

**Maharashtra State Board**  
**Secretarial Practice**  
**Sample Question Paper – 2**  
**Academic Year: 2024-2025**

**Note:**

1. ALL questions are compulsory.
2. Figures to the right indicate full marks for the questions.
3. Figures to the Left indicate question numbers.
4. Answer to every question must be started on a new page.

**Q1.A**

**1.A.1. Select the correct answer from the options given below and rewrite the statement.**

The sum of all \_\_\_\_\_ is gross working capital.

1. expenses
- 2. current assets**
3. current liabilities

**Solution:**

The sum of all current assets is gross working capital.

**1.A.2. Return of deposit must be filed every year on or before \_\_\_\_\_.**

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

**Solution:**

Return of deposit must be filed every year on or before 30th June.

**1.A.3. 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

**Solution:**

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

**1.A.4. The dividend is paid first to \_\_\_\_ shareholders.**

- 1. Equity
- 2. Preference
- 3. Deferred

**Solution:**

Dividend is paid first to preference shareholders.

**Explanation:** The holder of preference share have a prior right to receive fixed rate of dividend before any dividend is paid to equity shares. The rate of dividend is prescribed at the time of issue.

**1.A.5. \_\_\_\_ is not a component of capital structure.**

- 1. Term Loan
- 2. Equity & Preference Share Capital

**3. Loans and Advances Given**

**Solution:**

Loans and Advances Given are not a component of capital structure.

**Q1.B | Give one word or phrase for the following sentences:**

**1.B.1. Give one word or phrase for the following sentence:**

The market for lending and borrowing of funds for short-term.

**Solution:**

Money Market

**1.B.2. Give one word or phrase for the following sentence:**

Institutions that protect the interest of the debenture holders.

**Solution:**

Debenture Trustees

**1.B.3. Give one word or phrase for the following sentence:**

Latin word for "Dividend".

**Solution:**

Dividendum

**1.B.4. Give one word or phrase for the following sentence:**

What is Share?

**Solution:**

A share is a small unit of the share capital of a company.

**1.B.5. Give one word or phrase for the following sentence:**

Who are the depositors for the organization?

**Solution:**

Depositors are the creditors of the company.

**Q1.C | True or false:**

**1.C.1. ISIN is a code given to a company.**

1. True

**2. False**

**Solution:**

This statement is **False**.

**1.C.2. State whether the following statements are true or false.**

Fixed capital is also referred as circulating capital.

1. True

2. False

**Solution:**

This statement is **False**.

**1.C.3. India has a single depository system.**

1. True

2. False

**Solution:**

This Statement is **False**.

**1.C.4. Secured debentures must be redeemed within 15 years from the date of their issue.**

1. True

2. False

**Solution:**

This Statement is **False**.

**1.C.5. Every Company must issue or dispatch a share certificate to the allottee within 1 month after the allotment of shares.**

1. True

2. False

**Solution:**

This statement is **False**.

**1.D | Match the pairs:**

Match the correct pairs:

	Group "A"		Group "B"
1	Financial planning	a.	Dividend
2	Public deposit	b.	Less applications than expected
3	Private placement	c	Owned capital

4	Secured debentures	d.	Advance programming of the financial plan
5	Return on share	e.	Bonus
		f.	Issuing shares without inviting the public for subscription
		g.	Maximum 7 years
		h.	Security about repayment
		i.	Maximum 36 months
		j.	Management of business activities

**Solution:**

	Group A		Group B
1	Financial planning	d	Advance programming of the financial plan
2	Public deposit	i	Maximum 36 months
3	Private placement	f	Issuing shares without inviting the public for subscription
4	Secured debentures	h	Security about repayment
5	Return on share	a	Dividend

**Q2 | Explain the following terms/concepts in detail: (Any 4 out of 6):**

**2.A. Explain the following term/concept in detail:**

Overhead

**Solution:**

Overhead means indirect costs or expenses required to run the business.

**2.B. Explain the following term/concept in detail:**

Equity shares

**Solution:**

Equity shares are also known as ordinary shares. Companies Act defines equity shares as 'those shares which are not preference shares'.

