

J. K. SHAH CLASSES

SYJC - S. P.

PRELIMINARY TEST - 1

Branch - Charniraod
Total Marks : 80

Date: 26 /12/2016
Total time: 3 hours

Q.1. Select the correct answer from the possible choice given below and rewrite the Sentences. [5]

1. Equity Shares
2. Trust Deed
3. A Voluntary Act
4. Fresh debentures
5. 30

Q.1.(B) Maths the Correct Pairs [5]

- a) Creditors of the company
- b) Approval of depositors
- c) Declared between two AGM
- d) Primary Market
- e) Secondary market

Q.1 (C) Write a word or a term or a phrase which can substitute each of the following Statements [5]

1. Dividend Warrant
2. Debenture Certificate
3. Secondary Market
4. Trade Credit
5. Working Capital

Q.2. Distinguish Between (Any 3) [15]
1. Equity Shares V/s Preference shares.

No.	POINTS	EQUITY SHARES	PREFERENCE SHARES
1	Meaning	Equity Shares are those shares, which do not enjoy preferential right in regard to payment of dividend and repayment of capital.	Preference Shares are those shares, which enjoy preferential right in regard to payment of dividend and repayment of capital.
2	Right of Dividend	Equity Shares receive dividend only after Preference Shares are paid fixed rate of dividend.	Preference shareholders are given preference in the payment of dividend over the Equity Shares.
3	Rate of Dividend	The dividend rate is not fixed. It is fluctuating. The rate of dividend depends upon the profits of the company during the year.	The dividend rate is fixed on Preference Shares. It is fixed at the time of issue of Preference Shares.
4	Types	There are two types of Equity Shares viz. Equity shares with normal voting	There are eight types of Preference Shares viz. cumulative, non- cumulative

		rights and Equity shares with differential voting	participating, non-participating, redeemable, irredeemable, convertible & non-convertible.
5	Return of Capital	Equity Share Capital is permanent capital repaid only in the event of winding up if anything remains after paying Preference Shares.	Redeemable Preference Shares are paid after certain period. Convertible Preference Shares are converted into Equity Shares, but irredeemable Preference Shares are fixed in nature. They are paid before Equity Shares in the event of winding up.
6	Voting Rights	Equity Shareholders enjoy normal voting rights.	Preference Shareholders do not enjoy normal voting rights, but can vote on matters affecting their interest.
7	Bonus & Right Shares	Equity shareholders are eligible for bonus shares and rights shares, if issued by the company.	Preference shareholders are not eligible for bonus shares and right shares, if issued by the company.
8	Nature of Investors	Those investors who are ready to take a risk, invest in Equity Shares. Equity Share Capital appeal to the risk-bearing investors.	Those investors who are not ready to take a risk, invest in Preference Shares. Preference Shares appeal to the cautious investors.
9	Redeemability	Equity Shares are not redeemed during the life of a company.	Redeemable Preference Shares are redeemed after certain period of time.
10	Face value	Normally, Equity Shares are issued for a face value of Rs.10. The face value of Equity Shares is relatively low.	Normally, Preference Shares are issued for a face value of Rs.100. The face value of Preference Shares is relatively high.
11	Risk	Equity Shares are subject to higher risk. Investment in equity shares may get less dividend when company earns less profits.	Preference Shares are subject to Less risks. Investment in Preference Shares normally get steady and regular dividend.

2. Transfer of Share V/s Transmission of Shares

No.	Points	Transfer of shares	Transmission of Shares
1.	Meeting	Transfer of shares means transfer of ownership of shares from one person to another	Transmission of shares means transfer of shares by operation of law.
2.	Kind of Action	Transfer of shares is a voluntary act of the parties i.e. transferor and transferee.	Transmission of shares is a kind of compulsory action on happening of specific event like death, insolvency or lunacy of share holder
3.	Reason	Transfer of shares takes place when both the transferor and transferee are living. It takes	Transmission of shares takes place only on death or insolvency or lunacy of a shareholder. The legal

		place only when the transferor submits instrument of transfer	representative has to submit an evidence proving his legal status.
4.	Intrative	Transfer of shares is affected by the Shareholder i.e transferor or by a Person authorized by him.	Transmission of shares is affected by the legal representative of the share holder.
5.	Consideration	Transfer of shares taken place against some consideration unless shares are transferred by way of gift	The question of consideration does not arise in case of transmission
6	Stamp duty	In case of transfer of shares stamp duty is payable on the market value of share	No stamp duty is payable in case of transmission as it is passing of property without consideration.

