

MH Board Class 12 Secretarial Practice 2025 Question Paper with Solutions

Time Allowed :3 Hours	Maximum Marks :80	Total Questions :8
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General Instructions

1. The examination is for a total of **80 Marks** and the time allotted is **3 Hours**.
2. All questions are compulsory unless an internal option is provided (e.g., “Attempt any THREE out of five”).
3. Figures to the right of the questions indicate the full marks allotted to that question.
4. You must start the answer to every main question on a new page.
5. Answers should be written neatly and legibly. Use only a **blue or black ink pen** for writing your answers.
6. Write the question number and sub-question number correctly and clearly in the margin.
7. Electronic gadgets such as mobile phones, smartwatches, and calculators are strictly prohibited in the examination hall.
8. You must carry your official Board Hall Ticket (Admit Card) and your college ID card to the examination center.

SECTION - A

Q. 1. (A) Select the correct answer:

1. The holder of bond is _____ of the company.

(A) secretary (B) owner (C) creditor

Correct Answer: (C) creditor

Solution: Step 1: Understand the relationship between a bondholder and a company. A bond is a debt instrument, which means when an individual or entity purchases a bond from a company, they are essentially lending money to that company. **Step 2:** Define the terms. An 'owner' of a company holds equity (shares), not debt. A 'secretary' is an officer of the company. A 'creditor' is an entity that has lent money to another entity. **Step 3:** Conclude the relationship. Since the bondholder has lent money to the company, they are considered a creditor. The company is obligated to pay interest on the bond and repay the principal amount at maturity.

Quick Tip

Remember the key distinction: Shareholders are owners (equity), while bondholders and debenture holders are creditors (debt). This fundamental concept is crucial for understanding corporate finance.

2. Company has to appoint _____ to protect the interest of depositors.

(A) Debenture trustees (B) Deposit trustees (C) Credit Rating Agency

Correct Answer: (B) Deposit trustees

Solution: Step 1: Identify the key parties involved. The question is about protecting the interests of 'depositors', who place fixed deposits with a company. **Step 2:** Analyze the roles of the options provided.

Debenture trustees are appointed to protect the interests of debenture holders.

Deposit trustees are appointed specifically to safeguard the interests of individuals who have deposited money with the company. They act as a liaison between the company and the depositors.

A **Credit Rating Agency** assesses the financial health and creditworthiness of a company but does not directly protect depositors' interests. **Step 3:** Match the role to the requirement. The correct entity appointed to protect depositors is the Deposit trustee.

Quick Tip

Always match the trustee to the type of instrument. 'Debenture trustees' are for debenture holders, and 'Deposit trustees' are for depositors. This helps avoid confusion between similar-sounding roles.

3. The rate of interest payable on debenture is _____.

(A) fixed (B) floating (C) uncertain

Correct Answer: (A) fixed

Solution: Step 1: Define a debenture. A debenture is a long-term debt instrument used by companies to borrow money. It is an acknowledgment of debt. **Step 2:** Understand the terms of a debenture. One of the primary features of a debenture is the predetermined interest rate, also known as the coupon rate. This rate is specified in the debenture certificate and does not change throughout the life of the instrument. **Step 3:** Conclude the nature of the interest rate. Because the rate is specified at the time of issue and remains constant, it is a 'fixed' rate of interest.

Quick Tip

While floating-rate notes exist, standard debentures, especially in this context, are characterized by their fixed coupon rate. This provides certainty of income for the investor and predictable interest expense for the company.

4. Demat shares are _____.

(A) non-transferable (B) fungible (C) bearer

Correct Answer: (B) fungible

Solution: Step 1: Define Demat shares. 'Demat' is short for dematerialization, which is the process of converting physical share certificates into an electronic format. These electronic shares are held in a demat account.

Step 2: Define fungibility. Fungibility is the property of a good or a commodity whose individual units are essentially interchangeable. For example, one kilogram of gold is identical to any other kilogram of gold.

Step 3: Apply the concept to Demat shares. In a demat account, shares of a particular company are not identified by distinct certificate numbers as they were in physical form. One equity share of a company is identical to and interchangeable with any other equity share of the same company. This makes them fungible.

Quick Tip

Think of Demat shares like currency in a bank account. You don't care which specific 10 dollar bill you get back from the ATM, as they are all interchangeable and have the same value. The same principle applies to dematerialized shares of a company.

5. Central government is a borrower in the money market through the issue of _____.

(A) commercial papers (B) trade bills (C) treasury bills

Correct Answer: (C) treasury bills

Solution: Step 1: Understand the money market. The money market is a segment of the financial market for short-term borrowing and lending with maturities of one year or less.

Step 2: Analyze the instruments listed.

Commercial Papers (CPs) are short-term unsecured debt instruments issued by corporations.

Trade Bills are instruments used to finance trade, typically between two business entities.

Treasury Bills (T-Bills) are short-term debt instruments issued by the central government to raise funds and manage short-term liquidity needs. **Step 3:** Identify the government's instrument. Based on the definitions, Treasury Bills are the instrument used by the central

government to borrow from the money market.

Quick Tip

Associate the issuer with the instrument:

Corporations issue Commercial Papers.

The **Central Government** issues Treasury Bills. This simple association is key to answering many questions about money market instruments.

Q. 1. (B) Correct the underlined words and rewrite the following sentences:

1. Depository Receipt traded in USA is called as Global Depository Receipt.

Correct Answer: Depository Receipt traded in USA is called as **American Depository Receipt**.

Solution: Step 1: Differentiate between types of Depository Receipts. A Depository Receipt (DR) allows investors to hold shares in foreign companies. **Step 2:** Define ADR and GDR.

American Depository Receipt (ADR) is a DR issued by a U.S. bank representing a specified number of shares in a foreign stock that is traded on a U.S. stock exchange.

