

# Secretarial Practice

## Model Set - 1

---

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.
- 

**Q. 1.A | Select the correct answer from the options and rewrite the statements:**

**1.A.1** Money market is a market for lending and borrowing of funds for \_\_\_\_\_ term.

1. short
2. medium
3. long

**1.A.2** In \_\_\_\_\_, shares of a company are offered to the public for the first time.

1. Further Public Offer
2. Initial Public Offer
3. Public Offer
4. ESOS

**1.A.3** In physical mode, securities are held in \_\_\_\_\_ form.

1. Paper
2. Dematerialization
3. Electronic

**1.A.4** Depository Act was passed in \_\_\_\_\_.

1. 1919
2. 1996
3. 1999

**1.A.5** Return of deposit must be filed every year on or before \_\_\_\_\_.

1. 30th June
2. 31st March
3. 30th April

**1.B Match the pairs.**

Group A	Group B
a) ADR	1) Fixed Assets
b) Bonus issue	2) CRISIL
c) Fixed capital	3) Issued to existing equity shareholders
d) Credit rating	4) Fixed liabilities
e) Equity share capital	5) Offered to existing employees
	6) Venture capital
	7) USA
	8) Safe capital
	9) Japan
	10) MCA

**Ans.**

Group A	Group B
a) ADR	7) USA
b) Bonus issue	3) Issued to existing equity shareholders
c) Fixed capital	1) Fixed Assets
d) Credit rating	2) CRISIL
e) Equity share capital	6) Venture capital

**Q. 1.C | Write a word or a term or a phrase which can substitute each of the following statements:****1.C.1 Write a word or a term or a phrase which can substitute the following statement.**

The shareholders to whom the bonus shares are issued.

**Ans.** The shareholders to whom the bonus shares are issued. - **Equity shareholders****1.C.2 Write a word or a term or a phrase which can substitute the following**

**statement.**

Return of deposits on maturity date.

**Ans.** Return of deposits on maturity date. - **Repayment of Deposit**

**1.C.3 Write a word or a term or a phrase which can substitute the following statements.**

Highest bid price in Book Building method.

**Ans.** Highest bid price in Book Building method. - **Cap price or Ceiling price**

**1.C.4 Write a word or a term or a phrase which can substitute the following statement.**

Authority which has power to issue debentures.

**Ans.** Authority which has power to issue debentures. - **Board of Directors**

**1.C.5 Write a word or a term or a phrase which can substitute the following statement.**

The organization which holds the securities in electronic mode.

**Ans.** The organization which holds the securities in electronic mode. – **Depository**

**Q. 1.D | State whether the following statements are True or False :**

**1.D.1 State whether the following statement is true or false.**

Debenture holders get regular dividend.

1. True
2. False

**1.D.2 State whether the following statement is true or false.**

NSE is the regulator of all stock exchanges in India.

1. True
2. False

**1.D.3 State whether the following statement is true or false.**

Dividend cannot be paid out of capital.

1. True
2. False

**1.D.4 State whether the following statement is or false.**

Debenture holders have no voting rights.

1. True
2. False

**1.D.5 State whether the following statement is true or false.**

India has a multi Depository System.

1. True
2. False

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

**2.A Explain the following term/concept.**

Financial market

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

**2.B Explain the following term/concept.**

Stock exchange

**Ans.** Stock Exchange is a specific place where various securities are bought and sold. The securities include equity shares, preference shares, debentures, government securities and bonds, units of mutual funds, etc. Stock markets act as intermediaries between investors and borrowers and are regulated by SEBI.

**2.C Explain the following term/concept.**

Rights Issue

**Ans.** (a) The Company issue shares to its existing equity shareholders in the proportion of shares held by them. Such shares issued is called as Rights Issue' of shares.

(b) Under the Rights issue, such shareholders are given pre-emptive rights to apply for new shares.

**2.D Explain the following term/concept.**

Dematerialisation

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

**2.E Explain the following term/concept.**

ISIN

**Ans.** ISIN is a code that uniquely identifies a specific securities issue. It is a standard numbering system which is accepted globally. In India, ISINs are assigned by SEBI to NSDL (for demated shares). For Government securities, allotment of ISIN is done by the RBI. ISIN consists of a 12 (Twelve) digit alpha-numeric code which is divided into three parts. The company has to apply for ISIN for its securities with documents like a prospectus.

