

Secretarial Practice

Model Set - 3

Academic Year: 2020-2021

Marks: 80

Date: April 2021

Duration: 3h

1. All questions are compulsory.
 2. Figure to the right indicates full marks for the questions.
 3. Figures to the left indicate question numbers.
 4. Answer to every question should start on a new page.
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Q. 1.A | Select the correct answer from the options and rewrite the statements:

1.A.1 Finance is the management of _____ affairs of the company.

1. monetary
2. marketing
3. production

1.A.2 Secured debentures must be redeemed within _____ from the date of its issue

1. 10 days
2. 10 years
3. 15 years

1.A.3 Under _____ method, issue price of shares is based on bidding.

1. Book Building
2. Fixed Price
3. Bonus Issue

1.A.4 The contract between company and Debenture trustees of companies is called as _____.

1. Debenture trust deed
2. Letter of offer
3. Prospectus

1.A.5 Deposit can be accepted for a minimum of 6 months and maximum for _____ months.

1. 36
2. 3
3. 30

Q. 1.B | Answer in One Sentence

1.B.1 Answer in one sentence.

Define corporate finance.

Ans. According to Henry Hoagland, "Corporate finance deals primarily with the acquisition and use of capital by a business corporation."

1.B.2 Answer in one sentence.

What is the return on deposit?

Ans. A fixed rate of interest is the return on deposit.

1.B.3 Answer in one sentence.

What is the time limit to issue share certificate on allotment of shares?

Ans. The time limit to issue a share certificate on the allotment of shares is of maximum 2 months.

1.B.4 Answer in one sentence:

Name the document which is an agreement between the debenture trustee and company?

Ans. The agreement between the debenture trustee and company is known as 'Debenture Trust Deed'.

1.B.5 Answer in one sentence.

Which companies can accept deposits from the public?

Ans. Eligible public Company and Government Companies can accept deposits from the public.

Q. 1.C | Correct the Underlined Word and Rewrite the Following Sentence:

1.C.1 Correct the underlined word/s and rewrite the following sentence.

In Primary market, already existing securities are traded.

Ans. In secondary market, already existing securities are traded.

1.C.2 Correct the underlined word and rewrite the following sentence.

Duplicate share certificate must be issued within one month from date of application.

Ans. Duplicate share certificate must be issued within three months from date of application.

1.C.3 Correct the underlined word and rewrite the following sentence:

A company issuing irredeemable debentures must create a charge on assets of the company.

Ans. A company issuing Secured debentures must create a charge on assets of the company.

1.C.4 Correct the underlined word and rewrite the following sentence.

Banking system leads to a scrip less capital market.

Ans. Depository system leads to a scrip less capital market.

1.C.5 Correct the underlined word and rewrite the following sentence:

To rate its debentures a company appoints underwriters.

Ans. To rate its debentures a company appoints Credit Rating Agency.

Q. 1.D | Arrange in Proper Order:

1.D.1 Arrange in proper order.

- a. Obtain Credit Rating.
- b. Entry in register of debenture
- c. Receive application with money

Ans.

- (a) Obtain credit rating
- (c) Receive application with money
- (b) Entry in register of debenture

1.D.3 Arrange in proper order.

- a. Hold Board Meeting for allotment
- b. Issue debenture certificate
- c. Receive application with money

Ans.

- c. Receive application with money
- a. Hold Board Meeting for allotment
- b. Issue debenture certificate

1.D.4 Arrange in proper order.

- a) Allotment of shares
- b) Application for shares
- c) Share certificate

Ans.

- (b) Application for shares
- (a) Allotment of shares
- (c) Share certificate

1.D.5 Arrange in proper order.

- a. Interest warrant
- b. Allotment of Debentures
- c. Board meeting

Ans.

- a. Board meeting
- b. Allotment of Debentures
- c. Interest warrant

Q. 2 | Explain the following terms/concepts : (Any Four)

2.A Explain the following term/concept.

Capital market

Ans. It is the market for borrowing and lending long-term capital required by business enterprises. The financial assets dealt with in the capital market have a long or indefinite maturity period. In this market, the capital funds comprising both equity and debt are issued and traded. The capital market is the core of a country's financial system as it helps in mobilisation of resources.

2.B Explain the following term/concept.

Eligible Public Company

Ans. (1) Eligible public company can accept deposits from members and the public.

