

Secretarial Practice

Model Set – 2

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 Select the correct answer from the options given below and rewrite the statement.

A stock exchange is where stock brokers and traders can buy and sell ____.

1. gold
2. securities
3. goods

1.A.2 Depositors are ____ of a company.

1. Members
2. Creditors
3. Debtors

1.A.3 Interim Dividend is declared by ____.

1. Board of Directors
2. Debentureholders
3. Depositors

1.A.4 Debenture certificate must be issued within ____ of allotment of debentures.

1. 3 months
2. 6 months
3. 60 days

1.A.5 Company issues ____ to invite its members to subscribe for its deposit scheme.

1. Advertisement
2. Circular
3. Newspaper

Q. 1.B | Find the Odd One:

1.B.1 Find the odd one.

1. Land and Building
2. Plant and Machinery
3. Cash

1.B.2 Find the odd one.

1. Debenture holder
2. Shareholder
3. SEBI

1.B.3 Find the odd one.

1. Final Dividend
2. Interim Dividend
3. Interest

1.B.4 Find the odd one.

1. Debenture
2. Public deposit
3. Retained earnings

1.B.5 Find the odd one.

1. Debenture trustees
2. Trust Deed
3. Shareholders

Q. 1.C | Complete the Sentences:

1.C.1 Complete the sentence.

When there is boom in economy, sales will _____

Ans. When there is boom in economy, sales will increase.

1.C.2 Complete the sentence.

A company capitalises its Reserve Fund for issue of _____ shares.

Ans. A company capitalises its Reserve Fund for issue of Bonus shares.

1.C.3 Complete the sentence.

In Book Building Method, the final price at which shares are offered to investors is called as _____

Ans. In Book Building Method, the final price at which shares are offered to investors is called as **Cut-off price**.

1.C.4 Complete the sentence.

Word dividend is derived from Latin term _____.

Ans. Word dividend is derived from Latin term **Dividendum**.

Q. 1.D | Select the Correct Option from the Bracket:

Select the correct option from the bracket.

Group 'A'		Group 'B'	
a)	Retained earnings	1	_____
b)	_____	2	Written communication
c)	36 months	3	_____
d)	_____	4	Charge on assets
e)	Cash sales	5	_____

(Less working capital, Correspondence, Secured debentures, Internal source of finance, Maximum tenure of deposits.)

Ans.

Group 'A'		Group 'B'	
a)	Retained earnings	1	Internal source of finance
b)	Correspondence	2	Written communication
c)	36 months	3	Maximum tenure of deposits
d)	Secured debentures	4	Charge on assets
e)	Cash sales	5	Less working capital

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

2.A Explain the following term/concept.

Fixed capital

Ans. (a) Fixed capital refers to capital invested in fixed assets. Fixed Capital is invested in long term assets such as land, building, equipment, etc.

(b) Investor invests money in fixed capital to make a future profit. Fixed capital is usually required at the time of the establishment of the company.

2.B Explain the following term/concept.

Broker

Ans. A broker is a member of a stock exchange who is licensed by the stock exchange to buy or sell shares on his client's behalf. He is an agent between the investors and the jobber. He earns income in the form of commission or brokerage.

2.C Explain the following term/concept.

Minimum subscription

Ans. (a) Minimum subscription is the minimum amount raised by the company for obtaining a trading certificate and to start the work of allotment of shares. This amount is mentioned in the prospectus.

(b) It must be collected within thirty (30) days from the issue of prospectus. The minimum subscription amount should be 90% of the issued capital.

2.D Explain the following term/concept.

Final Dividend

Ans. Final Dividend is declared and paid after the close of the financial year. It is decided and recommended by the Board of Directors. It is declared by the shareholders in the AGM. Its declaration does not need authorization by the Articles of Association. It is declared from different sources like; current year's profits, free reserves, capital profits, Money provided by Govt. for dividend, etc.

2.E Explain the following term/concept.

Charge on assets.

Ans. (1) Company has to create a charge on the assets of the company or its subsidiary company or holding company. The value of charge should be sufficient for the repayment of the amount of debentures and interest thereon.

(2) If a Government company issues secured debentures which has Central or State Government's guarantee, then it need not create any charge on its assets.

2.F Explain the following term/concept.

