

**SPECIMEN PAPER - 5 (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) Equity shares carry dividend at fixed rate.**Ans.** Preference shares carry dividend at fixed rate.(2) Debentures holder is owner of the company.**Ans.** Debentures holder is creditors of the company.(3) Only fully paid up shares can be forfeited.**Ans.** Only partly paid up shares can be forfeited.(4) The details of debenture holders are entered in register of members.**Ans.** The details of debenture holders are entered in register of Debentures holders.(5) Maximum tenure of deposit is 06 months.**Ans.** Maximum tenure of deposit is 36 months.**Marking Scheme:** 1 mark for each correct answer**Q.1 (B) Match the pairs. (05)**

(Further issue, Initial issue, BSE, NSE, SEBI)

| Group A |                      | Group B |  |
|---------|----------------------|---------|--|
| (1)     | IPO                  |         |  |
| (2)     | _____                | FPO     |  |
| (3)     | CDSL                 |         |  |
| (4)     | _____                | NSDL    |  |
| (5)     | Securities Regulator |         |  |

**Ans.** (1) Initial issue (2) Further issue (3) BSE (4) NSE (5) SEBI**Marking Scheme:** 1 mark for each correct answer**Q.1 (C) Give one word /phrase/term. (05)**

- (1) Instrument for payment of dividend.  
 (2) Documentary evidence of holding the debentures.  
 (3) Return on investment on deposit.  
 (4) The oldest depository in India.  
 (5) Dividend declared between two AGM.

**Ans.** (1) Dividend Warrant (2) Debenture certificate (3) Interest  
(4) NSDL (5) Interim dividend**Marking Scheme:** 1 mark for each correct answer**Q.1 (D) State true or false. (05)**

- (1) Dividend is decided by shareholders.  
 (2) Primary market is also known as new issue market.

- (3) BSE is oldest stock exchange in India.  
 (4) Working capital stays in firm permanently.  
 (5) Bond holders are owners of company.

**Ans.** (1) False (2) True (3) True (4) False (5) False

**Marking Scheme:** 1 mark for each correct answer

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

(08)

**(1) Minimum subscription**

**Ans.** The minimum shares the company needs to get from the public out of the total issue by the date of closure. At Present every company need to raise 90% of the issued amount or Else, the company shall refund the whole amount received.

**(2) Share**

**Ans.** A share is the single smallest denomination of a company's stock. A share have a definite number known as distinctive number.

**(3) Renewal of deposit**

**Ans.** A process whereby the deposit holder continues with the deposit for an additional time period after the completion of the initial time period of investment Instead of withdrawing the deposit amount this is continued.

**(4) Fungibility**

**Ans.** Fungibility is the ability of goods or assets to be interchanged with other individual goods or assets of the same type. Stocks are considered to be fungible goods

**(5) Unpaid dividend**

**Ans.** An unpaid dividend is a dividend that is due to be paid to shareholders but has not yet been distributed. Dividends are profits that a company distributes to its shareholders.

**(6) Financial market**

**Ans.** A Financial Market is referred to space, where selling and buying of financial assets and securities take place. Financial markets are vital to the smooth operation of capitalist economies.

**Marking Scheme:** 2 marks for each correct answer, 2 points required.

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

**(1) Mr . Q holdes 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.

**(2) Pulse company ltd. Is an eligible public company. It plans to raise secured deposit from the public. Please advice its board on the following,**

**Please advice its board on the following:**

**(i) Does the company need to get shareholder approval for accepting deposits?**

**Ans.** Yes, company need to get shareholder approval for accepting deposits.

(ii) Does the company have to appoint a debenture trustee?  
**Ans.** Yes, the company have to appoint a debenture trustee.

(iii) Within what period should the company create a charge on its assets?  
**Ans.** Within 30 days of acceptance.

(3) The BOD of Moon co. Ltd which is a listed company recommends a dividend of ₹ 15/- per share to be paid in cash.

(i) Is it justified to pay the dividend first to its preference shareholder and then after to equity shareholder?

**Ans.** Yes, it is justified to pay the dividend first to its preference shareholder and then after to equity shareholder.

(ii) Is the AGM to require approving the same?

**Ans.** Yes, AGM to require to approve the same.

(iii) Can the company pay dividend in cash?

