SECRETARIAL PRACTICE
XIITH STD.

Study the following Case / Situation and express your opinion.

Final Exam 6 Marks + Application Based Test 9 Marks = Total 15 Marks

CHAPTER 1 (PAGE NO. 13)

CASE STUDY NO. 1

a) Being a public utility service provider, it will need less working capital.
b) Yes, being a public utility service provider, it will need more fixed capital.
c) BEST / Indian railways / MSEB is an example of public utility service.

CASE STUDY NO. 2

a) Machinery is a fixed asset.
b) Capital used for purchase of machinery is fixed capital.
c) Yes, the size of business determines the fixed capital requirement. Large size business have high fixed capital requirement and vice versa.

CHAPTER 2 (PAGE 37)

CASE STUDY NO. 1

a) Yes, the company is financially sound because retained earnings are double of equity share capital.
b) Yes, the retained earnings can be converted into share capital by issuing bonus shares to equity shareholders.
c) Retained earning is an internal source of raising finance.

CASE STUDY NO. 2

a) According to me, Mr. Satish will choose to invest in equity shares issued by the company.
b) He receives dividend as return on investment
c) As a shareholders, he has a right to vote and participate in the management of the company.

CASE STUDY NO. 3

a) Mr. Rohit should opt for preference shares issued by the company.
b) Mr. Rohit receives dividend as return on his investment.
c) The return on investment which Mr. Rohit receives is fixed.

CHAPTER 3 (PAGE 66)

CASE STUDY NO. 2

a) TRI Ltd. Company should offer IPO.
b) No, the company cannot offer bonus shares to raise its capital as bonus shares are given out of accumulated profits or reserves.
c) Yes, the company can enter into underwriting agreement with underwriters to raise its minimum subscription.

CHAPTER 4 (PAGE 79)

CASE STUDY NO. 1

a) Yes, the company should appoint debenture trustee as the company proposes to issue debentures to the public.
b) Yes, the company should create a charge on its assets because the Board of Directors have decided to issue secured debentures.
c) Yes, the tenure of debentures can be less than 10 years but all secured debentures should be redeemed within 10 years from the date of its issue.

CASE STUDY NO. 2

a) No, the company cannot issue unsecured debentures as it is prohibited as per Companies Act, 2013
b) No, A company cannot issue irredeemable debentures.
c) No, debentureholders cannot have normal voting rights as they are creditors of the company.

CASE STUDY NO. 3

a) The maximum tenure of the debentures can be 10 years.
b) No, the proposed issue is not within the borrowing powers of the Board as Articles of Association of the company permits only upto ₹ 5 crore.
c) Company should issue debenture certificate within 6 months of allotment of debentures.

CHAPTER 5 (PAGE 92)

CASE STUDY NO. 1

a) No, they cannot accept deposits from the public as net worth of the company is less than 100 crores.
b) No, they cannot accept deposits which matures after 4 years because a company can accept deposits for the maximum period of 36 months.
c) The company should issue deposit receipt within 21 days from date of receipt of money or realization of cheque.

CASE STUDY NO. 2

a) Yes, the company can accept deposits in joint names but there should not be more than 3 names.
b) Yes, the company can accept deposits from its members as it is an eligible public company as per the Companies Act, 2013.
c) Yes, the company can issue the secured deposits by creating charge on its tangible assets.

CASE STUDY NO. 3

a) Yes, the company needs to get shareholders approval for accepting deposits by passing special resolution.
b) Yes, the company has to appoint a deposit trustee as it wants to issue secured deposits.
c) The company should create charge on its assets within 30 days of acceptance of deposits.

CASE STUDY NO. 4

a) No, the company cannot accept deposits from the public because it is a private limited company.
b) SUN Pvt. Limited Company should issue circular to invite deposits.
c) They can accept deposits for maximum period of 36 months.

CHAPTER 9 (PAGE 141)

CASE STUDY NO. 1

a) No, Mr. Z cannot deposit his 100 shares in his saving bank account for demat.
b) Mr. Z needs to open Demat Account for the same.
c) No, RBI will not be the custodian of shares of Mr. Z after demating.

CASE STUDY NO. 2

a) Yes, Mr. R can transfer one share each to his wife, daughter and son provided they have demat account.
b) If Mr. R wants to transfer his shares, he needs to submit duly filled and signed DIS to DP.
c) Yes, Mr. R can nominate his wife in his demat account.

CASE STUDY NO. 3

a) No, Mrs. Z cannot open demat account with NSDL as the demat account can be opened with DP
b) Yes, Mrs. Z is required to pay for opening of account and its maintenance.
c) No, Mrs. Z is not required to send the shares to respective company for demating.

CASE STUDY NO. 4

a) Mr. L is required to fill DRF - Demat Request Form for demating his shares.
b) Mr. L is not required to fill instrument of transfer if he wishes to transfer his shares after dematerialization.
c) No, Mr. L is not required to quote certificate and distinctive number if he wants to transfer his shares after it is in demat form.

CASE STUDY NO. 5

a) Mr. S'^{s} account will be directly credited with dividend amount.
b) Mr. S will get bonus shares in demat form.
c) Mr. S is entitled to dividend and bonus shares.

CHAPTER 10 (PAGE 155)

CASE STUDY NO. 1

a) Yes, the Board of Directors is right in recommending a dividend of ₹ 5/- per share out of free reserves.
b) No, Board of Directors cannot declare the dividend, if it is not approved by AGM.
c) No, Board cannot give dividend in the form of gifts but only in cash.

CASE STUDY NO. 2

a) No, Interim dividend cannot be paid out of free reserves.
b) Yes, the Board is right in declaring interim dividend at the Board Meeting.
c) Yes, the company can distribute the same within 30 days of its declaration.

CASE STUDY NO. 3

a) No, the Board is not justified to decide interim dividend of ₹ 5/- per share even though profit till date are insufficient.
b) No, the Board of Directors cannot declare interim dividend out of free reserves.
c) No, the Board of Directors cannot declare interim dividend out of capital.

CASE STUDY NO. 4

a) Diamond Co. Ltd. should transfer the funds to dividend account within 5 days of its declaration.
b) It must be paid to shareholders within 30 days of its declaration.
c) The company must transfer the unpaid dividend within 7 days after the expiry of 30 days from the date of its declaration.

CASE STUDY NO. 5

a) Yes, it is justified to pay the dividend firstly to its preference shareholders and then to the equity shareholders.
b) Yes, Dividend must be approved in AGM by shareholders.
c) Yes, the company can pay dividend in cash.

