by company.
- (5) A stock exchange is a reliable barometer to measure the economic condition of a country.

(D) Select the correct option from the bracket : (5)

(Retained earnings, Funds for long term, Charge on assets, At annual general meeting, Creditor of the company)

Group 'A'	Group 'B'
(a) Secured debentures	(1)
(b)	(2) Accumulated corporate profit
(c) Depositor	(3)
(d)	(4) Final dividend
(e)	(5) Capital market

Q. 2. Explain the following terms / concepts : (Any FOUR) (8)

- (1) Financial Market
- (2) Final Dividend
- (3) Deposit Receipt
- (4) Employee Stock Option Scheme
- (5) Owned Capital
- (6) Working Capital

Q. 3. Study the following cases/situations and express your opinion : (Any TWO) (6)

(1) Gold Ltd. Company has recently come out with its public offer through FPO. Their issue was oversubscribed. The Board of Directors now wants to start the allotment process :

- (a) Is Gold Ltd. Company a listed company?
- (b) How should the company inform the applicants to whom the company is allotting shares?
- (c) Within what period should the company issue share certificate?

(2) GCC financial plans to raise ₹ 10 crores by issuing secured, non-convertible debentures. However, as per the Articles of Association, the Board of Directors has authority only to raise up to ₹ 5 crores. They are also considering whether to go for private placement or make public offer.

Please advise them on the following :

- (a) What can be the maximum tenure of the debentures to be issued?
- (b) Is the proposed issue within the borrowing powers of the Board?
- (c) Within what period should the company issue debenture certificate?

(3) Mr. S holds 50 equity shares of Peculiar Company Ltd. in Demat form. The company has issued bonus shares in the ratio of 1 : 1 to its shareholders.

- (a) Will Mr. S get bonus shares in physical or Demat form?
- (b) Who is entitled to bonus shares : Mr. S or the Depository (NSDL)?
- (c) Will holding shares in Demat form result in quick transfer of these shares?

Q. 4. Distinguish between the following : (Any THREE) (12)

- (1) Rights shares and Bonus shares
- (2) Dividend and Interest
- (3) Transfer of shares and Transmission of shares
- (4) Primary Market and Secondary Market

Q. 5. Answer in brief : (Any TWO) (8)

- (1) State the provisions for rights issue.
- (2) State any four factors affecting fixed capital requirement.
- (3) Explain four advantages of depository system to the company.

Q. 6. Justify the following statements : (Any TWO) (8)

- (1) Depository provides easy and quicker transfer of shares.
- (2) Stock exchanges work for the growth of the Indian economy.
- (3) Interest is a liability/obligation of the company.
- (4) Equity share capital is risk capital.

Q. 7. Attempt the following : (Any TWO) (10)

- (1) Write a letter to the member for the issue of share certificate.
- (2) Draft a letter of allotment to debentureholder.
- (3) Draft a letter to depositor informing him about payment of interest through Interest Warrant.

Q. 8. Attempt the following question : (Any ONE) (8)

- (1) What is an Equity Share? Explain its features.
- (2) Explain the procedure for issue of debentures.

Q. 1. (A)

- (1) Fixed capital
- (2) creditor
- (3) Debenture trustees
- (4) Board of Directors
- (5) short

Q. 1. (B)

- (1) Face value
- (2) Cap price/Ceiling price
- (3) Government company
- (4) Equity shareholders
- (5) Bombay Stock Exchange (BSE)

Q. 1. (C)

- (1) False
- (2) True
- (3) True
- (4) False
- (5) True

Q. 1. (D)

- (a) Charge on assets
- (b) Retained earnings
- (c) Creditor of the company
- (d) At annual general meeting
- (e) Funds for long term.

Q. 2. (1) Financial Market :

- (a) A market where financial assets, i.e. financial instruments are exchanged or traded is called financial market. Financial market facilitates mobilisation of scattered savings and transformation of savings into investments. It serves as an intermediary between investors and borrowers. Financial instruments such as shares, bonds, debentures, derivatives, commercial papers, etc. are traded in financial market.
- (b) Financial market implies the market which collect funds for short-term via money market and the funds for long-term via capital market. It facilitates the transfer of real economic resources from the lenders to entrepreneurs, corporate

sectors, businessmen, etc. for productive uses. It allows fund provider to earn income in the form of dividend and interest on their surplus funds. It helps in capital formation in the economy.