**2.C. Explain the following term/concept in detail:**

Bond

**Solution:**

A bond is a debt security. It is a formal contract to repay borrowed money with interest. A bond is a Loan. The holder of the bond is a lender to the institution. He is a creditor of the company. He gets a fixed rate of interest. All bonds have a maturity date and are paid in cash at a certain date in the future.

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

Initial Public Offer

**Solution:**

Initial Public Offer refers to the process of offering shares of a company to the public for the first time. A new company or an existing company that had raised its capital earlier from promoters or other investors may offer its shares to the public when it is in need of fresh funds. The first time, the company offers its shares to the public is called an Initial Public offer.

**2.E. Explain provisions that the company must fulfil.**

**Solution:**

**The company must fulfill the following provisions:**

- a. Different numbers of shares can be offered to different categories of employees.
- b. Shares issued through ESPS should be immediately listed.
- c. ESPS shares will have a minimum of one year lock-in period from the date of allotment if ESPS is not a part of the public issue.
- d. The company has to fulfill the provisions of the SEBI (Shares Based Employee Benefits) Regulations, 2014.



- e. The company has to get the approval of the shareholders through a special Resolution to offer ESPs.

**2.F. Explain the following term/concept in detail:**

Net Worth

**Solution:**

Net Worth is the total of paid-up capital + free reserves + securities premium account after deducting accumulated losses deferred expenses and miscellaneous expenses not written off.

**Q3 | Study the following case/situations and express your opinion. (Any TWO)**

**3.A**

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

Jack & Jones, a newly incorporated organization wants to raise capital for the first time by issuing equity shares.

- a. Should it go for Primary Market or the Secondary Market?
- b. What will be the issue of equity shares by Jack & Jones called?

**Solution:**

- a. As a newly incorporated organization, Jack and Jones should target the primary market, where the company organizes the sources of finance for capital appreciation.
- b. The shares of Jack & Jones will be issued in the stock market for the first time as an Initial Public Offering.

**3.B**

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

Shing Metal Ltd. Company has recently come out with its public offer through FPO. Their issue was over-subscribed. Now the Board of Directors wants to start the allotment process. Please advise the Board on:

- a. Should the company set up an allotment committee?
- b. How should the company inform the applicants to whom the company is allotting shares?
- c. Within what period should the company issue a share certificate?

**Solution:**

- a. In this case, the board of directors wishes to begin the allotment process immediately. As a result, the company must form an allotment committee. The allotment committee will determine the basis for allotment and report to the board of directors.
- b. A resolution to allot shares is passed at the board meeting. Following the adoption of the resolution, the secretary must issue a Letter of Allotment to the applicants to whom the company is allocating shares.
- c. Within two months of the date of allotment, the company should issue a share certificate.

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

Mr. Pankaj has recently got his B.Sc. degree. He has enrolled in a course in the securities market. As a new student of this subject, he has a 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 the sale and purchase of security?

**Solution:**

- a. Yes, a company must be listed on a stock exchange in order to sell its securities on the stock exchange.
- b. The term 'economic mirror' refers to a stock exchange's ability to reflect a country's economic conditions.
- c. The term 'liquidity' refers to the stock exchange's functions as a provider of a ready market for the sale and purchase of securities.

**Q4 | Distinguish between the following: (Any THREE)**

**4.A. Distinguish between the following:**

Dividend and Interest

**Solution:**



<b>Points</b>	<b>Dividend</b>	<b>Interest</b>
<b>Meaning</b>	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 holders/Deposit holders for the loan given by them to the company.
<b>Given to whom</b>	It is paid to the member, i.e., the owners of the company.	It is paid to the creditor of the company.
<b>Obligation</b>	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.
<b>When Payable</b>	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.
<b>Rate</b>	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.
<b>Resolution</b>	Payment of a 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.
<b>Accounting Treatment/Aspect</b>	A dividend is an appropriation of profit.	Interest is a charge on profit.

#### **4.B. Distinguish between:**

Primary Market and Secondary Market

**Solution:**

Points	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	Direct investment in the securities. Securities are acquired directly from the company.	Indirect investment as the securities are acquired from other stakeholders.
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 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.

