

SPECIMEN PAPER - 2 (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) During recession period sales will _____.
(2) Bonus shares are issued as a gift to _____.
(3) Reserve capital is a part of _____.
(4) Return on investment of debenture is called _____.
(5) Deposit is a type of _____ loan.

Ans. (1) decrease (2) equity share holder (3) Uncalled capital
(4) interest (5) Short term loan

Marking Scheme: 1 mark for each correct answer

Q.1 (B) Find the odd one. (05)

- (1) Dividend warrant, Interest Warrant, Demat
(2) Debenture holder, Shareholder, SEBI
(3) Trust deed, Depository, Deposit Receipt
(4) Final dividend, Interim Dividend, Interest
(5) FOP, Private placement, Commercial Paper

Ans. (1) Demat (2) SEBI (3) Depository (4) Interest (5) Commercial Paper

Marking Scheme: 1 mark for each correct answer

Q.1 (C) Give one word /phrase/term. (05)

- (1) A market which provide short term funds.
(2) The meeting where final dividend is declared.
(3) The oldest depository in India.
(4) Maximum period of Deposits.
(5) Instrument for payment of dividend.

Ans. (1) Money market (2) AGM (3) NSDL (4) 20 years (5) Interest warrant

Marking Scheme: 1 mark for each correct answer

Q.1 (D) Arrange in proper order. (05)

- (1) member, applicant, bonus shares
(2) share certificate, allotment letter, application form
(3) board resolution, allotment of debentures, board meeting
(4) renewal of deposit, accept of deposit, deposit receipt
(5) transfer to dividend account, transfer to IEPF, transfer to unpaid dividend account

Ans. (1) applicant, member, bonus shares
(2) application form, allotment letter, share certificate
(3) board meeting, board resolution, allotment of debentures
(4) accept of deposit, renewal of deposit, deposit receipt
(5) transfer to dividend account, transfer to unpaid dividend account, transfer to IEPF

Marking Scheme: 1 mark for each correct answer

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

(08)

(1) **Financing decision**

Ans. Financial decision is a process which is responsible for all the decisions related with liabilities and stockholder's equity of the company as well as the issuance of bonds.

(2) **Borrowed capital**

Ans. Borrowed capital is money that is borrowed from others, either individuals or banks, to make an investment. Equity capital is owned by the company and shareholders and is the opposite of borrowed capital.

(3) **Sweat equity shares**

Ans. 'Sweat equity shares' are such equity shares, which are issued by a Company to its directors or employees at a discount or for consideration, other than cash, for providing their know-how or making available rights in the nature of intellectual property rights.

(4) **Debentures 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.

(5) **ISIN**

Ans. An International Securities Identification Number (ISIN) is a code that uniquely identifies a specific securities issue. The organization that allocates ISINs in any particular country is the country's respective National Numbering Agency (NNA).

(6) **Financial market**

Ans. A financial market is a word that describes a marketplace where bonds, equity, securities, currencies are traded. It plays a crucial role in allocating limited resources, in the country's economy.

Marking Scheme: 2 marks for each correct answer

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

(1) Xyz ltd company plans to raise rupees 10 crores by issuing debentures . The BOD has some queries. Please advise them on the following.

(i) **Can the company issue unsecured debentures?**

Ans. Yes, company can issue unsecured debentures.

(ii) **Can they issue irredeemable debentures?**

Ans. No, the company cannot issue unsecured debentures.

(iii) **As the company is offering debentures to its members, can such debentures have normal voting rights?**

Ans. No, debentures holders have no voting rights.

(2) Mr. S holds 50 shares of dell Ltd in demat form. The company has declared a dividend of ₹5/- per share and bonus of 1:1 to its shareholders.

(i) **How will Mr.S get his dividend?**

Ans. In his bank account directly which is linked to demat.

(ii) **Will he get bonus shares in physical or demat?**

Ans. Demat form.

(iii) **Who is entitled to dividend and bonus: Mr. S or the depository?**

Ans. Mr. S is entitled to dividend and bonus.