Global Depository Receipt (GDR) is a similar instrument but is typically traded in Europe or on multiple international exchanges. **Step 3:** Apply the definition to the question. Since the question specifies the DR is traded in the USA, the correct term is American Depository Receipt.

Quick Tip

It's all in the name: **American** DRs are for the USA, while **Global** DRs are for international markets, often outside the USA.

2. FPO refers to offering of shares to the public for the first time.

Correct Answer: **IPO** refers to offering of shares to the public for the first time.

Solution: Step 1: Define the terms for public share offerings.

Initial Public Offering (IPO) is the process by which a private company becomes a public company by selling its shares to the public for the very first time.

Follow-on Public Offering (FPO) or Further Public Offering is when an already listed company decides to issue additional shares to the public. **Step 2:** Identify the context. The question refers to the offering of shares "for the first time," which is the key characteristic of an IPO.

Quick Tip

Remember the acronyms: **IPO** = **I**nitial (first time). **FPO** = **F**ollow-on/**F**urther (subsequent times).

3. Bonus shares are issued as a free gift to the Preference Shareholders.

Correct Answer: Bonus shares are issued as a free gift to the **Equity Shareholders**.

Solution: Step 1: Understand bonus shares. Bonus shares are additional shares given to existing shareholders without any additional cost, based upon the number of shares that a shareholder owns. These are issued from a company's accumulated profits or reserves. **Step 2:** Differentiate between shareholder types.

Equity Shareholders are the real owners of the company and bear the risk. They are rewarded with profits, including bonus shares.

Preference Shareholders have a preferential right to receive dividends at a fixed rate but are generally not entitled to bonus shares. **Step 3:** Conclude the recipient of bonus shares. Bonus shares are a way to capitalize profits and are issued to equity shareholders.

Quick Tip

Bonus shares are a reward for the "owners" who take the risk. In a company, the ultimate risk-takers and owners are the Equity Shareholders.

4. Dividend is an obligation to be paid by a company every year.

Correct Answer: **Interest** is an obligation to be paid by a company.

Solution: Step 1: Distinguish between dividend and interest.

Dividend is a distribution of a portion of a company's earnings, decided by the Board of Directors, to a class of its shareholders. It is not an obligation and depends on the company's profitability and policy.

Interest is the cost of borrowing money. It is a charge against profit and a legal obligation that must be paid to lenders (like bondholders or banks) regardless of whether the company makes a profit. **Step 2:** Identify the obligatory payment. The payment that is a mandatory obligation is interest on debt.

Quick Tip

Remember: **Interest** is a legal **obligation** (cost of debt). **Dividend** is a board **discretion** (sharing of profit).

5. A stock market is an important constituent of money market.

Correct Answer: A stock market is an important constituent of **capital** market.

Solution: Step 1: Define the financial markets. The financial market is broadly divided into two segments: the money market and the capital market. **Step 2:** Differentiate between the two markets.

The **Money Market** deals with short-term borrowing and lending (maturity up to one year). Instruments include treasury bills, commercial papers, etc.

The **Capital Market** deals with long-term funds (maturity of more than one year). It includes the stock market (for shares/equity) and the bond market (for debt). **Step 3:** Place the stock market correctly. Since stocks represent long-term ownership capital with no maturity date, the stock market is a fundamental part of the capital market.

Quick Tip

Think about the duration: **Money** Market = Short-term money. **Capital** Market = Long-term capital (like stocks and bonds).

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Q. 1. (D) State whether the following statements are True or False :

1. Dividend once declared cannot be revoked.

Correct Answer: True

Solution: Once a dividend is declared by the Board of Directors and approved by the shareholders at an Annual General Meeting (AGM), it becomes a debt payable by the company to its shareholders. As a legal obligation, it cannot be unilaterally revoked by the company.

Quick Tip

Think of a declared dividend as a promise that becomes a legally binding debt. Once the shareholders approve it, the company is locked in.

2. Authorized capital is mentioned in capital clause of Memorandum of Association.

Correct Answer: True

Solution: The Memorandum of Association (MoA) is a foundational document of a company. Its "Capital Clause" specifies the maximum amount of share capital that the company is authorized to raise from the public. This is known as the authorized, registered, or nominal capital.

Quick Tip

The **M**emorandum of **A**ssociation sets the **M**aximum **A**uthorized capital. The MoA defines the company's limits and boundaries.

3. Fixed capital is also referred as circulating capital.

Correct Answer: False

Solution: Fixed capital is the capital invested in acquiring long-term assets like land, buildings, and machinery. Circulating capital (or working capital) is the capital used for

short-term, day-to-day operations, such as inventory, cash, and accounts receivable. They are distinct concepts.

Quick Tip

Remember the difference by their purpose: **Fixed** capital is for assets that stay **fixed** in place for a long time. **Circulating** capital **circulates** through the daily business cycle.

4. Depositors are given voting rights.

Correct Answer: False

Solution: Depositors are creditors of the company; they have lent money to the company in the form of deposits. Voting rights are a privilege of ownership, which rests with the equity shareholders. Creditors, including depositors, do not have voting rights in the company's general meetings.

Quick Tip

Voting Rights = Ownership. Since depositors are lenders (creditors) and not owners, they do not get to vote.

5. Bombay Stock Exchange (BSE) is the oldest stock exchange in India.

Correct Answer: True

Solution: The Bombay Stock Exchange (BSE), established in 1875 as "The Native Share & Stock Brokers' Association," is the oldest stock exchange not only in India but also in Asia. It has played a pivotal role in the development of India's capital market.

Quick Tip

Remember BSE's historical significance. It's a key fact in Indian financial history that BSE was the first of its kind in the region.

1. (Q. 2.1) Explain the following term/concept: Fixed Capital

Correct Answer: Not applicable (Explanation-based question).