(2) Eligible company under section 76(1) of Companies Act, 2013 means:

A company having net worth* of not less than Rs one hundred crores or
Turnover* of not less than Rs five hundred crores.

(3) Eligible public company means a company having:

- i. A net worth of not less than ` 100 crores or,
- ii. Turnover of not less than ` 500 crores and which has obtained prior approval of its shareholders through special resolution for accepting public deposits.

2.C Explain the following term/concept.

Secured Deposit

Ans. (1) A company can accept secured or unsecured deposits which should be clearly mentioned in every circular, form, advertisement, or in any document related to invitation or acceptance of deposits.

(2) If the company intends to issue Secured Deposits, it shall create security in favour of trustees within 30 days of acceptance of deposits. Trustees should ensure about the security of depositors. If there is any default in repayment, trustees should organize a meeting of depositors - Rules 6 to 8 of Companies (Acceptance of Deposits) Rules, 2014.

2.D Explain the following term/concept.

Dividend

Ans. The term dividend is derived from the Latin word 'Dividendum' which means 'that which is to be divided'. It is that part of the profits of a company which is distributed amongst its shareholders. A dividend is 'a share in distributable profits of the company to which the shareholder is entitled when it is formally declared by the company.'

2.E Explain the following term/concept.

Rematerialisation

Ans. The process of conversion of electronic holding of securities into physical certificates is called as rematerialisation. The client has to submit the Remat Request Form (RRF) to the DP. The DP forwards the RRF to the 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.

2.F Explain the following term/concept.

Deposit Receipt

Ans. (1) The company has to issue a Deposit Receipt to every deposit holder within 21 days from receipt of the money or realization of cheque or date of renewal.
(2) The receipt has to be signed by the officer duly authorized by the Board of Directors. The receipt contains:
The name and address of the depositor, Amount of deposit, Rate of interest payable, and Date on which it is repayable

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

3.A Study the following case/situation and express your opinion.

Mr. P has a recently got his B.Sc. degree. He has enrolled for a course in securities market. As a new student of this subject, he has few queries as follows :

- a. Does a Company need to be listed on a stock exchange to sell its securities through the stock exchange.
- b. What is the term used for referring to a stock exchange's ability to reflect the economic conditions of a country?
- c. What is the term which refers to the functions of the stock exchange as a provider of a ready market for sale and purchase of security?

Ans.

- a. Yes, a company needs to be listed on a stock exchange to sell its securities through the stock exchange.
- b. 'Economic mirror' is the term used for referring to a stock exchange's ability to reflect the economic conditions of a country
- c. 'Liquidity' is the term which refers to the functions of the stock exchange as a provider of a ready market for sale and purchase of the security.

3.B Study the following case/situation and express your opinion :

DIAMOND Co. Ltd. is considering to declare Interim Dividend.

- a. In how many days of the declaration it should transfer the funds to Dividend Account?
- b. In how many days it must pay it to shareholders?
- c. In how many days of the declaration it must transfer the funds to the Unpaid Dividend A/c?

Ans.

- a. The funds should be transferred to the Dividend Account within 5 days from the date of declaration of interim dividend.
- b. The interim dividend must be paid to the shareholders within 30 days from its declaration.
- c. The unpaid dividend must be transferred to Unpaid Dividend A/c within 37 days from its declaration.

3.C Study the following case/situation and express your opinion.

A company is planning to enhance its production capacity and is evaluating the possibility of purchasing new machinery whose cost is 2 crore or has alternative of machinery available on lease basis.

- a. What type of asset is machinery?
- b. Capital used for purchase of machinery is fixed capital or working capital?
- c. Does the size of a business determine the fixed capital requirement?

Ans.

- a. Machinery is fixed asset since it is used in business for longer time period.
- b. The capital used for purchase of machinery is fixed capital.
- c. Yes, size of a business determines the fixed capital requirement. When business operations are carried out on a large scale, it will have higher fixed capital requirement as most of the production processes are based on automatic machines and equipment.

Q. 4 | Distinguish between the following : (Any Three)

4.A Distinguish between the following.

Owned capital and borrowed capital.

Ans.