**4.C. Distinguish between Fixed capital and Working capital.****Solution:**

	Points	Fixed capital	Working capital
1.	<b>Meaning</b>	Fixed capital refers to any kind of physical capital. i.e., fixed assets.	Working capital refers to current assets minus current liabilities.
2.	<b>Nature</b>	It stays in the business almost permanently.	Working capital is circulating capital. It keeps changing.
3.	<b>Purpose</b>	It is invested in fixed assets such as land, buildings, equipments, etc.	Working capital is invested in short-term assets such as cash, accounts receivable, inventory, etc.

4.	<b>Sources</b>	Fixed capital funding can come from selling shares, debentures, bonds, long-term loans, etc.	Working capital can be funded with short-term loans, deposits, trade credit, etc.
5.	<b>Objectives of investment</b>	Investors invest money in fixed capital, hoping to make a future profit.	Investors invest money in working capital for getting immediate returns.
6.	<b>Risk Involved</b>	Investment in fixed capital implies more risk.	Investment in working capital is less risky.

#### 4.D. Distinguish between the following.

Transfer of Shares and Transmission of Shares

#### **Solution:**

Transfer of Shares	Transmission of Shares
<b>1. Meaning</b>	
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.
<b>2. When done</b>	
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.
<b>3. Nature of Action</b>	
It is a voluntary action taken by the member.	It is an involuntary action. It is due to the operation of law.
<b>4. Parties involved</b>	

In the transfer of shares, there are two parties involved the member who is called the 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.
<b>5. Instrument of transfer</b>	
Transfer requires an Instrument of transfer. It is a contract between the transferor and the transferee.	No Instrument of transfer is needed.
<b>6. Initiated by</b>	
The transferor initiates the transfer process.	The legal representative or official receiver initiates the process of transmission.
<b>7. Consideration</b>	
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.
<b>8. Liability</b>	
The liability of the transferor ends after the shares are transferred.	The original liability of the member continues in case of transmission of shares.
<b>9. Stamp Duty</b>	
Stamp duty as per the market value of shares has to be paid.	No stamp duty is to be paid.

**Q5 | Answer in brief: (Any TWO)**

**5.A. State any 4 features of shares.**

**Solution:**

**Following are the features of Shares:**

1. **Meaning:** Share is the smallest unit in the total share capital of a company.



2. **Ownership:** The owner of the share is called a shareholder. It shows the ownership of a shareholder in the company.
3. **Distinctive Number:** Unless dematerialised, each share has a distinct number for identification. It is mentioned in the Share Certificate.
4. **Evidence of title:** A share certificate is issued by a company under its common seal. It is a document of title of ownership of shares. A share is not any visible thing. It is shown by share certificate or in the form of Demat share.
5. **Each share has a value expressed in terms of money. There may be:**
  - (a) **Face value:** This value is written on the share certificate and mentioned in the Memorandum of Association.
  - (b) **Issue price:** It is the price at which the company sells its shares.
  - (c) **Market Value:** This value of a share is determined by demand and supply forces in the share market. Rights A share confers certain rights on its holder such as the right to receive the dividend, the right to inspect statutory books, the right to attend shareholders' meetings, and the right to vote at such meetings, etc.
6. **Income:** A shareholder is entitled to get a share in the net profit of the company. It is called a dividend.
7. **Transferability:** The shares of a public limited company are freely transferable in the manner provided in the Articles of Association.
8. **Property of Shareholder:** Share is a movable property of a shareholder.
9. **Kinds of Shares:** A Company can issue two kinds of shares:(a) Equity shares.  
(b) Preference shares.
10. **Rights:** A share confers certain rights on its holder such as right to receive dividend, right to inspect statutory books, right to attend shareholders' meetings, and right to vote at such meetings, etc.

#### 5.B. Answer in one sentence.

What is Depository System?

#### **Solution 1:**

The system under which shares are held, transferred, and settled in electronic form is called a depository system.

#### **Solution 2:**



Under Depository System, securities are held in electronic form. The transfer and settlement of securities are done electronically. The Depository System maintains accounts of the shareholder, enables transfer, collects dividends, bonus shares, etc. on behalf of the shareholder. This system is also called as scripless trading system.