Solution: Meaning: Fixed Capital is the sum of money invested in acquiring or upgrading long-term, tangible assets known as fixed assets. These assets are not meant for resale but are used by the business over a long period (typically more than one year) to generate revenue. They form the operational base of a company. **Examples of Fixed Assets:**

- Land and Buildings
- Plant and Machinery
- Furniture and Fixtures
- Vehicles
- Computer Equipment and Software

Factors Affecting Fixed Capital Requirement: The amount of fixed capital a business needs depends on several factors, including the nature of the business (a manufacturing company needs more than a trading company), the scale of operations, and the technology used. Funds for fixed capital are usually raised from long-term sources like issuing shares, debentures, and securing long-term bank loans.

Quick Tip
Think of fixed capital as the foundation of a house. It's the permanent structure (the factory, the machines) that allows the business to function and produce. It's durable and not easily converted into cash.

2. (Q. 2.2) Explain the following term/concept: Overdraft

Correct Answer: Not applicable (Explanation-based question).

Solution: Meaning: An overdraft is a short-term credit facility provided by a bank that allows a current account holder to withdraw more money than is available in their account, up to a pre-approved limit. It is essentially a loan on the current account, designed to help businesses manage temporary cash flow shortages. **Key Features:**

- **Credit Facility:** It is an extension of credit, not the account holder's own money.
- **Pre-sanctioned Limit:** The bank sets a maximum limit for the overdraft based on the customer's creditworthiness.
- **Interest Calculation:** Interest is charged only on the actual amount overdrawn and for the period it is used, not on the entire sanctioned limit.
- **Flexibility:** The borrower can withdraw and repay funds as needed within the limit, making it a highly flexible source of short-term finance.

Quick Tip

An overdraft is like a financial safety net for a current account. It allows you to spend "below zero" up to a certain point, but remember, the bank charges interest daily on that negative balance.

3. (Q. 2.3) Explain the following term/concept: Debenture Certificate

Correct Answer: Not applicable (Explanation-based question).

Solution: Meaning: A debenture certificate is a formal, written document issued by a company under its common seal, serving as an acknowledgement of debt. It is the primary evidence of a loan raised from the public or institutions. It contains the terms and conditions of the loan, including the principal amount, the rate of interest, and the date of repayment (maturity date). **Contents of a Debenture Certificate:**

- Name and address of the company.
- Name and address of the debenture holder.

- The total amount of the loan (face value of the debenture).
- The rate of interest and the dates on which it will be paid.
- The maturity date when the principal amount will be repaid.
- Details of any security or charge created on the company's assets.

Quick Tip

Think of a debenture certificate as an official "IOU" from a company to its lender (the debenture holder). It's a formal promise to pay back a loan with interest, just like a share certificate is proof of ownership.

4. (Q. 2.4) Explain the following term/concept: Secured Deposit

Correct Answer: Not applicable (Explanation-based question).

Solution: Meaning: A Secured Deposit refers to a public deposit (a form of loan from the public to a company) that is backed by a charge on the tangible assets of the company. This means the company pledges specific assets as collateral for the deposit. In the unfortunate event that the company fails to repay the deposit amount or the interest, the depositors (through a trustee) can claim and sell these pledged assets to recover their money. **Key**

Aspects:

- **Collateral:** There must be tangible assets pledged as security.
- **Safety for Depositor:** It provides a higher degree of safety to the depositor compared to an unsecured deposit.
- **Debenture Trustee:** A debenture trustee is appointed to protect the interests of the depositors and hold the charge over the assets on their behalf.
- **Legal Requirement:** As per the Companies Act, 2013, companies accepting deposits must create a charge on their assets for an amount not less than the amount of deposits accepted.

Quick Tip

The word 'secured' is the key. Just like a 'secured loan' from a bank is backed by an asset (like a house or car), a 'secured deposit' is backed by the company's assets, making it a safer investment for the public.

5. (Q. 2.5) Explain the following term/concept: Rematerialization

Correct Answer: Not applicable (Explanation-based question).

Solution: Meaning: Rematerialization (often shortened to 'Remat') is the process of converting securities that are held in an electronic form (dematerialized form) in a Demat account back into their physical form, i.e., as physical share or debenture certificates. It is the exact opposite of Dematerialization (Demat). **Process:** An investor who wishes to rematerialize their securities must submit a Remat Request Form (RRF) to their Depository Participant (DP). The DP then forwards this request to the concerned depository (NSDL/CDSL) and the company's Registrar and Transfer Agent (RTA). After verification, the company's RTA prints and dispatches the physical certificates to the investor, and the electronic holdings in the Demat account are reduced accordingly. **Why it's done:** Although trading on stock exchanges requires shares to be in Demat form, an investor might choose Remat for personal record-keeping, to pledge physical shares for a loan where Demat is not an option, or for other specific personal reasons.

Quick Tip

Think of it like this: Dematerialization is like converting your physical cash into a digital bank balance. Rematerialization is like going to the ATM and withdrawing that digital balance back into physical currency notes.

6. (Q. 2.6) Explain the following term/concept: Bull

Correct Answer: Not applicable (Explanation-based question).

Solution: Meaning: In the context of the stock market, a "Bull" is an investor or trader who is optimistic about the market and expects the prices of stocks or the market as a whole to rise. Bulls purchase securities with the expectation of selling them at a higher price in the future to make a profit. This optimistic sentiment and the resulting upward trend in the market are referred to as a "Bull Market" or a "bullish trend". **Characteristics of a Bull**

Investor:

- **Optimism:** Believes that the economy is strong or improving and that stock prices will increase.
- **Buying Action:** Tends to buy or "go long" on stocks.
- **Speculation:** A bull speculator (also known as a 'Tejiwala' in the Indian context) buys securities to profit from the anticipated price rise.

Analogy: The term is derived from the way a bull attacks, thrusting its horns upwards into the air, symbolizing the upward movement of the market. This is in contrast to a "Bear," which swipes its paws downwards, symbolizing a falling market.

Quick Tip
Associate the Bull's upward horn thrust with an UPWARD market trend. Bull = Optimism = Buying = Prices Go Up.

