

SPECIMEN PAPER - 4 (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) Complete the sentences.

(05)

- (1) Initial planning of capital requirement is made by _____.
- (2) Owned capital is _____ capital.
- (3) Reserve capital is a part of _____.
- (4) Return on investment on debentures is called _____.
- (5) Dividend is recommended by _____.

Ans.	(1) finance manager	(2) permanent	(3) Uncalled capital
	(4) Interests	(5) Board of directors	

Marking Scheme: 1 mark for each correct answer

Q.1 (B) Match the pairs.

(05)

Group A	Group B
(1) Bad delivery	(a) 14 digit number
(2) ISIN	(b) Stock market regulator
(3) BSE	(c) Creditors
(4) SEBI	(d) Problem faced in physical mode
(5) Depositors	(e) Debtors
	(f) Oldest stock exchange in India
	(g) Problem faced in electronic mode
	(h) Bank market regulator
	(i) 12 digit number
	(j) Oldest stock exchange in the world

Ans.	(1) (d) Problem faced in electronic mode	(2) (i) 12 digit number
	2 (f) Oldest stock exchange in India	(4) (b) Stock market regulator
		(5) (c) Creditors

Marking Scheme: 1 mark for each correct answer

Q.1 (C) State true or false.

(05)

- (1) Bonus shares are issued to existing shareholders.
- (2) Debentures are not a loan capital of the company.
- (3) Depositors are given voting rights.
- (4) A bank can work as DP.
- (5) Dividend cannot be paid out of capital.

Ans.	(1) True	(2) False	(3) False	(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 interim dividend?

Ans. Interim dividends which refer to the dividend declared by company's board during any time of the year before official closing of financial year.

Spec
(2) **What is minimum period of deposit?**
Ans. 6 Months.

(3) **What is debenture?**

Ans. Debentures are a debt instrument used by companies and government to issue the loan.

(4) **What is a transfer of shares?**

Ans. Transfer of shares refers to the transfer of title to shares voluntarily.

(5) **Define working capital.**

Ans. Working capital is the amount of available capital that a company can readily use for day-to-day operations.

Marking Scheme: 1 mark for each correct answer

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

(08)

(1) **Fixed capital**

Ans. Fixed capital is the portion of total capital outlay of a business invested in physical assets such as factories, vehicles, and machinery. It stay in the business almost permanently, or at the very least, for more than one accounting period.

(2) **Overdraft**

Ans. Overdraft is a facility in which the money can still be withdrawn from the current or savings account, even if the account balance goes below zero. It is short-term credit provided by the bank that needs to be paid within the stipulated time limit.

(3) **Paid up capital**

Ans. It is an amount of money for which shares of the Company were issued to the shareholders and payment was made by the shareholders. It is the total of Par value and additional paid in capital.

(4) **SEBI**

Ans. SEBI is a statutory regulatory body established by the Government of India to regulate the securities market in India and protect the interests of investors in securities. It also regulates the functioning of the stock market, mutual funds, etc.

(5) **NSE**

Ans. National Stock Exchange (NSE) was founded in 1992 and is in Mumbai. Electronic trading platform was first introduced by the NSE. Nifty is the benchmark index of NSE comprising 50 stocks.

(6) **CDSL**

Ans. Central Depository Services Limited (CDSL) is a depository service that works for the Bombay Stock Exchange (BSE). It is the second-largest securities depository in India and facilitates an account transfer.

Marking Scheme: 1 mark for each correct answer

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

(06)

(1) Pearl Ltd is considering declaring interim dividend.

(i) **In how many days of declaration it should transfer the funds to dividend account?**

Ans. 05 days.

(ii) **In how many days it must pay it to shareholders?**

Ans. 30 days.

(iii) In how many days of declaration it must transfer the funds to the unpaid dividend A/C?

Ans. 07 days.

(2) Sun Pvt Ltd company wants to raise funds through deposits.

(i) Can the company accept deposit from the public?

Ans. Yes, the company can accept deposit from the public.

(ii) Which document should the company issue to invite deposits?

Ans. Advertisement to the public.

(iii) What is the maximum period for which they can accept deposit?

Ans. 36 months.

(3) Mr. Raj 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. Raj get his dividend?

Ans. In his Bank account.

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

Ans. Demat.

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

Ans. Mr. Raj is entitled to dividend.