CASE STUDY NO. 6

a) Yes, the company is under default, if dividend was not paid within 30 days of its declaration.
b) No, the company is not right in transferring the unpaid dividend to its Debenture Reserve Account as it has to be transferred to Unpaid Dividend Account.
c) No, the company has to transfer the amount of unpaid dividend to IEPF after a period of 7 years.

CHAPTER 11 (PAGE 169)

CASE STUDY NO. 1

a) Joy Ltd. Company should go to primary market to issue its shares.
b) Joy Ltd. Company should offer its shares through public offer to raise capital for the first time.
c) The issue of equity shares by Joy Ltd. Co. will be called as IPO.

CHAPTER 12 (PAGE 178)

CASE STUDY NO. 1

a) The BDI bank should approach SEBI for registering as DP.
b) K.M. Financial should apply to SEBI for getting registered for Debenture Trustee Services.
c) Yes, T.T. Ltd. Company which wants to issue an IPO should register with the SEBI.

CASE STUDY NO. 2

a) Yes, a company needs to be listed on a stock exchange to sell its securities through the stock exchange.
b) The term economic barometer is used to refer to a stock exchange's ability to reflect the economic conditions in a country.
c) The term liquidity refers to the functions of stock exchange as a provider of ready market for sale and purchase of security.

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JUSTIFY THE FOLLOWING STATEMENTS (8 MARKS)

1) The firm has multiple choices of sources of financing.

Ans.

i) Finance is the life blood of business organization. Funds are required at different stages of business.
ii) Company can raise funds from various internal and external sources.
iii) Different type of securities like equity shares, preference shares, debentures, etc. can be issued to raise capital.
iv) Funds may also be borrowed from banks and financial institutions.
v) Retained earnings is one of the important sources of internal financing.
vi) Trade credit is the cheapest and easiest method of raising short term finance. It is free of cost source of financing.

Thus, it is rightly said that, The firm has multiple choices of sources of financing.

2) Fixed Capital stays in the business almost permanently.

Ans.

i) Fixed capital refers to capital invested in fixed assets.
ii) Fixed capital is used for purchasing fixed assets such as land and building, plant and machinery, furniture, etc.
iii) These assets are not meant for resale.
iv) These fixed assets are used in the business for a longer period of time.
v) Fixed capital is needed at the time of establishment of new company.
vi) Fixed capital is also required for expansion and development of business.
vii) It is also needed for replacement of equipments.

Thus, it is rightly said that, Fixed Capital stays in the business almost permanently.

3) There are various factors affecting the requirement of fixed capital.

(Refer page 4 & 5 of text book)

4) Equity shareholders are real owners and controllers of company.

Ans.

i) Equity shareholders do not enjoy preference for dividend. Similarly they do not have priority for repayment of capital at the time of winding up of the company.
ii) They are the joint owners of the company. They have ownership rights in the company.
iii) Then hare right to participate in the management of company.
iv) They have the right to vote on every resolution placed before the general meetings of the company.
v) They have right to appoint directors, amend Memorandum of Association and Articles of Association, etc.
vi) Then enjoy control over the company and bear ultimate risk associated with the ownership.
vii) Hence equity shareholders are real owners and controllers of company.

Thus, it is rightly said that, Equity shareholders are real owners and controllers of company.

JUSTIFY THE FOLLOWING STATEMENTS (8 MARKS)

5) Preference shares do not carry voting rights.

Ans.

i) Preference shares enjoy priority or preference over equity shares for the payment of dividend and repayment of capital.
ii) They carry fixed rate of dividend.
iii) Preference shareholders are co-owners of the company but not controllers.
iv) They do not take much risk as they are cautious investors.
v) They do not have normal voting rights like equity shares.
vi) They can vote on any such matter which directly affect their interest.
vii) They do not attend general meetings or take part in the management of the company.

Thus, it is rightly said that, Preference shares do not carry voting rights.

6) Public deposit is good source of short term financing.

Ans.

i) The deposits accepted by the company from general public are called public deposits.
ii) Public deposit is an important source of financing short term requirement of company
iii) Public limited companies and not private limited companies can accept deposits from the general public.
iv) A company can accept deposits for a minimum period of 6 months and for a maximum period of 36 months.
v) The company issues 'Deposit Receipt' to depositor. The terms of deposit are mentioned in the Deposit Receipt.
vi) Deposits are either secured or unsecured loans offered to the company.
vii) Hence, Public deposit is good source of short term financing.

Thus, it is rightly said that, Public deposit is good source of short term financing.

7) Bond holder is creditor of the company.

Ans.

i) Bond is a debt security. It is a formal contract to repay the borrowed money with interest.
ii) It is an interest bearing certificate issued by government, semi-government or business firms to raise capital.
iii) Bondholders get interest as return on their investment which is decided and fixed at the time of issue.
iv) They do not enjoy any voting rights and cannot participate in the management of the company.
v) The bondholders are not entitled to get dividend from the company as it is paid to owners (Shareholders)
vi) Hence bondholder is creditor of the company.

Thus, it is rightly said that, Bond holder is creditor of the company.

JUSTIFY THE FOLLOWING STATEMENTS (8 MARKS)

8) Equity share capital is risk capital.
Ans.
- i) The equity shares do not enjoy preference for dividend. Similarly they do not have priority for repayment of capital at the time of winding up of the company.
- ii) Equity shareholders have claim over residual proceeds of the company.
- iii) They do not have guarantee of getting dividend every year.
- iv) They get dividend at the rate recommended by the Board of Directors.
- v) If there is no profit, no dividend will be payable. Similarly, if there is less profit, lesser dividend will be paid.
- vi) They are described as 'shock absorbers' when company has financial crisis.
- vii) If the company suffers loss, the market value of shares falls down resulting into capital loss to the shareholders.

Thus, it is rightly said that, Equity share capital is risk capital.

9) ESOS is offered by a company to its permanent employees, directors and officers.
Ans.
- i) Under Employee Stock Option Scheme (ESOS), company encourages employees' participation in the business of the company.
- ii) Under this scheme, company offers certain shares from the new issue to the whole time directors, officers or employees of the company.
- iii) The shares are offered at a price lesser than the market price.
- iv) ESOS must be approved by passing a special resolution in the general meeting.
- v) Through ESOS, company can retain its good and talented employees.
- vi) A company may offer the shares directly to the employees or through an Employee Welfare Trust.
- vii) Employee cannot transfer his option under ESOS to any other person.

Thus, it is rightly said that, ESOS is offered by a company to its permanent employees, directors and officers.