Credit Rating

Ans. (1) Every company has to get credit rating of its deposits and include the ratings in the circular or advertisement. The credit rating agency considers the net worth of the company, liquidity position, ability to repay deposits on time etc.

(2) The rating shall be obtained for every year during the tenure of deposits. A copy of the credit rating shall be submitted to ROC.

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. Z holds 100 shares of Peculiar Co. Ltd. in Physical mode and wishes to convert the same in electronic mode :

- a. Mr. Z holds a Saving Bank Account with CFDH Bank Ltd. Can he deposit his shares in this account for Demat?
- b. What type of account is needed for the same?
- c. Is it the RBI which will be the custodian of shares of Mr. Z after demating?

Ans.

- a. No, Mr. Z cannot deposit his shares in his bank account for demat.
- b. A demat account is required for converting physical shares into electronic holding.
- c. No, RBI will not be the custodian of the shares of Mr. Z. The depository i.e. NSDL or CDSL will be the custodian of shares of Mr. Z after demating.

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

Joy ltd. company is a newly incorporated company. It wants to raise capital for the first time by issuing equity shares.

- a. Should it go to the primary market or secondary market to issue its shares?
- b. Should it offer its shares through public offer or rights issue?
- c. What will be the issue of Equity shares by Joy Ltd. co. called as, IPO or FPO?

Ans.

- a. In primary markets, companies can raise capital for the first time from the public. So, Joy ltd. should go to the primary market to issue its shares since it is a newly incorporated company.
- b. Joy ltd. wants to raise capital for the first time by issuing equity shares. Initial Public Offer (IPO) refers to the process of offering shares of a company to the public for the first time. Therefore, Joy ltd. should offer its shares through public offer.
- c. The issue of equity shares by Joy Ltd. Co. will be called as IPO which means Initial Public Offer.

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

Violet Ltd. company plans to raise 10 crores by issuing debentures. The Board of Directors have some queries. Please advise them on the following:

- a. Can the company issue unsecured debentures?
- b. Can they issue irredeemable debentures?
- c. As the company is offering debentures to its members, can such debentures have normal voting rights?

Ans.

- a. Yes. The company can issue secured and unsecured debentures. But they have to get the approval of shareholders in a general meeting by passing a special resolution.
- b. No. All the debentures are redeemable i.e, have to be repaid. Thus, the company cannot issue irredeemable debentures.

- c. As per the Companies Act, 2013, the company cannot issue debentures with voting rights. Debenture holders are the creditors of the company. So, they don't have normal voting rights. They can vote only matters related to them.

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

4.A Distinguish between the following.

Share and Debenture

Ans.

Shares	Debentures
1. Meaning	
It is the smallest unit in the total share capital of the company.	A debenture is an instrument under seal evidencing the debt.
2. Nature	
It is permanent capital. It is not repaid during the lifetime of the company.	It is a temporary capital. Generally, it is repaid after a specific period.
3. Status	
Share capital is ownership capital. A shareholder is the owner of the company.	Debenture capital is borrowed/loan capital. A debenture holder is a creditor of the company.
4. Voting rights	
Shareholder being owner enjoys voting rights. Shareholders participate in the management of the company.	The debenture holder being the company's creditor does not have any Voting rights. He can not participate in the management of the company.
5. Return on investment	
Shareholders are paid a dividend. Equity shareholders receive a dividend at a fluctuating rate whereas preference shareholders receive a dividend at a fixed rate.	Debenture holders are paid interest at fixed rate. Interest is paid even when the company has no profit.
6. Security	
Share capital is unsecured capital. No Security is offered to the shareholder.	Debenture capital being loan capital is secured by creating a charge on its property.

7. Time of issue	
Shares are issued in the initial stage of the company.	Debentures can be issued at a later stage when the company has securities to offer.
9. Position on liquidation	
On liquidation of a company, shareholders rank last in the list of claimants.	Debenture holders being creditors rank prior to shareholders for repayment on liquidation of the company.
10. Suitability	
Shares are suitable for long-term finance.	Debentures are suitable for medium-term finance.

4.B Distinguish between the following.

Transfer of Shares and Transmission of Shares

Ans.