7. (Q. 3.1) Study the following case: STAR Company Ltd. has recently come out with its public offer through FPO. Their issue was oversubscribed. The Board of Directors now wants to start the allotment process. Please advise the Board on: (a) Should the company set up 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 share certificate?

Correct Answer: Not applicable (Case study analysis).

Solution: Analysis: The case deals with the post-issue formalities for an oversubscribed Follow-on Public Offer (FPO). The Board of Directors needs guidance on the correct procedures for share allotment. **Advice to the Board:**

- (a) **Allotment Committee:** Yes, it is highly advisable and a standard practice for the Board of Directors to constitute a 'Share Allotment Committee'. This committee, comprising some of the directors, is responsible for overseeing the entire allotment process. They work with the merchant bankers and registrars to finalize the basis of allotment in a fair and transparent manner that complies with SEBI regulations. This ensures proper governance and efficient decision-making.
- (b) **Informing Applicants:** The company must inform the applicants through a formal "Allotment Advice" or "Letter of Allotment". This is sent via email and SMS to the registered contact details of the successful allottees. For applicants who were not allotted any shares, a "Letter of Regret" along with the refund order is sent. The final allotment list is also made available on the websites of the stock exchanges (BSE/NSE) and the registrar to the issue.
- (c) **Issuing Share Certificate:** As per the Companies Act, 2013, in the case of allotment of any of its shares, the company must deliver the certificates of all shares allotted within a period of **two months** from the date of allotment. However, in modern practice where shares are allotted in dematerialized (Demat) form, the shares are directly credited to the allottees' Demat accounts much faster, typically within a few days of allotment.

Quick Tip

For any public issue (IPO or FPO), remember the key principles are fairness, transparency, and compliance with SEBI and the Companies Act. The process involves a dedicated committee, clear communication to all applicants, and strict timelines for allotment and refunds.

8. (Q. 3.2) Study the following case: Mr. Z holds 50 shares of Peculiar Company Ltd. in physical mode and wishes to convert the same into electronic mode. (a) Mr. Z holds a

Saving Bank Account with CFDH Bank Ltd. Can he deposit his shares into 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?

Correct Answer: Not applicable (Case study analysis).

Solution: Analysis: This case is about the process of dematerialization, which is converting physical share certificates into electronic holdings. **Clarifications:**

- (a) **Using a Savings Bank Account:** No, Mr. Z absolutely cannot deposit his physical shares into his Savings Bank Account for dematerialization. A savings account is meant for holding cash deposits and conducting banking transactions. Securities like shares require a specialized account.
- (b) **Type of Account Needed:** To hold shares in electronic form, Mr. Z needs to open a **Demat Account**. This account can be opened with a Depository Participant (DP). Many banks (like CFDH Bank Ltd. in the example) and stockbroking firms function as DPs. So, Mr. Z can approach his bank to open a Demat account, which is separate from his savings account. He would then need to fill a Dematerialization Request Form (DRF) and submit it along with his physical share certificates to the DP.
- (c) **Custodian of Shares:** No, the Reserve Bank of India (RBI) will not be the custodian. The RBI is India's central bank and regulates the banking system, not the securities market. After dematerialization, the shares are held electronically by a **Depository**. In India, there are two central depositories: the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL). These depositories are the primary custodians of all dematerialized securities. The DP simply acts as an agent or intermediary between the investor and the Depository.

Quick Tip

Remember the key players in holding shares: **Investor** -> opens a **Demat Account** with a **Depository Participant (DP)** -> The **DP** connects to the central **Depository (NSDL/CDSL)**, which is the ultimate electronic record-keeper of the shares.

9. (Q. 3.3) Study the following case: XYZ Company Ltd. decides to declare dividend for the financial year 2021-22 in which it has earned profits less than their expectations. (a) Is Board right in recommending a dividend of rupee 5/- per share out of free reserves? (b) Can Board declare the dividend though it is not approved by Annual General Meeting? (c) Can the Board give dividend in the form of gifts?

Correct Answer: Not applicable (Case study analysis).

Solution: Analysis: This case deals with the rules and regulations governing the declaration and payment of dividends by a company. **Legal Position:**

- (a) Dividend from Free Reserves:** Yes, the Board is right in *recommending* a dividend out of free reserves if the current year's profits are inadequate. However, this is subject to specific conditions under the Companies (Declaration and Payment of Dividend) Rules, 2014. The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year. So, if the rupee 5/- dividend is within that average rate, the recommendation is valid.
- (b) Approval of Annual General Meeting (AGM):** No, the Board of Directors can only *recommend* a final dividend. The power to *declare* this final dividend rests solely with the shareholders, who approve it at the company's AGM. Shareholders can approve the recommended rate or suggest a lower rate, but they cannot increase the rate recommended by the Board.
- (c) Dividend in the form of Gifts:** No, this is not permitted. As per the Companies Act, 2013, a dividend must be paid in **cash**. This can be done through cheque, warrant, or any electronic mode. It cannot be paid in kind, such as in the form of gifts or assets. The principle is that the return to shareholders must be a cash distribution from profits.

Quick Tip

Dividend Mantra: Board **recommends**, Shareholders **declare** (at AGM), and it must always be paid in **cash**. When using past reserves, the dividend rate is restricted by the average of the last

10. (Q. 4.1) Distinguish between: Shares and Debentures

Correct Answer: Not applicable (Distinction question).

Solution: The fundamental difference is that shares represent ownership capital, making the shareholder an owner of the company, while debentures represent debt or borrowed capital, making the debenture holder a creditor of the company.