10) To issue bonus shares, a company has to fulfill certain provisions. (Refer Page No. 45)

11) A member of public company can transfer shares.
Ans.
- i) Transfer of shares means voluntary transfer of ownership of shares from one person to another.
- ii) A member may transfer the shares for consideration or give it as a gift to other person.
- iii) In case of public companies, shares are freely transferable subject to provisions of the Articles of Association.
- iv) A member has to apply to the company for transfer of shares by filling the instrument of transfer.
- v) Such transfer instrument / form must be signed by the transferor, transferee and a witness.
- vi) A member can sell either a part or all shares held by him.

JUSTIFY THE FOLLOWING STATEMENTS (8 MARKS)

vii) Transfer is said to be complete only when transfer is registered in the Register of Members.

Thus, it is rightly said that, A member of public company can transfer shares.

12) Company has to fulfill certain provision while making right issue
(Refer Page No. 44 & 45)

13) A company has to create charge on its assets for issuing secured debentures.

Ans.

i) All secured debentures should be redeemed within 10 years from the date of its issue.
ii) Company has to create a charge on the assets of the company or its subsidiary company or holding company.
iii) The value of charge should be sufficient for the repayment of the amount of debentures and interest thereon.
iv) If a government company issues secured debentures which has central or state government's guarantee, then it need not create any charge on its assets.
v) All secured debentures have to be secured by the assets of the company.

Thus, it is rightly said that, A company has to create charge on its assets for issuing secured debentures.

14) All companies cannot accept deposits from public.

Ans.

i) A company accepts deposits from the public to raise funds for the company.
ii) There are certain regulations regarding accepting deposits from the public.
iii) Only eligible public companies and government companies can accept deposits from public.
iv) A private company can accept deposits from its members or directors or relatives of directors.
v) Public company other than eligible company can accept deposits from its members or directors.
vi) Advertisement inviting deposits must be published in English and Vernacular Language and it has to be signed by majority of directors.
vii) Thus all companies cannot accept deposits from public.

15) Companies have to create a charge on their tangible assets while issuing secured deposits.

Ans.

i) Every company accepting secured deposit from public has to create a charge on its tangible assets for an amount not less than the amount of deposit accepted.
ii) The charge should be created within 30 days of acceptance of deposits.
iii) This is done to safeguard the interest of the depositors.

iv) The minimum amount of security should be equal to the amount not covered by Deposits Insurance.
v) The security is created in favour of the Deposit Trustees.
vi) In case a company fails to repay the amount of deposits, the depositholders can sell the assets and recover their amount invested.

Thus, it is rightly said that, Companies have to create a charge on their tangible assets while issuing secured deposits.

16) Company issuing deposit must open Deposit Repayment Reserve Account.

Ans.

i) As per the Indian Companies Act 2013, every company accepting deposits has to open Deposit Repayment Reserve Account in a scheduled bank.
ii) This account can be used only for repaying deposit.
iii) Company has to deposit an amount not less than 15% of the amount of deposits maturing during the current year and following financial year.
iv) The amount should be deposited on or before 30th April each year in Deposit Repayment Reserve Account.

Thus, it is rightly said that, Company issuing deposit must open Deposit Repayment Reserve Account.

17) Depository provides easy and quicker transfer of shares.

Ans.

i) Under depository system, Securities are held in electronic form.
ii) The transfer and settlement of securities are done electronically.
iii) This system facilitates quick settlement of the securities transactions.
iv) Processing time in transfer of securities is reduced and neither the securities nor the cash is tied / held for unnecessarily long time.
v) No stamp duty is required to be paid on transfer of securities.
vi) It also maintains the accounts of the shareholder, collects dividend, bonus shares, etc. on behalf of the shareholders.
vii) After the settlement of transaction, in very short time securities are credited or debited in the demat accounts of the transferee and transferor respectively.

Thus, it is rightly said that, Depository provides easy and quicker transfer of shares.

18) Depository system results in reduced time, cost and efforts.

Ans.

i) Under depository system, securities are held in electronic form.
ii) The transfer and settlement of securities are done electronically.
iii) This system maintains accounts of the shareholder, collects dividend, bonus shares etc. on benefit of the shareholders.

JUSTIFY THE FOLLOWING STATEMENTS (8 MARKS)

iv) This system eliminates huge volume of paperwork, storage and handling of physical certificates.
v) It also reduces the efforts in filling transfer forms and lodging the documents with the company.
vi) No stamp duty is required to be paid on the transfer of shares.
vii) It also saves the expenses on postage, courier, registration xeroxing, etc.

Thus, it is rightly said that, Depository system results in reduced time, cost and efforts.

19) DP is an important constituent of Depository System. (Refer Page No. 130 & 131)

20) Electronic holding of securities is safer than physical holding.
Ans.
i) Electronic holding of securities means holding the securities in dematerialized form
ii) Conversion of physical certificates into electronic form is known as 'Dematerialization'
iii) Holding of securities in electronic form eliminates huge volume of paper work.
iv) Use of technology facilitates paperless trading which eliminates storage and handling of certificates. It also helps in reducing cost and efforts.
v) All risks associated with physical certificates like delays, lost, theft, mutilation bad deliveries, etc. are eliminated.
vi) Delay in transfer and allotment of securities is also avoided.
vii) The process involved in electronic securities transactions is fast, safe and secure.

Thus, it is rightly said that, Electronic holding of securities is safer than physical holding.

21) Dividend is paid out of profits of the company.
Ans.
i) Dividend is the portion of profits of the company paid to its shareholders.
ii) Dividend is declared and paid only when company has sufficient net divisible profits.
iii) Dividend can be paid out of capital profits if capital profits are realized in cash and Articles of Association of the company permits such a distribution.
iv) Dividend cannot be paid out of capital. The payment of dividend out of capital is illegal.
v) Dividend can also be declared and paid out of premium earned on the issue of shares.

Thus, it is rightly said that, Dividend is paid out of profits of the company.

22) Interim dividend can not be paid out of free reserves.
Ans.
i) Interim dividend is the dividend which is declared between two annual general meetings of a company.
ii) It is paid in the middle of the accounting year.
iii) It is paid before the finalization of annual accounts for the year.

JUSTIFY THE FOLLOWING STATEMENTS (8 MARKS)

iv) It is declared when company makes substantial profit in the first half of the financial year and also hopes to make similar profit in the second half year.
v) It is declared out of profits of the current accounting year.
vi) The declaration of interim dividend does not create a debt against a company.
vii) The Board of Directors can cancel an interim dividend after declaring it.

Thus, it is rightly said that, Interim dividend can not be paid out of free reserves.