Transfer of Shares	Transmission of Shares
1. Meaning	
Transfer of shares means voluntarily or deliberately giving away one's shares to another person by entering into a contract with the buyer.	It means the transfer of ownership of a member's shares to his legal representative due to the operation of law. It takes place on death, insolvency, or insanity of the members.
2. When done	
It is done when the member wants to sell his shares or give his shares as a gift.	It is done when the member dies or becomes insolvent or insane.
3. Nature of Action	
It is a voluntary action taken by the member.	It is an involuntary action. It is due to the operation of law.

4. Parties involved	
In the transfer of shares, there are two parties involved- the member who is called as transferor and the buyer who is called as transferee.	There is only one party e.g, the nominee of the member in case of death of the member of the legal representative.
5. Instrument of transfer	
Transfer requires an Instrument of transfer. It is a contract between the transferor and transferee.	No Instrument of transfer is needed.
6. Initiated by	
The transferor initiates the transfer process.	The legal representative or official receiver initiates the process of transmission.
7. Consideration	
Transfer of shares is done often by the member to receive some consideration (money) i.e. the buyer has to pay for the shares. (Except given as a gift.)	No consideration is involved here. The legal heir or official receiver need not pay for the shares.
8. Liability	

The liability of the transferor ends after the shares are transferred.	Original liability of the member continues in case of transmission of shares.
9. Stamp Duty	
Stamp duty as per the market value of shares has to be paid.	No stamp duty is to be paid

4.C Distinguish between the Following.

Dividend and Interest

Ans.

Points	Dividend	Interest
1. Meaning	The dividend is the return payable to the shareholders of the company for their investment in the share capital.	It is the return payable to the creditors of the company viz. Debenture holder/Deposit holders for the loan given by them to the company
2. Given to whom	It is paid to the member i.e. the owners of the company.	It is paid to the creditor of the company.
3. Obligation	It is to be paid only when the company has made profits. Therefore no obligation/compulsion to pay dividends.	It is not linked to the profits of the company. Payment of interest is an obligation and is to be paid by the company compulsorily.
4. When Payable	It is payable when a company earns sufficient profit in a year after fulfilling all obligations.	It is payable every year irrespective of the profits of the company.

5. Rate	It is paid at a fluctuating rate to the equity shareholders since it is linked to the profits of the company.	The rate of interest is fixed and predetermined at the time of issue of the security
6. Resolution	Payment of Final Dividend requires a Board resolution and an ordinary resolution at the AGM while Interim Dividend can be paid by passing only a Board Resolution.	Payment of interest does not require the passing of a resolution at any meeting.
7. Accounting Treatment/Aspect	A dividend is an appropriation of profit.	Interest is a charge on profit.

4.D Distinguish between the following.

Primary market and Secondary market

Ans.

	Primary Market	Secondary Market
1) Meaning	The issue of new shares by the company is done in the primary market.	The securities issued earlier are traded in the secondary market.
2) Mode of investment	The securities are acquired directly from the company. It involves direct investment in securities.	The securities are acquired from other stakeholders. It involves indirect investment in securities.
3) Parties in action	The parties dealing in this market are companies and investors.	The parties dealing in this market are only investors.
4) Intermediary	The underwriters are the intermediaries.	The security brokers are the intermediaries.

5) Value of security	The price of a security in the primary market is fixed as it is decided by the company.	The price of a security is fluctuating, depending on the demand and supply conditions in the market
-----------------------------	---	---

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

5.A Answer in brief.

State any four functions of Stock Exchange.

Ans. The functions of Stock Exchange are as follows:

1. **MOBILISATION OF SAVINGS-** Stock markets are organized and regulated markets that protect the interest of the investors. So, investors can invest their savings in various securities through the stock exchanges without the fear of being cheated. Stock exchange provides a ready market for buying and selling of securities. Thus, stock exchanges help to mobilize the savings of people.
2. **RESULTS IN CAPITAL FORMATION-** Capital formation takes place when savings are invested in capital assets. Investors invest their savings in securities through stock exchange since securities provide good return on investments and also provide capital appreciation. Stock exchanges also enable the corporates to raise funds through the issue of various types of securities which meets the needs of different types of investors. The money collected by the corporates is invested by them in capital assets for further expansion of their business. So, savings of the people are invested in capital assets. Thus, stock exchange acts as a tool for capital formation.
3. **BETTER ALLOCATION OF CAPITAL-** The shares of profit making companies are traded on the stock exchange at a higher price and they are also actively traded. So, it is possible for profitable companies to raise fresh capital from the stock market easily. The prices at which the securities are traded in the exchange indicate the opportunities for investments. Stock exchange ensures that the investor's funds are allocated to productive and profitable channels.
4. **ECONOMIC BAROMETER-** The stock exchange is a reliable barometer to measure the economic condition of a country. Any major changes in the country or the economy are reflected in the prices of shares. Any rise or fall in the share prices indicates the boom or recession period of the economy. Stock exchange is also known as a pulse of economy or economic mirror as it reflects the economic conditions of a country.
5. **LIQUIDITY-** Stock markets provide a ready market for the sale and purchase of securities. Hence, it gives a feeling of assurance to the investors that they can turn their investments into cash at any point of time by selling their securities. This also encourages investors to invest in long term investment projects without any hesitation as these investments can be converted to short or medium term or even be converted to cash whenever they want.

