

SPECIMEN PAPER - 3 (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) Correct the underlined word and rewrite the sentence. (05)

- (1) When there is recession in economy sales will increase.
- (2) Equity shares get dividend at fixed rate.
- (3) Government Company can accept deposit from members.
- (4) Debenture holders get regular dividend at fixed rate.
- (5) India has a single depository system.

Ans. (1) boom (2) fluctuating (3) public (4) interest (5) multi

Marking Scheme: 1 mark for each correct answer

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

- (1) Dividend warrant, dividend mandate, cheque
- (2) Treasury bill, Shares, certificate of deposit
- (3) Face value, market value, redemption value
- (4) Bonus shares, rights shares, ESOS
- (5) Depository, interest, dividend

Ans. (1) Cheque (2) share (3) redemption value (4) ESOS (5) Depository

Marking Scheme: 1 mark for each correct answer

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

- (1) Status of debenture holders.
- (2) Maximum period of deposit.
- (3) The agent of depository.
- (4) The shareholders who get dividend at a fixed rate.
- (5) A market which provide long term fund.

Ans. (1) creditors (2) 36 months (3) DP
(4) Preference shares holder (5) Capital market

Marking Scheme: 1 mark for each correct answer

Q.1 (D) Select the correct options. (05)

Group A	Group B
(1) Nifty	
(2) _____	Sensex
(3) Regulator of capital market	
(4) _____	Regulator of banks
(5) Government fund	

Ans. (1) Index of NSE (2) Index of BSE (3) SEBI (4) RBI (5) IEPF

Marking Scheme: 1 mark for each correct answer

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

(08)

(1) Ploughing back of profit

Ans. Ploughing back of profits means not distributing all the profits to the shareholders and investing some profit back in the business. It basically means to retain or invest back the profits in the business.

(2) Paid up capital

Ans. Paid-up capital is the amount of money a company has received from shareholders in exchange for shares of stock. Paid-up capital is the amount paid by the shareholders for the shares.

(3) Credit rating

Ans. A credit rating is a quantified assessment of the creditworthiness of a borrower in general terms or with respect to a particular debt or financial obligation. Credit assessment and evaluation for companies and governments is generally done by a credit rating agency.

(4) Bonus share

Ans. Bonus shares are additional shares given to the current shareholders without any additional cost, based upon the number of shares that a shareholder owns. For instance, if Investor A holds 100 shares of a company and a company declares 3:1 bonus, that is for every one share, he gets 3 shares for free.

(5) IPO

Ans. An initial public offering (IPO) is the first time a company issues shares to the public. This is when a private company decides to go 'public'. In other words, a company that was privately-owned until then becomes a publicly-traded company.

(6) Profit

Ans. Profit describes the financial benefit realized when revenue generated from a business activity exceeds the expenses, costs, and taxes.

Marking Scheme: 2 marks for each correct answer

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

(1) Roy Ltd. Company is a newly formed company. It wants to raise capital for the first time by issuing equity shares.

(i) Should it go to primary market or secondary market?

Ans. Primary market.

(ii) Should it offer its share through public offer or right issue?

Ans. Public offer.

(iii) What will be the issue of equity shares by Roy Ltd. Called as, IPO or FPO?

Ans. IPO

(2) Mr. Q holds 1000 shares of Sun Ltd in physical mode and wishes to convert the same in electronic mode.

(i) Mr. Q holds a saving bank account with HDLM bank. Can he deposit his shares in this account for demat?

Ans. No he cannot, he have to open a demat account for it.

(ii) What type of account is needed for the same?

Ans. Demat account.

(iii) Is it RBI which will be the custodian of shares of Mr. Q?

Ans. No, RBI will not be custodian of shares of Mr. Q.

(3) XLB Ltd. decides to declare dividend for financial year 2019-2020 in which it has earned profit less than their expectation.

(i) Is board right in recommending a dividend of ₹5/- per share out of free reserve?

Ans. Yes board is right recommending a dividend of ₹5/- per share out of free reserve

(ii) Can a board declare the dividend though not approved by AGM?