23) Interest is a liability / obligation of the company.
Ans.
i) Interest is the price paid for the capital borrowed by the company.
ii) Interest is a charge against the profit of the company.
iii) Interest is the liability as it is a payment made for using another person's money.
iv) Interest is not linked with the profits of the company.
v) Even if company incurs loss, it has to pay interest to the lenders or creditors.
vi) Payment of interest is an obligation and is to be paid by the company compulsorily.

Thus, it is rightly said that, Interest is a liability / obligation of the company.

24) Unpaid dividend cannot be used by the company.
Ans.
i) The dividend which has not been paid to the shareholders within 30 days of its declaration is called unpaid dividend.
ii) Unpaid dividend should be transferred to 'Unpaid Dividend Account' within 7 days of the expiry of 30 days of declaration.
iii) The company has to put up the details of the unpaid dividend on a website within 90 days of transfer of amount in the Unpaid Dividend Account.

iv) Any amount remaining unpaid in the 'Unpaid Divided Account' for 7 years should be transferred to IEPF.
v) Company cannot use unpaid dividend. Only claimant of money can claim for it by following certain procedures.

Thus, it is rightly said that, Unpaid dividend cannot be used by the company.

25) AGM is crucial for final dividend.
Ans.
i) Final dividend is declared and paid after closing of the financial year.
ii) It is decided and recommended by the Board of Directors.
iii) It is declared only after the accounts of the year are prepared and finalized.
iv) Final dividend is declared by the shareholders in the AGM.
v) Declaration of final dividend does not need the authorization of Articles of Association.
vi) However holding of AGM is not necessary to declare interim dividend. Only board resolution is enough to declare interim dividend.

JUSTIFY THE FOLLOWING STATEMENTS (8 MARKS)

26) Financial markets act as link between investors and borrower.

Ans.

i) The financial market is the market which brings together borrower and lender.
ii) It is the market where financial assets (Financial Instruments) are traded.
iii) Financial market attracts funds from the investors and channelizes them to corporations.
iv) Financial market facilitates productive use of excess and idle funds lying with the investors.
v) Financial market links the investors that have savings with corporates that require investment.
vi) It obtains funds from various units such as individuals, households, private and public sector units, central government, etc. and supply these funds to those business units who need it.

27) Capital market is useful for corporate sector.

Ans.

i) A market place where long term funds are borrowed and lent is called 'Capital Market'
ii) The financial instruments such as equity shares, preference shares, debentures, bonds, government securities public deposits, etc. are used in the capital market.
iii) The corporate sector issues and sells capital market instruments and collect huge amount of funds from the public, banks, financial institutions, mutual funds, etc.
iv) Capital market also contributes to capital formation in the economy.
v) Capital market is helpful in development of corporate and industrial sectors.
vi) Through this market corporates, financial institutions, industrial organizations collect long term funds from both domestic as well as foreign markets.

Thus, it is rightly said that, Capital market is useful for corporate sector.

28) The Securities and Exchange Board of India (SEBI) is the regulator for the securities market in INDIA.

Ans.

i) SEBI was established by the Government of India in the year 1992 to regulate, control and promote the activities of stock exchanges in India.
ii) Objectives of SEBI are to protect the interest of the investors and regulate the securities market in India.
iii) SEBI also registers and regulates the working of stock brokers, sub-brokers, share transfer agents, mutual funds, bankers, underwriters, etc.
iv) SEBI also brings professionalism in the working of intermediaries in the capital market i.e brokers, mutual funds, stock exchange, depositories, etc.
v) SEBI issues rules and regulations which are to be followed by the issuers of securities, the intermediaries and the investors.

Thus, it is rightly said that, The Securities and Exchange Board of India (SEBI) is the regulator for the securities in INDIA.

JUSTIFY THE FOLLOWING STATEMENTS (8 MARKS)

29) Stock exchanges work for the growth of the Indian Economy.

Ans.

i) Stock Exchange is an organized market for the purchase and sale of industrial and financial securities.
ii) Securities of various companies are traded on the stock exchange.
iii) Investors invest in those companies which give good returns on investment.
iv) Stock exchange helps in raising medium term capital as well as low term capital for the development and expansion of companies in the Indian Economy.
v) New industries and commercial enterprises easily acquire capital funds through the issue of securities.
vi) In Indian economy stock exchanges support and promote industrial development and growth.

Thus, it is rightly said that, Stock exchanges work for the growth of the Indian Economy.

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<u>SECRETARIAL PRACTICE</u>
<u>XIITH STD.</u>
<u>LONG ANSWER TYPE QUESTIONS (08 MARKS)</u>

Q.1) What is an Equity Share? Explain its features.
Ans:
Equity shares are also known as ordinary shares. Every company has to issue equity shares. It is fundamental and basic source of financing activities of business. Equity share capital is also known as risk capital or venture capital. The equity shares do not have priority in respect of payment of dividend and repayment of capital at the time of winding up of the company. According to Companies Act, "Equity shares are those shares which are not preference shares."

<u>FEATURES:</u>

1) **<u>Permanent Capital: -</u>** The equity share capital represents permanent capital of the company. The equity shares are irredeemable. This is because equity share capital is refunded back only at the time of winding up of the company.

2) **<u>Fluctuating Dividend: -</u>** Equity Shares carry fluctuating rate of dividend depending upon profitability of the company. If company earns more profit, dividend is paid at higher rate. If there is insufficient profit, the equity shareholders may not get any dividend.

3) **<u>No Preferential Right: -</u>** Equity shareholders do not enjoy preferential right in respect of payment of dividend and repayment of capital at the time of winding up of the company.

4) **<u>Rights: -</u>** Equity shareholders enjoy certain rights such as right to vote, right to inspect books of accounts, right to transfer shares, right to elect directors, etc.

5) **<u>Controlling Power: -</u>** Equity shareholders enjoy control over the management of the company. They elect their representatives called directors. They can also exercise their voting rights by proxies. Equity shareholders are known as real masters of the company.

6) **<u>Risk: -</u>** Equity shareholders are the real risk bearers of the company. If the income of company falls, they may get low rate of dividend. Due to this market value of equity shares goes down which results into capital loss.

7) **<u>Residual Claimants: -</u>** Equity shareholders are the residual claimants to all earnings after expenses, taxes, etc. have been paid. They have advantage of receiving entire earnings that is left over.

8) **<u>Face Value:</u>** - The face value of equity shares is low. It is normally ₹ 1 or ₹ 10.

9) **Market Value: -** There is more fluctuation in the market value of equity shares in comparison to other securities. Therefore these shares are more appealing to speculators.

10) **Bonus Issue: -** Bonus shares are given as free gift to existing equity shareholders of the company. These shares are issued out of undistributed surplus profits of the company.
11) **Right Issue: -** Equity shareholders also enjoy the benefit of right issue. When a company raises further capital by issuing shares, the existing equity shareholders are given priority to get newly offered shares.

