J. K. SHAH CLASSES

SYJC - SECRETARIAL PRACTICE

QUESTION PAPER **Date: 09 /10/2016**

Total Marks: 50 **Total time: 1 hour 30 minute**

SOLUTION

Ans.1. Give one word of the following. [5 Marks]

(1) Trading on equity
(2) Trade credit
(3) Initial Public offer (IPO)
(4) Debenture Redemption Reserve (DRR)
(5) Debenture Certificate

Ans.2. Fill in the blanks and rewrite them. [5 Marks]

i) Interest Coupons
ii) One crore
iii) 3
iv) An involuntary
v) Trade

Ans.3. Distinguish Between (Any 2) : [10 Marks]

1) **Shares and Debentures.**

SR. NO.	POINT	SHARE	DEBENTURE
1.	Meaning	A share is a part of the total share capital of the company. The holder of shares is called a shareholder of the company	A debenture represents a part of the debt capital of the company. The holder of the debentures are called as debenture holders.
2.	Status of Holder	The shareholder is the owner of the company.	The debenture holder is the creditor of the company.
3.	Nature of Capital	Shares represent the owned capital	Debentures represent borrowed or Loan capital.
4.	Income	The shareholders get dividend as income on their investment. The dividend depends on the profits and policy of the company.	The debenture holder gets a fixed rate of interest as income. They get the interest even when the company makes losses.
5	Conversion	Shares cannot be converted into debentures.	The convertible debentures can be converted into shares.
6	Repurchase	A company con not repurchase its own shares. However, at present, buy back of shares is permitted.	The company can purchase back its own debentures.
7	Voting Rights	The shareholders enjoy normal voting rights at the company meeting.	The debenture holders do not enjoy normal voting rights, except on those maters which affect their interest.
8	Repayment of Capital	The shareholders are eligible for repayment only after making payment to debenture holders at time of winding up of the company.	They get priority over the shareholders in repayment of principle amount at the time of winding up of the company.

9	Charge against Assets	The shareholders do not enjoy a charge against assets of the company.	The secured debentures have a charge against the assets of the company.
10	Appeal to Investors	Shares appeal to adventurous investors who are willing to accept risk.	Debentures appeal only to cautious Investors who are happy with fixed rate of interest.

2) Transfer of shares and Transmission of Shares.

Sr No.	Points	Transfer of shares	Transmission of Shares
1.	Meeting	Transfer of shares means transfer of ownership of shares form 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 place only when the transferor submits instrument of transfer	Transmission of shares takes place only on death or insolvency or lunacy of a shareholder. The legal 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) Fixed Capital and Working Capital.

Sr No.	Points	Fixed Capital	Working Capital
1.	Meaning	Fixed capital refers no any kind of physical capital	Working capital refers to current assets minus current Liabilities.
2.	Nature	It says in business almost permanently i.e. for more than one accounting years	Working capital is circulating capital
3.	Purpose	It is not used up in production of product but invested in fixed assets such as land building, equipment, etc.	Working capital is invested in short term assets such as cash, account receivable, inventory, etc.
4.	Sources	Fixed capital funding can come from selling shares, debentures,	Working capital can be funded with short term loans, deposits,

		long term loans, bonds, etc.	trade credit, etc.
5.	Objective of investor	Investor invests money in fixed capital hoping to make future profit.	Investor invests money in working capital for getting immediate return.
6.	Risk involved	Investment in fixed capital Implies a risk	Investment in working capital is less risky.

Ans.4. Short Notes (Any 2) : [10 Marks]

(1) Procedure for conversion of debenture into share.

1) **Board Resolution :** Resolution for conversion is passed in the board meeting, and is also approved by share holders and debenture holders- A Special resolution is passed to that effect. A copy of this resolution is to be filed with the Register of compares within 30 days of passing.

2 **Letter of Option :** A letter of option is sent to debenture bolder and one copy of the same filed with SEBI

3 **Allotment of shares :** Once the debentures are converted into equity shares *a letter* of conversion is scot and debenture holders are requested to return debenture certificates.

4 **Change in Register of Charges :** Once the shares are allotted, contrary has to cancel the charges against asset which were created at the time of issue of debentures, for which changes are required to be made in the Register of Charges.

5 **Entry is Roister of Members :** Company is required to maintain a Register of Members in winch the details about the share holders viz names, address, date of allotment, serial numbers of shares are entered.

6) **Filing of Return of allotment:** A Return of Allotment is filed with the Register of Companies within 30 days of allotment.

(2) Types of Preference Shares.

1) **Cumulative Preference Shares :** Normally, the company pays the dividend every year. Sometimes, the company is not in a position to *pay the* dividend due to lack of profits in a particular year. In case of the cumulative Preference Shares, such unpaid dividend gets accumulated along with the fixed rate of dividend and becomes payable in the next financial year. The unpaid dividend is called arrears. It *is* accumulated year after year, if not paid regularly. The dividend on cumulative *shares is a* permanent charge or liability on the company All Preference Shares are always presumed to be cumulative unless the company *has* stated it specifically.