6. **LEADS TO ECONOMIC GROWTH-** Securities of various companies are traded on the stock exchange. Investors invest in those companies which give good return on investment. Hence, companies also try to invest in the most productive investment projects so as to give good return on investors' money. This leads to capital formation and economic growth.
7. **PRICING OF SECURITIES-** The stock exchange helps to value the price of the securities on the basis of demand and supply factors. The securities of profitable companies have high value because of its high demand. Hence, the prices of securities reflect its profitability. This is useful to the investors, government and creditors. It helps the creditors to estimate the credit worthiness of a company.
8. **PROTECTING INTEREST OF INVESTORS-** Stock Exchange protects the interests of the investors. Only listed securities are traded on the stock exchange. Securities are listed on the stock exchange only after the soundness of the company is verified. The listed companies are required to operate within the strict rules and regulation laid down by the Stock Exchange. This ensures safety of the investors dealing through Stock Exchange
9. **PROVIDING SCOPE FOR SPECULATION-** The stock exchange permits healthy speculation of securities so that liquidity and demand or supply of securities is ensured.
10. **PROMOTES THE HABIT OF SAVINGS AND INVESTMENTS-** The stock market offers attractive opportunities for investments which encourage people to save and invest more in securities of corporate sector rather than investing in unproductive assets such as gold, silver etc.

5.B Answer in brief.

State the general principles/rules for allotment of shares.

Ans. Allotment of Shares means Company allots (to give) shares to the general public. Allotment means the distribution of shares among the applicants.

The general principles/rules for allotment of shares are as follows:

1. **Communication:** The decision regarding allotment must be communicated to the applicants. It means the company should inform the investors in writing and then share the applicant and the company enters into a contract.
2. **Absolute and unconditional:** The allotment must be absolute and unconditional, i.e. it must be made on the same terms as stated in the application.
 - No change in the terms of allotment or new conditions can be added at the time of allotment.
3. **Proper authority:** The allotment should be made by proper authority, i.e. Board of Directors of the company or authorized committee on behalf of the Board of Directors.

An allotment made without proper authority will be invalid.
4. **Allotment should not be in contravention (violation) of any other laws:**
 - A Company cannot allot shares by violating or contradicting any other existing laws. For instance, Shares cannot be allotted to a minor.
 - But in the event of any such contravention, the company and every officer of the

company who is in default shall be punishable with a fine which may extend to Rs. 5,000.

5. **Allotment against applications only:** A company can allot shares only if it has received a written application for shares from the applicant. Thus, no valid allotment can be made on oral requests. It must be against written application only.
6. **Reasonable time:** The allotment must be made within a reasonable time. Otherwise, the applicant is not bound to accept it, i.e. applicant can reject it. As per the Act, allotment shall be done within 60 days of receipt of application money. The allotment can be made from the fifth day from date of the issue of prospectus.

5.C Answer in brief

Explain any four advantages of Depository system to Investor.

Ans.