12) **No Charge on Assets: -** The equity shares do not create any charge on assets of the company.

13) **Types: -** Companies can issue two types of equity shares which are:
    a. Equity shares with normal voting rights.
    b. Equity shares with differential rights.

14) **Capital Appreciation: -** Equity shareholders enjoy the benefit of capital appreciation when the market value of shares increases in the share market.

Q.2) What are preference shares? State its features.
Ans:
The shares which carry preferential rights are termed as preference shares.

Preference shares are those shares which enjoy priority over equity shares in respect of payment of dividend and repayment of capital at the time of winding up of the company. These shares carry fixed rate of dividend. Preference shareholders do not enjoy normal voting rights. They can vote only on those matters which affect their interest such as selling of undertaking or changing rights of preference shares etc. Preference shareholders are co-owners but not controllers.

FEATURES:

1) **Preference for Dividend: -** Preference shares get priority / preference over equity shares in respect of payment of dividend. The dividend is payable to preference shareholders before it is paid to equity shareholders.

2) **Preference for repayment of capital: -** Preference shares have priority / preference over equity shares in respect of repayment of capital at the time of winding up of the company.

3) **Fixed Return: -** Preference shares carry divided at fixed rate which is decided at the time of issue. Preference shareholders are entitled to dividend which can be paid only out of profit.

4) **Nature of Capital: -** Preference shares do not provide permanent share capital. These shares are redeemed after certain period of time, A company cannot issue irredeemable preference shares.

5) **<u>Market Value: -</u>** The market value of preference shares does not change. This is because these shares carry dividend at fixed rate. The capital appreciation is low as compared to equity shares.

6) **<u>Voting Rights: -</u>** The preference shares do not have normal voting rights. They have voting rights in respect of those matters which affect their interest. For Example change in terms of repayment of capital. Etc.

7) **<u>Risk: -</u>** Preference Shares are less risky. Normally cautious investors who do not like to take large risk, prefer to purchase preference shares.

8) **<u>Face Values: -</u>** Face value of preference shares is relatively higher than that of equity shares. It is normally ₹ 100.

9) **<u>Right or Bonus Issue: -</u>** Preference shareholders do not enjoy the benefits of bonus shares or right shares.

10) **<u>Nature of investor: -</u>** Investors who are interested in safety of capital and also want to earn regular income on investment generally purchase preference shares.

Q.3) Define preference shares. What are the different types of preference shares?
Ans. (For meaning and def. refer Question No. 2)

<u>TYPES OF PREFERENCE SHARES</u>

1) **Cumulative Preference Shares: -** Cumulative preference shares are those on which divided gets accumulated until it is fully paid. This means if the dividend is not paid in one or more years due to inadequate profit then such unpaid dividend gets accumulated. The accumulated dividend is paid when company performs well. The arrears of dividend are paid before making payment to equity shareholders.

2) **Non-Cumulative Preference Shares: -** Non-Cumulative preference shareholders get dividend only when the company earns profit. If company does not pay dividend in any year due to inadequate profit or loss, it does not accumulate. It is lost forever.

3) **Participating Preference Shares: -** Participating preference shareholders have right to participate in the surplus profits of the company. The surplus profit which remains after the dividend has been paid to equity shareholders upto certain limit, is distributed to preference shareholders.

4) **Non-Participating Preference Shares: -** Non Participating preference shareholders are entitled only to fixed rate of dividend. If the Articles of Association is silent about this issue, then it is implied that the preference shares are non-participating.

5) **Convertible Preference Shares: -** The preference shares which can be converted into equity shares after certain period are called convertible preference shares.

6) **Non-Convertible Preference Shares: -** Non convertible preference shares are those shares which can not be converted into equity shares.

7) **Redeemable Preference Shares: -** Redeemable preference shares are those shares which can be redeemed after certain fixed period. Such issue must be authorized by the Articles of Association. These shares must be fully paid. These shares are redeemed out of divisible profit or out of fresh issue of shares made for this purpose.

8) **Irredeemable Preference Shares: -** Irredeemable preference shares are those which are redeemed only on the winding up of the company. As per companies Act, 2013, the company cannot issue irredeemable preference shares.

Q.4) Define Debenture and explain the features of debentures.
Ans.
The word debenture comes from the latin word debare which means to 'Owe'. Debentures represent borrowed capital. A person who purchases debenture is called as Debentureholder. The debentureholders are creditors of the company. Debentureholders get fixed rate of interest as return on their investment. Board of Directors has the power to issue debentures. According to section 2(30) of the companies Act, 2013 "the word debenture includes debenture stock, bonds and any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not".

FEATURES:-

1) **Promise: -** Debenture is a written promise by company that it owes specified sum of money to holder of the debenture.

2) **Face Value: -** The face value of debenture is usually of high denomination e.g. ₹ 100 or multiples of ₹ 100

3) **Time of repayment:** - Debentures are issued with due date stated in Debenture Certificate. Principal amount of debentures is repaid on maturity date.

4) **Interest: -** Debentureholders get interest at fixed rate on their investment. They get interest at regular intervals. Interest has to be paid regularly whether there is profit or not.

5) **Assurance of repayment: -** Debentures are considered as long term debt. They carry assurance of repayment of such debt on maturity date.

6) **Parties to debentures: -** There are three parties to debentures.
    a. Company: -This is the entity which borrows money.
    b. Trustee: -This a party through whom the company deals with debenture holders. The company makes an agreement with trustees and debenture holders.
    c. Debentureholders: - They are persons who provide loan and receive debenture certificate.

7) **No Voting Rights: -** Debentureholders do not have any voting rights in the general meetings of the company.

8) **Security: -** Debentures are generally secured by fixed or floating charge on the property of the company.

9) **Listing: -** Debentures must be listed with at-least one recognized stock exchange.

10) **Status of Debentureholder**: - As debenture holder provides loan to the company, he is called creditor of the company.

11) **Priority of Repayment: -** Debenture holders have a priority in repayment of debenture capital over the other claimants of company.

12) **Authority to issue debentures:** According to the Companies Act 2013, Section 179 (3), the Board of Directors has the power to issue debentures.

13) **Issuers:** Debentures can be issued by both private company and public limited company.

14) **Transferability:** Debentures can be easily transferred, through the instrument of transfer.

Q.5) What is debenture? Discuss the difference types of debentures.
(For meaning and Definition refer Q.4)
Ans.

