

SPECIMEN PAPER - 1 (With Solution)

[Time: 3 Hours]

[Maximum Marks: 80]

Note:

- (a) All questions are compulsory.
- (b) Figures to the right indicate full marks.
- (c) Figures to the left indicate question numbers.

Q.1 (A) Select the correct option from the bracket.

(05)

- (1) _____ is related to money and money management.
(a) Production (b) Marketing (c) Finance
- (2) _____ shares are issued free of cost to existing equity shareholders.
(a) Bonus (b) Right (c) Preference
- (3) The _____ have a power to allot shares.
(a) Director (b) Secretary (c) BOD
- (4) Deposit is a type of _____.
(a) owned capital (b) short-term capital (c) long term capital
- (5) _____ is profit shared by company with a shareholder.
(a) Interest (b) Rent (c) Dividend

Ans.	(1) (c) Finance	(2) (a) Bonus	(3) (c) BOD
	(4) (b) short-term capital	(5) (c) Dividend	

Marking Scheme: 1 mark for each correct answer

Q.1 (B) Match the pairs.

(05)

Group A	Group B
(1) Financial market	(a) Share market
(2) Money market	(b) IPO
(3) Primary market	(c) Venture capital
(4) Equity share capital	(d) Long term fund
(5) Preference share holders	(e) Trading of financial securities
	(f) Owners
	(g) Trading of commodities
	(h) Safe capital
	(i) Short term fund
	(j) Creditors

Ans.	(1) (e) Trading of financial securities	(2) (i) Short term fund	(3) (a) Share market
	(4) (b) IPO	(5) (j) Creditors	

Marking Scheme: 1 mark for each correct answer

Q.1 (C) State true or false.

(05)

- (1) Equity shareholders enjoy fixed rate of dividend.
- (2) Building fund is used for bonus shares.
- (3) Debentures are always fully paid up.
- (4) Dividend is decided by the board.
- (5) Money market is a market for long term funds.

Ans.	(1) False	(2) False	(3) True	(4) True	(5) True
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Marking Scheme: 1 mark for each correct answer

Q.1 (D) Answer in one sentence.

(05)

(1) **What is stock exchange?**

Ans. A stock exchange is a facility where stockbrokers and traders can buy and sell securities, such as shares of stock and bonds and other financial instruments

(2) **What is financial market?**

Ans. A financial market is a market where financial assets are bought and sold.

(3) **What is final dividend?**

Ans. A final dividend can be a set amount that is paid quarterly (the most common course, semiannually, or yearly.

(4) **What is dividend warrant?**

Ans. A document that shows that a shareholder is entitled to a dividend.

(5) **What is a share?**

Ans. A share is small part of the total capital of a company..

Marking Scheme: 1 mark for each correct answer

Q.2 Explain the following terms/concepts (Any four)

(08)

(1) **Investment decision**

Ans. The Investment Decision relates to the decision made by the investors or the top level management with respect to the amount of funds to be deployed in the investment opportunities. Simply, selecting the type of assets in which the funds will be invested by the firm is termed as the investment decision.

(2) **Borrowed capital**

Ans. The fund collected by a company through the issue of debentures; public deposit and borrowing from the banks are called borrowed capital. The Contributors to the borrowed capital get interest as the return on their investment.

(3) **Debenture certificate**

Ans. The debenture certificate is a document, which certifies that the holder is the creditor of the company to the limit of a number of debentures multiplied by the face value of each debenture.

(4) **Dividend warrant**

Ans. A document shows that a shareholder is entitled to a dividend. Or an order of payment in which a dividend is paid. A dividend Warrant is an instrument by which a company pays dividend in the form of cash back to its shareholders forms the profits it has made out of its business operations.

(5) **Debenture holder**

Ans. Debenture-holders are the subscribers to debentures. Debentures are part of loan. Debenture holder is only a creditor of the company. Debenture holders are not concerned with the management and regulation of the company.

(6) **Depository system**

Ans. Under Depository system, securities are held in electronic form. The transfer and settlement of securities are done electronically. The system is also called as scripless trading system.

Marking Scheme: 2 marks for each correct answer

Q.3 Study the following case/situation and express your opinion (Any Two) (06)

(1) Mr Satish is a speculator. He desires to take advantage of growing market for company's products and earn handsomely.

(i) **According to you which type of share Mr.Satish will choose to invest ?**

Ans. Equity share.

(ii) **What does he receives as return on investment ?**

Ans. Dividend.

(iii) **State any one right which he will enjoy as shareholder.**

Ans. Voting rights.