Basis of Distinction	Shares	Debentures
Meaning	A share is a unit of ownership capital in a company.	A debenture is a certificate of loan or debt taken by the company.
Status of Holder	A shareholder is an owner of the company.	A debenture holder is a creditor of the company.
Return	The return on shares is called a dividend, which is an appropriation of profits.	The return on debentures is called interest, which is a charge against profits and is paid regardless of profit.
Voting Rights	Equity shareholders have voting rights and can participate in the management of the company.	Debenture holders do not have any voting rights.
Security	Shares are generally unsecured.	Debentures are typically secured by a charge on the company's assets.
Repayment	Share capital is not repaid during the lifetime of the company, except in a buy-back or winding up.	Debentures are issued for a specific period, and the principal amount is repaid on maturity.

Quick Tip

Simple rule: **Shares = Stakeholder (Owner)** with variable dividends. **Debentures = Debt (Lender)** with fixed interest.

11. (Q. 4.2) Distinguish between: Transfer of shares and Transmission of shares

Correct Answer: Not applicable (Distinction question).

Solution: The core distinction lies in the cause and action. Transfer of shares is a deliberate,

voluntary act by the shareholder to sell or gift their shares, while transmission is an automatic process that happens by operation of law due to events like the death, insolvency, or insanity of the shareholder.

Basis of Distinction	Transfer of Shares	Transmission of Shares
Meaning	It is the voluntary handing over of rights and duties of a member from one person to another.	It is the passing of property or title in shares from a shareholder to their legal representative by operation of law.
Action	It is a voluntary and deliberate action by the shareholder.	It is an involuntary action that happens automatically.
Reason	It is done to sell shares, give them as a gift, or for any other personal reason.	It takes place on the death, insolvency, or insanity of the shareholder.
Consideration	Transfer usually involves a monetary consideration (a price).	No consideration is involved; the legal heir acquires the shares without payment.
Instrument	A formal 'Share Transfer Deed' needs to be executed by both the transferor and the transferee.	No transfer deed is required. Proof of entitlement (like a death certificate or succession certificate) is sufficient.

Quick Tip

Think of it this way: **Transfer** = a conscious **Trade**. **Transmission** = an automatic **Takeover** by law.

12. (Q. 4.3) Distinguish between: Final Dividend and Interim Dividend

Correct Answer: Not applicable (Distinction question).

Solution: The main difference relates to the timing and the declaring authority. A final dividend is declared at the end of a financial year by the shareholders in an AGM, whereas an

interim dividend is declared in the middle of a financial year by the Board of Directors.

Basis of Distinction	Final Dividend	Interim Dividend
Meaning	A dividend declared and paid after the close of the financial year and finalization of accounts.	A dividend declared and paid between two Annual General Meetings (i.e., during the financial year).
Declaring Authority	It is recommended by the Board of Directors and declared by the shareholders at the AGM.	It is both declared and paid by the Board of Directors in a Board Meeting.
Timing	Declared at the Annual General Meeting.	Declared anytime during the financial year.
Source of Profits	Paid out of the profits of the financial year after preparing the final accounts.	Paid out of the profits of the current year before the final accounts are prepared.
Rate	The rate of final dividend is usually higher than the interim dividend.	The rate is generally lower as it is based on estimated profits.

Quick Tip

Final dividend is for the **Full** year, approved by **Folks** (shareholders) at the end. **Interim** is an **In-between** payment, decided by the **Insiders** (Board).

13. (Q. 4.4) Distinguish between: Primary Market and Secondary Market

Correct Answer: Not applicable (Distinction question).

Solution: The primary market is the place where new securities are issued for the first time by companies to raise capital. The secondary market is where existing, previously issued securities are traded among investors.

Basis of Distinction	Primary Market	Secondary Market
Meaning	The market where securities are created and issued for the first time directly from the company.	The market where already issued securities are bought and sold among investors.
Also Known As	New Issue Market (NIM).	Aftermarket or Stock Market.
Parties Involved	The transaction is between the issuing company and the investor.	The transaction is between two investors (a buyer and a seller). The company is not involved.
Purpose	To raise fresh capital for the company for expansion, projects, etc.	To provide liquidity and marketability to existing securities. The company does not receive any funds from these trades.
Price Determination	The price is fixed by the company's management (fixed price issue) or through a book-building process.	The price is determined by the market forces of demand and supply on the stock exchange.
Intermediary	Merchant bankers and underwriters are the main intermediaries.	Stockbrokers are the main intermediaries.

Quick Tip

Think of it like buying a car. The **Primary Market** is the car showroom where you buy a brand-new car directly from the company. The **Secondary Market** is the used car market where you buy a second-hand car from another owner.

14. (Q. 5.1) Answer in brief: State the provisions relating to Bonus Shares.

Correct Answer: Not applicable (Explanation-based question).

Solution: Bonus shares are fully paid-up shares given by a company free of cost to its existing shareholders, in proportion to their existing shareholding. They are issued by capitalizing the company's free reserves and surplus. The key legal provisions for the issue of bonus shares under the Companies Act, 2013, are:

1. **Authorization by Articles:** The Articles of Association (AoA) of the company must authorize the issue of bonus shares. If not, the AoA must be altered first.
2. **Board Recommendation:** The issue must be recommended by the Board of Directors.
3. **Shareholder Approval:** The issue must be authorized by the shareholders in a General Meeting through an ordinary resolution.
4. **Source of Funds:** Bonus shares can only be issued out of:
 - Its free reserves.
 - The Securities Premium Account.
 - The Capital Redemption Reserve Account.

Note: They cannot be issued out of reserves created by the revaluation of assets.

5. **No Default Condition:** The company should not have defaulted in the payment of interest or principal on fixed deposits or debt securities (like debentures). It should also not have defaulted in respect of the payment of statutory dues of the employees, such as contribution to provident fund, gratuity, and bonus.
6. **Fully Paid-up Shares:** The bonus issue can only be made against fully paid-up shares. If there are partly paid-up shares, they must be made fully paid-up before the bonus issue is announced.
7. **No Alternative to Dividend:** A bonus issue cannot be made as an alternative to paying a cash dividend.

Quick Tip

Remember, a bonus issue is a reward to shareholders. The key rules are: it must be allowed by the AoA, approved by shareholders, paid from specific reserves, and the company must have a clean record of its payment obligations.