<u>TYPES OF DEBENTURES</u>

1) **Secured Debentures:** Secured debentures are those which are secured by creating a charge on the property or assets of the company. The charge may be fixed or floating. The debentures are secured through 'Trust Deed'

2) **Unsecured Debentures:** Unsecured debentures have no security. The holders of unsecured debentures are ordinary unsecured creditors of the company. According to Companies Act, 2013, companies can not issue unsecured debentures.

3) **Registered Debentures:** Registered debentures are those on which the name of the holders is recorded. The Company maintains Register of Debentureholders in which the names, addresses and particulars of the holdings of the debentureholders are entered. These debentures can be transferred through a regular instrument of transfer. Interest is paid though interest warrant on these debentures.

4) **Bearer Debentures:** Bearer debentures are those on which names of holders are not recorded. The company does not keep any record of the names and addresses of these debentureholders. Bearer debentures are transferable by mere delivery. Interest on these debentures is paid by means of coupons attached to debentures certificate.

5) **Redeemable Debentures:** Redeemable debentures are those which are issued for a fixed period. These debentures are redeemed after expiry of the fixed period or in installments. The Provision of repayment is normally made in the Trust Deed.

6) **Irredeemable Debentures:** Irredeemable debentures are those which are not redeemed during the life time of the company. These debentures are redeemed only after the liquidation of the company or when there is breach of any condition or when some contingency arises.

7) **Convertible debentures:** The convertible debentures are those which are convertible into equity shares after a specific period at the option of the debentureholder. Special resolution in the general meeting must be passed for issue of convertible debentures. Convertible debentureholders are entitled to get equity shares at a rate lower than the market value.

8) **Non-Convertible Debentures:** Non-convertible debentures are those which are not convertible into equity shares. These debentures are normally redeemed on their due date.

Q.6) Explain the statutory provisions for allotment of shares.
Ans.
Where a company gives shares to an applicant based on the application submitted, it is called as allotment of shares. The company issues prospectus and application form which applicant has to fill and submit it with application money. The Board of Directors approves such applications in the board meeting by passing a resolution. This is called as allotment of shares.

Following are the statutory provisions for allotment of shares.

1) **Registration of Prospectus:** A copy of the prospectus must be filed with the Registrar of Companies for registration on or before the date of its publication. In case of newly formed company a prospectus must be signed by every proposed director or director or his duly authorized advocate.

2) **Application Money:** The applicant has to pay a minimum of 5% of nominal amount of the shares along with the application form. For public limited companies SEBI has specified that application money should be minimum 25% of the nominal amount of shares.

3) **Minimum Subscription:** Minimum subscription is the minimum amount of shares which should be bought by the subscribers. According to SEBI minimum subscription should be 90% of the issue. If the minimum subscription is not collected within the specified time, the company has to return the entire amount of application money to subscribers.

4) **Closing of Subscription List:** According to SEBI, the subscription list must be kept open for atleast three working days and not more than ten workings days.

5) **Basis of allotment:** Allotment of shares will be decided on the basis of each category of subscribers. Allotment of shares will be as per the minimum application size which is fixed by the company.

6) **Over Subscription:** Over subscription refers to situation in which company receives more application of the shares than the number of shares offered. SEBI does not allow any allotment which is in excess of offer given by company through document or prospectus. SEBI may permit to allot the shares not more than 10% of the net offer.

7) **Permission to deal on Stock Exchange:** Every company before making a public offer is required to list its securities on atleast one recognized stock exchange. The prospectus must mention the name of the stock exchange in which company is listed.

8) **Appointment of Managers to the issue and various other agencies:** Company has to appoint one or more Merchant Bankers to act as managers to the public issue. It also has to appoint Registrar to the issue, collecting bankers, underwriters, Brokers, advertising agencies, etc.

Q.7) Explain the Two Methods a company can use to make its public offer of shares.
(Chapter 3 Page: 42 & 43)

Q.8) Explain briefly the different types of shares offered by a company to its existing equity shareholders.
(Chapter 3 Page: 44 & 45)

Q.9) Briefly explain the provisions of companies Act, 2013 for issue of debentures.
(Chapter 4 Page 70)

Q.10) Explain briefly the procedure for issue of debentures.
(Chapter 4 Page 72)

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EXPLAIN THE FOLLOWING TERMS / CONCEPTS **8 MARKS**

1) FINANCING DECISION

Ans.

Financing decisions means decisions relating to selection of the right source of funds for a firm. The firm has multiple choices of sources of financing. The firm can choose whether it wants to raise equity capital or debt capital. Firm can even opt for bank loan, public deposits, debentures etc. to raise funds. The finance manager ensures that the firm is well capitalized.

2) INVESTMENT DECISION

Ans.

Investment decisions refer to the decisions regarding utilization of funds raised by the firm. It relates to the selection of assets in which funds are to be invested.

The finance manager has to take this decision in systematic manner to that it will bring maximum return for its owners.

The funds can be invested in two types of assets, namely:

- ⇨ Long term assets or fixed assets
- ⇨ Short term assets or current assets

3) FIXED CAPITAL

Ans.

Fixed capital refers to capital invested in fixed assets. Fixed Capital is invested in long term assets such as land, building, equipment, etc.

Investor invests money in fixed capital to make future profit. Fixed capital is usually required at the time of establishment of the company. It is almost permanent capital.

4) WORKING CAPITAL

Ans.

Working capital is the capital which is used to carry out the day to day business activities. The business firm has to arrange capital for making investment in short term assets such as cash, account receivable, inventory, etc.

The capital invested in these assets is referred as 'Working Capital'. Investor invests money in working capital for getting immediate return. It is circulating capital.

5) BORROWED CAPITAL

Ans.

Borrowed capital is that capital which is borrowed from creditors. It is also known as debt capital. Interest has to be paid on borrowed capital whether company makes profit or not.

Company borrows capital when the owned capital is not sufficient. Company can raise borrowed capital in the form of:

- ⇨ Debentures
- ⇨ Public Deposits
- ⇨ Bonds
- ⇨ Loans, etc.

6) OWNED CAPITAL

Ans.

The capital raised by the company with the help of owners (shareholders) is called owned capital or ownership capital. Owned capital is regarded as permanent capital, as it is returned only at the time of winding up of the company.

Owned capital can be raised in the form of:

- ⇨ Shares, i.e Equity and Preference Shares,
- ⇨ Retained Earnings.

Retained Earning is an internal source of financing.

7) PLOUGHING BACK OF PROFIT

Ans.

Retained earnings is internal source of financing. It is nothing but ploughing back of profit. In simple words, a part of net profit, which is not distributed to shareholders as dividend is retained by company. This accumulated profit is reinvested in the business. The Management can convert retained earnings into permanent share capital by issuing bonus shares.

