

Chapter 5: Deposits

EXERCISE 1 [PAGES 88 - 91]

Exercise 1 | Q 1.01 | Page 88

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

Deposit is a type of _____.

1. Owned capital
2. **Short term loan**
3. Long term loan

SOLUTION

Deposit is a type of **Short term loan**.

Exercise 1 | Q 1.02 | Page 88

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

Eligible public company and Government Company can collect deposits from _____.

1. It's employees
2. **Public**
3. RBI

SOLUTION

Eligible public company and Government Company can collect deposits from **Public**.

Exercise 1 | Q 1.03 | Page 88

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

Private company can accept deposits from its member or Directors upto not more than _____ % of its aggregate of paid-up share Capital and free reserves.

1. **100**
2. 35
3. 25

SOLUTION

Private company can accept deposits from its member or Directors upto not more than **100** % of its aggregate of paid-up share Capital and free reserves.

Exercise 1 | Q 1.04 | Page 88

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

A _____ Company can accept deposits from public not exceeding 35% of its paid-up share Capital and free reserves.

1. **Government**
2. Private
3. Eligible Public

SOLUTION

A **Government** Company can accept deposits from public not exceeding 35% of its paid-up share Capital and free reserves.

Exercise 1 | Q 1.05 | Page 88

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

Deposit can be accepted for a minimum of 6 months and maximum for _____ months

1. **36**
2. 3
3. 30

SOLUTION

Deposit can be accepted for a minimum of 6 months and maximum for **36** months,.

Exercise 1 | Q 1.07 | Page 88

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

Company can issue circular or advertisement for inviting deposits after _____ days of filing it with Registrar of Companies.

1. **30**
2. 21
3. 7

SOLUTION

Company can issue circular or advertisement for inviting deposits after **30** days of filing it with Registrar of Companies.

Exercise 1 | Q 1.08 | Page 88

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

Company has to appoint _____ to protect the interest of depositors

1. Debenture Trustees
2. **Deposit Trustees**
3. Credit Rating Agency

SOLUTION

Company has to appoint **Deposit Trustees** to protect the interest of depositors.

Exercise 1 | Q 1.09 | Page 89

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

Charge on assets is to be created when a company issues _____.

1. Unsecured deposit
2. Unsecured Debenture
3. **Secured deposit**

SOLUTION

Charge on assets is to be created when a company issues **Secured deposit.**

Exercise 1 | Q 1.10 | Page 89

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

Deposit Receipt is issued within _____ days of receipt of deposit

1. 7
2. 30
3. **21**

SOLUTION

Deposit Receipt is issued within **21** days of receipt of deposit

Exercise 1 | Q 1.11 | Page 89

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

For premature repayment of deposit, company deducts _____ % of interest.

1. **1**
2. 18
3. 20

SOLUTION

For premature repayment of deposit, company deducts **1** % of interest.

Exercise 1 | Q 1.12 | Page 89

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

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**.

Exercise 1 | Q 2 | Page 89

Match the pairs.

| Group 'A' | Group 'B' |
|-----------------------|---|
| a) Private Company | 10% of aggregate of paid-up share Capital + free reserves |
| b) Deposit Trust Deed | Signed at least 7 days before issuing advertisement |
| c) Secured Deposit | Maximum 30 months |
| d) Tenure of deposit | Charge on tangible assets |
| e) Return of Deposit | 100% aggregate of paid-up share capital + free reserves |
| | File on or before 31st March every year |
| | Signed 21 days after issuing advertisement |
| | Maximum 36 months |
| | Charge on intangible assets |
| | File on or before 30th June every year |

SOLUTION

| Group 'A' | Answers |
|-----------------------|---|
| a) Private Company | 100% aggregate of paid-up share capital + free reserves |
| b) Deposit Trust Deed | Signed at least 7 days before issuing advertisement |
| c) Secured Deposit | Charge on tangible assets |
| d) Tenure of deposit | Maximum 36 months |
| e) Return of Deposit | File on or before 30th June every year |

Exercise 1 | Q 3.01 | Page 89

Write a word or a term or a phrase which can substitute the following statement.

A company which can accept deposits from its members, directors, or their relatives not exceeding 100% of aggregate of paid up share capital and free reserves.