Owned Capital	Borrowed Capital
1. Meaning	
It is that capital that is contributed by shareholders.	It is that capital is borrowed from creditors. It is also known as debt capital.
2. Sources	
This capital is collected by the issue of equity shares and preference shares.	It is collected by way of issues of debentures, fixed deposits, a loan from a bank/financial institution, etc.
3. Return on Investment	
The shareholders get dividends as income on their investment. The rate of dividend is fluctuating in the case of equity shares but fixed in the case of preference shares.	The debt capital holders get interested as income on their investment. Interest is paid at a fixed rate.
4. Status	
The shareholders are owners of the company.	The debt holders are creditors of the company.
5. Voting right	
The equity shareholders enjoy normal voting right at the general meeting.	The creditors do not enjoy voting rights at the general meeting.
6. Repayment of Capital	

The shareholders do not enjoy priority over creditors. They are eligible for repayment of Capital only after making payment to creditors at the time of winding up of the company.	The creditors get priority over the shareholders in case of return of the principal amount at the time of winding up of the company.
7. Charge on assets	
The shareholders do not have any charge on the assets of the company.	The secured debenture holders have a charge on the assets of the company.

4.B Distinguish between the following

Money market and Capital market

Ans.

	Money Market	Capital Market
1) Meaning	It is a component of the financial market where short-term borrowing and lending takes place.	It is a component of the financial market where long-term borrowing and lending takes place.
2) Time Period	In the money market, the instruments traded have a maturity period of one year or less than one year.	In the capital market, the instruments traded have a maturity period of more than one year
3) Instruments	Certificate of deposits, repurchase agreements, commercial paper, treasury bills, etc. are the instruments traded in the money market.	Stocks, shares, debentures, bonds, securities of the government are the instruments of the capital market.
4) Purpose of borrowing	Funds are borrowed to meet working capital requirements or for small investments.	Long-term funds help to establish a new business, expand or diversify it, or purchase fixed assets.

5) Institutions	Participants in the market are central banks, commercial banks, acceptance houses, non-bank financial institutions, bill brokers, etc.	Stock exchanges, commercial banks, non-bank institutions, financial intermediaries, etc. are the participants in the market
6) Risk	Risk factor is very less because the maturity period of the instruments is less than one year	Risk is more as compared to the money market as instruments have a long maturity period
7) Return on investment	Return on investment is less as the money market is highly liquid and safe.	Return on investment is comparatively high as the capital market is riskier
8) Role in the economy	This market increases liquidity of funds in the economy.	This market helps in mobilisation of savings in the economy

4.C Distinguish between the following.

Jobber and Broker.

Ans.

Points	Jobber	Broker
(1) Meaning	Jobber is one who buys and sells securities in his own name.	Broker is an agent who deals in buying and selling of securities on behalf of his client.
(2) Nature of Trading	A jobber carries out trading activities only with the broker.	A broker carries out trading activities with the jobber on behalf of his investors.
(3) Restrictions on Dealings	A jobber is prohibited to directly buy or sell securities in the stock exchange. Also, he cannot directly deal with the investors.	A broker acts as a link between the jobber and the investors. He trades i.e. buys and sells securities on behalf of its investors.
(4) Agent	A jobber is a special mercantile agent.	A broker is a general mercantile agent.

(5) Form of Consideration	A jobber gets consideration in the form of profit.	A broker gets consideration in the form of commission or brokerage.
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4.D Distinguish between the following.

Dematerialization and Rematerialization

Ans.

Points	Dematerialization	Rematerialization
1. Meaning	Process of converting Physical certificates of securities into electronic form.	It is the process of conversion of electronic form of securities into physical form.
2. Conversion	Here, the paper form of securities is converted into digitally/ electronically held securities.	Here, the electronic records are converted into physical/paper form securities.
3. Use of Form	It uses 'DRF': Viz. 'Dematerialization Request Form' from Investor to the DP.	It uses 'RRF': viz Rematerialization Request Form' from Investor to the DP.
4. Sequence	This is an initial process. It is a primary and Principal function of the depository	This is a reverse process. It is a secondary and supporting function of the depository. Already demated securities are remated.
5. Identification of Securities	Demated securities have no distinctive numbers. They are fungible.	Remated securities will have certificates and distinctive numbers as issued by the company.

6. Securities Maintenance Authority	The depository is the custodian of securities and records.	The issuing company is the record-keeping authority. Securities are maintained by the investor.
7. Difficulty of Process	Demat is an easy process. Also, it's not a time-consuming process.	Remat is not only a time consuming but also a complex process.