8) OVERDRAFT

Ans.

A company having current account with bank is allowed overdraft facility. The borrower can withdraw funds as and when needed. He is allowed to overdraw on his current account, up to the credit limit sanctioned by bank. Within this stipulated limit, any number of drawings are permitted. Repayments can be made whenever required during the time period. The interest is determined based on actual amount withdrawn.

9) TRANSMISSION OF SHARES

Ans.

Transmission of shares means the transfer of ownership of shares by the operation of law.

When the shares of a member are automatically transferred to another person on the death, insolvency or insanity of a member, it is called Transmission of shares.

Transmission of shares is an involuntary action.

There is only one party i.e., legal heir who initiates the process of transmission.

The legal heir or official receiver need not pay any consideration for the shares.

There is no need to submit Instrument of Transfer or pay stamp duty.

10) BONUS SHARES

Ans.

Bonus shares are fully paid shares issued free of cost to the existing equity shareholders in proportion to their shareholdings. Usually financially sound companies issue bonus shares out of its accumulated distributable profits or reserves. Hence, as the profits or reserves are capitalized, it is also called as ‘Capitalisation of Profits or Reserves’. A company can issue bonus shares only out of:

- ⇨ Free reserves or
- ⇨ Securities Premium Account or
- ⇨ Capital Redemption Reserve Account

11) ALLOTMENT OF SHARES

Ans.

When a company gives shares to an applicant based on the application submitted, it is called as allotment of shares. Allotment of shares means allocating (giving) certain number of shares by Board of Directors out of the previously unallocated capital of the company to persons who have applied for the shares. The Board of Directors has the power to allot shares.

12) EMPLOYEE STOCK OPTION SCHEME

Ans.

Employee stock option plan is an employee benefit scheme under which the company encourages its employees to acquire ownership in the form of shares. Under this scheme, permanent employees, Directors or Officers of the Company or its holding company or subsidiary company are offered the benefit or right to purchase the equity shares of the company at a future date at a predetermined price. ESOS encourages employees as they feel proud to be owners of the company.

13) SWEAT EQUITY SHARES

Ans.

Sweat equity shares are shares issued by a company to its directors or employees at a discount or for consideration other than cash. It is issued in recognition of their valuable contribution to the company which has resulted in increased profits. Sweat equity shares rank pari passu (treated at par) with other equity shares. These shares have lock-in period of three years.

14) SHARE CERTIFICATE

Ans.

Share certificate is a registered document issued by a company which is an evidence of ownership of specified number of shares of the company. Share certificate has to be issued under the common seal of the company and signed by two directors duly authorized by the Board of Directors and the Company Secretary. It is issued on partly or fully paid up shares.

15) MINIMUM SUBSCRIPTION

Ans.

Minimum subscription is the minimum amount of shares that must be taken or bought by the subscribers. This amount is mentioned in the prospectus. It must be collected within thirty (30) days from issue of prospectus. SEBI has stated that minimum subscription should be 90% of the issue.

16) TRANSFER OF SHARES

Ans.

Transfer of shares means transfer of ownership of shares from one person to another.

Transfer of shares takes place when the shareholder wants to sell his shares or give as a gift to other person. Shares can only be transferred by following the procedure laid down in Articles of Association. Stamp Duty has to be paid on transfer of shares in physical form but in demat form, no stamp duty is payable.

17) INITIAL PUBLIC OFFER

Ans.

Initial Public Offer refers to the process of offering shares of a company to the public for the first time. A new company or an existing company may offer its shares to the public when it is in need of fresh funds. After IPO, a company becomes a listed company and its shares can be bought and sold by investors in the open market. A company can make IPO through fixed price Issue method or Book-Building method.

18) BLANK TRANSFER

Ans.

When a member signs the Instrument of Transfer without filling the name of the transferee and hands it over to the transferee alongwith the share certificate, it is called ‘blank transfer’. Blank transfer enables easy purchase and sale of share as the blank transfer form can be sold any number of times. The intermediate buyers need not pay stamp duty. A holder of blank transfer form enjoys all rights of a member.

19) FURTHER PUBLIC OFFER

Ans.

When a company issues shares to the public after an IPO, it is called as Further Public Offer or Follow on Public Offer. Thus, every issue of shares by a listed company after its IPO is called as FPO. FPO leads to an increase in the subscribed capital of a company.

20) FORGED TRANSFER

Ans.

An instrument on which the signature of the transferor is forged is called forged transfer.

It is a null transfer and does not counter any title.

As signature of transferor is forged, company should not register such transfer of shares.

21) RIGHT ISSUE

Ans.

When a company wants to raise further capital, it can issue shares to its existing equity shareholders in proportion to their existing shareholding. Such an issue of shares is called as ‘Rights Issue’ of shares. Whenever a company makes further issue of shares, the existing equity shareholders have ‘pre-emptive rights’ to apply for new shares offered by the company. Right Shares are sold to the existing shareholders at a price which is lesser than its market price.

22) PRIVATE PLACEMENT

Ans.

If a company offers shares to a selected group of investors, not exceeding 200 to raise capital, is called private placement. The selected group can be mutual funds, banks, insurance companies, pension funds and so on. Here securities are not offered to the general public. The shares offered can be fully or partly paid up and the consideration should be paid by cheque, Demand draft, etc. but not by cash.

23) DEBENTURE CERTIFICATE

Ans.

A debenture certificate is a document that certifies that the holder is the debenture holder of the company. Company has to issue Debenture Certificate to the debenture holders within 6 months of allotment of debentures.

24) CHARGE ON ASSETS

Ans.

Company has to create a charge on the assets of the company or its subsidiary company or holding company. The value of charge should be sufficient for the repayment of the amount of debentures and interest thereon.

If a Government company issues secured debentures which has Central or State Government's guarantee, then it need not create any charge on its assets.

25) DEBENTURE TRUST DEED

Ans.

The contract that the company enters into with Debenture Trustees is known as Debenture Trust Deed. The terms and conditions of the agreement are written in the Debenture Trust Deed. It is a legal instrument conveying the assets of a company to the Trustees. The Deed also defines the rights of debentures holders and the duties and powers of Debenture Trustees. Members as well as debenture holders can inspect the deed.

26) DEPOSITORY SYSTEM

Ans.

The system under which shares are held, transferred and settled in electronic form is called depository system. The depository system maintains accounts of the shareholder, enables transfer, collects dividend, bonus shares etc. on behalf of the shareholder. This system is also called as scripless trading system.

In India the Depository System was introduced by passing the Depository Act in 1996.

27) DEMATERIALISATION

Ans.