SOLUTION

Private Company

Exercise 1 | Q 3.02 | Page 89

Write a word or a term or a phrase which can substitute the following statement.

Company which can accept deposits from public up to 35% of its paid-up share capital and free reserves.

SOLUTION

Government Company

Exercise 1 | Q 3.03 | Page 89

Write a word or a term or a phrase which can substitute the following statement.

Minimum tenure of a deposit.

SOLUTION

6 Month

Exercise 1 | Q 3.04 | Page 89

Write a word or a term or a phrase which can substitute the following statement.

Maximum tenure of a deposit

SOLUTION

36 Month

Exercise 1 | Q 3.05 | Page 89

Write a word or a term or a phrase which can substitute the following statement.

Period within which a company has to create a charge on its tangible assets

SOLUTION

Within 30 days of acceptance of deposits.

Exercise 1 | Q 3.06 | Page 89

Write a word or a term or a phrase which can substitute the following statement.

Document issued by a company to invite its members to subscribe for its Deposits.

SOLUTION

Circular

Exercise 1 | Q 3.07 | Page 89

Write a word or a term or a phrase which can substitute the following statement.

Agreement between company and Deposit Trustee.

SOLUTION

Deposit Trust Deed

Exercise 1 | Q 3.08 | Page 89

Write a word or a term or a phrase which can substitute the following statement.

Account that can be used only for repaying deposits

SOLUTION

Deposit Repayment Reserve Account

Exercise 1 | Q 3.09 | Page 89

Write a word or a term or a phrase which can substitute the following statement.
Time within which company has to issue deposit Receipt

SOLUTION

Within 21 days from date of receipt of deposit

Exercise 1 | Q 3.10 | Page 89

Write a word or a term or a phrase which can substitute the following statement.
Book which contains details of deposits accepted or renewed.

SOLUTION

Register of Deposit

Exercise 1 | Q 4.01 | Page 89

State whether the following statement is true or false.

Return of deposit must be filed every year on or before 31st March.

1. True
2. **False**

SOLUTION

False

Exercise 1 | Q 4.02 | Page 89

State whether the following statement is true or false.

Eligible public company can collect deposits from its members.

1. **True**
2. False

SOLUTION

True

Exercise 1 | Q 4.03 | Page 90

State whether the following statement is true or false.

Government company can collect deposits from its members.

1. True
2. **False**

SOLUTION

False

Exercise 1 | Q 4.04 | Page 90

State whether the following statement is true or false.

A private company can collect deposits from public.

1. True
2. **False**

SOLUTION

False

Exercise 1 | Q 4.05 | Page 90

State whether the following statement is true or false.

Deposit can be accepted for a maximum of 36 months.

1. **True**
2. False

SOLUTION

True

Exercise 1 | Q 4.06 | Page 90

State whether the following statement is true or false.

Eligible public company can collect deposits from public not exceeding 35% of its paidup share capital and free reserves.

1. True
2. **False**

SOLUTION

False

Exercise 1 | Q 4.07 | Page 90

State whether the following statement is true or false.

For secured deposits, company has to create a charge on its tangible assets.

1. **True**
2. False

SOLUTION

True

Exercise 1 | Q 4.08 | Page 90

State whether the following statement is true or false.

Deposit Receipt is issued within 21 days of receipt of deposits.

1. **True**
2. False

SOLUTION

True

Exercise 1 | Q 4.09 | Page 90

State whether the following statement is true or false.

Company appoints Credit Rating Agency to protect the interest of depositors.

1. True
2. **False**

SOLUTION

False

Exercise 1 | Q 4.10 | Page 90

State whether the following statement is true or false.

Deposit Trust Deed is an agreement between company and Deposit Trustee

1. **True**
2. False

SOLUTION

True

Exercise 1 | Q 5.1 | Page 90

Find the odd one of depositors.

1. **Private company**
2. Eligible public company
3. Government company.

SOLUTION

Private company

Exercise 1 | Q 5.2 | Page 90

Find the odd one of depositors.

1. Deposit Trustee
2. Deposit Trust Deed,
3. **Special Resolution**

SOLUTION

Special Resolution

Exercise 1 | Q 5.3 | Page 90

Find the odd one of depositors.