3. Money Market V/s Capital market

Sr.No.	Points	Money market	Capital market
1	Meaning	A market where short term funds are borrowed and lend.	A market for borrowing and lending long term capital required by business enterprise.
2	Terms of finance	It provide short term funds, in short term instruments where the maturity is measured in days, weeks, or months.	It is a market for long term instruments which is measured in years.
3	Instruments	The instrument dealt in the market are bills of exchange, treasury bills, bankers acceptance, etc.	The instrument dealt in this market are bonds, debentures, equity shares and stock.
4	Functions	Money market exist as a mechanism of liquidity adjustment i.e. a link between depositors and borrowers.	Capital market functions as a link between the investors and entrepreneurs.
5	Risk	The prices of these instruments do not fluctuate and they carry very low market risk.	The instruments are long term and subject to market fluctuations and so they carry very high financial and market risk.
6	Institution	The commercial banks are the important institutions in the money market.	The stock exchange is an important institution in the capital market.

4. Letter of Allotment V/s Letter of Regret

	Letter of Allotment	Letter of Regret
1.	It is sent when shares are allotted to an applicant.	It is sent when shares could not be allotted to an applicant.
2.	Allotment Receipt and Allotment Slip are enclosed with a Letter of Allotment.	Allotment Receipt and Allotment Slip are not enclosed with a Letter of Allotment.
3.	Application money is adjusted.	Application money is refunded.
4.	There may be an obligation to make payment of Allotment Money, if due.	There is obligation to make payment of Allotment Money.

5.	Refund Order is not enclosed with Letter of Allotment.	Refund Order is enclosed with Letter of Allotment.
6.	In case Allotment money is not paid, the allotted shares may be forfeited.	Since no shares are allotted, the possibility of forfeiture of shares does not arise.

5. Final dividend V/s Interim dividend.

Sr. No.	Points	Interim dividend	Final Dividend
1.	Meaning	Interim dividend is the dividend which is declared between two annual general meetings of a company.	Final dividend is the dividend which is declared at the annual general meeting of a company.
2.	When is it declared?	It is declared between two annual general meetings.	It is declared at the annual general meetings.
3.	Who declares?	Interim dividend is declared by the Board of Directors by passing a resolution if they are authorized by Articles.	Final dividend is recommended by Board of Directors and declared by the shareholders by passing ordinary resolution at Annual General Meeting.
4.	Rate of Dividend	Rate of interim dividend is less than final dividend.	The rate of final dividend is generally more than interim dividend.
5.	Legal Aspects	If company suffers a loss at the end of the year, the directors will be personally liable to make good amount of disbursed interim dividend.	Declaration of final dividend is always legal, as it is declared only after ascertaining the correct profit on basis of audited accounts.
6.	Authorization	Authorization of Articles is necessary for declaration of interim dividend	Authorization of Articles is not necessary for declaration of final dividend
7.	Sources of Declaration	It is declared only out of the periodic profits of the financial year only.	It is declared out of a) Current Profits b) Profits of previous year c) Capital Profits d) Reserves e) Financial assistance provided by government for dividend

Q.3. Write Short Notes on (Any 3)

[15]

1. 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 proper 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 –

- Articles of Association of company must have provision regarding issue of Bonus Shares.
- 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.

2. Importance of Financial Planning

Ans. Importance of financial planning: The finance managers gets entire information about the firms activities. On this basis he prepares financial plan. In his efforts to construct financial plan, he is able to build up information. This information is useful for other functions for decision making. An excellent management information system is an asset which serves as 'guide' for overall activities of firm.