### **5.C. What is Employee Stock Purchase scheme?**

#### **Solution:**

Under this scheme, the company offers equity shares to its employees at a discounted price which they can buy at a future date. The company deducts a certain amount from the salary of the employee towards the payment for the shares.

### **Q6 | Justify the following statements: (Any TWO)**

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

Equity shareholder enjoys certain rights.

#### **Solution:**

**Equity Shareholders enjoy certain rights as given below:**

- a. **Right to vote:** It is the basic right of equity shareholders through which they elect directors, alter Memorandum and Articles of Association, etc.
- b. **Right to share in profit:** It is an important right of equity shareholders. They have the right to share in profit when distributed as dividends. If the company is successful and makes a handsome profit, they have the advantage of getting a large dividend.
- c. **Right to inspect books:** Equity shareholders have the right to inspect the statutory books of their company.
- d. **Right to transfer shares:** The equity shareholders enjoy the right to transfer shares as per the procedure laid down in the Articles of Association.

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

Companies have to create a charge on their tangible assets while issuing secured deposits.

#### **Solution:**

#### **Justification:**

1. Every company accepting deposits from the public shall create a charge on its tangible assets of an amount not less than the number of deposits accepted in

favour of the deposit holders in accordance with such rules as may be prescribed.

2. The charge should be created within 30 days of accepting the deposits.
3. The minimum amount of security should be equal to the amount not covered by Deposits Insurance. The security is created in favour of the Deposit Trustee.
4. Thus, it is rightly justified that, companies have to create a charge on tangible assets while issuing secured deposits.

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

Unpaid/Unclaimed Dividend is governed by some rules.

#### **Solution:**

The dividend declared by the company but has not been paid by it or claimed by a shareholder within 30 days of its declaration is termed an Unpaid and Unclaimed Dividend.

#### **The following rules govern the Unpaid/Unclaimed Dividend:**

- a. The total amount of dividends that remain unpaid/ unclaimed should be transferred to the 'Unpaid Dividend Account' opened in a scheduled Bank by the company. This transfer should be within 7 (seven) days at the end of the 30 days within which payment was to be made. In other words, this transfer should happen within 37 (Thirty-seven) days from the declaration of the dividend.
- b. Within 90 (Ninety) days of the transfer of the 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 that shows names, last known addresses, and the unpaid amount payable to each shareholder.
- c. Any claimant to the Unpaid Dividend Account may apply to the company for the payment of money claimed.
- d. Any amount in the Unpaid Dividend Account of a company that remains unpaid/unclaimed for a period of 7 (seven) years from the date of such a transfer shall be, transferred by the company to Investors Education and Protection Fund (IEPF).

- e. The claimant of money will have to follow the procedures and submit the necessary documents to get a claim from IEPF along with a statement in the prescribed form that gives details of such transfers.

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

Trade credit is the soul of business.

**Solution:**

No business can run without 'credit'. Credit is the soul of business. Trade credit financing is the major source of short-term financing.

Manufacturers, wholesalers, and suppliers of goods or materials are called 'trade creditors'. They sell tangible goods to other business concerns on the basis of deferred payment i.e. future payment credit is extended by these business concerns with the intention to increase their sales. The business firm extends credit also because of the custom that has been built up over time.

Trade credit is not a cash loan. It results from a credit sale of goods/services, which has to be paid at a future date after the sales take place. In other words, when goods are delivered by a supplier to a customer and the payment is made after some time, it is known as trade credit.

**Q7 | Attempt the following: (Any TWO)**

**7.A. Accent Ltd. issues bonus shares in the ratio of 1:2 to the equity shareholders. Write a letter to inform the shareholder.**

**Solution:**

	<b>Accent Limited</b>
	<b>Address:</b> _____
	<b>CIN:</b> _____
Phone No:	Website: <a href="http://accentltd.com">accentltd.com</a>
Fax No.:	E-mail: <a href="mailto:admin@accentltd.com">admin@accentltd.com</a>
Reference No: Acc/Bonus/19-20	Date: 15th Sep, 20xx
Mr. Somesh Patkar, Vishnu Road, chinchpokali-400011	
	<b>Sub: Issue of Bonus Shares</b>
Dear Sir,	



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 13th Sep, 20xx. shareholders have unanimously approved the recommendation of the Board of Directors to issue the Bonus Shares. Bonus Shares are issued in the ratio of 1:2. i.e. one additional equity for 2 shares held.