**2.F Explain the following term/concept.**

Debenture Certificate.

**Ans.** (1) Debenture certificate is the certificate given to the debenture holder. It certifies that the holder is the creditor of the company to the limit of the number of debentures.

(2) The company has to issue debenture certificate within 6 months of allotment of debentures.

Debenture certificates are prepared by the secretary, signed by at least two (3) directors and issued under common seal.

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

TRI Ltd. Company is newly incorporated public company and wants to raise capital by selling Equity shares to the public. The Board of Directors are considering various options for this. Advise the Board on the following matters :

- a. What should the company offer - IPO or FPO?
- b. Can the company offer Bonus Shares to raise its capital?
- c. Can the company enter into Underwriting Agreement?

**Ans.**

- a. TRI Company Ltd. is a newly incorporated company and is issuing shares to the public for the first time. Hence, the company should offer Initial Public Offer (IPO).
- b. Bonus shares are fully paid shares issued free of cost to the existing equity shareholders in proportion to their shareholdings. So, the company cannot raise capital by offering bonus shares.
- c. Company can enter into an agreement with underwriters by paying them a commission. The underwriters assure the company to take up the unsold shares (securities) so that the company is able to raise its minimum subscription.

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

Mrs. Z wishes to open a Demat account in her name :

- a. Can she open the account by going to the Mumbai office of NSDL?
- b. Is she required to pay for the opening of the account and its maintenance?
- c. Does she have to send the shares to the respective company for demating?

**Ans.**

- a. No, Mrs. Z cannot open a demat account by going to the Mumbai office of NSDL. NSDL is a depository which is like a central bank. She has to open a demat account with a depository participant (DP).
- b. Yes, Mrs. Z has to pay for the opening of the account and its maintenance for availing services of DP.

- c. No, she doesn't have to send the shares to the respective company for demating. She has to send the physical share certificates and Demat requisition form (DRF) in triplicate to the DP.

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

Apple Company Ltd. is an eligible Public Company. It plans to raise secured deposits from the public. Please advise its Board on the following.

- a. Does the company need to get shareholders' approval for accepting deposits?
- b. Does the company have to appoint a Debenture Trustee?
- c. Within what period should the company create a charge on its assets?

**Ans.**

- a. Yes, Apple Company Ltd. needs to get the shareholders' approval for accepting deposits. The company holds a General Meeting of the shareholders to seek their approval.
- b. No, the company need not appoint debenture trustee. However, when issuing secured deposits, eligible companies and public companies have to appoint one or more deposit trustees. The trustees protect the interest of the depositors.
- c. The company has to create a charge on its tangible assets within 30 days of acceptance of deposits. The charge is created for an amount not less than the amount of deposit accepted.

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

#### 4.A Distinguish between the following.

Fixed Capital and Working Capital.

**Ans.**

Fixed Capital	Working Capital
<b>1. Meaning</b>	
Fixed capital refers to any kind of physical capital i.e. fixed assets.	Working capital refers to current assets minus current liabilities.
<b>2. Nature</b>	
It stays in business almost permanently i.e. for more than one accounting year.	It stays in business for a short period of time. Thus, working capital is circulating capital.
<b>3. Purpose</b>	
Fixed Capital is invested in long-term assets such as land, building equipment, etc.	Working capital is invested in short-term assets such as cash, account receivable, inventory, etc.

<b>4. Sources</b>	
Fixed Capital funding can come from issuing shares, debentures, long-term loans, etc.	Working Capital funding can come from short-term loans, deposits, trade credit, etc.
<b>5. Objective of investor</b>	
The investor invests money in fixed capital to make a future profit.	The investor invests money in working capital for getting an immediate return.
<b>6. Risk Involved</b>	
The risk involved in fixed capital is high.	The risk involved in working capital is less as compared to fixed capital.

**4.B Distinguish between the following.**

Equity shares and Preference shares.