LET US DISCUSS SIGNIFICANCE OF FINANCIAL PLANNING WITH THE FOLLOWING POINTS-

1. **Elimination of waste:** Due to financial planning, it is possible to eliminate the wasteful expenditure. There are several factors such as change in government policy on taxes, fluctuating interest rates etc. which can be anticipated and tackled with the help of financial planning. Many organizations have suffered irreversible changes due to wasteful expenditure because of lack of financial planning.
2. **Co-ordination:** **Co-ordination is the most vital part of management. Finance holds the key to all activities of organization such as production, distribution, marketing and personnel. These activities will hamper if not supported by proper financial planning. It is responsibility of finance manager to bring about co-ordination among all departmental heads of organization. In other words, financial planning should match production planning, distribution planning, personnel planning and overall corporate planning.**
3. **Dynamism:** Financial planning is a demanding exercise, which requires dynamism on the part of finance manager. It means finance manager must take initiative and face various changing financial situations as and when they arise. Accurate forecast of future trends are required for effective planning. Unprofitable ventures can be avoided while profitable projects can be undertaken when such forecast are available. Thus, dynamism becomes an integral part of effective financial planning.
4. **Communication:** Communication is an effective tool of management. Financial planning enables the finance manager to communicate various aspects of financial plan to the executives of other departments. Detailed policies and procedures must be made known to everyone in the organization, so that there is no wastage of time, goodwill and financial resources. Effective financial planning helps finance manager to communicate easily with others in the organization.
5. **Decision making :** It is necessary for a firm to take appropriate and timely decisions to achieve its objectives. Financial planning prepares itself for attainment of these objectives. Any scheme, how so ever effective, cannot go through unless budgetary provision is made in the financial planning.
6. **Integration:** Financial planning gives a fairly good idea to the firm about its available resources. Financial planning is to be completed in full consultation and co-operation of other departments. This promotes team spirit among all executives. The financial planning assists in integration of firm's activities.

7. **Futuristic:** Financial planning is effective when it foresees event. It means, it must take into account not only present but also future developments. This futuristic element of financial plan helps for advance programming.

3. Acceptance of deposits

Ans. ACCEPTANCE OF DEPOSITS

According to the provisions of Companies (Acceptance of Deposits) Rules 1975 and amendments made thereafter, all companies except the companies doing banking and finance business can accept deposits.

There are some restrictions or limitations on the acceptance of such deposits.

1. A company can accept deposits from public up to 25% of the total of its paid up share capital and free reserves.
2. A company can accept the deposits in the form of
 - (i) Unsecured debentures
 - (ii) Deposits from its members and
 - (iii) Deposits guaranteed by the directors up to 10% of the total of its paid up capital and reserves.
3. In all, a company can accept deposits up to 35% of the total of its share capital and free reserves.
4. A Government company can accept deposits from public up to 35% of paid up capital and free reserves.
5. The application for deposits must be made in the prescribed form supplied by the company.
6. The depositor should give a declaration that the amount of deposits is not borrowed and accepted as deposit by him from any other person.
7. According to the provisions of the Companies Act a private company cannot accept deposits from the general public. Such a company can only accept deposits from its share holders, relatives.
8. A company cannot accept deposits payable on demand.
9. A company can accept deposits for a minimum period of 6 months and maximum period years i.e. 36 months.
10. On acceptance of deposits company must issue a deposit receipt within 8 weeks from the date of receipt of money to the depositors.
11. The maximum rate of interest payable on deposit is 12.5 percent per annum, as per the Companies Amendment Rules 2001.
12. Company can pay brokerage on deposits collected, through brokers, depending on period deposits at the following rate;
 - a) up to 1 year-1%
 - b) More than 1 year-1.5%
 - c) More than 2 years-2%
13. Company accepting deposits must keep a Register of Deposits at the registered office of the company.
14. Company must file with the Registrar, a return of deposits duly certified by the auditor of company on 31st March every year. A copy of such return must also be submitted to the Reserve Bank of India.
15. Any deposit received by a company against the provisions of the Act must be paid back by company within 30 days of the deposits.

4. Share Warrant

- Ans.
1. Share Warrant is a bearer document of title to the shares issued by the company under its common seal, duly stamped and signed by at least two directors of the company.
 2. Share warrant can be issued only by public limited companies.
 3. Share warrant can be issued only in respect of fully paid shares.
 4. Issue of share warrant requires prior approval of the central government.

5. Share warrant is a bearer document. It can be transferred by mere delivery without undergoing the regular procedure of transfer of share
6. Authorization of Articles is not necessary for declaration of final dividend
7. A share warrant holder is not a registered member of the company and does not enjoy normal membership rights.
8. Shares included in the share warrant cannot be considered as qualification shares for a director.
9. Dividend is paid through 'dividend coupon'.
10. The share warrant holder cannot submit a petition for winding up of the company.