The process of conversion of physical certificates into electronic mode is called dematerialization. The client has to surrender the physical shares certificates along with the Demat Request Form (DRF) to the DP. The DP forwards these to the depository who in turn forwards it to the issuer. After confirmation from issuer, the depository will credit the securities in the Demat A/c with DP.

28) REMATERIALISATION

Ans.

The process of conversion of electronic holding of securities into physical certificates is called as rematerialisation. The client has to submit Remat Request Form (RRF) to the DP. The DP forwards the RRF to issuer and the depository. The issuer prints the certificates and sends them to the client and simultaneously confirms the acceptance of remat request to the depository. The depository via the DP debits accounts of the client with those securities.

29) FUNGIBILITY

Ans.

In financial terms, fungibility means the state of being interchangeable. The securities held in demat / electronic forms are fungible. They are interchangeable and cannot be distinguished from each other. Securities bear no notable features like distinctive number, certificate number or folio number.

30) ISIN

An International Securities Identification Number (ISIN) uniquely identifies a security. The ISIN code is a 12-character alphanumeric code that serves for uniform identification of a security.

ISINs in any country are allotted by National Numbering Agency (NNA) of that country.

The company has to apply for ISIN for its securities with documents like prospectus.

31) PROFIT

Ans.

Profit is the difference between revenues and the expenses for a given period. Profit making and its maximization is the prime aim of all business organisations. The shareholders invest with an aim of earning returns out of the profits of the company.

Profit is also called as Financial Gain. It is a tool for measuring the success of the business.

32) DIVIDEND

Ans.

The term dividend is derived from Latin word ‘Dividendum’ which means ‘to be divided’. Dividend refers to that portion of profit, which is distributed amongst the shareholders of the company.

Shareholder is entitled to receive dividend when it is formally declared by the company.

Dividend can not be revoked once it is approved and declared by shareholders.

33) INTEREST

Ans.

Interest is the cost of renting money. Rate of interest is expressed as annual percentage of principal. It is directly related to risk. Higher the risk, higher is the interest. It is determined by various factors like money supply, fiscal policy, volume of borrowings, rate of inflation etc.

It is payable at a fixed and generally pre-determined rate.

34) FINAL DIVIDEND

Ans.

Final Dividend is declared and paid after the close of the financial year. It is decided and recommended by the Board of Directors. It is declared by the shareholders in the AGM. It’s declaration does not need authorization by Articles of Association. It is declared from different sources like; current year’s profits, free reserves, capital profits, money provided by govt. for dividend, etc. Rate of final dividend is always higher than Interim Dividend.

35) INTERIM DIVIDEND

Ans.

Dividend declared by the Board of Directors between two Annual General Meetings is called Interim Dividend. Interim dividend is paid in the middle of the accounting year i.e. before the finalization of annual accounts for the year. Opinion of the company’s Auditors should be taken before Interim Dividend. Rate of Interim Dividend is lower than final dividend.

36) UNPAID DIVIDEND

Ans.

The dividend which is declared by the company but has not been paid by it or claimed by a shareholder within 30 days of its declaration is termed as Unpaid and Unclaimed Dividend. The Unpaid Dividend should be transferred by the company to ‘Unpaid Dividend Account’ opened in a scheduled bank. This transfer should happen within 37 days from the declaration of dividend.

37) UNPAID DIVIDEND ACCOUNT

Ans.

When dividend is not paid to or claimed by shareholders within a period of 30 days from the date of its declaration, the company shall, transfer the unpaid / unclaimed dividend to a separate account called “Unpaid Dividend Account”.

The company has to transfer such unpaid / unclaimed dividend within 7 days after the expiry of 30 days from the date of its declaration. The claimant may apply to the company for the payment of his dividend amount.

38) IEPF

Ans.

IEPF means Investors Education and Protection Fund. Any amount in the Unpaid Dividend Account of a company which unpaid / unclaimed for a period of 7 (seven years) from the date of such a transfer shall be, transferred to ‘Investors Education and Protection Fund’. The claimant can claim his dividend by filling the prescribed form and submitting the necessary documents. The claimant need to follow the procedure.

39) RATE OF DIVIDEND

Ans.

Dividend is that part of the profits of a company which is distributed amongst its shareholders. Equity shares are given dividend at fluctuating rate depending upon the profits of the company. Preference shareholders get dividend at fixed rate. Also, rate of interim dividend is lower than final dividend.

40) FINANCIAL MARKET

Ans.

It is a market where financial assets i.e. financial instruments are exchanged or bought and sold. It represents the market which raises finance for the long-term via Capital Market and for the short-term via Money Market. Financial market helps in mobilization of savings and converts it into investments. Thus, financial market acts as an intermediary between investors and borrowers.

41) CAPITAL MARKET

Ans.

It is the market for borrowing and lending long-term capital required by business enterprises. The financial assets dealt within the capital market have long or indefinite maturity period. In this market, the capital funds comprising both equity and debt are issued and traded. Capital market helps in mobilization of resources.

42) MONEY MARKET

Ans.

Money market is a market for short-term loan or financial assets. It meets the short-term requirements of borrowers and provides liquidity or cash to lenders.

It is an important part of the financial system that helps in fulfilling the short term and very short-term requirements of the companies, banks, financial institutions, government agencies, etc. The instruments like commercial paper, treasury bills etc. are traded in the money market.

43) PRIMARY MARKET

Ans.

In primary market, companies sell their shares, debentures, etc. for the first time to raise fresh capital. It exclusively deals with the issue of new securities and hence, also called the new issues market. The main function of the primary market is to facilitate capital formation. Primary market is classified as equity market and debt market.

44) SECONDARY MARKET

Ans.

Secondary market is more commonly known as the stock market or the stock exchange. The secondary market is a place where trading of existing securities takes place.

In other words, securities which are previously issued in the primary market are traded here. Here, the securities are bought and sold by the investors.

Only listed securities can be dealt in the Secondary Market.

45) STOCK EXCHANGE

Ans.

Stock Exchange is a specific place where various securities are bought and sold. The securities include equity shares, preference shares, debentures, government securities and bonds, units of mutual funds etc. Stock markets act as intermediary between investors and borrowers and are regulated by SEBI. Only listed securities can be traded on a stock exchange.

46) Eligible Public Company

47) Tenure of Deposit

48) Secured Deposit

49) Deposit Trustee

50) Charge on tangible assets

51) Deposit Insurance

52) Deposit Repayment Reserve Account

53) Credit Rating

54) Deposit Receipt

55) Return of Deposit

(Please refer Page No. 80, 81, 82 and 83 from the Text Book)

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