Marking Scheme: 1 mark for each correct sentence

Q.4 Distinguish between (Any 3)

(12)

(1) Dematerialization and Rematerialization

Ans.	Point	Dematerialization	Rematerialization
(i)	Meaning	It is the conversion of the physical share and debenture certificates to an electronic form.	It is the conversion of the electronic records of the share to paper (physical) form.
(ii)	Transaction Mode	All transactions take place in electronic formats only.	All transactions post-rematerialisation take place physically.
(iii)	Maintenance Costs	There are annual charges for maintenance.	No maintenance charges are necessary for physical certificates.
(iv)	Difficulty	Dematerialization is an easy process.	Rematerialisation is a complex process that takes a long time.

(2) 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 right to vote.

(3) 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.

(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: 1/2 mark for each correct point. Four main points expected

(08)

Q.5 Answer in brief (Any 2)

(1) State the features of bonds.

- Ans.** (i) Bonds are debt securities issued by private and public companies. Companies issue bonds to raise money for a variety of purpose such as building a new plant equipment, purchase or growing the business.
- (ii) Bond holders are creditors of company and receives fixed rate of interest and principal amount at maturity.

- (iii) Bonds are issued with specific maturity period.
- (iv) All bonds repay the principal amount after the maturity date.

(2) Explain employee stock option.

Ans. 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 precautions to be taken by the secretary while corresponding 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 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 debenture holder. 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

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

Q.6 Justify the following statements (Any 2)

(08)

(1) Equity share capital is risk capital.

Ans. (i) Equity shares have the risk of fluctuating returns and the risk of fluctuating market value of shares.

(ii) Equity shareholders bear the risk of loss of the business.

(iii) Moreover, they do not get dividend in the years of losses.

(iv) They are entitled to get the dividend only after all other classes of shareholders have received their specified returns.

(v) Therefore, it is called risk capital as it bears maximum risk.

(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.

(iii) To avoid any unnecessary loss to the Shareholders and the Company, the remedy is provided by the Central Government to issue duplicate share certificate.

(iv) Duplicate share certificate should be issued within 3 months from the date of application.

(3) **Depository system is very similar to the banking system.**

- Ans.** (i) Depository is a place where financial securities are held in dematerialized form.
(ii) It is responsible for maintenance of ownership records and facilitation of trading in dematerialized securities.
(iii) The depository system is parallel to the banking system. A bank holds cash in accounts whereas a depository holds shares in accounts for its clients.
(iv) Similarly, both the banks and the depositories are accountable for the safe custody of cash and shares respectively.

(4) **Equity shares get last priority in dividend.**

- Ans.** (i) Equity shares represent the ownership of a company. Equity shareholders are paid on the basis of earnings of the company and do not get a fixed dividend.
(ii) There is no burden on the company, as payment of dividend to the equity shareholders is not compulsory.
(iii) Investors who are willing to take a bigger risk for higher returns prefer equity shares.
(iv) Preference shareholders have a preferential right of repayment over equity shareholders in the event of liquidation or bankruptcy of a company.

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 interim dividend electronically.**

Ans.

Jewel Blade Ltd.

442, LBS Road, Vikhorli (East),
Mumbai - 400083

Ref.: Jewel /5437/2060

Date: 09 May, 2019

Mr. Sahil Khan
Garden Heights,
Bandra (E), Mumbai

Sub: Payment of interim dividend

Dear Sir,

I am directed to inform you that the interim dividend @ ₹15/- 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 Shares	Distinctive Nos.		Gross Amount of Dividend (₹)	Dividend Warrant No.
		From	To		
S-556	100	801	900	1500	XW5032

As per the instruction given by you, we have remitted the amount of dividend to your banker for crediting your bank account. 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,

Jewel Blade Ltd.

(2) Draft a letter to debentures holder informing about conversion of debentures into equity shares.

Ans.

Saint Computers Ltd.

333, Road-5,
Wadala, Mumbai

Ref.: Saint /5437/2091

Date: 19 May, 2018

Ms. Pooja Menon
Carl Vila, 7th Street,
Lamington Road, Mumbai

Sub: Conversion of debentures into equity shares

I am directed to inform you that in accordance with the terms decided at the time of issue of convertible debentures, the debentures would be eligible for full Conversion into equity shares, on expiry of 5 years, from the date of issue of debentures.

In accordance with the above a special resolution was passed at the Extraordinary General Meeting held on 12th April, 2018 for approval of conversion of debentures into equity shares. As per your letter of option you have been allotted 100 equity shares in exchange of your 500 debentures.