**Ans.** Yes, Dividend must be paid only in cash.

**Marking Scheme:** 1 mark for each correct sentence

**Q.4 Distinguish between (Any 3)**

**(12)**

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

| Ans.  | Point                           | Initial Public Offer (IPO)  | Further Public Offer (FPO)   |
|-------|---------------------------------|---|--|
| (i)   | <b>Meaning</b>                  | The first issue of shares by a company.   | Issuance of shares by a company to raise additional capital after IPO.                         |
| (ii)  | <b>Status of the company</b>    | An unlisted company issues an IPO.  | An already listed company issues an FPO.   |
| (iii) | <b>Effects on Share capital</b> | 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)  | <b>Objective</b>                | Raising capital through public investment.  | Objective is to raise Subsequent public investment.  |
| (v)   | <b>Eligibility</b>              | Company should fulfill SEBI Eligibility criteria.   | Only Top 200 Companies with respect to market capitalisation are eligible to use OFS facility. |

**(2) Rights issues and Bonus shares**

| Ans.  | Point            | Rights Issues   | Bonus Shares  |
|-------|------------------|---|---|
| (i)   | <b>Meaning</b>   | 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)  | <b>Price</b>     | The right shares are primarily offered to the current equity shareholders at a discounted price.  | Bonus Shares are issued free of cost.   |
| (iii) | <b>Objective</b> | To raise fresh capital for the firm.  | To bring the market price per share, within a more popular range.   |

|                                  |   |  |
|----------------------------------|---|--|
| (iv) <b>Minimum subscription</b> | To avail the benefits of the rights issue, a minimum subscription is mandatory. | No such subscription is required in case of bonus issue. |
|----------------------------------|---|--|

### (3) Transfer of shares and Transmission of shares

| Ans.  | Point                | Transfer of shares   | Transmission of shares  |
|-------|----------------------|--|---|
| (i)   | <b>Meaning</b>       | 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)  | <b>Consideration</b> | Adequate consideration is involved under this contract.                          | No adequate consideration is involved under this contract.                            |
| (iii) | <b>Stamp duty</b>    | Stamp duty is involved under transfer and payable on the market value of shares. | No stamp duty is payable.   |
| (iv)  | <b>Liability</b>     | Liabilities of transferor cease on the completion of transfer.                   | Original liability of shares continues to exist.                                      |

### (4) Money market and Capital market

| Ans.  | Point                        | Money Market   | Capital Market  |
|-------|------------------------------|--|---|
| (i)   | <b>Meaning</b>               | 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)  | <b>Risk Involved</b>         | Money markets have low risk.   | Capital markets are riskier in comparison to money markets.                                       |
| (iii) | <b>Financial instruments</b> | Treasury Bills, Commercial Papers, Certificate of Deposit.   | Shares, Debentures, Bonds, Retained Earnings, Euro Issues.  |
| (iv)  | <b>Structure</b>             | Compared to capital markets, money markets are more informal.  | Capital markets are more formal than the money market.  |
| (v)   | <b>Liquidity</b>             | 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:** ½ mark for each correct point. Four main points expected

#### Q.5 Answer in brief (Any 2)

##### (1) State four features of dividend.

(08)

- Ans.** (i) It is the part of profit of the company paid to shareholders.  
(ii) Dividend is payable only out of the profits of the company.  
(iii) The rate of dividend may vary from year to year.  
(iv) Dividend is not allowed to be declared and paid out of capital.  
(v) Dividend is recommended by the board of directors and sanctioned by the shareholders in Annual general meeting.  
(vi) Dividend is a reward given to the shareholders on their investment in the company.  
(vii) Dividend includes interim dividend.  
(viii) Dividend must be paid only in cash.

Speci  
(2) **Explain four features of financial market.**

- Ans.** (i) **Mobilization of savings:** For an economy to be successful it is crucial that the money does not sit idle. Thus, a financial market helps in connecting those with money with those who require money.
- (ii) **Ensure Liquidity:** Assets that buyers and seller's trade in the financial market have high liquidity. It means investors can easily sell those assets for cash. Liquidity is an important reason for investors to participate in trade.
- (iii) **Determining the price of the securities:** The frequent interaction between investors helps in fixing the price of securities on the basis of their demand and supply in the market.
- (iv) **Capital formation:** Financial market provides a channel through which saving flows to industrial and commercial firms in to the form of capital. This leads to capital formation

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

**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 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.

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

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

**(08)**

**(1) Unpaid dividend cannot be used by company.**

**Ans.** There are some cases wherein dividend declared by the company has not been paid or claimed and in case where such dividend remained unpaid or unclaimed within 30 days from the date of Declaration Company shall take the following necessary steps.

- (i) Open a special Account with a scheduled bank to be called "unpaid dividend account".
- (ii) Transfer the unpaid or unclaimed amount of dividend within a period of days from the expiry of such 30 days, to the special account.
- (iii) If the company committed any default in transferring such amount to the special account with in the specified time company shall be liable to pay interest @12% p.a from the date of such fault.

**(2) DP is important constituent of depository system.**

**Ans.** Depository Participant provides services to the investors and acts as a custodian of the electronic accounts of the clients. DP takes care of trading and settlement and acts as an intermediary between Investor and Depository. With a depository system, individuals can hold or transfer their shares electronically. In addition to making the process more secure, the introduction of depositories allowed for faster processing alongside reducing the dependency on paperwork. A depository participant also offers services to settle transactions made outside of the stock exchange.