(2) XYZ Ltd. Company's capital structure is made up of 1,00,000 equity shares having face value of ₹ 10 each. The company has offered to the public 40,000 equity shares and out of this, the public has subscribed for 30,000 equity shares. State the following:

(i) **Authorized capital** **Ans.** ₹ 1, 00,000

(ii) **Subscribed capital** **Ans.** ₹ 30,000

(iii) **Issued capital** **Ans.** ₹ 40,000

(3) Raj hold 100 shares of Sun Ltd in demat mode:

(i) **He wants to transfer one share each to his wife, daughter and son. Can he do so ?**

Ans. Yes he can transfer it.

(ii) **Does he need to submit DRF or DIS if he wants to transfer his shares ?**

Ans. Yes need to submit DRF or DIS if he wants to transfer his shares.

(iii) **Can he nominate his wife in his demat account ?**

Ans. Yes he can nominate his wife in his demat account.

Marking Scheme: 1 mark for each correct sentence

Q.4 Distinguish between (Any 3)

(12)

(1) **Shares and Debentures**

Ans.	Point	Shares	Debentures
(i)	Meaning	Shares are the company-owned capital.	Debentures are the borrowed capital of the company.
(ii)	Returns	Returns come in the form of dividends only out of profits.	Returns are in the form of interest and the company need not be in profits.
(iii)	Investors	Shareholders are part owners of the company.	Debenture holders are creditors to the company.
(iv)	Convertibility	Shares cannot be converted into debentures.	Debentures can be converted into shares.
(v)	Voting rights	Shareholders have voting rights in the company.	Debenture holders don't have any rights to vote.

(2) **Initial public offer and Further public offer**

Ans.	Point	Initial Public Offer (IPO)	Further Public Offer (FPO)
(i)	Meaning	The first issue of shares by a company.	Issuance of shares by a company to raise additional capital after IPO.

(ii)	Status of the company	An unlisted company issues an IPO.	An already listed company issues an FPO.
(iii)	Effects on Share capital	Share capital increases because the company issues fresh capital to the public for listing.	Number of shares increases in dilutive FPO and remains the same in non-dilutive FPO.
(iv)	Objective	Raising capital through public investment.	Objective is to raise Subsequent public investment.
(v)	Eligibility	Company should fulfill SEBI Eligibility criteria.	Only Top 200 Companies with respect to market capitalisation are eligible to use OFS facility.

(3) Dividend and Interest

Ans.	Point	Dividend	Interest
(i)	Meaning	Dividend is the return paid by the company to its shareholders for the capital invested by them.	Interest is the charge levied to the borrower, for the use of money.
(ii)	Form	A dividend is a part of the profit it means it an appropriation of the profit.	Interest is a charged against the profit.
(iii)	Compulsory	A dividend is paid only if profit occurs so it is not mandatory.	Interest is compulsory whether if a company or an individual an interest must be paid to the lender.
(iv)	Paid to	A dividend is paid to the shareholders by the company.	Interest is paid to the lender or creditors by the borrower.

(4) Primary market and Secondary market

Ans.	Point	Primary market	Secondary market
(i)	Meaning	The market place for new shares is called Primary market.	The place where formerly issued securities are traded is known as Secondary Market.
(ii)	Also called as	Primary market is also known New Issue Market (NIM).	Secondary market is known as After Issue Market (AIM).
(iii)	Functions	The primary market provides financing to the new and the old companies.	The secondary market does not provide financing to companies.
(iv)	Parties to buying and selling	Buying and selling takes place between the Company and Investors.	Buying and selling takes place between the investors.
(v)	Price of shares	Fixed at par value.	Changes depending on the supply and demand of shares.

Marking Scheme: ½ mark for each correct point. Four main points expected

Q.5 Answer in brief (Any 2)

(08)

(1) What is Global depository receipt?

Ans. A global depository receipt (GDR) is a bank certificate issued in more than one country for shares in a foreign company. In India the share of public company are issued and traded on various stock exchanges like BSE and NSE due to adoption of globalization some of the Indian companies' shares are also listed in foreign stock

exchanges. To list shares on this stock exchange company has to comply with policies of these stock exchanges. Therefore, those Indian companies which cannot list their shares directly on foreign stock exchange get listed directly using ADR and GDR. ADR and GDR are dollar / Euro denominated instrument traded in USA and Europe Stock Exchanges.

(2) What is Employee Stock purchase Scheme (ESPS)?