**Ans.**

<b>Equity Shares</b>	<b>Preference Shares</b>
<b>1. Meaning</b>	
Shares that are not preference shares are called equity shares i.e. these shares do not have the preferential right for payment of dividend and repayment of capital.	Preference shares are shares that carry preferential right as to payment of: i. Dividend and ii. Repayment of capital.
<b>2. Rate of dividend</b>	
Equity shareholders are given dividends at fluctuating rates depending upon the profits of the company.	Preference shareholders get dividends at a fixed rate.
<b>3. Voting right</b>	
Equity shareholders enjoy normal voting rights. They participate in the management of their company.	Preference shareholders do not enjoy normal voting rights. They can vote only on matters affecting their interest.
<b>4. Nature of capital</b>	

Equity share capital is permanent capital. It is known as 'Risk capital'.	Preference share capital is 'safe capital' with a stable return.
<b>5. Nature of investor</b>	
Investors who are ready to take the risk to invest in equity shares.	To get an immediate return, an investor invests in working capital. The investor gets comparatively less return.
<b>6. Face value</b>	
The face value of equity shares is generally Rs. 1/- or Rs. 10/- It is relatively low	The face value of preference shares is relatively higher i.e. Rs.100/- and so on
<b>7. Types</b>	
<b>Equity shares are classified into</b> a) equity shares with normal voting right b) equity shares with differential voting right	<b>Preference shares are classified as</b> a) Cumulative preference shares b) Non-cumulative preference shares c) Convertible preference shares. d) Non-convertible preference shares e) Redeemable preference shares. f) Irredeemable preference shares. g) Participating preference shares h) Non-participating preference shares
<b>9. Capital appreciation</b>	
The market value of equity shares increases with the prosperity of the company. It leads to an increase in the Value of shares.	The market value of preference shares does not fluctuate. So there is no possibility of capital appreciation.
<b>10. Risk</b>	
Equity shares are subject to higher risk. That is because of the fluctuating rate of dividend and no guarantee of refund of capita	Preference shares are subject to less risk. It is because of the fix rate of dividends and preferential rights as regards dividend and repayment of capital.

#### **4.C Distinguish between the following.**

Rights Shares and Bonus Shares

**Ans.**



<b>Rights Shares</b>	<b>Bonus Shares</b>
<b>1. Meaning</b>	
In rights issues, shares are offered to the existing equity shareholders i.e. Company offers the shareholders the first option to buy the shares of the company.	Bonus shares are issued to the existing equity shareholders free of cost.
<b>2. Payment</b>	
Subscribers have to pay for the Rights Shares. The company only gives them the right to buy these shares.	Bonus shares are issued free of cost to the shareholders.
<b>3. Partly/fully paid-up shares</b>	
Shareholders have to pay for these shares as Application Money, Allotment, Call Money, etc. till the full money on shares is paid up.	Bonus shares are fully paid-up shares. So no money has to be paid by the shareholders to the company.
<b>4. Minimum Subscription</b>	
The company has to obtain a minimum subscription. If the company fails to receive a minimum subscription, it has to refund the entire application money received.	There is no minimum subscription to be collected as Bonus shares are issued free of cost by the company.
<b>5. Right to Renounce</b>	
The shareholders can renounce his shares.	Shareholders cannot renounce his bonus shares.
<b>6. Purpose of Issue</b>	
The rights issue is done by a company when it wants to raise fresh funds but wants to give a chance to their existing members to increase their shareholding.	When a company has accumulated huge profits or reserves and the company wants to reward its existing Equity shareholders, the company issues bonus shares.

#### 4.D Distinguish between the Following.

Final Dividend and Interim Dividend

**Ans.**

Points	Final Dividend	Interim Dividend
<b>1. Meaning</b>	It is declared and paid after the close of the financial year.	It is declared and paid between two AGMs of an accounting year.
<b>2. Who Declares</b>	It is decided and recommended by the Board of Directors. It is declared by the shareholders in the AGM.	It is decided and declared by the Board of Directors in the Board Meeting.
<b>3. Authorization</b>	It's declaration does not need authorization by Articles of Association.	It can be declared only if Articles of Association permits its declaration.
<b>4. When Declared</b>	It is declared at the Annual General Meeting of the company.	It is declared between two Annual General Meetings of the company.
<b>5. Rate of Dividend</b>	Rate of final dividend is always higher than Interim Dividend.	Rate of Interim dividend is lower than final dividend.
<b>6. Source</b>	It is declared from different sources like; current year's profits, free reserves, capital profits, Money provided by Govt. for dividend, etc.	It is declared out of profits of the current accounting year.
<b>7. Accounting Aspect</b>	It is declared only after the accounts of the year are prepared and finalized.	It is declared before the preparation of the final accounts of the company.