1. Appointment of Deposit Trustee
2. Appointment of Registrar of companies
3. **Appointment of Credit Rating Agency**

SOLUTION

Appointment of Registrar of companies

Exercise 1 | Q 6.01 | Page 90

Complete the sentence:

Deposit is a type of _____ term loan.

SOLUTION

Deposit is a type of **Short** term loan.

Exercise 1 | Q 6.02 | Page 90

Complete the sentence:

Eligible Public company and Govt. Company can accept deposits from _____.

SOLUTION

Eligible Public company and Govt. Company can accept deposits from **Public**.

Exercise 1 | Q 6.03 | Page 90

Complete the sentence:

To collect deposits from public, Eligible public company must have a net worth of not less than _____.

SOLUTION

To collect deposits from public, Eligible public company must have a net worth of not less than **₹100 crores**.

Exercise 1 | Q 6.04 | Page 90

Complete the sentence:

A Government company can accept deposits from public not exceeding _____.

SOLUTION

A Government company can accept deposits from public not exceeding **35% of its paid-up share capital and free reserves**.

Exercise 1 | Q 6.05 | Page 90

Complete the sentence:

Deposits can be accepted or renewed for a period not less than 6 months and not more than _____.

SOLUTION

Deposits can be accepted or renewed for a period not less than 6 months and not more than **36 months**.

Exercise 1 | Q 6.06 | Page 90

Complete the sentence:

Company cannot accept or renew deposits repayable on _____.

SOLUTION

Company cannot accept or renew deposits repayable on **Demand**.

Exercise 1 | Q 6.07 | Page 90

Complete the sentence:

Premature repayment of deposits can be done by a company but not before _____.

SOLUTION

Premature repayment of deposits can be done by a company but not before **3 months**

Exercise 1 | Q 6.08 | Page 90

Complete the sentence:

To invite the public to subscribe for its deposits, a company issues _____.

SOLUTION

To invite the public to subscribe for its deposits, a company issues **Advertisement**.

Exercise 1 | Q 6.09 | Page 90

Complete the sentence:

Agency which gives ratings of the deposits of a company is called _____.

SOLUTION

Agency which gives ratings of the deposits of a company is called **Credit Rating Agency**

Exercise 1 | Q 6.10 | Page 90

Complete the sentence:

Account which is used only for repaying deposits is called _____.

SOLUTION

Account which is used only for repaying deposits is called **Deposit Repayment Reserve Account**

Exercise 1 | Q 7 | Page 90

Select the correct option from the bracket.

| Group 'A' | Group 'B' |
|-----------------------|-----------|
| a) Government Company | 1) _____ |

| | |
|----------------------|------------------------------|
| b) _____ | 2) Deposits from members |
| c) 36 months | 3) _____ |
| d) _____ | 4) Charge on tangible assets |
| e) Return of deposit | 5) _____ |

(File on or before 30th June, Private Company, Secured deposits, Deposits from public, Maximum tenure of deposits.)

SOLUTION

| Group 'A' | Group 'B' |
|----------------------------------|--|
| a) Government Company | 1) <u>Deposit from public</u> |
| b) <u>Private Company</u> | 2) Deposits from members |
| c) 36 months | 3) <u>Maximum tenure of Deposit</u> |
| d) <u>Secured Deposit</u> | 4) Charge on tangible assets |
| e) Return of deposit | 5) <u>File on or before 30th June</u> |

Exercise 1 | Q 8.01 | Page 91

Answer in one sentence.

Which companies can accept deposits from the public?

SOLUTION

Eligible public and government companies can accept deposit.

Exercise 1 | Q 8.02 | Page 91

Answer in one sentence.

What is the maximum deposit the Government company can collect?

SOLUTION

The maximum deposit the Government company can collect is not more than 35% of paid up capital and free reserves.

Exercise 1 | Q 8.03 | Page 91

Answer in one sentence.

Who are Deposit Trustees?

SOLUTION

Deposit Trustees are the trustees who protect the interest of the Depositor.

Exercise 1 | Q 8.04 | Page 91

Answer in one sentence.

What is Deposit Trust Deed?

SOLUTION

The Deposit Trust deed contains the terms and conditions agreed upon or between the company and the Trustee.

