Marks : 40	SYJC MARCH' 19 Subject : Secretarial Practice Chapter – 3 & 4	Duration : 1.5 Hours SOLUTION

Q.1 Fill In the blanks **(10)**

1) Shares are transmitted when **a shareholder dies.**

2) Transfer of shares is **Voluntary act.**

3) A share certificate is signed by atleast **2** directors.

4) **Underwriter** is an agent who guarantees purchasing of unsold shares.

5) A **share warrant** does not bear the name of holder.

6) Debenture holder gets income in form of **Interest**.

7) Power to issue debenture rests with **board of directors.**

8) The company has to obtain consent of **SEBI** if issue of debenture exceeds Rs.1 Crore.

9) A return of allotment is to be filed with Registrar within **30** days of allotment.

10) The word debenture is derived from Latin word **Debere.**

Q.2 Match the pairs **(5)**

GROUP A	GROUP B
a) Share Certificate	1) Bonus shares
b) Capitalization of reserves	2) Transfer of shares due to operation of law
c) Under Subscription	3) Bearer document
d) Transfer of shares	4) Sale of gift of shares to another person
e) Private placement	5) more applications than expected
	6) Private company collecting capital privately
	7) Right Issue
	8) Registered Document
	9) Public company collecting capital privately
	10) Less capital than expected

Ans: - a – 8, b – 1, c – 10, d – 5, e – 9

Q.3 Short Notes (Any 2) **(10)**

1) Issue of shares at premium.

Ans:- A company may issue its shares 'at premium'. When a share is issued at a price more than its face value it is said to be issue of shares at premium, e.g. If the face value of the share is ₹ 10 and if it is issued at ₹ 12 then the difference between issue price and face value is known as 'premium'. The Companies Act 1956 doesn't provide any condition or restrictions on issue of share at premium. But as per the provisions of the Companies Act there are restrictions regarding utilization of amount collected by way of premium. As per the provisions of the Act the amount of premium collected on shares must be recorded in a separate account known as 'Securities Premium Account'. The amount of premium can't be distributed as dividend. It can be used only for the purposes as stated in the Section 78(2) of the

Companies Act such as for issue of bonus shares, meeting preliminary expenses, redemption of debentures, preference shares, etc.

Board of directors is the authority to decide the rate of premium. Reputed and well known companies can issue their shares at premium.

2) Bonus shares.

Ans:- Bonus shares are fully paid up shares given by a company as a gift, out of its accumulated or reserves. Only existing equity shareholders are entitled to get bonus shares. Bonus shares are free of cost to equity shareholders in proportion to their existing shareholdings. Certain pro portion decided for issuing bonus shares; for example if the ratio is decided 2:1, it means that a shareholder holding two shares will get one additional share as bonus share. Company brings its reserves or profit into business by way of bonus shares. Therefore, it is also called as ‘capitalization of profit.'

Following are the provisions related with issuing bonus shares –

1. Articles of Association of company must have provision regarding issue of Bonus Shares.
2. Bonus issue must be recommended by Board of Directors.
3. It must be sanctioned by shareholders in general meeting.
4. Bonus shares can be issued out of free reserves, share premium and accumulated profit.
5. No bonus issue shall be made within 12 months of any public right issue.
6. Company can’t issue bonus shares if interest is not paid on debentures or public deposits has defaulted repayment of principal amount or if it has defaulted in respect of employee like provident fund, gratuity, etc.
7. Company can’t issue bonus shares if the conversion of convertible debentures is pending.

A company which announces its bonus issue after the approval of Board of Directors must implement the proposal within a period of six months from the date of such approval and has no option of changing the decision. Bonus shares stand paripassu with equity shares which means they the same rights as equity shares like receiving dividend, voting rights, etc.

3) Share Certificate and its contents.

Ans: - Meaning

An Allottee of shares is entitled to receive a document, called share certificate from the company, certifying that he is the holder of the specified number of shares in the company.

A share certificate is registered ‘document of title’ to the share, issued by the company under its common seal, duly stamped and signed by at least two directors and countersigned by the secretary of the company.

When the shareholders invest their money in shares of the company, they must be given some the company under its common seal. It is a document of title to the share. The word ‘title’ means ownership right. It is a registered document and hence not transferable by mere delivery’. It can be transferred by following the procedure given in the Articles. Every member of the company has right to receive a share certificate.