(2) Final Dividend :

- (a) Dividend which is declared at the Annual General Meeting of the company is called Final Dividend. It is also known as Annual dividend. The final dividend is declared after the conclusion of the financial year and determination of net divisible profit in the Annual General Meeting. The rate of final dividend is recommended by the Board of Directors after considering the factors such as income tax to be paid, reserves to be created, total amount of divisible net profit, provision for depreciation, etc.
- (b) Final dividend is declared by the shareholders, by passing an Ordinary Resolution in the Annual General Meeting. The shareholders cannot increase the rate of dividend while approving final dividend. However, they can reduce the rate of dividend recommended by the Board of Directors. The final dividend must be paid within 30 days from the date of its declaration.

(3) Deposit Receipt :

- (a) The receipt which is issued by the company to the depositor as an evidence of acceptance of deposit is called Deposit Receipt. Company has to issue deposits receipts to the depositors within 21 days from the date of receipt of money or realisation of cheque.
- (b) The deposit receipt has to be signed by the officer duly authorised by the Board of Directors. It contains the name and address of the depositor, amount of deposit, rate of interest payable and date on which it is repayable.

(4) Employee Stock Option Scheme (ESOS) :

- (a) Under this scheme, permanent employees, Directors or officers of the company or its holding company or subsidiary company are offered the benefit or right to purchase the equity shares of the company at a future date, at a pre-determined price. The shares are offered at a price lesser than their market price.
- (b) Through this voluntary scheme, a company encourages its employees to participate in the management. ESOS is useful to those companies whose business activity in larger proportion depends upon the talents, skills and knowledge of employees.

(5) Owned Capital :

- (a) The finance or funds collected or raised by the company from its owners i.e. shareholders is called owned capital. It is also referred to as ownership capital. The owned capital consists of equity share capital, preference share capital, reserves and surplus. Retained earnings is an important form of owned capital.

- (b) Equity share capital is considered as permanent capital because it is refunded only at the time of liquidation of the company. Owned capital supplies initial source of capital for newly established company. Owned capital can also be raised later on to fulfill additional capital needs.

(6) Working Capital :

- (a) Working capital refers to business firm's investment in short-term assets such as cash, account receivable and payable, inventories, etc. According to **Gerstenbergh** "*the excess of current assets over current liabilities is termed as working capital*". (Net working capital/Circulating capital) In this respect, **J. S. Mill** says "*the sum of current assets is working capital of a business.*" (Gross Working Capital)
- (b) Working capital is used in the business firm to arrange and carry out day-to-day business activities. The business organisations or companies need working capital for smooth functioning of business activities, to maintain sufficient stock of raw materials and finished goods, to arrange for the funds till the amount of credit sale is collected from the debtors, to pay overheads, to meet unexpected expenses, etc.

Q. 3. (1)

- (a) Yes, Gold Ltd. Company is a listed company. This is because after IPO, Gold Ltd. Company became a listed company.
- (b) Gold Ltd. Company should instruct the secretary to send letter of allotment to the applicants to whom shares are allotted.
- (c) Gold Ltd. Company must issue share certificates to the shareholders within two months of allotment of shares.
- (2)** (a) Debentures can be issued for maximum tenure of 10 years.
- (b) No. The proposed issue is not within the borrowing powers of the Board since Articles of Association, permits only up to ₹ 5 crores.
- (c) Company should issue debenture certificate within 6 months of allotment of debentures.
- (3)** (a) Mr. S will get bonus shares in demat mode. His account will be automatically credited by the company with bonus shares.
- (b) In this case, Mr. S, the Beneficial Owner (BO) is entitled to dividend and bonus shares.
- (c) Holding shares in Demat form will result in quick transfer of shares, as processing time required in transfer of shares will be minimised and saved.