Q. 5 | Answer in brief : (Any Two)

5.A Answer in brief.

State any four factors affecting fixed capital requirement.

Ans. Factors affecting fixed capital requirement:

1. **NATURE OF BUSINESS-** Manufacturing industries and public utilities have to invest a huge amount of funds to acquire fixed assets. While the Trading business may not need huge investments in fixed assets.
2. **SIZE OF BUSINESS-** Where a business firm is set up to carry on large scale operations, its fixed capital requirements are likely to be high. It is because most of their production processes are based on automatic machines and equipment.
3. **SCOPE OF BUSINESS-** There are business firms which are formed to carry on production or distribution on a large scale. Such businesses would require more amount of fixed capital.
4. **EXTENT OF LEASE OR RENT-** If an entrepreneur decides to acquire assets on a lease or on a rental basis, less amount of funds for fixed assets will be needed for the business.
5. **ARRANGEMENT OF SUB-CONTRACT-** If a business chooses to sub-contract some processes of production to outside companies, then limited assets are required to carry out the production. This would minimize the fixed capital requirement of the business.
6. **ACQUISITION OF OLD ASSETS-** If the company can acquire old equipment and plants at low prices, then it would reduce the need of investments in fixed assets.
7. **ACQUISITION OF ASSETS ON CONCESSIONAL RATE-** In order to encourage industrial growth at regional level, government may provide land and building, materials etc. at concessional rates. Plants and equipment may also be made available on instalment basis. Such facilities will reduce the fixed capital requirements of a business.
8. **INTERNATIONAL CONDITIONS-** International conditions play a significant role, particularly in large organisations carrying business at international levels. E.g.: if a company is expecting war, it may decide to invest huge amount of funds to expand fixed assets before there is a shortage.

9. **TREND IN ECONOMY-** If it is expected that the business is going to be successful and has a bright future, then the businessmen will be allowed to carry out all sorts of business expansion. In that case, large amounts of funds are invested in fixed assets so as to reap the benefits in the future.

5.B Answer in brief.

Discuss the rules governing unpaid and unclaimed dividend.

Ans. The dividend which is declared by 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, respectively. The rules that govern Unpaid/Unclaimed dividend are as follows:

1. **UNPAID DIVIDEND ACCOUNT-** (Unpaid / Unclaimed Dividend) Total amount of dividend which remains unpaid/unclaimed should be transferred to 'Unpaid Dividend Account' opened in a scheduled Bank by the company.
2. **TIME LIMIT FOR TRANSFER-** This transfer should be made within 7 days from the end of 30 days within which the payment was to be made. In other words, this transfer should happen within 37 days from the declaration of dividend.
3. **STATEMENT ON A WEBSITE-** Within 90 days of transfer of amount in the 'Unpaid Dividend Account', the company is required to put on its website or any other website as approved by the Central Government, a statement which shows names, last known addresses and unpaid amount payable to each shareholder.
4. **CLAIMING UNPAID DIVIDEND-** Any claimant to the Unpaid Dividend Account may apply to the company for the payment of money claimed.
5. **TRANSFER TO IEPF-** Any amount in the Unpaid Dividend Account of a company which remains unpaid/ unclaimed for a period of 7 years from the date of such transfer shall be, transferred by the company to 'Investors Education and Protection Fund' (IEPF).
6. **CLAIM FROM IEPF-** The claimant of money will have to follow the procedures and submit necessary documents to get claim from IEPF along with a statement in the prescribed form which gives details of such transfers.

5.C Answer in brief.

State the contents of circular or Advertisement for Deposit

Ans. Circular or Advertisement: If a company invites deposits from its members, it issues a circular. But if it invites deposits from the public, the company has to issue an advertisement.

a) Contents of circular or advertisement:

- i) Statement about the financial position of the company
- ii) The portion of secured and unsecured deposit of fresh issue
- iii) Credit rating obtained from a Credit Rating Agency (only for an eligible public company)
- iv) Details of the scheme
- v) Name of Deposit Trustees
- vi) Amount due towards deposits of any previous deposits accepted by the company.

b) Filing of circular or advertisement with Registrar of Companies: Company has to file a copy of the circular or Advertisement signed by all directors with the Registrar of Companies.

c) Issue of circular or Advertisement: Only after 30 days of filing a copy of circular or Advertisement with the Registrar of Companies, the company can issue the circular or advertisement.