(2) **Non-Cumulative *Preference* Shares** : Non-Cumulative Preference Shares do not carry the right to receive the *arrears of* the dividend. These shares are paid dividend at an agreed rate out of sufficient net profits only. If in a certain year, the company *is* in the loss, it *need* not pay the dividend for that *concerned* year.

(3) **Participating Preference Shares** : Usually, the company pays the dividend on Preference *Shares* at an agreed rate *out of net* profit end then declares the dividend *on* Equity *Shares.* The balance of Met Profit, if any. will be retained in the business. However, if a company issues participating preference shares, then it has to pay additional dividend from the net profit left after paying the dividend on equity shares. The rate of the second time dividend depends on the surplus profits of the company.

(4) **Non-Participating Preference Shares :** These Preference Shares are entitled to only a fixed rate of dividend and do not participate further in the *surplus profits* irrespective of the amount of such profits. All Preference Shares are deemed to be non-

participating unless stated otherwise in the terms of issue.

(5) Redeemable Preference *Shares* : Redeemable Preference Shares are those Preference Shares, which are *repaid* after a specific period. These shares are paid dividend at an agreed rate and after the expiry of the term, the amount *is* paid or redeemed to the investors.

(6) Irredeemable Preference Shares : These are those Preference *Shares*, which are not redeemed or repaid the principal diming the life time of the company. They are repaid before the Equity Shares only at the time of winding of the company. All Preference shares are irredeemable otherwise specifically stated at the time of issue. However, as per the companies (Amendment) Act, 1988, the government has prohibited the issue of Irredeemable Preference Shares. *So* now exists no such type of Preference shares.

(7) Convertible Preference Shares : Convertible Preference Shares are those shares, which are converted into Equity Shares at the option of the shareholders after a certain period. At the time of issue, they are issued as Preference Shares but later on a specified date, they are converted into Equity Shares. Then they are eligible to enjoy all the rights of a member or owner of the company.

(8) Non-Convertible Preference Shares : These are those shares, which are not converted into Equity Shares. All Preference Shares are deemed to be non-convertible unless specified at the time of issue.

(3) Importance of financial Planning.

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.

(4) Points to be borne in mind by a Secretary while drafting letters to debenture holders.

The secretary has to enter into correspondence with the debenture holders under the following circumstances.

1. Informing the applicant about allotment of debentures
2. Intimation about payment of interest.
3. Letter for conversion of debentures into equity shares.
4. Letter for redemption of debentures

POINTS TO BE CONSIDERED IN CORRESPONDENCE WITH THE DEBENTURE HOLDERS

1. **Crartesy:** Debenture holders provide borrowed capital to fee company. Due respect should be shown towards fee debenture holder in secretarial correspondence.
2. **Quick response :** The secretary should promptly reply and respond to the queries and companies of the debenture holders.
3. **Legal provisions:** While handling correspondence with the debenture holders the secretary must be aware of provisions of the Companies Act 1956 as also contents and rules and regulation fee Memorandum and Articles of Association of fee company relating to redemption, *issue of* debentures conversion of debentures and payment of interest.
4. **Transparency:** For greater transparency in business letter to debenture holders it is necessary to disclose favorable as well as adverse credit rating of the company.
5. **Conciseness:** Letters to fee debenture holders should be brief and to the point
6. **Clarity:** Simple language should be used in the correspondence. Message in the letter should be clearly communicated.
7. **Accuracy:** Letters sent to fee debenture holders should be accurate in every respect. It should not contain any false and inaccurate information.

Ans .5. True or False with give reasons (Any 2) : [10 Marks]

(1) Public deposit is good source for long term financing.

This statement is **FALSE.**

Public deposit is a good source for short term financing.

Reasons:

(a) Public deposit is one of the effective means of raising short term finance

(b) Company requires short term finance to run its business successfully. Such short term finance fulfills company's working capital needs,

(c) Public deposit is a loan raised by company from ifs investors. Deposits are accepted by public companies for short period,

(d) These deposits are accepted for minimum 6 months to 3 years i.e. 36 months,
(e) Depositor gets 'Deposit Receipt as an acknowledgement,
(f) Company cannot accept deposit for the period more than 36 months,
(g) Depositor gets interest on their deposits with the company.

Hence, it is not long term but short term source of finance for the company.

(2) A Share Certificate is a bearer document
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.

(3) Debenture holders can participate in the management of the Company.
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 decisions are finalized 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.

(4) Fixed deposit is a Short term Source of finance for the Company.
This statement is **TRUE.**
Reasons:

(a) Joint Stock Company collects capital through different sources,
(b) It collects its borrowed capital through debentures, loans and deposits,
(c) Deposit is a loan received by the company from the investors,
(d) Deposits are accepted by public companies for short period i.e. from 6 months to 3 years,
(e) Depositor gets regular interest at predecided rate and repayment of principal amount after expiry of period,
(f) For the amount invested on deposits, company issues Fixed Deposit Receipt as an acknowledgement of debt,
(g) A public company cannot accept deposit for more than 36 months i.e. 3 years.