5. Types of debentures

Ans. (1) On the basis of Registration :

(a) **Registered Debentures** : In the case of these Debentures, the names, addresses and particulars of holding are entered in a register kept by the company. Such Debentures are non- negotiable or transferable by mere delivery. Interest on such Debentures are payable only to registered holders of the Debentures through interest warrants. Transfers are freely allowed by executing proper transfer deeds and on formal approval of the Board of Directors.

(b) **Bearer Debentures** : Debentures which are not recorded in the Register of Debenture holders and also holder's names are not entered on the certificate (Debenture) are bearer debentures. These Debentures are freely transferable by mere delivery. No need of executing a transfer deed and no stamp duty is to be paid. Interest is payable to the holders on presenting interest coupons attached to the Debentures.

(2) On the basis of Security :

(a) **Secured Debentures** : Secured Debentures are those, which are secured by some charge on the property or assets of the company. They are also called mortgage debentures. If the company fails to repay the principal and interest to the debenture holders, the debenture holders have a right to recover the amount of Debentures and interest from the company by selling of the assets charged to them.

(b) **Unsecured Debentures** : These Debentures are also known as simple or naked debentures. Such debentures are not given any security for repayment of principal amount and interest. Unsecured debenture holders are ordinary creditors of the company. The general solvency of the company is the only security available to unsecured debentures.

(3) On the basis of Redeemability :

(a) **Redeemable Debentures** : These debentures are issued for a specific period say for 5 years or 10 years. On expiry of the specific period, debenture capital (principal) is redeemed or paid back. Interest is paid regularly, annually or half-yearly. Generally, all Debentures are redeemable debentures, if specifically not stated at the time of issue of debentures.

(b) **Irredeemable Debentures** : Irredeemable Debentures are those Debentures, which are not repaid or redeemed by the company so long as it is a going concern. On winding up of the company, these debentures are paid prior to the preference and equity shares. Interest on these debentures is a permanent charge on the profits of the company, which is paid regularly as per the agreement.

(4) On the basis of Convertibility :

(a) **Convertible Debentures** : Convertible Debentures are those debentures, issue. Interest is paid till the date of conversion. These are most popular among

investors in India. Prior approval of shareholders and that of Central Government is required to issue convertible Debentures

(b) Non-convertible Debentures : Non-convertible Debentures are those Debentures which are not converted into Equity Shares. Till they are redeemed or not, they remain as creditorship or borrowed capital. Normally, all debentures are non-convertible unless specified or declared.

Q.4. State with reasons whether the following Statement are True or False. (Any 3) [15]

1. Debentureholders are the owners of the company.

Ans. This statement is FALSE.

Shareholders can participate in the management of the company.

Reasons:

- (a) Debenture holder invest in debenture, which is borrowed capital. Debenture holder is a creditor of the company,
- (b) Debenture holder is not part owner of the company.
- (c) Owners of the company manage business,
- (d) Shareholders invest in shares. Share capital is owned capital.
- (e) Shareholders are part owners of the company,
- (f) Members have right to manage the business,
- (g) Important business decision are finalised after discussion at meeting, voting, and passing resolution,
- (h) They have right to attend the meeting, vote at meeting while passing resolution. So, indirectly share holders give approval for business decisions.

2. There is no need of the depository System of trading in India.

Ans. This statement is FALSE.

There is a need of the Depository system of trading in India.

Reasons :

- (a) Depository is an organization where securities/shares are held in electronic form. It helps to record all the transactions that take place in the Stock Exchange daily.
- (b) There is a wide development in the capital market in India and foreign investors are also playing an important role. To comply with international practices, the Indian Government adopted the depository system in the year 1996.
- (c) Under manual systems of transfer there are many limitations. This is solved with the depository system where the transactions are quick, safe, and systematic,
- (d) Under manual system the procedure of transfer of securities is very lengthy whereas under depository system, the system of transfer is simple and quick,
- (e) To bring transparency in the trading of securities and to eliminate the risks of poor delivery, fraud, loss, theft, etc. there was an urgent need of depository system in India.

3. A Share Certificate is a bearer document.

Ans. This statement is FALSE.