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

##### 5.A Answer in brief.

What is Global Depository Receipt?

**Ans.**

- Global Depository Receipt (GDR) is an instrument in which a company located in a domestic country issues one or more of its shares or convertible bonds outside the domestic country.
- The issue of Global Depository Receipt is one of the most popular ways to tap the global equity markets. A company can raise foreign currency funds by issuing equity shares in a foreign country.
- Indian company issues shares to an intermediary called Depository'. This depository bank issues GDR to investors against these shares.

- d. The GDR represents a fixed number of shares. This GDR is then sold to people in a foreign country. The GDR is traded like regular shares. The prices fluctuate depending upon demand and supply and it is listed on a stock exchange.
- e. **The exchange on which GDR is traded are as follows:**
  - London Stock Exchange
  - Luxembourg Stock Exchange
  - NASDAQ
  - Singapore Stock Exchange
  - Hong Kong Stock Exchange
- o **Following are the advantages of GDRs:**
  - (a) GDR provides access to foreign capital markets.
  - (b) A company can get itself registered on an overseas stock exchange or over the counter and its shares can be traded in more than one currency.
  - (c) GDR increases the shareholders base of the company,
  - (d) With GDR, the non-residents can invest in shares of the foreign company. It can be freely transferred.
- o **Following are the disadvantages of GDRs:**
  - (a) Violating any regulation can lead to serious consequences against the company.
  - (b) Dividends are paid in domestic countries' currency which is subject to volatility in the forex market.
  - (c) It is mostly beneficial to High Net Worth Individual (HNI) investors due to their capacity to invest a high amount in GDR.
  - (d) GDR is one of the expensive sources of finance.

## 5.B Answer in brief.

Explain the features of Interest.

**Ans. MEANING**

- 1) Interest is a payment made for using money of another person.
- 2) Borrower takes money from the lender. Thus, for borrower, interest is the cost of renting money and for lender, interest is the income from his lending money.
- 3) Company has to pay interest if it has borrowed money from creditors like Debentures holders, Depositors, Bond holders, etc.

## FEATURES

1. Interest is the price paid for the productive services rendered by capital.
2. It is directly related to risk. The higher the risk, the higher is the interest.
3. Rate of Interest is expressed as an annual percentage of Principal.
4. The rate of interest is determined by various factors like money supply, fiscal policy, the volume of borrowings, rate of inflation, etc.
5. Interest is a charge against the profit of the company. Even if the company makes no profit, interest should be paid.

6. It is payable at a fixed and generally pre-determined rate. The company has to pay interest if it has borrowed money from creditors like Debentures holders, Depositors, Bondholders, etc.

### **5.C Answer in brief.**

State the amount of deposits that different types of companies can collect by way of deposits.

**Ans.**

Deposits are a source of short-term funds for the company. Deposits can be accepted by the company from public, directors or its members. It is a loan taken by the company and there are various terms and conditions that a company need to follow to accept them.

**The amount of deposits that different types of companies can collect by way of deposits is as follows:**

#### **1. Amount of Deposit :**

**A) Private Company:** A Private Company can accept deposits from its members or Directors or Relatives of Directors not more than 100 percent of its aggregate of paid-up share capital and free reserves.

However, a certain class of Private Companies as specified by the Companies Act can accept deposits more than 100 percent of its aggregate of paid-up share capital and free reserves.

**B) Public Company (other than Eligible Company) :** These Companies cannot accept fresh deposit from members if the amount of such deposits together with the previous deposits exceeds 25% of the aggregate of the paid up share capital and free reserves of the company

#### **C) Eligible Public Company :**

- An 'Eligible Company', i.e. company eligible to accept deposits from public under section 76(1) of Companies Act, 2013, can accept deposits up to 25% of paid-up capital, free reserves, and securities premium account from the public.

- In addition, it can accept deposits up to 10% of the aggregate of paid-up share capital, free reserves and securities premium account from members Rule 3(4) of Companies (Acceptance of Deposits) Rules, 2014.