The company can send the circular to the members through registered post, speed post, or as email.

For inviting the public, the company has to publish the advertisement in one English newspaper and one vernacular newspaper having wide circulation in the state where the company's registered office is located.

d) The validity of circular or advertisement: The circular or advertisement is valid for 6 months from the end of the financial year in which it was issued or the date on which the Annual General Meeting was held, whichever is earlier.

Q. 6 | Justify the following statements : (Any Two)

6.A Justify the following statement.

Fixed capital stays in the business almost permanently.

Ans. Justification:

- a. Fixed capital is the capital which is used to purchase fixed assets of the business.
- b. These fixed assets are used for a longer period of time and are not meant for resale.
- c. In other words, fixed capital refers to the capital invested for acquiring fixed assets.
- d. Examples of fixed capital are capital used for purchasing land and building, furniture, plant and machinery etc. Hence, fixed capital stays in the business almost permanently.

6.B Justify the following statement.

Interim dividend cannot be paid out of free reserves.

Ans.

1. A dividend declared by the Board of Directors between two AGMs is called an Interim Dividend.
2. The interim dividend is paid in the middle of the accounting year.
3. It is paid before the finalisation of annual accounts for the year.
4. Free Reserves are the reserves available for distribution of profits as per the latest audited Balance Sheet of the Company.
5. It is declared out of profits of the current accounting year.
6. Hence, Interim Dividend cannot be paid out of free reserves.

6.C Justify the following statement.

The electronic holding of securities is safer than physical holding.

Ans.

1. Under the depository system, securities are held in electronic form.
2. Physical certificates can be lost, damaged, torn, stolen, misplaced during transit, etc.
3. Delivering certificates that are torn, fake, etc. creates problems in buying and selling of securities.
4. Under the depository system, securities are held in electronic form.
5. The transfer and settlement of securities are done electronically.
6. It leads to the elimination of storage and handling of certificates.
7. So, all risks associated with physical holding are eliminated by the electronic holding of securities.
8. Hence, the electronic holding of securities is safer than physical holding.

6.D Justify the following statement:

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

Ans. Justification:

- (1) Debentures Trustee is a person or institution which protects the interest of the debenture holders. The Trustees become the custodian of the assets on which charge has been created.
- (2) A company which issues prospectus or invites more than 500 persons to buy its debentures has to appoint one or more Debentures Trustee. Companies issuing secured debentures also must appoint Debentures Trustee.
- (3) Debentures Trustee is appointed before prospectus or letter of offer/offer letter is issued or within 60 days after the allotment of the debenture. The Trustees must give written consent to act as Debenture Trustees.
- (4) Thus, it is rightly justified that, debentures trustee is appointed by a company issuing debentures.

Q. 7 | Attempt the following : (Any Two)

7.A Attempt the following

Draft a letter to debenture holder informing him about redemption of debentures.

Ans.

Jayesh Marble Limited

408, C. Ramchandra Road,
Khar (East) Mumbai - 53
<http://www.jayeshmarble.com>

Ref.: Jayesh/112/2011-12

Date : 16th March, 2012.

Mr. Devchand Bohare
A/21, Swastik Colony,
Bhadkamkar Marg, Fort,
Mumbai - 400020

Sub: Redemption of Debentures

Dear Sir,

This is to inform you that 1,00,000, 12.5% non-convertible debentures issued in May 2005 are due for redemption on 30st April 2012. According to the Board Resolution No. 4432 passed at the board meeting held on 15th March, 2012 said debentures shall be redeemed out of Debentures Redemption Reserve of the company.

Please arrange to submit duly filled up debenture redemption form alongwith duly discharged debenture certificate at the Registered office of the company on or before 7th April, 2012.

On completion of the above formalities, crossed cheque for the redemption amount shall be sent to you by the registered post.

Thanking You.

Yours faithfully,

For Jayesh Marble Ltd.

Sd/-

Secretary

Encl : Debenture Redemption Form.

7.B Attempt the following.

Draft a reply letter resolving the query of the member on low rate of dividend.

Ans.