A share certificate is a registered document.

Reasons :

- (a) It is a registered document as all particulars of shares mentioned in the share certificate are recorded in the Register of Members,
- (b) Registered document means the ownership of shares,
- (c) A share certificate is a non-negotiable document which cannot be transferred to another person without following a proper procedure as laid down in the Articles of Association of the company,
- (d) A bearer document means any such document in which the name of the owner is not stated and not entered in the Register of Members.

But a share certificate is not a bearer document. It is a registered document.

4. Trading on Equity is a double edged sword.

Ans. This statement is TRUE.

Reasons :

- (a) Trading on equity means the use of borrowed capital for financing a firm.
- (b) It is based on the principle that if the rate of interest on debt is lower than the rate of company's earnings, then the equity shareholders will enjoy additional profit. Out of company's earning, first interest is paid to debenture holders,
- (c) Distribution of more dividend to shareholders increases company's goodwill, market value of shares, company's credit worthiness. Company can raise further loan at lower rate of interest,
- (d) On the contrary if company earnings are not sufficient, shareholders would not get dividend which will affect company's credit worthiness. Company may not get further loans,
- (e) If business earns sufficient profit, it will increase the income of shareholders otherwise it will increase risk of loss under adverse conditions.

5. The declared dividend is the statutory debt.

Ans. This statement is TRUE.

Reasons :

- (a) Dividend is the part of company's profit distributed among shareholders.
- (b) It is income of shareholders on their investment in shares.
- (c) Dividend is that portion of corporate profit which has been set aside and declared by the company as liable to be distributed among the shareholders. Corporate profit is the profit declared by the companies established under Indian Companies Act, 1956.
- (d) Provisions regarding declaration of dividend are mentioned in the Companies Act.
- (e) Dividend is declared to shareholders on their investment in share capital out of company's profit.
- (f) 'Debt' means amount payable by the company to shareholders.
- (g) Once dividend is declared, company is liable to pay it. Shareholder can enforce payment of dividend with the help of Court.

Hence, dividend declared is the statutory debt.

Q.5. Attempt the following (Any 3)

[10]

1. State the legal provisions regarding declaration of dividend.

LEGAL PROVISIONS REGARDING DECLARATION OF DIVIDEND

1. Regulation 85 of Table A provides that the company may declare dividend in its general meeting.
2. The rate of dividend shall not exceed the rate recommended by the Board of Directors.
3. When the company fails to redeem redeemable preference shares within the specified period, company shall not declare any dividend on its equity shares, so long as such failure continues.
4. The company cannot declare dividends for past years in respect of which accounts are closed at previous annual general meeting.
5. The company cannot declare further dividend after declaration of dividend at Annual General Meeting.
6. The dividend once declared cannot be revoked.

2. **Draft letter of Notice of dividend.**
Notice of Dividend

Galaxy Company Limited

42, MIDC, Wagale Estate, Thane-400604
<http://www.galaxy.co.in> email : galco@gmail.com

Tele No. : 25471383

Fax No: 25471384

**Ref : D/38/2012
2012**

Date : 21st May,

Mr. Mukesh Naik
24/2, Laxmi Niwas,
Anant Kanekar Marg,
Bandra, Mumbai – 50.

Sub : Notice of Dividend

Dear Sir,

I am instructed by the Board of Directors to convey to you that in the 25th Annual General Meeting held on 10th May, 2012 final dividend @ 25% on equity shares of ₹ 10 each has been approved by the members for the year ending 31st March, 2012.

Your company has complied with all statutory provisions (Section 205 of the Companies Act, 1956) relating to declaration of dividend.

Details of dividend payable to you are as follows -

Register Folio no.	No, of shares	Distinctive Number		Dividend warrant no.	Gross dividend	Income Tax deducted	Net dividend
		From	To				
D 72	10 0	301-	400	B-3256	₹ 250	Nil	₹ 250

Dividend warrant is attached here to .Please detach the dividend warrant along the perforated line.

Thanking You.

Yours faithfully,
For Galaxy Co. Ltd.

Sd/-
Secretary

Encl – Dividend Warrant

A/c payee only

Dividend Warrant
Galaxy Company Limited
42, MIDC, Wagale Estate, Thane – 400604

D.W.No. B3256
Folio No, D-72
2012

Valid for 3 months
Date : 16th May,

Pay Mr. Mukesh Nail a sum of ₹ Two Hundred Fifty only.