15. (Q. 5.2) Answer in brief: Explain the features of Interest.

Correct Answer: Not applicable (Explanation-based question).

Solution: Interest is the payment made by a borrower to a lender for the use of borrowed funds. It is the return paid to the creditors (like debenture holders and depositors) for the capital they provide to the company. The key features of interest are:

1. **Price for Using Capital:** Interest is essentially the price or cost of borrowing capital. It represents the opportunity cost for the lender who could have used the money elsewhere.
2. **Fixed Rate:** The rate of interest is typically fixed and pre-determined at the time of borrowing. This rate does not change with the profitability of the company.
3. **Charge Against Profit:** Interest payment is treated as a charge against the profit of the company. This means it must be paid irrespective of whether the company makes a profit or a loss. It is a business expense and is debited to the Profit and Loss Account.
4. **Legal Obligation:** A company is legally obligated to pay interest on the borrowed capital. Failure to pay interest can lead to legal action against the company by the creditors and can even force the company into liquidation.
5. **Tax Deductible:** Interest paid by the company on its borrowings is a tax-deductible expense. This means the company can deduct the interest amount from its profits before calculating its corporate income tax liability, which lowers the effective cost of debt.

Quick Tip

Think of interest as 'rent on money'. It's a fixed, mandatory payment a company must make for using someone else's capital, and it's a cost of doing business.

16. (Q. 5.3) Answer in brief: Explain any four features of Stock Exchange.

Correct Answer: Not applicable (Explanation-based question).

Solution: A stock exchange is a specific, regulated marketplace where various financial securities like shares, debentures, and bonds are bought and sold. The four key features are:

1. **Organised and Regulated Market:** A stock exchange is a highly organised market that functions under a strict set of rules and regulations. In India, all stock exchanges are regulated by the Securities and Exchange Board of India (SEBI) to ensure fair and transparent dealings and to protect investor interests.
2. **Market for Second-hand Securities:** The stock exchange primarily deals in the trading of existing or 'second-hand' securities. It is a secondary market where securities that have already been issued by companies in the primary market are traded among investors. It does not provide a platform for companies to issue new shares for the first time.
3. **Listing of Securities Required:** Only the securities of companies that are 'listed' on the stock exchange can be traded. For a company to be listed, it must fulfill certain stringent requirements related to its financial health, stability, and minimum capital, as laid down by the exchange. This ensures that only sound companies are available for trading.
4. **Provides Liquidity:** The most crucial function and feature of a stock exchange is that it provides a continuous market for securities, thereby ensuring liquidity. Liquidity means investors can easily convert their securities into cash whenever they want by selling them on the exchange. This readiness of the market encourages people to invest their savings in corporate securities.

Quick Tip
Key features of a stock exchange: it's a Regulated marketplace for Old (second-hand) securities from Listed companies, making it easy to Liquidate (sell) your investments.

17. (Q. 6.1) Justify the following statement: The firm has multiple choices of sources of financing.

Correct Answer: Not applicable (Justification question).

Solution: The statement is correct. A business firm requires capital for its establishment, operations, and expansion, and it can choose from a wide variety of sources to raise the necessary funds. The choice depends on factors like the purpose, time period, and cost. These multiple sources can be classified as follows:

1. Based on Ownership:

- **Owned Capital:** This is the capital provided by the owners of the company and forms the core financial base. It includes issuing shares (Equity and Preference) and reinvesting profits (Retained Earnings). This capital stays with the company permanently.
- **Borrowed Capital:** This refers to funds raised from creditors. It is a form of debt that must be repaid after a specified period, with regular interest payments. Sources include debentures, term loans from banks, public deposits, and bonds.

2. Based on Tenure:

- **Long-term Sources:** When funds are needed for more than five years, typically for purchasing fixed assets, a firm can issue shares and debentures or take long-term loans.
- **Medium-term Sources:** For a period of one to five years, a firm can opt for medium-term bank loans or public deposits.
- **Short-term Sources:** For working capital needs (less than one year), a firm can use sources like trade credit, bank overdrafts, and commercial papers.

3. Based on Source of Generation:

- **Internal Sources:** Funds generated from within the business operations, with retained earnings being the primary example.

- **External Sources:** Funds raised from individuals or institutions outside the business, such as issuing securities, taking bank loans, or accepting public deposits.

Thus, a financial manager can evaluate these various options and create an optimal mix of different sources to fund the firm's requirements, proving that a firm has multiple choices of financing.

Quick Tip

Think of financing like a buffet. A company can pick and choose different items (shares, debentures, loans) based on its appetite (capital needs), taste (risk preference), and budget (cost of capital).

18. (Q. 6.2) Justify the following statement: A company can issue only certain types of debentures.

Correct Answer: Not applicable (Justification question).

Solution: This statement is correct. To protect the interests of investors, the Companies Act, 2013, and SEBI regulations impose significant restrictions on the types of debentures a company is permitted to issue. The key provisions are:

1. **No Voting Rights:** Section 71(2) of the Companies Act, 2013, explicitly prohibits any company from issuing debentures that carry voting rights. This ensures that managerial control is retained by the equity shareholders and debenture holders remain as creditors only.
2. **Must be Secured:** Companies are generally required to issue secured debentures. This means the debentures must be backed by a charge on the company's assets, which provides a safety net for investors. The issue of unsecured debentures is highly restricted and generally not permitted for public issues.
3. **Must be Redeemable:** A company cannot issue irredeemable (or perpetual) debentures. All debentures must have a specific maturity date and must be repaid. The

maximum tenure for secured debentures is generally 10 years, though certain infrastructure companies can issue them for up to 30 years.

4. **Creation of Debenture Redemption Reserve (DRR):** Companies that issue debentures must create a DRR from their profits. This reserve ensures that the company sets aside adequate funds over the life of the debentures to be able to repay the principal amount upon maturity.