1. **Elimination of Risk:** All risks associated with physical certificates like delays, loss, theft, mutilation, bad deliveries, etc. are totally eliminated.
2. **Safety:** It is the safest and secure way of holding securities. The entire system functions under the Depository Act and is monitored by SEBI. e.g. The Investor can keep his account in a 'Freeze/Lock' mode to avoid/prevent unexpected debit or credit or both by giving instructions to the DP.
3. **Easy Transfer of shares:**
 - (a) Efforts in filling transfer forms and lodging the documents is eliminated.
 - (b) Also the stamp duty levied on the transfer of physical shares is not applicable.
 - (c) Processing time in the transfer of securities is reduced and neither the securities nor the cash is tied/held up for an unnecessarily long time.
4. **Updates and Intimation:** The investor is provided with the status of the holdings and transactions by DP and occasionally by the Depository too.
5. **Security against Loan:** Dematerialised securities are preferred by banks and financial institutions as security against loans.
6. **No concept of 'Lots':** The system of odd and even lot stands abolished. The market lot is one share for dematerialised securities.
7. **Nomination Facility:** Individual Investors can avail of the nomination facility. This simplifies the process in the event of the death of the investor.
8. **Automatic Credit:** The account of investor is automatically credited/debited in case of a change initiated by the company which impacts the securities. This is called 'Corporate Action'. Few examples which can be termed as Corporate Action are Payment of Dividend, Issue of Bonus Shares, Offering of Rights Shares, Early Redemption of Debentures, Mergers and Acquisitions, etc.

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

6.A Justify the following statement

All companies cannot accept deposits from public.

Ans. Justification:

(1) Eligible Public company, having a net worth of around Rs 100 crores or more or turnover of Rs 500 crores can only accept deposits from the public. Government companies can also accept deposits from the public.

(2) Whereas, Public company can accept deposits from its members or directors only. A private company can accept deposits from its members, directors or relatives of directors only.

(3) An eligible public company can invite or accept deposits from the public only after the publication of an advertisement.

(4) Advertisement inviting deposits must be published in English and vernacular language. The advertisement has to be signed by majority of directors or their authorized agents. Thus, all companies cannot accept deposit from public.

6.B Justify the following statement:

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

Ans.

i. **Justification:**

If a company is issuing secured debentures, it has to fulfil the provisions as per Companies (Share Capital and Debentures) Rules, 2014 (i.e. Rule 18).

- ii. As per its provisions, company has to create a charge on the assets of the company or its subsidiary company or holding company.
- iii. The value of charge should be adequate to cover the entire value of debentures issued and interest to be paid on it.
- iv. If a government company issues secured debentures which has central or state government's guarantee, then it need not create any charge on its assets.

Hence, a company has to create charge on its assets for issuing secured debentures.

6.C Justify the following statement.

Approval of members is not needed for Interim Dividend.

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 i.e. before the finalisation of annual accounts for the year.
- 3. Articles of Association of the company must authorize the Board of Directors to declare Interim Dividend.
- 4. The Board Meeting has to pass a resolution for declaring the Interim Dividend.

5. Thus, the approval of members is not needed for the interim dividend.

6.D Justify the following statement.

The depository system results in reduced time, cost, and efforts.

Ans.

1. Under the depository system, securities are held in electronic form.
2. The transfer and settlement of securities are done electronically.
3. The efforts that were required in filling transfer forms and lodging the documents are eliminated in the depository system.
4. Processing time in the transfer of securities is reduced and neither the securities nor the cash is tied/held up for an unnecessarily long time.
5. Further, stamp duty levied on the transfer of physical shares is also not applicable. So, the cost involved is also eliminated.
6. Even at the company end, costs, efforts, and time involved in printing and distribution of certificates in cases of new issues, bonuses, transfers, etc. are saved.
7. Thus, the depository system results in reduced time, cost, and efforts.

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

7.A Attempt the following.

Write a letter to the member for the issue of Share Certificate.

Ans.

COMFORT MOTORS LTD.

Registered office: A/30, Aurora Towers, M. G. Road, Camp,
Pune 411 012.

CIN: U12111 MH 2000 PCL300477

Phone: 020-80032844

Fax: 020-50063015

Ref. No. C/MR-SC/30/19-20

Website: www.comfortmotorsltd.com

Email: comfort31@gmail.com

Date: 12th July, 2019

Mr. Jayant Modi
Abhiman Apartment
30, L. B. Road,
Pune – 411 001.

Sub: Issue of Share Certificate

Dear Sir,

This is to inform you that as per your Request Application No. 50, I am hereby authorised

to issue you a Share Certificate. The said Share Certificate will be delivered to you within 15 days from the date of this letter by registered post to your registered address as mentioned in the Register of Members.