Q. 4. (1) Rights Shares and Bonus Shares :

Rights Shares	Bonus Shares
1. Meaning	
Rights issue refers to offering the shares to the existing equity shareholders to buy before they are offered to the public.	The shares which are issued to the existing equity shareholders free of cost, out of reserve funds or accumulated profits of the company are called Bonus Shares.
2. Payment	
Equity shareholders have to pay for the rights shares. Only right to buy these shares is given to the shareholders by the company.	Equity shareholders are not required to pay for bonus shares. They are issued by the company free of cost to the equity shareholders.
3. Partly/Fully Paid-up Shares	
Shareholders are required to pay for these shares as application money, allotment, call money, etc. till the full money on shares is paid-up.	Bonus shares are issued as fully paid-up shares. Hence, no money is required to be paid by the shareholders to the company.
4. Minimum Subscription	
Company has to collect minimum subscription. If the company fails to collect minimum subscription within a specified time, it has to refund the entire application money so received.	There is no question of minimum subscription to be collected because bonus shares are issued free of cost by the company.
5. Right to Renounce	
The rights shares can be given up by the equity shareholders.	The bonus shares cannot be given up by the equity shareholders.
6. Purpose of Issue	
When a company desires to raise additional funds and also wants to give opportunity to their existing members to increase their shareholding, the company issues rights shares.	When a company desires to reward its existing equity shareholders, company issues bonus shares from the accumulated huge profits and reserves.

(2) Dividend and Interest :

Dividend	Interest
1. Meaning	
The return in terms of money payable to the shareholders by their company for their investment in the share capital is called dividend.	The return in terms of money payable to the lenders (creditors) by the company such as deposit holders, debentureholders, banks or other financial institutions for the loan supplied by them to the company is called Interest.
2. Given to whom?	
Dividend is paid by the company to the shareholders (members), i.e. owners of the company.	Interest is paid by debtor to the creditor. In case of company, it is paid by the company to its creditors.
3. Obligation	
Dividend is directly linked to the profits. The company pays dividend only when it earns profits. There is no compulsion or obligation on the company to pay dividend.	Interest is not linked or related to the profits of the company. The company is under obligation to pay interest on the borrowed funds. Interest must be paid compulsorily.
4. When payable?	
The company pays dividend when a company earns adequate profit in a year after paying all the expenses due.	Interest is required to be paid by the debtor or company every year whether it earns incomes/profit or not.
5. Rate	
Except preference shares, dividend is paid to the equity shareholders at a fluctuating rate. This is because dividend is linked to the profits of the company.	Rate of interest is fixed and determined at the time of borrowing or issue of debt securities.
6. Resolution	
For declaration and payment of final dividend, Board Resolution as well as Ordinary Resolution at Annual General Meeting are necessary and for interim dividend, only Board Resolution is required.	For payment of interest, no resolution is required to be passed in any meeting of the company.

(3) Transfer of Shares and Transmission of Shares :

Transfer of Shares	Transmission of Shares
1. Meaning	
The passing of shares voluntarily or deliberately by one shareholder to another person by entering into a contract with the buyer is called transfer of shares.	The passing of ownership of a member's shares to his legal representative due to operation of law i.e. on death, insolvency or insanity of the member is called transmission of shares.
2. When Done?	
Transfer of shares takes place when the member wants to sell his shares or give his shares as gift to other person.	Transmission of shares takes place when the member dies or becomes insolvent or insane.
3. Nature of Action	
Transfer of shares is a voluntary or deliberate action initiated by the member.	Transmission of shares is an involuntary action. It is due to operation of law i.e. death, insanity or insolvency of the member.
4. Parties Involved	
In transfer of shares, two parties are involved viz. the shareholder who is called as transferor and the buyer who is called transferee.	In transmission of shares, only one party gets involved i.e. the nominee of the member in case of death of the member or the legal representative in the case of insanity or insolvency.
5. Instrument of Transfer	
For transfer of shares, instrument of transfer is required. It is a contract between the transferor and transferee.	No instrument of transfer is required for transmission of shares.
6. Initiated by	
The transferor i.e. the member initiates the process of transfer.	Legal representative or official receiver or nominee of the concerned member initiates the process of transmission.