The details of the bonus shares are as follows:

1	2	3	4	5
No. of Shares held on the record date	No. of Bonus Shares Issued/Allotted	DPID No.  Credited to Demat Account No	Client ID No.	Date of Credit to DematA/c
25	10	IN 300500	10126162	15/9/20xx

The company has compiled provisions for the issue of Bonus Shares.

The Bonus Shares issued will rank Pari Passu with existing equity shares.

Thanking You.

Yours Faithfully,  
Accent Ltd.  
Company Secretary

## 7.B. Draft a letter of thanks to the depositor of a company.

### Solution:

1. The letter of thanks is sent to the depositors by the company immediately after receiving the deposits.
2. It gives detailed information about deposits i.e. Amount of deposit, Date of deposit, Period of deposit, etc.
3. The Deposit Receipt which is proof of the receipt of the deposit by the company is sent to the depositor along with this letter.
4. This letter is sent within 21 days from the date of acceptance of deposits.

**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: Thanking Depositor for Fixed Deposit**

Dear Sir,

We have received your application dated 12th Oct, 2020 for an investment of ₹ 1,00,000 in the fixed deposit of our company, as per terms and conditions stated in the advertisement, for a period of 2 years. We are thankful to you for the initiative and the trust you have shown in depositing a substantial amount in our company.

The details of deposits accepted are given in the following schedule:

1	2	3	4	5	
Fixed Deposit Receipt No.	Amount of Deposit (₹)	Period of Deposit (Years)	Rate of interest (%)	Bank Details	
				Name of the Bank	Bank Account No
123	50,000	2	10%	HDFC Bank	00004567

The Board of Directors of our company expresses its gratitude for depositing money in our company. We assure you of our best services and thank you for the confidence shown in our company.

Thanking You,



Yours Faithfully,  
For Hulk Motors Ltd.

Sign  
Mr. Kamlesh Gaikwad  
Company Secretary

Encl: Fixed Deposit Receipt No.123

**7.C. Write a letter to Amruta Joshi for the Payment of Interest on Debentures by Aventure India Limited, Pune.**

**Solution:**

**Aventure India Limited**

Address: \_\_\_\_\_

CIN: \_\_\_\_\_

Phone No: xxxxxxxx

Website: [www.aventureindia.com](http://www.aventureindia.com)

Fax No.:

E-mail: [admin@aventureindia.com](mailto:admin@aventureindia.com)

Reference No: Acc/Bonus/19-20

Date: 15th Sep, 20xx

Mrs. Punam Dey,  
Pune-411038

**Sub: Payment of Interest on Debenture**

Dear Madam,

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 14th June 20xx finalizing to pay interest @ 10% on Redeemable Debentures on ₹100/- each for the year ending 30th February, 20xx.

Your company has complied with all the provisions relating to the payment of interest on debentures. Details of Interest payable to you are as follows:

1	2	3	4	5	6	7
Register No.	No. of Debentures	Distinctive Numbers		Gross Amt. of interest (₹)	T.D.S. (10%)	Net Amt. of interest (₹)
		From	To			
C - 550	100	501	600	₹1200	Nil	₹ 1500

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,  
Aventure India Ltd.  
Company Secretary