Details of issue of Share Certificate are as follows:

1	2	3		4
Folio No.	Share Certificate Numbers	Distinctive Numbers		Total Number of Shares
		From	To	
1006	9630	301	400	100

It shall always be our endeavour to provide the best of our services to you at all times.
Thanking you,

Yours faithfully,
For Comfort Motors Ltd.

Sign
Mr. Anand Swami
Company Secretary

7.B Attempt the following.

Write a letter to the debenture holder regarding payment of interest through Interest Warrant.

Ans.

1. Debenture capital is a loan or borrowed capital of a company.
2. Debenture holders are the creditors and they get a fixed rate of interest as a return on their investment in debentures.
3. The interest paid by the company is a debt and does not depend upon profits.
4. The company pays interest through an Interest warrant which is sent along with this letter.
5. This letter contains details such as No. of debentures, Distinctive numbers, Gross amount of interest payable, TDS deducted, Net amount of interest payable, 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: Payment of Interest on Debentures.

Dear Sir,

I am directed to inform you that, the Board of Directors has passed a resolution in the Board Meeting held on 15th Oct, 2020 regarding payment of interest on your 100, 10% Non-convertible debentures of ₹ 100/- each for the year ending 31st March, 2020.

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

1	2	3		4	5	6	7
Folio No.	No. of Debentures	Distinctive Numbers		Gross Amt. of Interest	T.D.S (10% on interest)	Net Amt. of Interest	Interest Warrant No.
		From	To				
D-123	100	901	1000	₹ 1,000	NIL	₹ 1,000	C1234

The Interest Warrant is enclosed herewith. Please detach the Interest Warrant along the perforated line.

Thanking You,

Yours Faithfully,
For Hulk Motors Ltd.

Sign
Mr. Kamlesh Gaikwad
Company Secretary

Encl: Interest Warrant

7.C Attempt the following.

Draft a letter to depositor informing him about payment of interest electronically.

Ans. The company can pay interest on the deposits to the depositors electronically through ECS or NEFT.

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: Payment of Interest on Fixed Deposit Electronically through ECS or NEFT.

Dear Sir,

I am instructed by the Board of Directors to convey to you that the Board has passed a resolution in the Board Meeting held on 12th Oct, 2020 to pay interest @ 10% on deposits for the year ending 28th March, 2020.

Your company has complied with all the provisions relating to the payment of interest on deposits.

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

1	2	3	4	5	6
Fixed Deposit Receipt. No	Deposit Amount (₹)	Rate of interest (%)	Gross Amt. of Interest (₹)	TDS (10%)	Net Amt. of Interest Payable (₹)

123	50,000	10	5000	NIL	5000
-----	--------	----	------	-----	------

Interest will be paid by electronic transfer i.e. by crediting the said interest to your bank account, as per details provided by you to the company.

Thanking You,

Yours Faithfully,
For Hulk Motors Ltd.

Sign
Mr. Kamlesh Gaikwad
Company Secretary

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

8.A Answer the following question.

Discuss the factors determining working capital requirement.

Ans. Meaning

Working capital is the capital that is used to carry out the day to day business activities. The business firm has to arrange capital for making an investment in short term assets such as cash, account receivable, inventory, etc.

The capital invested in these assets is referred to as 'Working Capital. An investor invests money in working capital for getting an immediate return.

Definition:

According to Gerstenbergh, "Working capital is the excess of current assets over liability". This approach is called Net Working Capital.

Factors affecting working capital requirement:

There are no precise standards to measure working capital adequacy. Management has to determine the size of working capital in the light of certain aspects of the business firm and the economic environment within which the firm operates.

1. Nature of business: Firms engaged in manufacturing essential products of daily consumption would need relatively less working capital as there would be constant and sufficient cash inflow in the firm to take care of liabilities. Likewise, public utility concerns have to maintain small working capital because of continuous flow of cash from their customers.

2. Public utility concern: These concerns provide services such as transport, gas, electricity, etc.

On the contrary, if the business is dealing with luxurious products, it requires a huge amount of working capital, as sale of luxurious items are not frequent.

Trading/merchandising firms that are concerned with the distribution of goods have to carry big inventories of goods to meet customer's demand and have to extend credit facilities to attract customers. Hence they need a large amount of working capital.

Merchandising firms are those which are concerned with buying and selling of goods, either as wholesaler or retailer, without altering the physical form of goods.