Ans. No, board cannot declare the dividend though not approved by AGM

(iii) Can board give dividend in the form of gifts?

Ans. No, board cannot give dividend in the form of gifts.

Marking Scheme: 1 mark for each correct sentence

Q.4 Distinguish between (Any 3)

(12)

(1) Owned capital and borrowed capital

Ans.	Point	Owned capital	Borrowed capital
(i)	Meaning	Owned Capital refers to the Capital collected by issuing various types of shares.	Borrowed capital refer to the capital collected by issuing debentures, bonds, taking loans from banks. etc.
(ii)	Liability	It is not a liability for a company.	It is a liability for a company.
(iii)	Status	The suppliers of the equity capital are treated as the owners of the company.	The suppliers of the debt capital are treated as the creditors of the company.
(iv)	Return on investment	The contributors to the share capital get dividend as the return on their investment.	The contributors to the borrowed capital get interest as the return on their investment.
(v)	Participate in the management	The suppliers of equity capital can participate in the management of the company.	The suppliers of debt capital cannot participate in the management of the company.

(2) Dividend and Interest

Ans.	Point	Dividend	Interest
(i)	Meaning	Dividend is the return paid by the company to its shareholders	Interest is the charge levied to the borrower, for the use of money.
(ii)	Rate	The rate of dividend is fluctuated for preference and fixed for equity share.	The rate of interest is fixed.
(iii)	Paid to	It is paid to shareholders.	It is paid to Creditors or debenture holders.
(iv)	Interim Payment	Board of Directors can declare interim dividend if authorized by Articles of Association.	There is no interim interest

(3) Transfer of shares and Transmission of shares

Ans.	Point	Transfer of shares	Transmission of shares
(i)	Meaning	Transfer of shares refers to the transfer of title to shares, voluntarily.	Transmission of shares means the transfer of title to shares by the operation of law.
(ii)	Consideration	Adequate consideration is involved under this contract.	No adequate consideration is involved under this contract.
(iii)	Stamp duty	Stamp duty is involved under transfer and payable on the market value of shares.	No stamp duty is payable.
(iv)	Liability	Liabilities of transferor cease on the completion of transfer.	Original liability of shares continues to exist.

(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 as 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 public deposit?**

- Ans.** (i) Public deposit is an important source of financing short term requirement of company.
- (ii) Companies receive fixed deposits from public for period ranging from 6 months to 3 years.
- (iii) Such deposits are known as public deposit.
- (iv) The cost and procurement of public deposits is cheaper and easier, respectively, than other forms of sources of finance.
- (v) It is the traditional methods of raising funds in India have been that of receiving public deposits.

(2) State the Precautions to be taken by the secretary while corresponding with members.

Ans. The company secretary has to correspond with members on various occasions while writing various letters the secretary should consider the following points.

- (i) **Lucid Language:** Letters should be written in a simple, but free following language. Technical language and jargon should be avoided. Similarly writing of long and complicated sentences should be avoided. Letter should be easy to understand.

- (ii) **Correct Information:** The Secretary must ensure that letters should be factually correct every care should be taken while giving facts and figures as any mistake in providing information may create problems.
- (iii) **Prompt Replies:** Secretary should be quick to reply to any query or classification of the shareholder. This helps in enhancing company's goodwill and build confidence in his mind.
- (iv) **Secrecy:** Only the relevant and connected information should be mentioned in the letter. The secretary should not disclose any confidential information of the company to its members.
- (v) **Polite:** Letter should be a courteous and friendly which gives the respect to the members. The tone should be soft and polite

(3) Discuss the features of capital market.

- Ans.**
- (i) Capital market deals in long term investment.
 - (ii) It serves an important purpose by pooling the savings.
 - (iii) Capital market is a market where borrowing and lending of long term funds takes place.
 - (iv) Capital market deals with both equity and debt.
 - (v) Capital market operates with the help of intermediaries like broker underwriters, merchant bankers sub – brokers' collection bankers and so on.
 - (vi) Capital market is a determinant of the rate of capital formation in an economy

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

Q.6 Justify the following statements (Any 2) (08)

(1) The company secretary should take certain Precautions while correspondence with Debenture holders.