Exercise 1 | Q 8.05 | Page 91

Answer in one sentence.

When does a company create charge on its tangible assets?

SOLUTION

Company create charge on assets when company wants to issue secured debentures or deposits.

Exercise 1 | Q 8.06 | Page 91

Answer in one sentence.

Within what period should a company issue Deposit Receipt?

SOLUTION

Company has to issue Deposit Receipt within 21 days from the date of receipt of the money or realisation of cheque.

Exercise 1 | Q 8.07 | Page 91

Answer in one sentence.

When should a company Deposit?

SOLUTION

Company should file Return of Deposits on or before 30th June, every year.

Exercise 1 | Q 8.08 | Page 91

Answer in one sentence.

What is Deposit Repayment Reserve Account?

SOLUTION

Deposit Repayment Reserve Account is an account opened by company only for repayment of deposit money

Exercise 1 | Q 8.9 | Page 91

Answer in one sentence.

What is Register of Deposit?

SOLUTION

Deposit Register is a register having details like Name of the Depositors, Address, Investment period, repayment, etc.

Exercise 1 | Q 9.1 | Page 91

Correct the underlined word and rewrite the following sentence.

Government Company can accept deposit from members.

SOLUTION

Government Company can accept deposit from public

Exercise 1 | Q 9.2 | Page 91

Correct the underlined word and rewrite the following sentence.

Company issues advertisement to invite its members for subscribing to its deposits

SOLUTION

Company issues circular to invite its members for subscribing to its deposits

Exercise 1 | Q 9.3 | Page 91

Correct the underlined word and rewrite the following sentence.

Company appoints Credit Rating Agency to protect the interest of Depositors.

SOLUTION

Company appoints Deposit Trustees to protect the interest of Depositors.

Exercise 1 | Q 9.4 | Page 91

Correct the underlined word and rewrite the following sentence.

Deposit Receipt is issued within seven days from date of receipt of deposits

SOLUTION

Deposit Receipt is issued within 21 days from date of receipt of deposits.

Exercise 1 | Q 9.5 | Page 91

Correct the underlined word and rewrite the following sentence.

Register of deposits is to be filed with the Registrar of companies on or before 30th June every year.

SOLUTION

Return of deposit is to be filed with the Registrar of companies on or before 30th June every year.

Exercise 1 | Q 9.6 | Page 91

Correct the underlined word and rewrite the following sentence.

Charge on assets is created when company issues unsecured deposit.

SOLUTION

Charge on assets is created when company issues secured deposit.

Exercise 1 | Q 9.7 | Page 91

Correct the underlined word and rewrite the following sentence.

Minimum tenure of deposit is 36 months.

SOLUTION

Minimum tenure of deposit is 6 months.

Exercise 1 | Q 10.1 | Page 91

Arrange in proper order.

- a. Appoint Deposit Trustee.
- b. Hold General Meeting.
- c. Create charge on assets.

SOLUTION

- (b) Hold General Meeting.
- (a) Appoint Deposit Trustee.
- (c) Create charge on assets.

Exercise 1 | Q 10.2 | Page 91

Arrange in proper order.

- a. File Return of deposit
- b. Issue Deposit Receipt
- c. Issue advertisement.

SOLUTION

- (c) Issue advertisement.
- (b) Issue Deposit Receipt
- (a) File Return of deposit

Exercise 1 | Q 10.3 | Page 91

Arrange in proper order.

- a. Obtain Credit Rating.
- b. Entries in Register of Deposits.
- c. Issue Deposit Receipt.

SOLUTION

- (a) Obtain Credit Rating.
- (c) Issue Deposit Receipt.
- (b) Entries in Register of Deposits.

EXERCISE 2 [PAGE 91]

Exercise 2 | Q 1 | Page 91

Explain the following term/concept.

Eligible Public Company

SOLUTION

- (1) Eligible public company can accept deposits from members and the public.
- (2) Eligible company under section 76(1) of Companies Act, 2013 means:
A company having net worth* of not less than Rs one hundred crores or
Turnover* of not less than Rs five hundred crores.

Exercise 2 | Q 2 | Page 91

Explain the following term/concept.