#### **(d) Government Company:**

A Government company is eligible to accept deposits under section 76 of Companies Act, 2013.

It can accept deposits up to 35% of paid-up capital, free reserves and securities premium account from the public.

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

#### **6.A Justify the following statement.**

Financial markets acts as link between investor and borrower.

**Ans.**

- i. The financial market provides a platform where both, buyers and sellers can find each other easily.

- ii. Investors who have savings are linked with entrepreneurial borrowers that require investment.
- iii. As a result, the idle funds in the hands of investors can be productively used by corporates.
- iv. This market enables investors to invest their saving according to their choices and risk assessment.
- v. Hence, financial markets acts as link between investor and borrower.

#### **6.B Justify the following statement.**

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

**Ans.**

- 1. SEBI was set up with the objective of promoting the securities market, protecting the interest of the investors in the securities market, and to regulate the securities market.
- 2. SEBI issues rules and regulations which are to be followed by the issuers of securities, the intermediaries, and the investors.
- 3. It is the regulator of all stock exchanges in India.
- 4. SEBI also registers and regulates the working of stockbrokers, sub-brokers, share transfer agents, bankers to an issue, trustee of trust deeds, registrars to an issue, merchants, bankers, underwriters, venture capital funds, mutual funds, depositories, and other such intermediaries who may be associated with securities market.
- 5. Thus, the Securities and Exchange Board of India (SEBI) is the regulator for the securities market in India.

#### **6.C Justify the following statement.**

Dividend is paid out of profits of the company.

**Ans.**

- 1. Shareholders invest in the company's shares with aim of earning returns out of the profits of the company.
- 2. The shareholders get dividends as a return on their investment.
- 3. The shareholder being the owner of the company is entitled to a share in the company's profits.
- 4. A dividend is a share of the distributable profits of the company.
- 5. Hence, the dividend is paid out of the profits of the company.

#### **6.D Justify the following statement**

There is a limit or restriction on the amount that a company can collect as Deposits.

**Ans. Justification:**

- (1) A private company can accept deposits from its members not exceeding 100% of the aggregate of the paid-up share capital and free reserves.
- (2) A Public Company can accept deposits up to 25% of the aggregate of paid-up capital,

free reserves and securities premium account.

(3) An Eligible company can accept deposits up to 25% of paid-up capital, free reserves, and securities premium account from public. In addition, it can accept deposits up to 10% of the aggregate of paid-up share capital, free reserves, and securities premium account from members.

(4) A Government company is eligible to accept deposits under section 76 of the Companies Act, 2013. It can accept deposits up to 35% of paid-up capital, free reserves, and securities premium account from the public. Thus, it is rightly justified that, there is a limit or restriction on the amount that a company can collect as deposits.

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

**7.A Attempt the following.**

Write a letter to the shareholder regarding issue of Bonus Shares.

**Ans.**

**YASH INDUSTRIES LIMITED**

Registered office: 102, New MIDC, Usha Tower, Shahu Chowk

Mumbai – 400 031,

CIN: L40407 MH 20050PLC710007

**Website:** [www.yashindustrieslimited.com](http://www.yashindustrieslimited.com)

**E-mail:** [yash30@gmail.com](mailto:yash30@gmail.com)

**Date:** 16<sup>th</sup> October, 2019

Tel.no. 022-23252323

Fax no. 022-23600445

Ref no. Y/MR-B /5/19-20

Ms. Yukta Shroff

715, Narayan Peth

Laxmi Road,

Pune - 411 038.

**Sub. : Issue of Bonus Shares**

Dear Madam,

I am directed by the Board of Directors to inform you that in accordance with the resolution passed in the Extra-ordinary General Meeting of the company held on 14th

October 2019 Shareholders have unanimously approved the recommendation of the Board of Directors to issue Bonus Shares. Bonus Shares are issued in the ratio of 1:1, i.e. one additional equity share for every equity share held as on record date 13th October 2019.

The Details of issue of Bonus Shares are as follows:

1	2	3	4	5
No. of Shares held on record date	No. of Bonus Shares Issued/Allotted	D.P.ID No.	Client ID No.	Date of Credit to Demat A/c
		Credit to Demat Account no.		
25	25	IN 300100	10116061	31-10-2019

The Company has complied with the provisions for the issue of Bonus Shares. The Bonus Shares issued will rank pari passu with the existing equity shares.