**(3) All company cannot accept deposit from public.**

**Ans.** Acceptance of deposits is a type of short-term loan taken by the company. It is Cheaper way to raise funds and there is no dilution of control.

**All companies can accept Deposits, except.**

- (a) A Banking company
- (b) A Non- Banking Finance Company (NBFC)
- (c) A Housing Finance Company.

**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.

These companies can accept deposits from their member and also from public.

**(4) Company has to fulfill certain provisions while making right issue.**

**Ans.** Rights issue is governed by section 81(1) of the companies Act. The securities are offered to the existing shareholders of the company through letter of offer "Right issue" means an offer of specified securities by a listed issue to the shareholders of the issuer as on the record date fixed for the said purpose.

**Provisions:**

- (i) The Board meeting is held, and the resolution for issuing rights shares is passed. The rights issue does not require the approval of shareholders, and hence the board can proceed towards the issue.
- (ii) On the passing of the resolution, the letter of offer is issued to all shareholders, and the same is sent through registered post or speed post.
- (iii) After the passing of board resolution, the company must file the MGT -14 within 30 days of passing of the Board Resolution.
- (iv) The shareholders must send the accepted application along with application money.
- (v) Convene the Second Board Meeting:
- (vi) The company must file the Form PAS -3, within 30 days from the allotment of the shares with the Registrar of Companies.

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

Q.7 Attempt the following (Any 2)

(10)

(1) Write a letter to the depositor for the payment of interest electronically.

**Nest Chemical Ltd.**  
C-24, H-Block, BKC,  
Bandra, Mumbai-400051

Ref.: Nest /5437/2060

Date: 09 May, 2019

Mr. Sahil Khan  
Orange Park, 5<sup>th</sup> Avenue Street,  
Worli, Mumbai

**Sub: Payment of interest**

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                       |

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,

**Nest Chemical Ltd.**

(2) Draft a letter to the member for issue of Bonus Shares.

Ans.

**John Arts Ltd.**  
L-5, 401 Mindspace,  
Airoli (Thane)-400708

Ref.: John Arts /5237/2015

Date: 29<sup>th</sup> June, 2016

Mr. Subham Nair  
Cottonwood,  
Pali Hills,  
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 9<sup>th</sup> 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 - 3200              | 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,

John Arts Ltd.

(3) Write a letter to the debenture holder for the payment of interest electronically.

Ans. Philip Electronics Ltd.

C-55, Yari Road,  
Versova, Mumbai

Ref.: Philip /5537/2060

Date: 19 June, 2018

Mr. Samir Patel  
Avenue Heights, C-55,  
Hiranandani, Powai, Mumbai

**Sub: Payment of interest**

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               |

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,

Philip Electronics Ltd.

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

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

(08)

(1) Explain various functions of stock exchange.

Ans. The stock exchange is a highly organised market for the purchase and sale of listed securities. It is an association organisation 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. It constitute of the primary and secondary market. Thus the stock exchange is a key institution facilitating the issue and sale of various types of securities.

(i) **Liquidity:** One of the main drawing factors of the stock exchange is that it en ables high liquidity. The securities can be sold and be easily converted to cash.

- Specimen*
- (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.
  - (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) Explain the factors determining fixed capital requirements.**

**Ans.** Fixed capital is capital or money that we invest in fixed assets. These are assets that we repeatedly use over a long period of time. These assets are durable in nature like land, building, plant and machinery etc.

● **Factors Affecting Requirement of fixed capital:**

- (i) **Nature of Business:** The type of Business Company involved is the first factor which helps in deciding the requirement of fixed capital. A manufacturing company needs more fixed capital as compared to trading company.
- (ii) **Scale of Operation:** The companies which are operating at large scale require more fixed capital as they need more machinery and other assets where small-scale enterprises need less amount of fixed capital.
- (iii) **Diversification:** Companies which have plans to diversify their activities by including more range of products require more fixed capital as to produce more products. They also require funds to increase their branches.
- (iv) **Modes of Acquiring Fixed Assets:** Fixed assets can be either purchased or acquired on lease basis. In first case, the requirement of fixed capital will be very high.
- (v) **Business Cycle:** When there is boom period in an economy, the organization invest more in fixed assets so as to increase its production capacity however during recession, the firms avoid huge investment.

- Solution
- (vi) **Stage of Development of Business:** The requirement of fixed capital for a newly established organization is more than that of an established organization.
- (vii) **Choice of Technique:** Some organization is capital intensive, where as others are labour intensive. A Capital-intensive organization requires higher investment compared to labour intensive.
- (viii) **Level of Collaboration:** The collaborations between the organizations use one another facilities and assets thus reduce the need for investment in fixed capital. e.g. Banks are using each other's ATMS thus saving on individual cost of setting ATMS by each Bank.

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