Tenure of Deposit

SOLUTION

- (1) Deposits can be accepted for a minimum period of 6 months and a maximum period of 36 months.
- (2) However, for short term requirements, deposits up to 10% of the aggregate paid-up capital, free reserves, and securities premium account can be accepted for a period of less than six months but not less than three months Rule 3(2) of Companies (Acceptance of Deposits) Rules, 2014.

Exercise 2 | Q 3 | Page 91

Explain the following term/concept.

Secured Deposit

SOLUTION

- (1) A company can accept secured or unsecured deposits which should be clearly mentioned in every circular, form, advertisement, or in any document related to invitation or acceptance of deposits.
- (2) If the company intends to issue Secured Deposits, it shall create security in favour of trustees within 30 days of acceptance of deposits. Trustees should ensure about the security of depositors. If there is any default in repayment, trustees should organize a

meeting of depositors - Rules 6 to 8 of Companies (Acceptance of Deposits) Rules, 2014.

Exercise 2 | Q 4 | Page 91

Explain the following term/concept.

Deposit Trustee

SOLUTION

(1) Every company inviting deposits under section 73, of Companies Act 2013, shall appoint deposit trustees for creating security for its deposits, which shall be mentioned on the circular. Written consent shall be obtained from the trustee before their appointment.

(2) A deposit trust deed has to be signed at least 7 days before the issue of the circular. Deposit trustees cannot be removed after the issue of circular/ advertisement and before the expiry of his term except with unanimous consent of all directors present at the meeting of the Board, which shall include an independent director if any.

Exercise 2 | Q 5 | Page 91

Explain the following term/concept.

Charge on tangible assets

SOLUTION

(1) Every company accepting deposits from the public shall create a charge on its tangible assets of an amount not less than the amount 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 from accepting the deposits. The minimum amount of security should be equal to the amount not covered by Deposit Insurance. The security is created in favour of the Deposit Trustee.

Exercise 2 | Q 6 | Page 91

Explain the following term/concept.

Deposit Insurance

SOLUTION

(1) The company enters into an agreement with the Insurance Company for taking Deposit Insurance. A company needs to take Deposit Insurance at least 30 days before the date of the circular/advertisement or its renewal.

(2) Insurance is to be taken if the amount of deposit plus interest is up to 20,000. Insurance above 20,000 per depositor Rs 20,000 insurance.

Exercise 2 | Q 7 | Page 91

Explain the following term/concept.

Deposit Repayment Reserve Account

SOLUTION

(1) A sum not less than 20% of the amount of its deposits maturing during a financial year shall be deposited in a separate bank account in a scheduled bank. For this, a company has to open an account called as 'Deposit Repayment Reserve Account'.

(2) The amount should be deposited on or before 30th April each year. The 'Deposit Repayment Reserve Account' shall be used by the company only for the purpose of repayment of deposits.

Exercise 2 | Q 8 | Page 91

Explain the following term/concept.

Credit Rating

SOLUTION

(1) Every company accepting deposits from the public shall obtain the credit rating (including its net worth, liquidity, and ability to pay its deposits on due date) from a recognised credit rating agency.

(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.

Exercise 2 | Q 9 | Page 91

Explain the following term/concept.

Deposit Receipt

SOLUTION

(1) The company has to issue a Deposit Receipt to every deposit holder within 21 days from receipt of the money or realization of cheque or date of renewal.

(2) The receipt has to be signed by the officer duly authorized by the Board of Directors. The receipt contains:
The name and address of the depositor, Amount of deposit, Rate of interest payable, and Date on which it is repayable

Exercise 2 | Q 10 | Page 91

Explain the following term/concept.

Return of Deposit

SOLUTION

(1) The company has to file annual return of deposits with Registrar before 30th June every year, with fees.

(2) The Return gives detail of deposit with the company as on 31st March of that year.

EXERCISE 3 [PAGE 92]

Exercise 3 | Q 1.1 | Page 92

Study the following case/situation and express your opinion.

Apple Company Ltd. plans to raise funds through Public Deposits. Its net worth is 10 Crores.

Can they accept deposits from the public?

SOLUTION

No, they cannot accept deposits from the public. As per the rule, any public company having a net worth of Rs 100 crore or more can accept deposits from the public. In fact, this company can accept deposits from its members or directors.