**Q8 | Answer the following questions: (Any ONE)**

**8.A. State the features of equity shares.**

**Solution:**

**Features of Equity shares are as follows:**

1. **Permanent capital:** Equity shares are irredeemable shares. The amount received from Equity Shares is not refundable by the company during the lifetime. Equity shares become redeemable only in the event of winding up of the company. Equity shareholders provide long term and permanent capital to the company.
2. **Fluctuating Dividend:** Equity shares do not have a fixed rate of dividend. The rate of dividend depends upon the amount of profit earned by the company. If the company earns more profit, the dividend is paid at a higher rate. On the other hand, if there is insufficient profit, the Board of Directors may postpone the payment of dividends. The shareholders can not compel them to declare and pay the dividend. The income of equity shares is irregular and uncertain. They get dividends which are always fluctuating.
3. **No preferential right:** Equity shareholders do not enjoy preferential rights with respect to the payment of dividends. It means equity shareholders are paid dividends only after the dividend on preference shares has been paid. At the time of winding up of the company also, the equity shareholders are paid in the last. They are the last claimants. If no surplus amount is available after paying debts and preference shares, equity shareholders will not get anything. Thus, equity shareholders stand second in case of getting dividends on their shares as well as getting back their capital at the time of liquidation of the company.
4. **Rights:** Equity shareholders enjoy certain rights. These include -
  - a. The right to share in profit, when distributed as a dividend, is the most important right of equity shareholders. If the company is successful and makes a handsome profit, they have the advantage of a large dividend.
  - b. The right to vote is the basic right of equity shareholders by which they elect directors, amend Memorandum, Articles, etc.
  - c. Right to inspect books of account of their company of which they are owners.
  - d. The right to transfer shares is one of the most important rights of the shareholder.

5. **Control:** The control of the company is vested in equity shareholders. They are often described as real masters of the company. It is because they enjoy the exclusive voting rights. The voting rights of equity shareholders are protected as far as possible. Equity shareholders may exercise their voting rights by proxies, without attending a meeting in person. The Act provides the right to cast vote in proportion to the number of shareholdings. Equity shareholders participate in the management of the company. They elect their representatives called Directors on the Board for the management of the company.
6. **Risk:** Equity shareholders bear maximum risk in the company. They are described as 'shock absorbers' when a company has a financial crisis. If the income of the company falls, the rate of dividends also comes down. Due to this, the market value of equity shares goes down resulting in capital loss. Thus, equity shareholders are the main risk-takers.
7. **Residual claimants:** Equity shareholders are owners and they are residual claimants to all earning after expenses, taxes, etc. have been paid. Although equity shareholders are the last claimants they have the advantage of receiving entire earnings that are leftover.
8. **Face value:** The face value of equity shares is low, in comparison to preference shares. It is generally Rs.10/- per share or even Rs.1/- per share.
9. **Market Value:** There is more fluctuation in the market value of equity shares in comparison to other securities. Therefore, equity shares are more appealing to the speculators.
10. **Bonus Issue:** Bonus shares are issued as a gift to equity shareholders. These shares are issued free of cost to existing equity shareholders. These are issued out of accumulated profits. Bonus shares are issued in proportion to the shares held. Thus capital investment of (ordinary) equity shareholder tends to grow on its own. This benefit is available only to the equity shareholder.

#### **8.B. Explain Pricing methods to offer shares to the public.**

##### **Solution:**

**Public Issue or Public offer of Shares:** Public Issue or offer means offering the shares to the public. This is the most common method used by companies. The company invites the public to subscribe to its shares by issuing a prospectus.

**A company can use two pricing methods to offer shares to the public:**



- a. **Fixed Price Issue Method:** Under this method, the company states in its prospectus, the quantity and the price at which the shares are offered to the public. The subscribers/investors are asked to pay a certain portion of the face value of shares or the entire issue price along with the application. The company comes to know the demand for its shares only after the subscription period ends. The company can issue shares at par or premium. The fixed Price method is used for all types of issues, i.e. Public Issues, Right Issues, ESOS, etc.
- b. **Book-Building Method:** Under this method, the issuer company determines the number of shares and the issue price at which its shares will be sold by the bidding process. The company issues a Red Herring Prospectus which contains the price range or price band and asks the investors to bid on it. The lower end of the price band is called as 'floor price' while the highest end is called as 'cap price' or 'ceiling price'. The final price at which shares are offered to the investors is called a 'cut-off' price. Investors can bid on any number of shares that they are willing to buy at any price within the price band. Bidding is kept open for 5 days. The bids along with the application money are to be submitted to the Lead Merchant Bankers called 'Book Runners' who enter the bids in a book. After bidding is over, the company fixes the 'cut-off price' based on the highest or best price at which all shares on offer can be sold. The company issues a Prospectus that contains the final price. BookBuilding Method is used for Public issues, i.e. IPO and FPO.