Thanking you,

Yours faithfully,  
For Yash Industries Limited

Sign  
(Mr. S. R. Naik)  
Company Secretary

### 7.B Attempt the following.

Draft a letter of allotment to debenture holder.

**Ans.**

1. When a company allots debentures to the applicant, the letter of allotment is sent to the debenture holders.
2. The debenture holders get the debenture certificate in exchange for this letter.
3. This letter contains the details of issue of debentures i.e. Number of debentures applied, Number of debentures allotted, Distinctive numbers of debentures, Amount received, Types of debentures, Rate of Interest, Maturity date, 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](http://www.hulkmotors.in)

Email: [hulk4321@gmail.com](mailto: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: Allotment of Debentures**

Dear Sir,

In response to your application No. V65432 dated 27th Sep 2020, I am directed by the Board of Directors to inform you that, you have been allotted 100, 10% Non-convertible secured debentures of ₹100/- each. The tenure of debentures is for 5 years.

These debentures are allotted to you as per Board Resolution passed at Board Meeting held on 15th Oct 2020 and as per terms and conditions of Articles of Association of the company and Debenture Trust Deed.

The details of allotment of debentures are as follows:

1	2	3	4		5
Folio No.	No. of Debentures Applied	No. of Debentures Allotted	Distinctive Numbers		Amount Received (₹)
			From	To	
D-123	100	100	901	1000	₹ 10,000

The Debenture Certificate is enclosed herewith.

Thanking You,

Yours Faithfully,  
For Hulk Motors Ltd.

Sign  
Mr. Kamlesh Gaikwad  
Company Secretary

Encl: Debenture Certificate



**7.C Attempt the following.**

Write a letter to depositor regarding renewal of his deposit.

**Ans.**

**HULK MOTORS LTD.**

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

CIN: R20020 MH 1000 PLC123456

Website: [www.hulkmotors.in](http://www.hulkmotors.in)

Email: [hulk4321@gmail.com](mailto: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: Renewal of Fixed Deposit.**

Dear Sir,

We have received your application for renewal of the deposit of ₹ 50,000 for a further period of two years. Along with the application we have also received original Fixed Deposit Receipt (FDR) No. 685, and the same has been placed before the Board for consideration and approval.

The Board of Directors by passing a resolution at the Board meeting held on 12th Oct 2020 has decided to renew the deposits for a further period of 2 years on the same terms and conditions. A Deposit Receipt No. 342 is enclosed along with this letter.

Thanking You,

Yours Faithfully,  
For Hulk Motors Ltd.

Sign  
Mr. Kamlesh Gaikwad  
Company Secretary

Encl: Fixed Deposit Receipt No. 342

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

**8.A Answer the following questions.**

Discuss the importance of corporate finance.

**Ans.** In any business enterprise, the important functional areas are production, finance, marketing and personnel activities. Out of these, financial activities are given the utmost importance. The importance of Corporate Finance is as follows:

### **1. HELPS IN DECISION MAKING-**

- i. Availability of funds is an important factor that influences major business decisions.
- ii. It is difficult to perform any function of business enterprise without finance.
- iii. Impact on profitability is an important factor that influences business decision making.
- iv. Out of the various alternatives available to the business, the management is required to select the best one that will ensure maximum profitability.
- v. Business organisation will undertake a project only if it is financially viable.
- vi. Thus, Corporate Finance plays a very important role in the decision-making process.

### **2. HELPS IN RAISING CAPITAL FOR A PROJECT-**

A business firm needs finance to start a new venture. There are various sources for a business firm to raise funds like issue of shares, debentures, bonds or even taking loans from the banks.

### **3. HELPS IN RESEARCH AND DEVELOPMENT-**

- i. Research and Development is important for the growth and expansion of a business.
- ii. Detailed technical work is essential for the execution of projects.
- iii. Funds have to be made available throughout the lengthy process of Research and Development. This would require continuous financial support.
- iv. Also, a company may need to improve its old product or develop a new product in order to attract its customers.
- v. In order to do this, company has to conduct survey, market analysis etc. which again requires financial support.