3. Size of business: The size of the business also affects the requirement of working capital. A firm with large scale operations will require more working capital.

4. The volume of sales: This is the most important factor affecting the size of working capital. The volume of sales and the size of working capital are directly related to each other. If the volume of sales increases, there is an increase in the amount of working capital and vice versa.

5. Production cycle: The process of converting raw material into finished goods is called production cycle.

If the period of the production cycle is longer, then the firm needs more amount of working capital. If the manufacturing cycle is short, it requires less working capital.

6. Business cycle: When there is a boom in the economy, sales will increase. This will lead to an increase in investment in stocks. This requires additional working capital. During a recession, sales will decline and hence the need for working capital will also decline.

7. Terms of purchases and sales: If the firm does not get credit facility for purchases but adopts a liberal credit policy for its sales, then it requires more working capital. On the other hand, if credit terms of purchases are favourable and terms of credits sales are less liberal, then the requirement of cash will be less. Thus working capital requirements will be reduced.

8. Credit control: Credit control includes factors such as the volume of credit sales, the terms of credit sales, the collection policy, etc. If a credit control policy is sound, it is possible for the company to improve its cash flow. If credit policy is liberal, it creates a problem of the collection of funds. It can increase the possibility of bad debts. Therefore a firm requires more working capital. The firm making cash sales requires less working capital.

9. Growth and Expansion :

The working capital requirement of a firm will increase with the growth of a firm. A growing company needs funds continuously to support large scale operations.

10. Management ability :

The requirement of working capital is reduced if there is proper co-ordination between the production and distribution of goods. A firm stocking on heavy inventory calls for a higher-level for working capital.

11. External factors :

If financial institutions and banks provide funds to the firm as and when required, the need for working capital is reduced.

8.B Answer the following question.

What is Debenture? Discuss the different types of debentures.

Ans. Meaning:

Debentures have occupied a significant position in the financial structure of the companies.

It is one of the main sources of raising debt capital to meet long term financial needs.

Debentures represent borrowed capital. The debenture holders are creditors of the company. The debenture holder gets a fixed rate of interest as a return on his investment.

The Board of Directors has the power to issue debentures.

The term 'debenture' has come from Latin word 'debare', which means to 'owe'.

Definition:

Palmer defines a debenture as -

"an instrument under seal evidencing debt, the essence of it being admission of indebtedness".

Types of Debentures:

1. Secured debentures :

The debentures can be secured. The property of the company may be charged as security for a loan. The security may be for some particular asset (fixed charge) or it may be the asset in general (floating charge). The debentures are secured through 'Trust Deed'.

2. Unsecured debentures :

These are the debentures that have no security. The issue of unsecured debenture is now prohibited by the Companies (Amendment) Act, 2000

3. Registered debentures :

Registered debentures are those on which the name of holders are recorded. A company maintains a register of debenture holders in which the names, addresses, and particulars of holdings of debenture holders are entered. The transfer of debentures, in this case, requires the execution of regular transfer deed.

4. **Bearer debenture :**

Name of holders are not recorded on the bearer debentures. Their names do not appear on the register of debenture holders. Such debentures are transferable by mere delivery. Payment of interest is made by means of coupons attached to the debenture certificate.

5. **Redeemable debentures :**

Debentures are mostly redeemable i.e. payable at the end of some fixed period, as mentioned on the debenture certificate. Repayment can be made at a fixed date at the end of a specific period or by installments during the lifetime of the company. The provision of repayment is normally made in a trust deed.

6. **Irredeemable debentures :**

These kinds of debentures are not repayable during the lifetime of the company. They are repayable only after the liquidation of the company, or when there is a breach of any condition or when some contingency arises.

7. **Convertible debentures :**

Convertible debentures give the right to the holder to convert them into equity shares after a specific period. Such right is mentioned in the debenture certificate. The issue of convertible debenture must be approved by special resolution in a general meeting before they are issued to the public. These debentures are advantageous for the holder. Because of this conversion right, the convertible debenture holder is entitled to equity shares at a rate lower than market value, and even he participates in the profit of the company.

8. **Non-convertible debentures:**

Non-convertible debentures are not convertible into equity shares on maturity. These debentures are normally redeemed on the maturity date. These debentures suffer from the disadvantage that there is no appreciation in value.