Exercise 3 | Q 1.2 | Page 92

Study the following case/situation and express your opinion.

Apple Company Ltd. plans to raise funds through Public Deposits. Its net worth is 10 Crores.

Can they accept deposits which matures after 4 years?

SOLUTION

As per the rules, the deposit period should not less than 6 months and more than 36 months. Thus, they cannot accept deposits which matures after 4 years.

Exercise 3 | Q 1.3 | Page 92

Study the following case/situation and express your opinion.

Apple Company Ltd. plans to raise funds through Public Deposits. Its net worth is 10 Crores.

Within what period should the company issue deposit Receipt to its depositors?

SOLUTION

The company should issue Deposit Receipt to the depositors within twenty-one (21) days from the date of receipt of money or realization of cheque. The receipt has to be signed by the officer duly authorized by the Board of Directors.

Exercise 3 | Q 2.1 | Page 92

Study the following case/situation and express your opinion.

ABC Company Ltd. is an eligible Public Company as per the Companies Act, 2013 with reference to accepting Public Deposits.

Can the company accept deposits in joint names?

SOLUTION

Yes. The company can accept deposits in the joint names of depositors. But there should not be more than 3 names.

Exercise 3 | Q 2.2 | Page 92

Study the following case/situation and express your opinion.

ABC Company Ltd. is an eligible Public Company as per the Companies Act, 2013 with reference to accepting Public Deposits.

Can the company accept deposits from its members?

SOLUTION

ABC Company Ltd. is an eligible Public Company as per the Companies Act, 2013. Thus, it can accept the deposits from its members as well as from public.

Exercise 3 | Q 2.3 | Page 92

Study the following case/situation and express your opinion.

ABC Company Ltd. is an eligible Public Company as per the Companies Act, 2013 with reference to accepting Public Deposits.

Can the company issue secured deposits?

SOLUTION

Yes. The company can issue secured deposits. If a company offers secured deposits, it has to create a charge on its tangible assets within 30 days of acceptance of deposits.

Exercise 3 | Q 3.1 | Page 92

Study the following case/situation and express your opinion.

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

Does the company need to get shareholders approval for accepting deposits?

SOLUTION

Yes. The company needs to get shareholders' approval for accepting deposits. For this, the Board of Directors can pass a resolution in a general meeting for the approval of accepting deposits

Exercise 3 | Q 3.2 | Page 92

Study the following case/situation and express your opinion.

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

Does the company have to appoint a Debenture Trustee?

SOLUTION

Yes. The company has to appoint a Debenture Trustee. This is because, if the company wants to issue secured deposits, then it is compulsory to appoint a Debenture Trustee.

Exercise 3 | Q 3.3 | Page 92

Study the following case/situation and express your opinion.

Apple Company Ltd. is an eligible Public Company. It plans to raise secured deposits

from the public. Please advise its Board on the following.

Within what period should the company create a charge on its assets?

SOLUTION

The company has to create a charge on its tangible assets within 30 days of acceptance of deposits.

Exercise 3 | Q 4.1 | Page 92

Study the following case/situation and express your opinion.

SUN Pvt. Ltd. company wants to raise funds through deposits.

Can the company accept deposits from the public?

SOLUTION

No, the company cannot accept deposits from the public. This is because SUN Pvt. Ltd. is a private limited company and it cannot accept deposits from the public. Only eligible public companies and government companies can accept deposits from the public.

Exercise 3 | Q 4.2 | Page 92

Study the following case/situation and express your opinion.

SUN Pvt. Ltd. company wants to raise funds through deposits.

Which document should the company issue to invite deposits?

SOLUTION

In the above case, SUN Pvt. Ltd. is a private limited company. Thus, it should issue a circular to invite deposits from its members.

Exercise 3 | Q 4.3 | Page 92

Study the following case/situation and express your opinion.

SUN Pvt. Ltd. company wants to raise funds through deposits.

What is the maximum period for which they can accept deposits?

SOLUTION

The maximum period of accepting deposits is 36 months. Thus, it can accept deposits for a maximum period of 36 months.

EXERCISE 4 [PAGE 92]

Exercise 4 | Q 1 | Page 92

Answer in brief.