(4) Primary Market and Secondary Market :

Primary Market	Secondary Market
1. Meaning	
A security market in which new issues of securities i.e. new shares and debentures are arranged and organised is called Primary Market.	A security market in which existing securities are purchased and sold repeatedly is called Secondary Market.
2. Mode of investment	
In the primary market, direct investment is made. Securities are obtained directly from the issuer company.	In the secondary market, indirect investment is made. Securities are obtained from other stakeholders.
3. Parties in action	
Two parties involved in the primary market are (i) company and (ii) investors.	Parties involved in the secondary market are only investors.
4. Intermediary	
In the primary market, underwriters act as intermediaries.	In the secondary market, brokers act as intermediaries.
5. Value of security	
In the primary market, the price of the security is fixed as it is determined by the company.	In the secondary market, the price of the security is fluctuating as it is determined by the changing forces of demand and supply of security in the market.
6. Other name	
Primary market is also called New Issue Market.	Secondary market is also called Stock Market.

Q. 5. (1) The following are the provisions to be fulfilled by the company making rights issue :

- (a) Rights shares are sold to the existing equity shareholders at a price which is lesser than its market price.
- (b) A company has to send 'Letter of Offer' to the existing shareholders at the time of issuing rights shares.
- (c) The letter of offer shall mention : (i) the number of shares offered, (ii) the period of offer i.e. offer is valid for a period not less than fifteen days and not exceeding thirty days from the date of offer, (iii) the right to renounce i.e. the shareholders have a right to give up their shares in favour of any other person.
- (d) The letter of offer can be sent by registered post, speed post, courier or through electronic mode.

- (e) If a shareholder does not respond to the rights issue offer within the stipulated time, it is implied that he is not interested in the offer and the company can offer the unsold shares to new investors.
 - (f) The company has to obtain minimum subscription i.e. 90% of the issue.
- (2) The following are the factors affecting fixed capital requirement :
- (a) **Nature of business** : The big business enterprises, manufacturing industries and public utilities need large fixed investment to acquire fixed assets whereas trading organisations need comparatively very less investments in fixed assets.
 - (b) **Size of business** : The general rule states that bigger the size of business, higher the need of fixed capital. If the business enterprise is established to undertake large scale business operations its fixed capital needs are usually higher. This is because its production processes are carried out through the use of automatic machines and equipment.
 - (c) **Scope of business** : The business enterprises which are established to undertake large scale production or distribution of goods and services would need large amount of fixed capital.
 - (d) **Extent of lease or rent** : If an entrepreneur acquires most of the fixed assets on lease or on rental basis, his requirement of fixed capital funds will be very less. He needs to pay rent regularly to the fixed assets owners.
 - (e) **Arrangement of sub-contract** : If an entrepreneur outsources or sub-contracts some of his processes of production to expert persons for certain consideration in monetary terms, his fixed capital requirement would be very less or minimum.
 - (f) **Acquisition of old assets** : If an entrepreneur acquires old plant or machinery and equipment in good working condition at low prices, his fixed capital requirement would be minimum or less.
- (3) The advantages of depository system to the company are explained as follows :
- (a) **Up-to-date information** : The details and up-to-date information of the investors are provided by the depository to the company at regular intervals.
 - (b) **Reduction in costs and efforts** : The depository system enables the company to save costs, efforts and time involved in printing and distribution of certificates in cases of new issue, issue of bonus shares, transfer of securities, etc.
 - (c) **Better investor-company relationships** : The complaints of shareholders and other security holders in respect to loss of certificates, signature differences, longer time taken in executing requests, etc. are substantially minimised. As a result, there is better communication with the investors and enhancement in the reputation and goodwill of the company.

(d) **International investment** : On account of electronic and automatic clearing and settlement of the transactions, better and quicker services under depository system, attract more and more foreign investors to invest their funds in Indian capital markets. As a result, the inflow of the foreign capital is increased considerably.

Q. 6. (1) (a) A depository is an organisation in which securities are held in the electronic form. Under depository system, the purchase, sale and transfer of securities take place by means of computerised book entries in the ledger of depository without physical movement or delivery of securities or certificates.