(3) XYZ Ltd decided to pay Interim dividend.

(i) Can it be paid out of free reserves?

Ans. No, Interim dividend cannot be paid out of free reserves.

(ii) Is the board right in declaring the same at the board meeting?

Ans. Yes, The Board of Directors declares an interim dividend.

(iii) Can the company distribute the same within 30 days of its declaration?

Ans. No, the company have to distribute the same within 05 days of its declaration.

Marking Scheme: 1 mark for each correct sentence

Q.4 Distinguish between (Any 3)

(12)

(1) Equity Shares and Preference Shares

Ans.	Point	Equity Shares	Preference Shares
(i)	Meaning	Equity shares represent the extent of ownership in a company.	Preference shares come with preferential rights when it comes to receiving dividend or repaying capital.
(ii)	Dividend Payment	A fixed dividend is paid.	It depends on the company's performance.
(iii)	Repayment of capital	In the event of winding up of the company, equity shares are repaid at the end.	In the event of winding up of the company, preference shares are repaid before equity shares.
(iv)	Voting rights	Equity shares carry voting rights.	Normally, preference shares do not carry voting rights.
(v)	Traded in Exchange	Equity shares are traded In stock exchange.	Preference Shares are not traded in stock exchange.

(2) Rights issues and Bonus Shares.

Ans.	Point	Rights issues	Bonus Shares
(i)	Meaning	Right shares (or rights issue of shares) are fresh shares which are offered by the company to the existing shareholders, with an aim to raise more capital from the market.	Bonus Shares refers to free shares issued to the existing shareholders of the company, in a proportion to the number of shares held by the shareholder.
(ii)	Price	The right shares are primarily offered to the current equity shareholders at a discounted price.	Bonus Shares are issued free of cost.
(iii)	Objective	To raise fresh capital for the firm.	To bring the market price per share, within a more popular range.
(iv)	Minimum subscription	To avail the benefits of the rights issue, a minimum subscription is mandatory.	No such subscription is required in case of bonus issue.

(3) Interim Dividend and Final Dividend

Ans.	Point	Interim Dividend	Final Dividend
(i)	Meaning	Interim dividend is one that is declared and paid in the middle of an accounting year.	Final dividend implies the dividend declared by the board of directors, at the company's Annual General Meeting.
(ii)	Announcement	The Board of Directors declares an interim dividend.	The shareholders in the Annual General Meeting declare a final dividend.
(iii)	Rate of Dividend	The rate of interim dividend is less than final dividend.	The rate of final dividend is generally more than interim dividend.
(iv)	Special provisions	The company's Articles of Association need to specifically permit the issue of interim dividend.	Final dividend needs no such provision.
(v)	Revocation	Interim dividend, once announced, can be revoked with the consent of the shareholders.	Final dividend once announced cannot be revoked.

(4) Money market and Capital market

Ans.	Point	Money market	Capital market
(i)	Meaning	Money market is a segment of the financial market where lending and borrowing of short term securities are done.	Capital market is a section of financial market where long term securities are issued and traded.
(ii)	Risk Involved	Money markets have low risk.	Capital markets are riskier in comparison to money markets.
(iii)	Financial instruments	Treasury Bills, Commercial Papers, Certificate of Deposit.	Shares, Debentures, Bonds, Retained Earnings, Euro Issues.
(iv)	Structure	Compared to capital markets, money markets are more informal.	Capital markets are more formal than the money market.
(v)	Liquidity	Since money market deals with short-term instruments, it is more liquid.	Capital market deals in medium to long-term time frame, thus liquidity is less.

Marking Scheme: $\frac{1}{2}$ mark for each correct point. Four main points expected

Q.5 Answer in brief (Any 2)

(1) Explain any four rules of Company act 2013 for issue of debentures.

- Ans. (i) No company shall issue any debentures carrying any voting rights.
- (ii) The Certificate of Debenture shall be issued within a period of six months from the date of allotment in the case of any allotment of debenture.
- (iii) A company may issue debentures with an option to convert such debentures into shares either wholly or partly at the time of redemption.