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

SOLUTION

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

1. Amount of Deposit :

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

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

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

C) Eligible Public Company :

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

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

(d) Government Company:

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

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

Exercise 4 | Q 2 | Page 92

Answer in brief.

State the contents of circular or Advertisement for Deposit

SOLUTION

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

a) Contents of circular or advertisement:

- i) Statement about the financial position of the company
- ii) The portion of secured and unsecured deposit of fresh issue
- iii) Credit rating obtained from a Credit Rating Agency (only for an eligible public company)

- iv) Details of the scheme
- v) Name of Deposit Trustees
- vi) Amount due towards deposits of any previous deposits accepted by the company.

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

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

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

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

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

Exercise 4 | Q 3 | Page 92

Answer in brief.

State the provisions regarding appointment of Deposit Trustee.

SOLUTION

The provisions regarding Appointment of Deposit Trustee are explained as follows:

When issuing secured deposits, eligible companies and public companies have to appoint one or more Deposit Trustees. The Trustees protect the interest of the depositor in case a company defaults in repaying the depositors. Company signs a contract with the Deposit Trustees called as Trust Deed. It contains the terms and conditions of the contract. The deed has to be signed at least 7 days before issuing the circular or advertisement. The Deposit Trustee on its own or on the request of one-tenth of depositors can call a meeting of all depositors when a company defaults in repaying deposits.

Exercise 4 | Q 4 | Page 92

Answer in brief.

State any four terms and conditions regarding acceptance of Deposit.

SOLUTION

TERMS AND CONDITIONS FOR ACCEPTANCE OF DEPOSITS:

1. Amount of Deposit :

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

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

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

C) Eligible Public Company :

i) From the Members:

Cannot accept fresh deposits if the amount of such deposits together with the previous deposits exceeds 10% of the aggregate of paid-up share capital and free reserves.

ii) From Public: Cannot accept fresh deposits if the amount of such deposits together with the previous deposits exceeds 25% of the aggregate of paid-up share capital and free reserves.

D) Government companies can accept deposits from the public not exceeding 35% of the paid-up share capital and free reserves of the company.

2. Period / Tenure of Deposit: No deposit can be accepted or renewed which is to be repaid within a period of six months or more than thirty-six months.

In certain circumstances, a company may accept deposits repayable earlier than six months to meet its short term needs. Such deposits must have a tenure of a minimum of three months and the amount of such deposits cannot be more than 10% of the aggregate of the paid-up share capital and free reserves of the company.

Under certain circumstances, on the request of the depositor, the company makes premature repayment of deposits. The company may also renew its deposits with the same terms of issue and it will be considered as fresh deposits.

3. No demand deposit: Company cannot accept or renew deposits repayable on demand.

4. Secured or Unsecured Deposit: A company can accept a secured or unsecured deposit which should be clearly mentioned in the circular or advertisement inviting deposits. If the company offers secured deposits, it has to create a charge on its tangible assets within 30 days of acceptance of deposits.

5. Application Form: A company has to provide an application form. It should contain a declaration by the applicant that the deposit he is making is not made out of any money borrowed by him from another person.

6. Joint names: Company can accept deposits in joint names of depositors. But there should not be more than 3 names.

7. Nomination: Every depositor at any time, has the right to nominate any person as a nominee in the event of the death of the depositor

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

a) Contents of circular or advertisement:

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

b) Filing of circular or advertisement with Registrar of Companies :

The company has to file a copy of the circular or Advertisement signed by all directors with the Registrar of Companies.

c) Issue of circular or Advertisement: Only after 30 days of filing a copy of circular or Advertisement with the Registrar of Companies, the company can issue the circular or advertisement. The company can send the circular to the members through registered post, speed post, or as email. For inviting the public, the company has to publish the advertisement in one English newspaper and one vernacular newspaper having wide circulation in the state where the company's registered office is located.

EXERCISE 5 [PAGE 92]

Exercise 5 | Q 1 | Page 92

Justify the following statement

All companies cannot accept deposits from public.

SOLUTION

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.

Exercise 5 | Q 2 | Page 92

Justify the following statement

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

SOLUTION

Justification:

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

(2) A Public Company can accept deposits up to 25% of the aggregate of paid-up capital, free reserves and securities premium account.