₹ 250/-

Canara Bank
Nehru Road,
Santacruz (E), Mumbai - 25

For Galaxy Company Limited

Sd/-
Director

Sd/-
Secretary

17642

400275039

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3. **Draft a letter to debentureholder informing him about payment of interest.**
Letter for Payment of Interest

DISHA INDUSTRIES LIMITED

50/A Bandrea-Kurla Complex
Bandra (East), Mumbai-400051
Web: <http://www.dishaindustries.com>

Tele No.: 24761524

Ref.: Disha 96/2011-12

Date : 24th Jan, 2012.

Mr. Ramchandra Bohare
H-4, Anil Housing Society,
Bhadkamkar Marg, Fort,
Mumbai-400001.

Sub : Payment of Interest on debentures

Dear Sir,

I am directed to inform you that the interest on your 100, 10% non convertible debentures of ₹ 100 each is due for payment.

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

Follo No.	Number of Debentures	Distinctive Nos.		Gross Amount of Interest ₹	T.D.S	Net Amount of Interest ₹	Interest Warrant No.
		Form	To				
B344	100	501	600	1000	Nil	1000	IW4888

The interest warrant is enclosed herewith
Please acknowledge the receipt and oblige.

Thanking you.

Yours faithfully,
For Disha Industries Ltd.
Sd/-

Encl : Interest warrant

Secretary

Interest Warrant

A/c payee only

Interest Warrant

No. 4888

DISHA INDUSTRIES LIMITED

50/A Bandrea-Kurla Complex

Bandra East Mumbai-400051

Date : 17th Jan, 2012.

Pay Mr. R. Bohara a sum of ₹ One Thousand only

Valid for 3 months

Bank of India
Shivaji Park branch
Mahim, Mumbai - 96

₹ 1000/-

For Disha Industries Ltd.,

1. _____ Managing Director

2. _____ Secretary

123440

4001440565

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4. Draft a letter to a depositor about Renewal of deposit.

Ans. Sunrise Industries Limited

60/ A, V.S. Khandekar Raod,
Vile Parle (W) Mumbai – 400056.
Web: <http://www.SunInd.co.in>

Tele No. : 022-61246871

Fax : 61246872

Ref.: C/35/2012

Date : 17th Feb, 2012.

Smt. Kumudini S Pandit
772/B, L.J Road,
Mahim, Mumbai - 16.

Sub : Renewal of fixed deposit

Dear Madam,

We hereby acknowledge receipt of your application for renewal of deposit of ₹ 10,000 for a further period of one year. We have also received duly discharged deposit receipt No. 0064 within the stipulated fourteen days from maturity date alongwith clear instruction for renewal of deposit.

Accordingly we have renewed your deposit for a further period of one year on the same terms and conditions. Enclosed alongwith this letter is deposit receipt No. 4215 dated 15th Feb, 2012 for the renewed deposit.

It shall always be our endeavour to provide best of our service to you at all time.

Thanking you.

Yours faithfully,
For Sunrise Industries Ltd.
Sd/-

Encl : Deposit Receipt

Secretary

Q.6. Define equity shares and Explain the features of equity shares.

Equity shares are those shares, which do not enjoy any preferential right in regard to payment of dividend and repayment of capital. Equity Share Capital is also known as risk capital or real capital because they are the last claimants in the case of winding up of a company. It is also called as venture capital. Equity Shares are not paid (redeemed) during the lifetime of the company. Equity shares are also known as 'ordinary shares'. Every company must issue equity shares.

Features of Equity Shares :

- (1) **Permanent Capital** : As the Equity Share Capital is not paid or redeemed by the company till it is a going concern, it is the permanent capital of the company. It is the basic and non-refundable capital.
- (2) **Payment of Dividend** : The Equity Shareholders get the dividend according to the availability of capital. They are paid after the fixed dividend is paid to the Preference Shareholders. The rate fluctuates as per the available net profit. Sometimes, they have to go without a dividend and sometimes they get very high rate of dividend than Preference shareholders.