Ans. An employee stock purchase plan (ESPP) is a company-run program in which participating employees can purchase company stock at a discounted price. Employees are given the right to acquire shares of the company immediately, not at a future date as ESOS, but at a price lower than the prevailing market price. Shares issued are subject to lock-in period as a result the employee cannot sell the shares and, or the employee, has to continue with the employer for certain number of years.

(3) State the functions of SEBI.

Ans. The following are some of the important functions of stock exchange:

- (i) **Liquidity:** One of the main drawing factors of the stock exchange is that it enables high liquidity. The securities can be sold and be easily converted to cash.
- (ii) **Market for securities:** The stock exchanges provide a ready market for securities. The securities once listed continue to be traded at the exchange irrespective of the fact that owners go on changing.
- (iii) **Mobilizes savings:** The savings of the public are mobilized through, mutual funds, ETF investments trusts and by various other securities.
- (iv) **Spreading Equity Culture:** Stock exchange has extensive information on the listed companies which is further available to the public. This data helps in educating public about investments in securities which leads to spreading of wider ownership of shares.
- (v) **Pricing of securities:** The stock market helps to value the securities on the basis of demand and supply factors. The securities of profitable and growth oriented companies are valued higher as there is more demand for such securities.

Marking Scheme: 1 mark for each point, four points expected

Q.6 Justify the following statements (Any 2)

(08)

(1) Equity shareholders are owners of company.

- Ans.**
- (i) Equity typically refers to the ownership of a public company or an asset. A shareholder can be a person, company, or organization that holds stock.
 - (ii) Equity shareholders are the joint owners of the company.
 - (iii) These shareholders have a right to participate in the management of the company. Equity shareholders are members of the company and possess voting rights.
 - (iv) Since, equity shareholders accept the business risks; they are the real owners of the company.

(2) A company can issue duplicate share certificate.

- Ans.**
- (i) A share Certificate refers to a document which is issued by a company evidencing that a person named in such certificate is the owner of the shares of Company as stated in the share certificate.
 - (ii) The loss of Share Certificates can lead to huge financial loss to Shareholders as well as the Company.
 - (ii) To avoid any unnecessary loss to the Shareholders and the Company, the remedy is provided by the Central Government is issue duplicate share certificate.

(3) Electronic holding of securities is safer than physical holding.

- Ans.** (i) The process of converting physical shares into electronic form is termed as Dematerialization.
- (ii) In demat mode one can hold securities conveniently in electronic form. Unlike physical certificates, there is no scope of loss, misplacement, theft or deterioration of securities in demat mode.
- (iii) The lack of paperwork enables quicker transactions and higher efficiency in trading.
- (iv) As all the transactions occur through the depository participant, a trader does not need to communicate individually with each and every company.
- (v) Refunds, dividend, interest and redemption payment of debentures are automatically credited to the bank account

(4) AGM is crucial for final dividend.

- Ans.** (i) Dividend is a sum of money paid regularly (typically annually) by a company to its shareholders out of its profits.
- (ii) Final dividend is declared at the completion of financial year in Annual General Meeting of the company.
- (iii) Final dividend is recommended by the Board and declared by the shareholders by passing ordinary resolution (decision) at Annual General Meeting.

Marking Scheme: 1 mark for each point, four points expected

Q.7 Attempt the following (Any 2)

(10)

(1) Write a letter to the member for issue of Bonus Shares.

Ans.

National Computers Ltd.

C-26, G Block, BKC, Bandra East,
Mumbai, Maharashtra 400051

Ref.: National /5237/2015

Date: 19th June, 2016

Mr. Deepak Nair
Greenwood 10th Road,
Juhu Scheme,
Mumbai

Sub: Issue of Bonus Shares

Dear Sir,

I am directed by the Board of Director to inform you that at the extraordinary general meeting held on 9th June, 2016 share holders have unanimously approved the recommendation of board of direction to issue bonus shares in the ratio of 1 : 1 i.e., one bonus share for each fully paid equity share held by the shareholder.

Details of bonus shares issued to you are as follows:

Client ID/DP/ TD/ Folio No	No. of equity shares held	Bonus shares allotted	Distance between Numbers	Share certificates
A-359/5	200	200	3001-3100	500

Your company has complied with statutory provision for issue of bonus shares.

These shares shall rank on par with the existing equity shares of the company.

Thanking you.

Yours faithfully,

National Computers Ltd.

(2) Draft a letter of allotment to debentures holder.

Ans.

Bright Fireworks Ltd.