(08)

- (iv) Secured debentures may be issued by a company subject to such term and condition as may be prescribed.
- (v) Where debentures are issued by a company, the company shall create a debenture redemption reserve Account out of the profits of the company.

(2) State the Content of share certificate.

Ans. (i) Name and Address of the registered office of the company.

- (ii) Name(s) of the Shareholder(s).
- (iii) Serial number of share certificate.
- (iv) Number of Share(s) held.
- (v) Number and class of shares. i.e. whether Preference or equity shares
- (vi) Nominal value and amount paid on each share.
- (vii) Distinctive Number(s) of shares.
- (viii) Date of issue of Certificate.
- (ix) Signature of two directors and one authorized signatory.
- (x) Seal of the company against the affixed revenue stamp.
- (xi) The face value of the shares.
- (xii) Whether the face value is fully paid or partly paid.

(3) Explain any four advantages of depository system to investors

- Ans.** (i) Bad deliveries are almost eliminated.
- (ii) The risk associated with physical certificates such as loss, theft, mutilation of certificate is eliminated.
 - (iii) It eliminates handling of huge volumes of paper work.
 - (iv) Electronic transaction of securities saves time.
 - (v) Electronic transitions reduce the settlement time.
 - (vi) Transaction costs are reduced as transfer in electronic form is exempt from stamp duty.
 - (vii) It enables instant transfer of securities enables the investor to get dividend, right and bonus without delay.
 - (viii) It leads to faster settlement cycle and faster realization of sale proceeds.

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

Q.6 Justify the following statements (Any 2)

(08)

(1) Preference share do not carry any voting rights.

- Ans.** (i) Preference shareholders are creditors of company.
- (ii) Generally voting rights are available only to the equity shareholders of the company.
 - (iii) Preference shareholders do not enjoy normal voting rights like equity shareholders.
 - (iv) The basis for not allowing the preference shareholders to vote is that the preference shareholder is in a relatively secure position and therefore should have no right to vote.

(2) To issue bonus shares a company has to fulfill certain provisions.

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

- (i) There should be a provision in the Articles of Association for a Bonus Issue. If not, a Special Resolution is to be passed at the General Body Meeting for the issue of Bonus shares.
- (ii) If the subsequent Bonus issue shares exceed Authorised Share Capital of the company, A Special Resolution is to be passed at the general Body for raising the Authorised Share Capital.

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

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

(3) A company can issue only certain types of debentures.

- Ans.** (i) No company shall issue any debentures carrying any voting rights.
(ii) A company may issue debentures with an option to convert such debentures into shares either wholly or partly at the time of redemption.
(iii) Secured debentures may be issued by a company subject to such term and condition as may be prescribed.
(iv) Where debentures are issued by a company, the company shall create a debenture redemption reserve Account out of the profits of the company.
(v) No company shall issue a prospectus or make an offer or invitation to public or to its member exceeding five hundred for subscription of its debentures

(4) All companies cannot accept deposit from public.

Ans. Only Following Companies can collect deposits

- (i) **Private Company:** A private company can accept deposit from its member, directors or relatives of directors.
(ii) **Public company (other than eligible company):** These companies can accept deposits from its member or directors.
(iii) **Eligible public company:** It means a company with.
(a) Net worth not less than 100 crores.
(b) Turnover of not less than 500 crores
(iv) Advertisement inviting deposits must be published in English and vernacular language. The advertisement has to be signed by majority of directors.

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 Share Certificate.

Ans.

Aarti Industries Ltd.

G-54, Wilford Estate,
Panaji, Goa.

Ref.: Aarti /5237/2015

Date: 19th June, 2016

Mr. Rajesh Patil
Rainbow Heights,
Palm beach, Nerul.

Sub: Issue of Share Certificate

Dear Sir,

This is to inform you that as per your request application no. 5562, I am hereby authorized to issue you a Share Certificate. The said certificate will be delivered to you within 15 days from the date of this letter by post.