Contents of the share certificate

A Share certificate must contain the following

i) The name and address of the registered office of the company.

ii) Share certificate number
iii) Name (s) of the shareholder (s)
iv) Number and class of shares.
v) Distinctive numbers of shares included in share certificate.
vi) Nominal value and amount paid on each share.
vii) Day and date of issue.
viii) Common seal of the company.
ix) Signatures of at least two Directors and counter signature of the secretary.

Q.4 Match the pairs **(5)**

GROUP A	GROUP B
a) Debentures b) Redeemable Debentures c) Convertible Debentures d) Debenture Trustee e) Secured Debentures	1) Repaid at anytime 2) Proof of ownership 3) Repaid on maturity 4) Security about repayment 5) Converted into equity shares 6) Borrowed Capital 7) Unsecured investment 8) Protects interest of debenture holders 9) Converted into stocks 10) Owned Capital

Ans:- a – 6, b – 3, c – 5, d – 8, e – 4

Q.5 Short Notes (Any Two) **(10)**

1) Statutory Provision related to issue of debentures.

Ans:- The legal provisions regarding the issue of debentures are as under :

i) Issue by public as well as by private companies : A Public company can issue debentures only after obtaining a certificate to commence a business. On the other hand, a private company can issue debentures immediately after incorporation.

ii) Power to issue under Section 292 (1) : The board of directors has the power to issue debentures, such right can be exercised by passing a resolution in the board meeting.

iii) Terms of issue and redemption : Debentures can be issued at par, at premium or even at a discount. Similarly debentures can be redeemed at par or at premium but debenture cannot be redeemed at a discount.

iv) Mode of issue : Debentures can be issued publicly by issuing a prospectus or privately through private placements.

v) Voting right : According to the Companies Act, a company cannot issue debentures carrying voting right.

vi) Security against debentures : Now Companies can issue only secured debentures. Companies (Amendment) Act, 2000 prohibits issue of insecured debentures.

vii) Permission of SEBI : If the issue exceeds 1 crore, permission from SEBI has to be obtained.

viii) Register of debentures : Company must maintain a separate register of debenture holders. It must contain

a) Names,
b) Addresses
c) Occupation of debenture holders
d) Number of debentures allotted
e) Their distinctive numbers and
f) The amount of debentures, etc.

2) Conversion of debentures.

Ans: - Section 81 (3) of the Companies Act permits the issue of convertible debentures. It enables issue of shares to debenture holders in exchange of the amount due to them, where the terms of issue of debentures provide for such an exchange and such terms are approved both by the special resolution of the general meeting and by the Central Government.

Joint Stock Companies can issue either non-convertible or convertible debentures. Convertible debentures are further classified as

A. Fully convertible debentures (FCD)
B. Partly convertible debentures (PCD)

A. FCD: Fully convertible debentures are those which can be fully converted into equity shares after a specific period of time. The debenture holder becomes the member of the company on conversion of debentures. He becomes eligible for the shares and other rights of the shareholders. If conversion is made after 18 months but before 36 months of allotment, conversion is optional on the part of debenture holder.

B. PCD: Partly convertible debentures are those where part of debentures are converted into equity shares and remaining part continues to be debentures. On conversion of partly convertible debentures the debenture holder becomes a member of company and continues to remain as creditor till non-convertible portion is redeemed on maturity.

3) Conditions for valid issue of debentures.

Ans:- The Company must follow the conditions which are specified in the Companies Act which are as follows –

1) A copy of 'prospectus' must be filed with the Registrar by a public company when the debentures are to be issued to the general public.
   But when company issues debentures privately a 'Statement in lieu of Prospectus' is to be filed with the Registrar of Companies.
2) The amount which the company receives from applicants for debentures should be deposited in a schedule bank.
3) Allotment of debentures may be made by the Board of Directors.
4) Decision of allotment of debentures must be communicated to the applicant by sending a letter of allotment.
5) The total work of allotment must be completed within 120 days from the date of issue of prospectus.
6) 'Debenture Certificate' must be delivered to the holder within 3 months of allotment.
7) Allotment must be absolute and unconditional and as per terms noted in the application form.