- (3) **Repayment of Capital** : There is no guarantee of repayment of capital in the case of winding up of the company. When the company is wound up, the capital of Equity Shareholders is repaid last, only after all other claims have been paid in full.
- (4) **Right to Vote** : Equity Shareholders enjoy the normal voting rights as per the rule of 'one share one vote'. They are the real owners of the company. They can vote on all matters at general meetings. They get the powers to appoint the Board of directors.
- (5) **Actual Owners** : Equity Shareholders are the actual owners of the company as they invest their money in the company without there being any guarantee from the company as regards payment of dividend and repayment of capital.
- (6) **Advantage of Bonus and Eight Shares** ; Accumulated profits (free reserves) of joint stock company are converted into Equity Shares. This is called capitalization of profits. These shares are called as Bonus Shares because they are issued free of cost in proportion to the number of existing Equity Shares. It leads to increase in capital investment of shareholders.
When an existing company goes for fresh issue of Equity Shares, the first priority is given to existing Equity Shareholders. If the existing shareholders do not accept it, then the shares are offered to the public. This benefit of rights issue is available only to the Equity Shareholders.
- (7) **Controlling Power** : The Equity Shareholders enjoy control over the management of the company because they only elect the Board of Directors. They also appoint auditors and indirectly keep a check on the Directors.
- (8) **Credit worthiness** : The Equity Share Capital enhances the credit standing of the company.
- (9) **Transferability** : Equity Shares of public limited companies are freely transferable as per the provisions of Articles of Association. An Equity Shareholder can transfer or sell his shares as per his will and wish.
- (10) **Timely Appreciation** : The face value of the Equity Share is fixed but the market value fluctuates. The market value is the price of the share purchased or sold in the stock market. The market value of an Equity Share depends on profitability and the rate of dividend paid. Higher the rate of dividend, higher the market value of the Equity Shares.

OR

STAR INDUSTRIES LIMITED

50/A, Kasarwadi, Pimpri-Pune-411018
 Tele No. 23471235 <http://www.starind.in>
 Email – starind@gmail.com

Fax : 24371255
 2012
 Ref : D35/2012

Date : 18th June,

Mr. Bhave singh P. Chavan
 A/24, Sundarban, Bhandarkar Raod,
 Khar, Mumbai – 53.

Sub : Allotment of shares

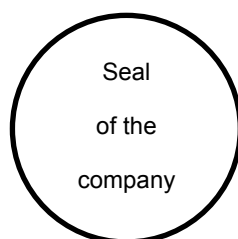
Dear Sir,

This is to inform you that your application No. 555341 dated 25th May, 2012 was considered at the board meeting, held on 15th June, 2012. As per the Board Resolution No. 0052 details of allotment of equity shares are given below :

1	2	3	4	5
No. of Shares Applied	No. of Shares allotted	Distinctive numbers of Shares	Amount received as application money	Amount due on allotment
100	100	2801 to 2900	₹ 250	₹ 250

You are hereby requested to pay the aforesaid amount the on allotment mentioned in column 5 to our Company's Bankers viz. Bank of India at any of its branches. Please make it convenient to pay the allotment money on or Before 6 July, 2011. Duty signed and executed share certificate shall be exchanged against this letter of allotment and allotment receipt.

Thanking you



Yours faithfully,
 For Star Industries Ltd.

Sd/-
 Secretary

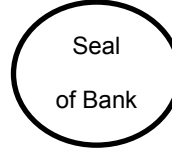
**Allotment Receipt
Star industries ltd.**

**50/A, Kasarwadi, Pimpri-Pune-411018
Tele No. 23471235 <http://www.starind.in>**

Ref : D 35/2012

Received from Shri. Bhava Singh P. Chavan a sum of Rs. Two Hundred and Fifty only as allotment money on One Hundred equity shares of Rs. 10 each.

Revenue
Stamp only if
Amt. is more
than R.5,000



**Signature of receiving
clerk**

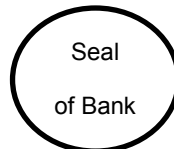
Allotment slip (forwarded to company)

Ref : D 35/2012

Received from Shri. Bhava Singh P. Chavan a sum of 250 (Two Hundred Fifty) on behalf of Star Industries Ltd., as allotment money on one hundred equity shares numbered 2801 to 2900

For Bank of India

Cashier



X=X=X=X=X

: 17 :