(b) Under the depository system, the process of transfer of securities from one investor to another is very simple, easy and quicker. The transfer of securities under depository system is virtually done automatic and all hurdles such as physical and mental exertion in filling transfer instrument and lodging documents are totally eliminated. Thus, the processing time required for transfer of securities is minimised to a considerable extent.

(c) Under depository system, in transfer of securities, neither the securities nor the cash is tied up or held up unnecessarily for long time. After the settlement of transaction, in very short time, shares or securities are credited or debited from the demat accounts of the transferee and transferor respectively.

(d) As the depository system reduces the settlement time of transactions, the investors get immediate payment from the purchaser or broker of the securities. It facilitates easy and quick liquidity of investment.

(2) (a) In India, due to the existence of stock exchanges, new and existing industries and commercial enterprises easily acquire equity funds as well as loan funds through the issue of securities thereon.

(b) In Indian economy, the stock exchanges support and promote industrial development and growth. They stimulate investment in productive sector which helps in the process of economic development of the nation. Thus, growth of stock exchanges reflects financial progress and growth of economy.

(c) In the stock exchanges, new opportunities are available for investments. The long-term as well as medium-term capital for development and modernisation of business is made available.

(d) According to Alfred Marshall, the stock exchanges are barometer, which indicate the general conditions of the business in the economy. It is reflected through stock market index.

- (3) (a) In simple terminology, payment made for use of other person's money is called interest. In other words, interest is a cost of renting money which is an income for lender and expense of borrower.
- (b) Interest is the price paid by the user for productive services rendered by the borrowed capital. It is an obligation paid by the company for the use of borrowed funds. A company raises borrowed capital by issue of debentures, accepting public deposits and through borrowing loans from the banks and other financial institutions. It pays interest, at pre-determined rate on such borrowed or debt capital.
- (c) Interest creates fixed charge against the profit. Interest is not linked with the profits of the company. Even if company incurs loss, it has to pay interest to the lenders or creditors. Thus, payment of interest is an obligation/liability and it is to be paid by the company compulsorily.
- (d) Interest is required to be paid every year, irrespective of the profits of the company. For payment of interest, passing of a resolution at any meeting is not necessary. It is an obligation, the company has to fulfil in any condition.
- (4) (a) Equity shareholders are the owners of the company who bear ultimate risk associated with the ownership. They are also called 'residual claimants' of the income and assets. This is because as an owner, after paying claims of all other investors and stakeholders, the remaining funds and property belong to equity shareholders. Conversely at the time of winding-up, if no fund is left after paying claims to other investors, equity shareholders will not get anything. They have to suffer capital loss.
- (b) Equity shareholders do not have guarantee of getting dividend every year. They get dividend at the rate recommended by the Board of Directors. The fortune of equity shareholders fluctuates with the ups and downs of the company.
- (c) If the company earns handsome or huge amount of profit, equity shareholders enjoy great financial rewards in the form of higher dividend and vice versa. Thus, the owners of equity shares are real risk bearers.
- (d) Equity shareholders are described as, 'shock absorbers' when company has financial crisis. If the company suffers loss or its income falls, the company is forced to reduce the rate of dividend. Because of this situation, the market value of equity shares falls down in the share market, resulting into capital loss to its shareholders. Thus, investment in equity shares is risky.

Q. 7. (1) Write a letter to the member for the issue of share certificate :

VIKAS MOTORS LTD.

Registered Office : A/30, Maurya Towers,
V. P. Road, Kothrud, Pune – 411 012.
CIN : U13157 MH 2000 PLC213467

Phone : 020-81119785
Fax : 020-31245102
Ref. No. P/MM-SC/22/22-23

Website : www.vikasmotorsltd.com
E-mail : vikasmotors@gmail.com
Date : 12th January, 2023

Mrs. Mira Apte
Mira Mansion,
H.G. Road,
Pune – 411 001.

Sub. : Issue of Share Certificate

Dear Madam,

This is to inform you that as instructed by the Board of Directors, pertaining to your share application No. 12509, I am hereby authorised to issue you a Share Certificate. This Share Certificate will be delivered to you within 15 days from the date of this letter, through registered post, to your corresponding address as recorded in the Register of Members.