Because of these stringent legal requirements, a company cannot issue debentures in any form it desires (e.g., irredeemable, with voting rights, etc.). It must conform to the legally permitted types.

Quick Tip

The law ensures debentures are a safe debt instrument. Remember the key restrictions to protect investors: **No Vote**, **Must be Secured**, and **Must be Redeemable**.

19. (Q. 6.3) Justify the following statement: Company has to fulfill certain provisions relating to issue of circular or advertisement.

Correct Answer: Not applicable (Justification question).

Solution: This statement is correct. When a company intends to invite public deposits from its members or the public, it is legally required under the Companies Act, 2013, to issue a circular or an advertisement. This document provides essential information to potential investors. The company must strictly adhere to the following provisions:

1. **Contents of Advertisement:** The circular must be detailed and transparent. It must contain the financial position of the company, the portion of deposits guaranteed, the credit rating obtained from a recognized agency, the names of Deposit Trustees, and details of the deposit scheme.
2. **Filing with Registrar of Companies (ROC):** A copy of the circular or advertisement, signed by a majority of the company's directors, must be filed with the ROC before it is circulated to the public.

3. **Issuing the Advertisement:** The advertisement must be published in one leading English newspaper and one vernacular newspaper having wide circulation in the state where the company's registered office is located.
4. **Validity:** A circular or advertisement remains valid for six months from the end of the financial year in which it was issued or until the date on which the Annual General Meeting was held, whichever is earlier. A fresh advertisement is required for any new deposit scheme.

Fulfilling these provisions ensures that potential depositors are well-informed and their interests are protected, making the process transparent and compliant with the law.

Quick Tip

When a company asks the public for deposits, it must issue an advertisement like a detailed brochure. This brochure must be filed with the ROC first, contain all true financial facts, and be published widely.

20. (Q. 7.1) Attempt the following: Write a letter to depositor regarding renewal of his deposit.

Correct Answer: Not applicable (Letter writing).

Solution:

ZENITH INDUSTRIES LTD.

Registered Office: Zenith House, S. V. Road, Andheri (W), Mumbai - 400058

CIN: L23456MH1998PLC098765 **Website:** www.zenithindustries.com

Email: investor@zenith.com **Phone:** 022-12345678 **Fax:** 022-87654321

Ref No: ZIL/DEP/REN/123/25-26

Date: 10th September, 2025

Mrs. Divya Sharma 21, 'Sagar' Apartments, M. G. Road, Borivali (E), Mumbai - 400066.

Sub: Renewal of your Fixed Deposit

Dear Madam,

We would like to inform you that your Fixed Deposit Receipt No. **4567** for the amount of **rupee 50,000** held with our company is due for maturity on **30th September, 2025**. We sincerely thank you for the trust you have shown in our company.

The Board of Directors, in their meeting held on 5th September, 2025, has passed a resolution to renew the deposits from existing depositors for a further period of two years on the same terms and conditions.

Should you wish to renew your deposit, you are requested to send us the enclosed Renewal Form, duly filled and signed, along with your original Fixed Deposit Receipt within 15 days from the date of this letter.

If we do not receive a reply from you by the maturity date, the principal amount of your deposit will be repaid to you by a cheque sent to your registered address.

We look forward to your continued patronage.

Thanking you,

Yours faithfully, **For Zenith Industries Ltd.,**

(Signature) **Mr. A. B. Chavan** *Company Secretary*

Encl: Renewal Form

Quick Tip
A deposit renewal letter must be polite and provide all necessary details. Always state the FDR number, amount, and maturity date clearly. Provide a clear call to action (fill the form) and explain the default step (repayment by cheque) if no action is taken.

21. (Q. 7.2) Attempt the following: Write a letter to the debenture holder informing him/her about conversion of debentures into equity shares.

Correct Answer: Not applicable (Letter writing).

Solution:

ZENITH INDUSTRIES LTD.

Registered Office: Zenith House, S. V. Road, Andheri (W), Mumbai - 400058

CIN: L23456MH1998PLC098765 **Website:** www.zenithindustries.com

Email: investor@zenith.com **Phone:** 022-12345678 **Fax:** 022-87654321

Ref No: ZIL/DEP/REN/123/25-26

Date: 10th September, 2025

Mr. Rohan Mehra A-301, Harmony Heights, Bandra (W), Mumbai - 400050.

Sub: Conversion of 10% Convertible Debentures into Equity Shares

Dear Sir,

This is to inform you that as per the terms stated in the Prospectus for the issue of 10% Convertible Debentures and as approved by the special resolution passed in the Extraordinary General Meeting held on 15th June, 2023, the debentures are due for conversion.

In accordance with the above, your **100 debentures** will be converted into equity shares in the ratio of **2:1**, i.e., 2 equity shares for every 1 debenture held. Accordingly, you are entitled to receive **50 equity shares** of rupee 10/- each in lieu of your 100 debentures.

You are requested to surrender the Debenture Certificate No. **DC890** to the company's registered office on or before 30th September, 2025 to enable us to issue the Share Certificate.

Thanking you,

Yours faithfully, **For Zenith Industries Ltd.,**

(Signature) **Mr. A. B. Chavan** *Company Secretary*

Quick Tip

When writing a conversion letter, always refer to the authority for conversion (Prospectus, EGM resolution). Clearly state the conversion ratio, the number of securities held, and the number of securities to be received. Provide clear instructions on the next steps for the security holder.

22. (Q. 7.3) Attempt the following: Write a letter to the member for the payment of dividend through dividend warrant.

Correct Answer: Not applicable (Letter writing).

Solution:

ZENITH INDUSTRIES LTD.

Registered Office: Zenith House, S. V. Road, Andheri (W), Mumbai - 400058

CIN: L23456MH1998PLC098765 **Website:** www.zenithindustries.com

Email: investor@zenith.com **Phone:** 022-12345678 **Fax:** 022-87654321

Ref No: ZIL/DEP/REN/123/25-26

Date: 10th September, 2025

Ms. Priya Singh 5, Park Avenue, Pune - 411007.