B-54, Waghle Estate,

Thane - 400604

Ref.: Bright /5437/2018

Date: 9th May, 2018

Mr. Karan Thapar

409/4740, Tagore Nagar,

Vikhroli, Mumbai - 83

Sub: Allotment of Debentures

Dear Sir,

In response to your application No. MES-1784 dated 29th April 2014; I am directed by the Board of Directors to inform you that you have been allotted 100 non-convertible debentures of T 100 each.

These debentures are allotted to you as per resolution passed at the Board meeting held on 2nd May, 2018 and as per the, terms and conditions of Debenture Trust Deed and Articles of Association of the company.

Details of allotment are as follows:

Client ID/DP/ TD/ Folio No	No. of Debentures Applied	No. of Debentures Allotted	Distance between Numbers	Amount received
S-359/8	100	100	3001-3100	₹ 100000

Duly signed and executed debenture certificate will be sent to you on or before 30th May, 2018.

Yours faithfully,

Bright Fireworks Ltd.

(3) Draft a letter of thanks to the depositors of a company.

Ans.

Seamac Shipping Ltd.

A-901, BKC Bandra,

Mumbai - 400051

Ref.: Seamac /5337/201321

Date: 8th June, 2019

Mr. Sawrab Shetty

Paramount, 14th Street,

Versova, Mumbai

Sub: Thanking depositor for fixed deposit

Dear Sir,

We take this opportunity to thank you for showing faith and confidence in the company, for submitting form for fixed deposit of ₹ 50,000 for a period of 24 months. Fixed deposit receipt No. 819 dated 15th June, 2019 for a sum of ₹ 50,000 is enclosed along with this letter. In case you need any further information or explanation please do not hesitate to contact us. We ensure that our service is benchmarked to high standards. Thanking you,

Thanking you.

Yours faithfully,

Seamac Shipping Ltd.

Enclosure: Fixed deposit receipt

Marking Scheme: Form/Layout- 1 mark, Content- 4 marks

Q.8 Attempt the following (Any 1)

(08)

(1) Discuss the importance of corporate finance.

Ans. Corporate finance is an area of finance that deals with source of funding and the capital structure of corporation. It deals with how corporations arrange funding sources, capital structuring and make investment decisions.

"Corporate finance deals primarily with the acquisition and use of capital by business corporation" - Henry Hoagland.

Importance

- (i) **Research and development:** Corporate finance is needed for Research and development. Today a company cannot survive without continuous research and development. They must invent new products and innovate old ideas.
- (ii) **Managing risk:** The Company has to manage many risks. e.g. Sudden Fall in sales, loss due to natural calamity, loss due to strikes. The company needs finance to meet these contingencies.
- (iii) **Pay Dividend and Interest:** The Company has to pay dividend to the shareholder. It has to pay debenture holders interest. It also has to repay Bank loans.
- (iv) **Helpful in making capital Raising decision:** Capital raising is one of the crucial decisions to take in business. To raise adequate capital an organization may decide to sell shares, issue debentures, take bank loans and so forth.
- (v) **Optimum Utilization of Resources:** The resources available to organizations may be limited. But if they are utilized efficiently, they can yield good results. The proper management of corporate finance would help in utilizing its resources in a better manner.
- (vi) **Smooth running of Business Firms:** A smooth flow of corporate finance is needed so that salaries of employees are paid in time and for various other working capital needs. (g) **Expansion and Diversification:** Various aspects like the capital available, risks involved, amount to be invested has to be decided well in advance. All this can be done by financial experts and this would be beneficial for the organization.

(2) Define share. Explain its features.

Ans. A share is small part of the total capital of a company. Total share capital of a company is divided into many units of small denominations. Each such unit is called as a "share".

Features:

- (i) **Face value:** Each share has a definite face value say Rs.10, Rs.25, Rs.100 or so. The share has a market value which may be more or less than the face value.
- (ii) **Issue Value:** A share may be issued at par (exact face value), at premium (more than the face value) or at discount (less than the face value).
- (iii) **Ownership:** When you buy a share, you are buying a piece of that company. The ownership gives you certain rights, including voting on important matters of the company and participating in the profits.

- (iv) **Rights:** A share confers certain rights on its holder such as right to vote at a meeting, inspect books of accounts, receive dividends etc.
- (v) **Proof of Title:** The title of share is evidence by a share certificate, issued by the company under its common seal.
- (vi) **Transferability:** The shares of public limited company are freely transferable. The equity share of listed companies can be easily traded on the stock market.
- (vii) **Paid up value:** Shares may be fully paid-up or partly paid-up. A company can forfeit partly paid-up shares if call on shares not paid in time.

Marking Scheme: 2 marks for meaning and definition
1 mark for each point, six points expected