The details of issue of Share Certificate are given below :

1	2	3		4
Folio No.	Share Certificate Number	Distinctive Numbers		Total Number of Shares
		From	To	
1250	3413	1351	1550	200

It will always be our pleasure to provide excellent services to you at all time.

Thanking you,

Yours faithfully,
For Vikas Motors Ltd.

Sign.
(Mr. Pranav Sood)
Company Secretary

(2) Draft a letter of allotment to debentureholder :

RAJESH OIL LIMITED

Registered Office : C/33, Ekvira Tower,
M.M.M. Road, Nashik – 422 003.
CIN : U67003 MH 2000 PLC504734

Phone : 253-56774778

Website : www.rajeshoil.com

Fax : 253-56774353

E-mail : rajeshoil@gmail.com

Ref. No. R/RD/16/23-24

Date : 10th May, 2023

Mr. Chetan Parkar

Flat no. 22, Ashok Complex,

Bapat Marg, Dadar,

Mumbai – 400 025.

Sub. : Allotment of Debentures

Dear Sir,

I am directed by the Board of Directors to inform you that with regard to your application No. WK - 79574 dated 27th April, 2023, you have been allotted 250, 10% Non-convertible secured debentures of ₹ 100 each. The tenure of debentures is 7 years.

These debentures are allotted to you by the company as per the Board Resolution passed at the Board Meeting held on 7th May, 2023 and in accordance with and as per terms and conditions of Debenture Trust Deed and Articles of Association of the company.

The details of Allotment of Debentures are shown in the following schedule :

1	2	3	4		5
Folio No.	No. of Debentures Applied	No. of Debentures Allotted	Distinctive Numbers		Amount Received (₹)
			From	To	
WK-79574	250	250	23351	23600	₹ 25,000

The Debenture Certificate is attached with this letter.

Thanking you,

Yours faithfully,
For Rajesh Oil Limited

Sign.
(Mr. Nishikant Sahu)
Company Secretary

Encl. : Debenture Certificate

(3) Draft a letter to depositor informing him about payment of interest through Interest Warrant :

REGAL PHARMA LIMITED

Registered Office : 101, Capital House, S. V. Road,
Borivali (W), Mumbai – 400 092.

CIN : L05321 MH 1997 PLC459960

Phone : 022-60905469

Website : www.regalpharmalimited.com

Fax : 022-60903321

E-mail : regalpharma@gmail.com

Ref. No. R/DEP/232/22-23

Date : 12th January, 2023

Mrs. Diana Mathew
D/5, Milan Apt.,
Shree Nagar, Camp,
Pune – 411 001.

Sub. : Payment of Interest on Fixed Deposit

Dear Madam,

I am instructed to inform you that the interest @ 12% on your fixed deposit is due on 15th January, 2023. The Board of Directors in their Board Meeting held on 10th January 2023, has already given approval for payment of interest vide Resolution No. 14. 'Interest Warrant' No. A4664, dated 15th January, 2023 drawn on Bank of India, Kothrud Branch for ₹ 6,000 is attached herewith.

Your company has completed all the legal formalities relating to payment of interest on deposits. The following schedule shows the details of your fixed deposit and interest payable on deposit.

1	2	3	4	5	6	7
Interest Warrant No.	Fixed Deposit Receipt. No.	Deposit Amount (₹)	Rate of Interest (%)	Gross Amount of Interest (₹)	TDS @ (10%)	Net Amount of Interest Payable (₹)
A 4664	C674	₹ 50,000	12%	₹ 6,000	NIL	₹ 6,000

Please find the Interest Warrant enclosed herewith and detach the Interest Warrant along the perforated line.

Thanking you,

Yours faithfully,
For Regal Pharma Ltd.