Sub: Payment of Final Dividend on Equity Shares

Dear Madam,

We are pleased to inform you that at the 27th Annual General Meeting held on 31st August, 2025, the members have approved the resolution for payment of a final dividend at the rate of **rupee 2.50 per equity share** of rupee 10/- each, for the financial year ended 31st March, 2025.

As per our records, you hold **200 equity shares** under Folio No. **PS-501** on the record date, i.e., 20th August, 2025.

The details of the dividend payable to you are as follows:

Number of Equity Shares Held	200
Dividend per share	rupee 2.50
Gross Dividend Amount	rupee 500.00
Less: Income Tax (TDS)	- NIL -
Net Dividend Payable	rupee 500.00

Please find enclosed the Dividend Warrant No. **DW34567** dated 10th September, 2025, for rupee 500/-, drawn on ABC Bank, Mumbai. Kindly detach the warrant along the perforated line and deposit it in your bank for collection.

Thanking you,

Yours faithfully, **For Zenith Industries Ltd.,**

(Signature) **Mr. A. B. Chavan** *Company Secretary*

Encl: Dividend Warrant

Quick Tip

A dividend payment letter must be precise. State the dividend rate, the number of shares held, and show a clear calculation of the net dividend payable. Always mention the Dividend Warrant number for the member's reference.

23. (Q. 8.1) Answer the following question: What are Preference Shares? Explain the different types of Preference Shares.

Correct Answer: Not applicable (Long answer question).

Solution: Meaning of Preference Shares: As per the Companies Act, 2013, a preference share is one that carries two preferential rights over equity shares:

1. **Preferential right to receive dividend:** They are entitled to receive a dividend at a fixed rate before any dividend is paid to equity shareholders.

2. **Preferential right to repayment of capital:** In the event of the winding up of the company, they have the right to get their capital returned before the equity shareholders.

Preference shareholders are co-owners of the company but generally do not have voting rights, except on matters directly affecting their interests. They appeal to cautious investors who desire a fixed and steady income.

Types of Preference Shares: Preference shares can be classified into the following types based on their features:

1. **Cumulative and Non-Cumulative Preference Shares:**

- **Cumulative:** If a company fails to make a profit in any year, the dividend for that year is not lost but accumulates. These arrears of dividend are paid in subsequent years when the company makes a profit.
- **Non-Cumulative:** The dividend for these shares does not accumulate. If the company does not make a profit in a particular year, the preference shareholders lose their dividend for that year forever.

2. **Participating and Non-Participating Preference Shares:**

- **Participating:** These shareholders are entitled to a fixed dividend and also have the right to participate in the surplus profits of the company, after the dividend has been paid to equity shareholders up to a certain limit.
- **Non-Participating:** These shareholders only receive their fixed rate of dividend and do not have any right to share in the surplus profits.

3. **Convertible and Non-Convertible Preference Shares:**

- **Convertible:** The holders of these shares have the right to convert their preference shares into equity shares within a specified period, as per the terms of the issue.
- **Non-Convertible:** These shares cannot be converted into equity shares.

4. **Redeemable and Irredeemable Preference Shares:**

- **Redeemable:** These are shares that the company can buy back or 'redeem' after a fixed period. The Companies Act, 2013, allows companies to issue only redeemable preference shares, which must be redeemed within 20 years.
- **Irredeemable:** These shares cannot be redeemed by the company during its lifetime. The Companies Act, 2013, has prohibited the issue of irredeemable preference shares in India.

Quick Tip

The name "Preference Share" says it all. They get 'preference' for two things: receiving a fixed dividend first and getting their capital back first if the company closes. The different types are just variations on these core rights.

24. (Q. 8.2) Answer the following question: Explain the procedure for allotment of shares.

Correct Answer: Not applicable (Long answer question).

Solution: Allotment of shares is the process by which a company distributes its new shares to applicants. It is a formal acceptance of the offer made by applicants to buy shares. The procedure for allotment is governed by the Companies Act, 2013, and SEBI regulations, and involves the following steps:

1. **Appointment of Allotment Committee:** The Board of Directors constitutes a Share Allotment Committee, which consists of some directors and company officials. This committee is delegated the power to supervise the entire allotment process and ensure it is fair and transparent.
2. **Decide the Basis of Allotment:** The committee, in consultation with merchant bankers and stock exchange representatives, decides the formula or basis for allotting shares, especially in the case of oversubscription. The goal is to ensure a fair and equitable distribution among different categories of investors (Retail, HNI, Institutional).

3. **Board Meeting to Finalize Allotment:** A Board Meeting is convened to approve the allotment formula recommended by the committee. A resolution is passed to allot shares to the successful applicants as per the finalized list.
4. **Filing Return of Allotment:** Within 30 days of allotment, the company must file a 'Return of Allotment' in Form PAS-3 with the Registrar of Companies (ROC). This return contains details of the allottees, the number of shares allotted to each, and the amount paid.
5. **Dispatch of Letters:** After the allotment is finalized, the company sends out communication to all applicants.
 - **Letter of Allotment:** Sent to successful applicants, informing them about the number of shares allotted and the amount of allotment money to be paid.
 - **Letter of Regret:** Sent to unsuccessful applicants, along with a refund of their application money.
6. **Credit of Shares to Demat Account:** In modern practice, for public issues, the allotted shares are directly credited to the Demat accounts of the successful allottees instead of issuing physical share certificates.
7. **Collection of Allotment Money:** The company then makes a call for the allotment money due from the allottees. A separate bank account is used for this purpose.

Quick Tip
The allotment procedure is a formal process that moves from accepting applications to finalizing who gets shares, officially recording it with the ROC, and communicating the decision to all applicants. The key principles are fairness, transparency, and legal compliance.