### **4. HELPS IN SMOOTH RUNNING OF THE BUSINESS-**

A smooth flow of Corporate Finance ensures that the salaries of employees are paid on time, loans are cleared on time, raw materials are purchased as per requirement, sales promotion is carried out smoothly and products can be launched effectively.

### **5. PROMOTES EXPANSION AND DIVERSIFICATION-**

- i. Modern machines and techniques are required for the expansion and diversification of a business.
- ii. Corporate Finance ensures that funds are available to purchase modern machines and techniques.
- iii. Hence, finance becomes mandatory for the expansion and diversification of a company.

### **6. PAYMENT OF DIVIDEND AND INTEREST-**

Finance is required to pay dividend to shareholders, interest to creditors, banks etc.

## **7. PAYMENT OF TAXES/ FEES**

A company has to pay various taxes and fees to government like income tax, Goods and Services Tax (GST), fees to Registrar of Companies etc on various occasions. Finance is needed to pay these taxes and fees.

## **8. BRINGS CO-ORDINATION BETWEEN VARIOUS ACTIVITIES-**

Corporate Finance plays a very significant role in the in control and co-ordination of various business activities E.g.: if finance department does not provide adequate finance for the purchase of raw materials and to meet other day-to-day financial requirements for the smooth running of the production department, it will affect the production activities. As a result, the sales may suffer and which in turn will adversely affect the income and profits of the business. Thus, efficiency of every department in a business depends upon the effective financial management.

## **9. MANAGING RISK-**

A company has to manage various financial risks like loss due to sudden fall in sales, losses due to natural calamity, loss due to strikes etc. In order to manage such risks, a company needs financial help.

## **10. REPLACE OLD ASSETS-**

The assets of the company like plant and machinery become old and outdated over the years. The company needs to replace them with new assets over a period of time. Finance is required for the purchase of new assets.

### **8.B Answer the following questions.**

Briefly explain the provisions of Companies Act, 2013 for issue of debentures.

**Ans.** Section 2 (30) of the Companies Act, 2013 define debenture as "debenture" includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.

Following are some of the provisions of the Act which a company has to comply, while issuing debentures:

**1. No voting rights:** A company cannot issue debentures with voting rights. Debenture holders are creditors of the company and so they do not have any voting rights except in matters affecting them.

**2. Types of Debentures :** A company can issue secured or unsecured debentures and fully or partly convertible debentures or non-convertible debentures. To issue convertible debentures, a Special Resolution has to be passed in the General Meeting. All debentures are redeemable in nature.

**3. Payment of interest and redemption:** A company interest as per the terms and conditions of their issue shall redeem the debentures and pay

**4. Debenture Certificate:** Company has to issue a Debenture certificate to the debenture holders within 6 months of allotment of Debentures.

**5. Create Debenture Redemption Reserve:** Company has to create a Debenture Redemption

Reserve account out of profits of the company available for payment of dividends. This money can be used only for the redemption of debentures. As per Companies (Share Capital and Debentures) Amendment Rules 2019, MCA has removed the Debenture Redemption Reserve requirement for Listed companies, NBFCs and Housing Finance Companies.

**6. Appoint of Debenture Trustees:** If the company issues prospectus or invites more than 500 people, (either to Public or its Member) company has to appoint one or more Debenture Trustees. Debenture trustees protect the interest of the debenture holders. The company has to appoint trustees by entering into a contract with them called as Debenture Trust Deed.

**7. Debentures Trustee can approach NCLT:** Debenture Trustees have to redress the grievances of debenture holders. If the company defaults in repaying the principal amount, on maturity or defaults in paying interest there on, the Debenture Trustees can approach the National Company Law Tribunal for redressal. NCLT can direct a defaulting company to repay the principal amount or interest.

**8. Impose restrictions:** When the Debenture Trustee is of the opinion that the assets of the company are insufficient or likely to become insufficient to redeem the principal amount of debentures, it may approach the NCLT. NCLT can order a company to restrict incurring further liabilities so as to protect the interest of the debenture holders.

**9. Punishment for contravention of provisions of the Companies Act:** If the company fails to comply with any provisions of the Act, then the company and its officers shall be liable to pay fine or imprisonment or both as prescribed in the Act.