Details of your holding after conversion are as follows:

Reg. Folio	Number of Debentures	Number of Equity shares issued	Share Certificate No.	Distinctive Nos.	
				From	To
7856	500	100	245	501	600

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,

Saint Computers Ltd.

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

Ans.

General Motors Ltd.

H-555, BKC,
Mumbai-400051

Ref.: General /5427/3152

Date: 09 May, 2019

Mr. George Paul
Swiss Tower, 512/4740
Bhandup (E), Mumbai-84

Sub: Repayment of Deposit

Dear Sir,

We have received from you the original deposit receipt no. 145378 duly discharged your instruction for repayment.

Details of repayment of deposit are as under:

Tenure of deposit	FD receipt no.	Deposit Amount (₹)	Rate of interest (10%) (₹)	Maturity Amount (₹)	TDS	Net Amount (₹)
3 years	145378	2,00,000	60,000	2,60,000	6,000	2,54,000

Please find enclosed herewith a Cheque of ₹2,54,000 bearing No. 54321 dated 07 May, 2019, drawn on SBI, Horniman Circle, Mumbai Samachar Marg, Fort. 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,

General Motors Ltd.

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

Q.8 Attempt the following (Any 1) (08)

(1) Explain various methods a company can use to make its public offer of share
Ans. Method of Issue of shares is as follows:

- (i) **Public issue or Initial public offer (IPO):** Under this method, the company issues a prospectus to the public inviting offer for subscription. The investors who are interested in the securities apply for the securities. Advertisements are also issued in newspapers. Once the subscriptions are received the company makes allotment of securities keeping in view of prescribed requirements. Public issue is the most common method of selling new issue of securities, however their method involves a large number of administrative problems.
- (ii) **Private Placement:** A process of inviting subscription to the securities of a corporate issue by means other than public offering is called private placement. It usually refers to non-public offering of shares in a public company. It is offered to a selected group of persons not exceeding 200.
- (iii) **Right Issue:** Rights issue is governed by section 81(1) of the Companies Act. The securities are offered to the existing shareholders of the company through a letter of offer. "Right issue" means an offer of specified securities by a listed company to the shareholders of the issuer as on the record date fixed for the said purpose.
- (iv) **Employee Stock Option Scheme (ESOS):** The option gives to the employees of the company the benefit or right to purchase or subscribe at a future date, the securities offered by the company at a pre-determined price.
- (v) **Employee Stock Purchase Scheme (ESPS):** 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 a lock-in period as a result the employee cannot sell the shares and, or the employee, has to continue with the employer for a certain number of years.
- (vi) **Bonus Shares:** When the additional shares are allotted to the existing shareholder without receiving any additional payment is called bonus shares. These shares are issued in a certain proportion- Example 1:2. It is issued by capitalizing the reserve and surplus.

(2) Explain the factors determining working capital requirements.

Ans. Working capital is used to carry out day to day business activities. It typically means firms holding of current or short-term assets such as cash, receivables, inventory and marketable securities. It is also known as circulating capital.

Factors Affecting Requirement of Working Capital:

- (i) **Nature of Business:** Working capital requirements of business are basically influenced by nature of business. It varies from industry to industry.

- (ii) **Size of Business:** The firm which are operating at very large scale need huge working capital for their day to day operations when compared to small business.
- (iii) **Operating Efficiency:** Firms whose operations are efficient use all the resources and need less working capital when compared to a firm that has less operating efficiency.
- (iv) **Business Cycle Fluctuation:** During Boom period the market is flourishing so more demand, more production, more stocks to be kept which means more amount of working capital is required. At the time of recession working capital requirement will be low.
- (v) **Credit Policy:** Liberal credit policy demands a higher level of working capital and tight credit policy reduces it.
- (vi) **Dividend Policy:** Dividend policy determines the level of retained profits with the business and retained profits are also used as working capital. This is how dividend policy affects the working capital.
- (vii) **Change in Price Level:** Change in price level also affects the working capital requirements. Generally, the rise in price will require the firm to maintain large amount of working capital as more funds will be required to maintain the sale level of current assets.
- (viii) **Growth and Expansion of Business:** If the business is to be extended in future, more working capital is required. More amount of working capital is required to meet the expansion need of business.
- (ix) **Access to Money Market:** If a firm has good access to capital market, it can raise loan from bank and financial institution easily. It results in minimization of need of working capital.

Marking Scheme: 2 marks for meaning and definition

1 mark for each point, six points expected