Hence, it is a short term source of finance for the company.

Ans.6. **Answer in Brief OR Draft the letter (Any 1) :** **[10 Marks]**

(1) **Define Equity Shares and Explain 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 shores.

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- ref undabie 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 ell 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 prof its (free -reserves) of joint stock company are converted into Equity Shares. This is called capitalization of profits. These shares are called as Bonus Shores 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, 1 then first priority is given to existing Equity Shareholders. If the j 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. A Equity Shareholders 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.

1) Write a letter regarding Payment of interest on debentures.

Ans. Payment of interest Debenture capital is borrowed capital. Return on investment in debentures is known as interest. Company pays interest through interest warrants sent along with letters for payment of interest. This letter informs the debenture holders that interest on their debentures has become due. It contains the details of interest payable to them.

DISHA INDUSTRIES LIMITED
50/A Bandrea-Kurla Complex
Bandra East Mumbai-400051
Web: http://www.dishaindustries.com

Tel no.: 24767524
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 Rs.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 Rs.**	**T.D.S**	**Net Amount of Interest Rs.**	**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

DISHA INDUSTRIES LIMITED

Interest Warrant 50/A Bandrea-Kurla Complex

No. 4888 Bandra East Mumbai-400051

Date : 17th Jan, 2012.

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

₹ 1000/-

Bank of India
Shivaji Park branch
Mahim, Mumbai - 96

For Disha Induastries Ltd.,
1.___________________Managing Director
2.___________________Secretary

123440 4001440565 11

3. Explain in detail Procedure of issue of Shares.

Ans. ISSUE OF SHARES

A public company can raise capital by issuing shares to the public by following particular procedure.

In this procedure two main steps are involved

a) Preliminary work

b) Issue of shares.

Let us discuss the steps involved in the procedure.

Financial planning
↓
Drafting and Filing of prospectus
↓
Appointment of bankers
↓
Appointment of underwriters
↓
Listing of shares with stock exchange

i) **Financial planning:** Before issuing shares some important decisions are requited to be taken by the Board of Directors like types of shares to be issued, number of shares to be issued, face value of shares, etc.

ii) **Drafting and filing of prospectus:** A resolution is passed in the board meeting for issue
of prospectus. application prospectus is drafted. It contains information like kinds of shares, face .value, application money. date and place of payment of application money and other particulars winch make terms and conditions of issue of shares clear. A copy off prospectus is to be filed with the Registrar of Companies.

iii) **Appointment of bankers**: When the company issues prospectus so the public, it has to
open a separate account for the deposit of share application money. The board of directors has to pass a resolution for appointment of banker. Application, money for

shares has to be deposited in a speed account namely ‘Share Application Money Account’, opened for this purpose, with a scheduled bank. Bankers receive application money and share applications on behalf of the company.

iv) Appointment of underwriters: Company enters into an agreement with underwriters before the issue of shares to the public. Underwriters guarantee the company to purchase the unsold stems. They work on commission basis. This agreement is not compulsory but it is desirable to ensure raising of minimum subscription amount. Underwriters assure the collection of minimum subscription. Details regarding underwriters should be disclosed in the prospectus.

v) Listing of shares with stock Exchange: Stock exchange is an organisation established for facilitating buying and selling of securities. It assigns, controls and regulates the business in buying and selling of securities. According to SEBI guidelines every company that wants to issue shares has to list its shares with a recognized stock exchange. Listing of shares means the entry of shares of company on the official list of stock exchange. A company can list its shares on more than one stock exchange. Listing increases marketability of securities and creates confidence in fee minds of public.

b) Issue of Shares

Issue of Prospectus
↓
Receiving applications
↓
Seating out Applications
↓
Preparation of list

1) Issue of Prospectus: A copy of draft prospectus must be filed wife fee Registrar of Companies. The prospectus should be issued within 90 days from, filing of it with the Registrar Company an advertisement in all leading newspapers regarding the issue. Investors also get information abort issue on website.

ii) Receiving applications: Ad application from is supplied along with every copy of prospectus. The prospective subscription are requested to forward the applications to fee company's bankers along wife application money. On receipt of applications bank issues receipts to the applicants. The amount of application money is credited to fee Share Application Money Account of the company. After fee last date of issue, back sends all the application forms to the company along wife details of application money received.

iii) Sorting out of applications: After collecting applications from the bank they are scrutinized and sorted out. Incomplete, incorrect and invalid implications are taken out. Valid applications are arranged serially, either alphabetically car according to number of shares applied for.

iv) Preparation of list: After sorting out applications, fire share application are entered in application sheet. The particulars of each application are entered in application sheet The list is then put before the Board of Directors for further necessary action.

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