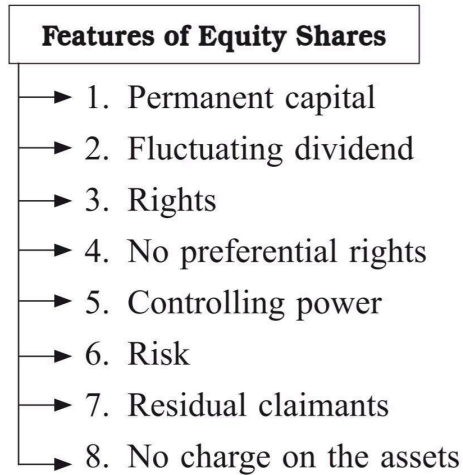
Sign.
(Mr. Raj Shetye)
Company Secretary

Encl. : Interest Warrant

Q. 8. (1)

[A] **Meaning** : An equity share is the one which has no priority claim either for payment of dividend or for repayment of capital at the time of winding-up of the company. Equity shares are also referred to as ordinary shares. **Companies Act, 2013** defines equity shares as “*those shares which are not preference shares*”.

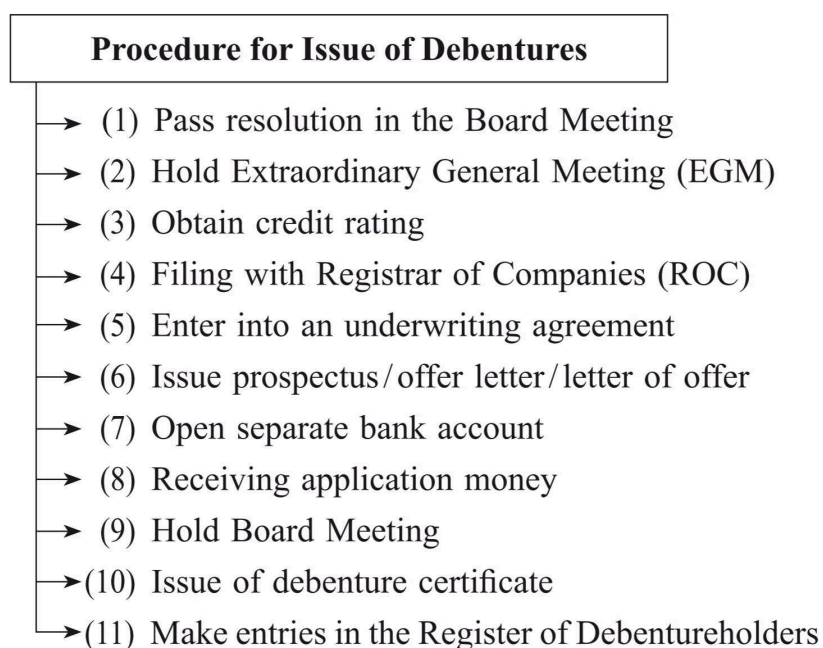
[B] **Features** : The features of equity shares are shown in the following chart :



The features of equity shares are explained as follow :

- (1) **Permanent capital** : The amount received by the company from the issue of equity shares is irredeemable in nature, i.e. the amount of equity shares is not refundable during the life-time of the company. It is refunded only at the time of dissolution of the company or as and when company decides to buy back its shares. Equity shareholders provide long-term and permanent capital to the company.
- (2) **Fluctuating dividend** : The rate of dividend payable to equity shareholders is not fixed. It depends upon the quantum of profit earned by the company. If company earns handsome profit, it pays dividend at higher rate. If there is inadequate or no profit, dividend may not be paid or paid at very low rate. Thus, income of equity shareholders is uncertain and fluctuating.
- (3) **Rights** : The equity shareholders enjoy the following rights :
 - (a) **Right to vote** : Right to vote is the basic right of the equity shareholders. Through right to vote, its shareholders elect directors and amend or alter the Memorandum of Association and Articles of Association.
 - (b) **Right to share in profit** : Equity shareholders have right to share profits when distributed as dividend. If company earns more profit, equity shareholders are entitled to get dividend at higher rate.
 - (c) **Right to inspect books** : It is another important right of the equity shareholders. They have right to inspect all statutory books of their company.
 - (d) **Right to transfer shares** : The equity shareholders have right to transfer their shares to another person as per the procedure laid down in the Articles of Association.