Details of issue of share certificate:

Folio No	Share certificate no	Distinctive numbers	Total number of shares
A 10358	56873	201-300	100

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.

Yours faithfully,

Aarti Industries Ltd.

(2) Draft a letter to debentures holder regarding payment of interest through interest warrant.

Ans.

Variant Organic Ltd

K-501, Seacross Road,
Cochin, Kerala

Ref.: Variant /5437/2049

Date: 29th June, 2016

Mr. Tushar Singh
Seawell, 5th Road,
Juhu, Mumbai

Sub: Payment of interest on debentures

Dear Sir,

I am directed to inform you that the interest on your 1000, 10% non convertible debentures of ₹ 100 each is due for payment.

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

Folio no.	Number of Debentures	Distinctive Nos.		Gross Amount of Interest (₹)	Net Amount of Interest (₹)	Interest Warrant No.
		From	To			
S-555	1000	801	1800	10000	10000	XW5032

The interest warrant is enclosed herewith. 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.

Yours faithfully,

Variant Organic Ltd.

(3) Draft a letter to the depositor regarding renewal of his deposit.

Ans.

Pixi Capital Ltd.

A-512, F Block, BKC,
Bandra (East), Mumbai-400051

Ref.: Pixi /9537/2052

Date: 29th May, 2019

Mr. Sohan Pai
Swastik Building, 401/5432,
Juhu, Mumbai

Sub: Renewal of deposit

Dear Sir,

We hereby acknowledge receipt of your application for renewal of deposit of ₹ 100000/- for a further period of Three year. We have also received duly discharged deposit receipt No. 1245 within the stipulated 21 days from maturity date along with clear instruction for renewal of deposit.

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.

Yours faithfully,

Pixi Capital Ltd.

Enclosure: Deposit Receipt

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

(1) Discuss the functions of stock exchange.

Ans. The stock exchange is a highly organized market for the purchase and sale of listed securities. It is an association organization or body of individuals whether in corporate or not established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities.

Functions: 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 have 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.
- (vi) **Safety of Transaction:** In stock market only, the listed securities are traded which have to operate within the strict rules and regulations. This ensures safety of dealing through stock exchange.
- (vii) **Raising capital:** For businesses that lack the necessary resources for growth, selling shares on the stock market can provide an infusion capital which a company's can then use to strengthen the business.
- (viii) **Economic growth:** The stock market is one channel through which savings can be channeled into some productive investments. This leads to capital formation and economic growth.
- (ix) **Attract foreign capital:** Due to its dynamism and higher return on capital the stock exchange is capable of attracting more foreign funds.

(2) Define equity share. Explain its features.

Ans. The companies issue to the public for long-term financing. These shares are issued to the general public and are non- redeemable in nature; inventors in such share hold the right to vote, Share profits etc.

Features:

- (i) **Permanent Capital:** They are permanent in nature. The amount received from equity shares is not refundable by the company during its lifetime.
- (ii) **Transferable:** Equity shares are transferable .i.e. ownership of equity shares can be transfered with or with consideration to other person.
- (iii) **Dividend:** Dividend payable to equity shareholder is an appropriation profit. Equity shareholder do not get fixed rate of dividend.

- (iv) **Risk:** Equity Share owners bear maximum risk. Investors who are willing to take a bigger risk for higher return prefer equity shares.
- (v) **Right to control:** Equity Shareholders are the actual owners of the company and that's the reason that they have the authority to command the management and take all decision related to company.
- (vi) **Voting rights:** Equity share holders have voting rights in the meeting of the company as they have authority to vote. They can vote on all the matters placed before the meeting.
- (vii) **Less face Value:** As Compared to preference shares the equity shares are of less face value like ₹ 10/- or even ₹ 1/-.
- (viii) **Limited Liability:** Equity shares liability is limited in nature. Its liability is only up to unpaid value of shares.
- (ix) **Bonus Shares:** Bonus shares are issued as gift to equity shareholders. These are issued out of accumulated profits and are issued free of cost. It is issued in proportion to the shares held.

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