Ans. The company secretary has to correspond with the Debenture holders on various occasions. While writing various letters the secretary should consider the following points.

- (i) **Lucid language:** Letters should be written in simple but free flowing language. Technical language and jargon should be avoided. Similarly writing of long and complicated sentences should be avoided. Letter should be easy to understand.
- (ii) **Prompt replies:** Secretary should be quick to reply to any query or clarification of the Debenture holders. This helps in enhancing company's goodwill and build confidence in his mind.
- (iii) **Correct information:** The secretary must ensure that letter should be factually correct. Every care should be taken while giving facts and figures as any mistake in providing information may create problems.
- (iv) **Secrecy:** Only the relevant and connected information should be mentioned in the letter. The secretary should not disclose only confidential information of the company to its debenture holders.

(2) Depository provides easy and quicker transfer of share.

Ans. (i) A depository works as a link between the listed companies which issue shares and shareholders.

- (ii) It issues these shares through agents associated with it called depository participants or DPs.
- (iii) A depository eliminates the risk associated with holding physical securities.
- (iv) Earlier, the buyer would have to keep checking if the shares have been transferred safely to his account, and ensure that theft, damage or loss has not happened.
- (v) After the depository system came about, such risks have been greatly reduced since the shares are held in and transferred in an electronic manner.

(3) AGM is crucial for final dividend.

- Ans.** (i) Final dividend implies the dividend declared by the board of directors, at the company's Annual General Meeting.
- (ii) This amount is calculated after all year-end financial statements are recorded and the directors are made aware of the company's profitability and financial health.
- (iii) Final dividend implies the dividend declared by the board of directors, at the company's Annual General Meeting.
- (iv) Final dividend once announced cannot be revoked.

(4) Capital market is useful for corporate sector.

- Ans.** (i) It is the part of financial system concerned with raising capital by dealing in shares bonds and other long term investments. Capital Market Deals in investment instruments like bonds equities and mortgages.
- (ii) Capital market deals in long term investment
- (iii) It serves an important purpose by pooling the savings. Capital market is a market where borrowing and lending of long term funds takes place.
- (iv) Capital market is a determinant of the rate of capital formation in an economy.

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 the payment of dividend through dividend warrant.**

Ans.

HTC Mobiles Ltd.

C-54, Godrej Estate,
Vikhroli (E), Mumbai.

Ref.: HTC /5437/2050

Date: 09 May, 2019

Mr. Ram Jain
Greenwood 10th Road,
Bandra, Mumbai

Sub: Payment of dividend on equity share

Dear Sir,

I am directed to inform you that the final dividend @ ₹5/- per equity share of ₹10/- each has been approved by the members for year ending 31 March, 2019.

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	100	801	900	10000	500	XW5032

The Dividend 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,

HTC Mobiles Ltd.

(2) Draft a letter to debentures holder informing him about redemption of debentures.

Ans.

Foxcon Films Ltd.
H-514, Redlamp Road,
Churchgate, Mumbai.

Ref.: Foxcon /5437/2060

Date: 09 June, 2019

Mr. Kunal Sawant
Colours Vila,
Palm Beach, Mumbai

Sub: Redemption of Debentures

Dear Sir,

This is to inform you that 10,000, 10% non-convertible debentures issued in May 2014 are due for redemption on 30st Aug 2019. As per the Board Resolution passed at the board meeting held on 15th May, 2019 said debentures shall be redeemed out of Debentures Redemption Reserve of the company.

Please arrange to submit duly filled up debenture redemption form along with duly discharged debenture certificate at the Registered office of the company on or before 7th Aug, 2019.

Thanking you.

Yours faithfully,

Foxcon Films Ltd.

Enclosure: Debenture Redemption Form.

(3) Draft a letter to the depositor informing him about payment of interest through interest warrant.

Ans.

Prime Chemical Ltd.
F-532, Sealight,
Cotton Green, Mumbai.