- (4) **No preferential right** : Equity shareholders do not have special preferential rights as to payment of dividend. They get dividend only after the dividend is paid on preference shares. In the event of winding-up of the company, the capital is refunded to the equity shareholders only after it is refunded to preference shareholders. If nothing is left behind after paying other claims, the equity shareholders may not get anything.
- (5) **Controlling power** : Equity shareholders are the owners and real masters of the company and hence control of the company is vested in them. They can exercise their voting rights by proxies without attending the meeting in person. Through their right of voting, equity shareholders can participate in the management and affairs of the company. They can elect the Board of Directors to look after the management of the company. They have right to vote on all the matters discussed in the general meeting. Thus, equity shareholders exercise the control over the company.
- (6) **Risk** : Equity shareholders have to face maximum risks of the company. They are also called as “shock absorbers” when company faces financial crisis. If the earnings of the company fall, equity shareholders get dividend at very low rate. This in turn declines the market value of equity shares resulting into capital loss. Thus, they bear maximum risk associated with the ownership of the company.
- (7) **Residual claimants** : A residual claim implies the last claim on the earning of the company. The equity shareholders often described as residual claimants of all earnings that left after payment of taxes, expenses, interest and dividend to preference shareholders, etc. The equity shareholders have benefits of receiving entire earnings whatever is left over.
- (8) **No charge on the assets** : Unlike secured debentures, equity shares do not create any charge on the assets of the company.
- (2) The procedure for issue of debentures is shown in the following chart :



Following is the procedure to be followed by a company issuing debentures :

- (1) **Pass resolution in Board Meeting** : Company has to call a Board Meeting to pass the resolutions like
 - (i) amount and type of debentures to be issued and the terms and conditions for issue.
 - (ii) approve prospectus or offer letter.
 - (iii) approve appointment of Debenture Trustees and get their written consent.
 - (iv) authorise the Board to create charge on assets of the company.
 - (v) to call an Extraordinary General Meeting if the Board's borrowing powers are required to be increased.
 - (vi) authorise the Board, to open a separate bank account for receiving money from applicants.
- (2) **Hold an Extraordinary General Meeting (EGM)** : Board of Directors borrowing powers can be increased by holding an EGM, to get the shareholders' approval, through a Special Resolution. Shareholders will have to give their approval with 75% majority to the resolution of raising debenture capital.
- (3) **Obtain credit rating** : Company Secretary has to make the arrangement, to gets its debentures rated by one or more reputed Credit Rating Agencies. The Secretary will also have to ensure, that the ratings must be mentioned in the prospectus/offer letter/letter of offer.
- (4) **Filing with Registrar of Companies** : Secretary is required to file a copy of Special Resolution, copy of Prospectus and offer letter with Registrar of Companies. The Secretary will have to complete the filing of registration, within 30 days of resolution passed.
- (5) **Enter into an underwriting agreement** : To ensure the collection of required debt capital through issue of debentures, Company makes entries into an underwriting agreement which gives a guarantee of minimum subscription by charging a commission for underwriting its debenture issue.
- (6) **Issue Prospectus/Offer Letter/Letter of Offer** : Company has to issue prospectus, if it invites the public to buy its debentures. Offer letter is issued if a company goes for private placement and letter of offer for rights issue.
- (7) **Open separate bank account** : Company has to open a separate bank account in a scheduled bank to collect the application money from the debenture applicants.
- (8) **Receiving application money** : Company receives the application money with application from subscribers through the specified bank within the time period specified in the prospectus or letter of offer / offer letter.

- (9) **Hold Board Meeting :** A Board Meeting is held to decide and approve allotment of debentures. Board also gives approval for creation of charges on the company's assets.
- (10) **Issue of debenture certificate :** The company is required to complete allotment of debenture procedure within 60 days from the receipt of application money. Company has to issue debenture certificate within 6 months of allotment of debentures.
- (11) **Make entries in the Register of Debentureholders :** Secretary has to make entries in the register of debentureholders, within 7 days after the Board's approval of allotment. However, if the debentures are issued by the company in dematerialised form, then it need not require to maintain the register of debentureholders.
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