SHREE CEMENT INDUSTRIES LIMITED

Registered Office: 31, Tulsi Tower, Bandra (East), Mumbai - 400 050
CIN: L50307 MH 2000 PLC160699

Phone: 022-24245025

Fax: 022-45456035

Ref. No. S/MR-D/25/19-20

Website: www.shreecementindustriesltd.com

E-mail: shree3@gmail.com

Date: 20th April, 2019

Ms. Kishor Malpani
15/21, Lotus Apt.,
Borivali (W),
Mumbai - 400 103.

Sub. : Resolving Query on Low Rate of Dividend made by the Company

Dear Sir,

This is to inform you that as per your letter dated 15th April 2019 I am hereby authorised to resolve your query regarding the low rate of dividend paid by the company to their faithful members. The reasons for the low rate of dividend are mentioned below :

1. That during the last year, due to the floods, company's factory situated at Mahim (E) was not in a condition to operate in a full fledged manner.
2. That due to such unavoidable circumstances of natural disaster company faced huge financial losses.
3. That due to such circumstances Board of Directors has decided to transfer Rupees 12.5 crores to General Reserves which is 50% more than the amount transferred to Reserves last year.

Hope you will be satisfied by the above information as provided by the company. We assure you that company will easily come over from such unavoidable circumstances and will deliver much better dividend in the coming years.

Thanking you,

Yours faithfully,
For Shree Cement Industries Limited

Sign

(Mr. Suhas Bajaj)
Company Secretary

7.C Draft a letter to depositor regarding repayment of his deposit.

Ans.

1. On the maturity of the tenure of the deposits, it is binding on the company to repay the amount of the deposit.
2. If the company defaults in the re-payment of the deposits, the penalty will be levied.
3. The letter of repayment of the deposit is to be sent to the depositor when the deposit is to be redeemed.
4. The letter informs the depositor that the fixed deposit receipt is received by the company.

5. This letter includes information about the Repayment of Deposit such as - tenure of deposit, Fixed Deposit Receipt No., deposit amount, rate of interest, maturity amount, TDS, net amount, the due date of payment of deposits, etc.

HULK MOTORS LTD.

Registered office: Plot No. 05, Commercial Towers, P.K. Road,
Mumbai - 400067

CIN: R20020 MH 1000 PLC123456

Website: www.hulkmotors.in

Email: hulk4321@gmail.com

Date: 17th Oct, 2020

Phone: 022 12345678

Fax: 022 - 11112222

Ref. No.: C/2060/20-18

Mr. John Methiw

508, Lokesh Apartments,

AK.D. Road,

Mumbai – 4000089

Sub: Repayment of Fixed Deposit

Dear Sir,

This is to inform you that your Fixed Deposit Receipt A-432 dated 27th Oct, 2018 for ₹ 50,000/- will be due for repayment on 28th Oct, 2020.

We have received from you the original Deposit Receipt No. 567 duly discharged along with your instruction for repayment. The Board of Directors in the meeting held on 12th Oct, 2020 has passed a resolution for the redemption of the deposits.

The details of repayment of deposit are as under:

1	2	3	4	5	6	7	8
Tenure of Deposit	Fixed Deposit Receipt No.	Deposit Amount (₹)	Rate of interest (%)	Maturity Amt (₹)	TDS (10%)	Net Amt (₹)	Due Date of Deposit
2 years	123	50,000	₹ 10,000	60,000	₹ 1,000	59,000	28th Oct, 2020

Please find enclosed herewith a crossed cheque of ₹ 59000, bearing No. 123456 dated 28th Oct, 2020 drawn on ICICI Bank, Worli Branch, Mumbai – 400 008.

Thanking You,

Yours Faithfully,
For Hulk Motors Ltd.

Sign
Mr. Kamlesh Gaikwad
Company Secretary

Encl: Crossed Cheque No. 456789

Q. 8 | Answer the following questions : (Any One)

8.A Answer the following question.

Define preference shares. What are the different types of preference shares?

Ans. As the name Indicates, these shares have certain privileges and preferential rights distinct from those attaching to equity shares. The shares which carry the following preferential rights are termed as preference shares.

- a. A preferential right as to the payment of dividends during the lifetime of the company.
- b. A preferential right as to the return of capital in the event of winding up of the company.