Ref.: Prime /5437/2049

Date: 29th June, 2016

Mr. Rakesh Rathod
Palm Heights, C-91,
Thissur, Kerala

Sub: Payment of interest on Fixed deposit

Dear Sir,

I am directed to inform you that the interest @, 10% on your fixed deposit approved by the board has become due.

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

Interest Warrant No.	FD receipt no.	Deposit amount	Rate of interest	Gross amount of interest	TDS	Net Amount of Interest (₹)
4523	2356	50000	10%	5000	NIL	5000

The TDS certificate 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,

Prime Chemical Ltd.

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

Q.8 Attempt the following (Any 1)**(1) Explain terms and conditions for acceptance of deposits.**

Ans. Acceptance of deposits is a type of short-term loan taken by the company. It is a cheaper way to raise funds and there is no dilution of control. However, accepting deposits can be a risky option in case of defaults in repaying the loan.

- (i) **Governing Laws:** Section 73 to 76 of the Companies Act, 2013 read with rules made under Chapter of the Companies Act, 2013 regulate the invitation and acceptance of deposits.
- (ii) **Amount of Deposits:** A Private Company can accept deposits from its member or director or relatives of directors not more than 100% of its aggregate of paid up share capital and free reserve. Public company cannot accept fresh deposits from its members if the amount of such deposit together with the previous deposits exceeds 25% of the aggregate of the paid-up share capital and fixed reserve.
- (iii) **Advertisements/Circulars:** Companies inviting deposits from members shall dispatch circular to its member or publish it in the form of an advertisement in form DPT-1. Such circulars signed by majority of directors shall be fixed with ROC at least 30 days before its issue.
- (iv) **Tenure of Deposit:** No deposit can be accepted or renewed which is to be repaid within a period of six months or more than thirty-six months.
- (v) **No Demand Deposit:** Company cannot accept or renew deposit repayable on demand.
- (vi) **Appointment of Trustee for Depositors:** Every company inviting deposit shall appoint deposit trustee for creating security for its deposits. A Deposit trust deed shall be executed in form DPT-2 at least 7 days before issue of the circular.
- (vii) **Form of Application:** No company shall accept or renew any deposit, whether secured or unsecured unless an application in such form as specified by the company.
- (viii) **Register of Deposit:** Companies accepting deposits shall maintain a register of deposits, entering particulars of each depositor, as provided in the rules within 7 days of issue of the deposit receipt.
- (ix) **Disclosures in the financial statement:** Every company other than private company shall disclose in its financial statement, by way of notes, about the money received from the director.
- (x) **Penal rate of interest:** Every company shall pay a penal rate of interest of eighteen percent per annum for the overdue period in case of deposit.
- (xi) **Nomination:** Every depositor at any time has the right to nominate any person as nominee in the event of death of the depositor.
- (xii) **Deposit Insurance:** A company need to take Deposit insurance at least 30 days before issue of circular or advertisement. If the amount of Deposit plus interest on it is upto 20,000, insurance is to be taken.

(2) Explain the classification of share capital.

Ans. Share capital refers to the capital made up of equity shares and preference shares. Usually in share capital the proportion of equity share is more than preference share. Share capital can be classified as:

- (i) **Registered, Authorized or Nominal capital:** The Memorandum of Association of every company has to specify the amount of capital with which it wants to be registered. The capital so stated is called registered or nominal capital. The Nominal

capital is the maximum amount of share capital which company can raise by way of public subscription.

- (ii) **Issued and unissued capital:** It is the nominal value of shares which are offered to the public for subscription through initial public offering. The balance of nominal capital remaining to be issued is called unissued capital.
- (iii) **Subscribed capital and unsubscribed capital:** Subscribed capital is the value of the shares taken up by the public through initial public offering, it will be equal to issued capital when all the shares offered to the public are taken by the public. If the public don't subscribe entire issue then the remaining offering is called unsubscribed capital.
- (iv) **Called-up capital:** It is that part of the capital which has been called up. Sometimes company takes the money in instalments like 25% on application remaining after some time.
- (v) **Paid-up capital:** It is that part of the called-up capital which has been paid by the shareholders of the company.

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