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

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

Exercise 5 | Q 3 | Page 92

Justify the following statement

Company has to fulfill certain provisions related to issue of circular or advertisement.

SOLUTION

Justification:

(1) If a company invites deposits from its members, it issues a circular. But if it invites deposits from the public, the company has to issue an advertisement.

(2) The company has to file a copy of the circular or advertisement with the Registrar of Companies.

(3) The Company can issue circular or advertisement, only after 30 days of filing a copy of circular or advertisement with the Registrar of Company (ROC).

Exercise 5 | Q 4 | Page 92

Justify the following statement

While issuing secured deposits, company has to appoint Deposit Trustee.

SOLUTION

Justification:

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

(2) If the company intends to issue Secured Deposits, it shall create security in favour of trustees within 30 days of acceptance of deposits. Trustees should ensure about the security of depositors.

(3) If there is any default in repayment, trustees should organize a meeting of depositors.

(4) Thus, it is rightly justified that, while issuing secured deposits, the company has to appoint a Deposit Trustee.

Exercise 5 | Q 5 | Page 92

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 amount 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 from 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.

Exercise 5 | Q 6 | Page 92

Justify the following statement

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

SOLUTION

Justification:

(1) A company has to open an account called as "Deposit Repayment Reserve Account for issuing deposits.

(2) A sum not less than 20% of the amount of its deposits maturing during a financial year shall be deposited in a separate bank account in a scheduled bank.

(3) The amount should be deposited on or before 30th April each year. The Deposit Repayment Reserve Account shall be used by the company only for the purpose of repayment of deposits.

(4) Thus, it is rightly justified that, the company issuing deposit must open Deposit Repayment Reserve Account.

EXERCISE 6 [PAGE 92]

Exercise 6 | Q 1 | Page 92

Answer the following question:

Explain the type of companies that can raise deposits along with the maximum amount they can raise as deposits.

SOLUTION

Type of companies that can raise deposits along with the maximum amount they can raise as deposits are as follows:

(a) Private Company:

A private company can accept deposits from its members not exceeding 100% of the aggregate of the paid-up share capital and free reserves.

It can file details of such deposits to the Registrar in such manner as may be specified

(b) Public Company (Other than Eligible Company :

Both public and private companies can accept deposits from members.

A public company can accept deposits up to 25% of the aggregate of paid-up capital, free reserves and securities premium account

Rule 3(4) of Companies (Acceptance of Deposits) Rules, 2014.

For your understanding: Words 'securities premium account' have been inserted w.e.f. 15-9-2015.

(c) Eligible Public Company:

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

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

(Acceptance of Deposits) Rules, 2014.

(d) Government Company: A Government company is eligible to accept deposits under section 76 of Companies Act, 2013.

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

Exercise 6 | Q 2 | Page 92

Answer the following question:

Explain the provisions related to circular or advertisement for inviting deposits.

SOLUTION

If a company invites deposits from its members, it issues a circular. But if it invites deposits from the public, the company has to issue an advertisement. The provisions related to circular or advertisement for inviting deposits are as follows:

(a) Contents of circular or advertisement: Statement about the financial position of the company. The portion of secured and unsecured deposits of fresh issues. Credit rating obtained from a Credit Rating Agency (only for an eligible public company). Details of the scheme. Name of Deposit Trustees. Amount due towards deposits of any previous deposits accepted by the company.

(b) Filing of circular or advertisement with Registrar of Companies: Company has to file a copy of the circular or advertisement with the Registrar of Companies. The advertisement or circular shall be signed by the majority of directors or their authorized agents.

(c) Issue of circular or advertisement: The Company can issue circular or advertisement, only after 30 days of filling a copy of the circular or advertisement with the Registrar of Company (ROC). A company can send the circular to all its members by registered post, speed post, or electronically. In addition, the company has to publish the circular as an advertisement in newspapers in English and vernacular language.

(d) The validity of Circular or Advertisement: The circular or advertisement shall be valid till the expiry of six months from date of closure of financial year or till the financial statement of the company is laid before AGM of the company, whichever is earlier. After that, fresh circular or advertisement should be published Rule 46) of Companies (Acceptance of Deposits) Rules, 2014.