1. Cumulative preference shares:

Cumulative preference shares are those shares on which dividend goes on accumulating 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 the company performs well. The arrears of dividends are paid before making payment to equity shareholders. The preference shares are always cumulative unless otherwise stated in the Articles of Association. It means that if the dividend is not paid in any year or falls short of the prescribed rate, the unpaid amount is carried forward to next year, and so on until all arrears have been paid.

2. Non-cumulative preference shares:

Dividend on these shares does not accumulate. This means the dividend on shares can be paid only out of profits of that year. The right to claim dividends will lapse if company does not make a profit in that particular year. If the dividend is not paid in any year, it is lost.

3. Participating preference shares:

The holders of these shares are entitled to participate in surplus profit besides preferential dividends. The surplus profit which remains after the dividend has been paid to equity shareholders up to a certain limit is distributed to preference shareholders.

4. Non-participating preference shares:

The preference shares are deemed to be non-participating if there is no clear provision in the Articles of Association. These shareholders are entitled only to a fixed rate of a dividend prescribed in the issue.

5. Convertible preference shares:

These shareholders have a right to convert their preference shares into equity shares. The conversion takes place within a certain fixed period.

6. Non-convertible preference shares:

These shares cannot be converted into equity shares.

7. Redeemable preference shares:

Shares that can be redeemed after a certain fixed period are called redeemable preference shares. A company limited by shares, if authorized by Articles of Association, issues redeemable preference shares. Such shares must be fully paid. These shares are redeemed out of divisible profit only or out of a fresh issue of shares made for this purpose.

8. Irredeemable preference shares:

Shares that are not redeemable i.e. payable only on the winding up of the company are called irredeemable preference shares. As per the Companies Act (Amendment made in 1988), the company can not issue irredeemable preference shares.

8.B Answer the following question.

Explain briefly the different types of shares offered by a company to its existing equity shareholders.

Ans. The different types of shares offered by a company to its existing Equity shareholders are as follows:

(1) Rights issue:

- a. The Company issue shares to its existing equity shareholders in the proportion of shares holding by them. Such shares issued are called as 'Rights Issue' of shares. Under the rights issue, such shareholders are given pre-emptive rights to apply for new shares.
- b. However, if the shareholder does not opt to subscribe to such shares, then the company has the option to sell it to the general public.
- c. A company can make a Rights Issue when it is making a private placement.
- d. The main aim of issuing the right shares is to raise additional funds by offering shares to the existing equity shareholders.

The provisions related to Rights Issue are as follows:

- i. Rights shares are sold to the existing shareholders at a price which is lesser than its market price.
- ii. A company has to send a 'Letter of offer' to the existing shareholders at the time of issuing Rights shares.
- iii. The letter of offer shall mention:
 - The number of shares offered.
 - The period of offer i.e. offer is valid for a period not less than fifteen days and not exceeding thirty days from the date of the offer.
 - The right to renounce i.e. the shareholders have a right to give up their shares in favour of any other person.
- iv. The letter of offer can be sent by registered post, speed post, courier, or through electronic mode.

- v. If The shareholder does not respond to the Rights Issue offer within a stipulated time*, it is implied* that he is not interested in the offer and the company can offer the unsold shares to new investors.
- vi. The company has to obtain a minimum subscription i.e. 90% of the issue.

(2) Bonus issues:

- a. Bonus issues refer to the fully paid-up shares given to its existing equity shareholders without any cost, based upon the number of shares they have.
- b. Such shares are given by the company as a gift to its existing equity shareholder out of its profits or reserves.
- c. For this purpose, a certain proportion is decided. For instance, if a person holds 100 shares and the company declares 1:2 bonus issues, then for every 2 shares held, he gets 1 share free of cost.
- d. The process of issuing the bonus shares out of the company's profits or reserves is known as 'Capitalisation of Profits'.

Provisions related to Bonus Issues are as follows:

- i. A company can issue Bonus Shares only out of:
 - Free reserves or
 - Securities Premium Account* or
 - Capital Redemption Reserve Account*
- ii. A company cannot issue Bonus Shares only out of reserves created by Revaluation of Assets*.
- iii. The company also cannot issue bonus shares instead of paying dividend.
- iv. Once the announcement for Bonus Shares is made by the Board of Directors then it cannot be withdrawn.
- v. Bonus shares are fully paid up shares. Shareholders cannot give away their bonus shares to another person.
- vi. There is no minimum subscription to be collected.