

Test Series: February, 2016

MOCK TEST PAPER – 1

FINAL COURSE: GROUP – I

PAPER – 4 : CORPORATE AND ALLIED LAWS

Question No.1 is compulsory.

Attempt any five questions from the remaining six Questions.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) ABC Company Limited suffered loss in the first quarter of the financial year 2014-2015. In the second quarter of the year company has earned large amount of profits. In order to maintain credibility of the company, the Board of Directors declare an interim dividend at the rate of 25 % on the paid up equity share capital. The Managing Director of the company gives the Board the following information regarding the dividend declared, the final dividend in the previous 4 years:

Financial year ending 31 st March:	Rate of dividend declared:
2011	15%
2012	15%
2013	15%
2014	30%

The Board of directors further decided not to transfer any amount of the profits to General Reserve for the financial year ended 31st March, 2015.

Examine the provisions of the Companies Act, 2013, decide:

- (i) The validity of the Board's declaration of 25% interim dividend as stated above.
- (ii) The validity of the Board's decision not to transfer any amount of profits to general reserve. (6 Marks)
- (b) The duly audited balance sheet and profit and loss account of ADJ company Ltd were placed on the agenda of the company's Annual General Meeting for shareholders 'approval. These financial statements were not adopted by the meeting. Explaining the provisions of the Companies Act, 2013, what advise would you render to the Board of Directors of the Company:
- (i) On the action to be taken by the Board in this Situation.
- (ii) What would be your answer in case the Annual General Meeting of the company could not be held within the stipulated time as the audited accounts

- were not ready and the accounts could not be adopted? (6 Marks)
- (c) SEBI received complaints from some investors alleging that X Ltd. and some brokers are indulging in price manipulation in the shares of X Ltd. Explain the powers that can be exercised by SEBI under the Securities and Exchange Board of India Act, 1992 in case the allegations are found to be correct. (4 Marks)
- (d) M/s Ganesham & sons is a member of recognized stock exchange. Nova Crafts Export Limited desires that shares of the company may be bought and sold by M/s Ganesham & sons on their own as well as on behalf of the investors.
- Advise M/s Ganesham & sons whether they can do so under the provisions of the Securities Contracts (Regulation) Act, 1956. (4 Marks)
- 2 (a) The Board of Directors of XYZ Ltd. filled up a casual vacancy caused by the death of Mr. P by appointing Mr. C as a director on 3rd April, 2015. Unfortunately Mr. C expired on 15th May, 2015 after working about 40 days as a director. The Board now wishes to fill up the casual vacancy by appointing Mrs. C in the forthcoming meeting of the Board. Advise the Board in this regard as per the provisions under the Companies Act, 2013. (8 Marks)
- (b) (i) What are restrictions imposed on the issuer on further issue of specified securities in any manner under the SEBI (ICDR) Regulations 2009? (Marks 4)
- (ii) State the conditions when prospectus of the companies incorporated outside India may be issued by the person. State the documents that shall be annexed to the prospectus. (4 Marks)
- 3 (a) A scheme of merger of DJA Company Limited with MRN Company Limited was approved by the shareholders at an extraordinary general meeting and the exchange ratio of 3 shares of MRN Company Limited for 20 shares in DJA Company Limited was approved. The proposal was also okayed by a lending financial institution which held 45% shares in DJA Company Limited. The valuation was carried out by one of the directors of DJA Company Limited, who was also a senior member of the Institute of Chartered Accountants of India. The valuation was affirmed by three independent valuers nominated by the shareholders in general meeting. However, certain leasehold properties, under license, which were not transferable, were not taken into account in the valuation. While the scheme was awaiting the Court's sanction, it was challenged by certain shareholders on the ground that the exclusion of leasehold assets in the valuation, made the scheme 'Unfair'. Decide giving reasons under the Companies Act, 1956:
- (i) Whether the contention of the shareholders is tenable?
- (ii) What factors would the court take into account in approving the exchange ratio? (8 Marks)

- (b) (i) The Reserve Bank of India receives a complaint that an authorized person has submitted incorrect statements and information to the Reserve Bank of India in respect of receipt and utilization of Foreign Exchange. Explain the powers of the Reserve Bank of India with regard to inspection of records of the above authorized person in respect of the above complaint referring to the provisions of the Foreign Exchange Management Act, 1999. *(4 Marks)*
- (ii) X, a Director of MJV Ltd., was appointed on 1st April, 2011, one of the terms of appointment was that in the absence of adequacy of profits or if the company had no profits in a particular year, he will be paid remuneration in accordance with Schedule V. For the financial year ended 31st March, 2015, the company suffered heavy losses. The company was not in a position to pay any remuneration but he was paid Rs. 50 lacs for the year, as paid to other directors. The effective capital of the company is Rs. 150 crores. Referring to provisions of the Companies Act, 2013, as contained in Schedule V, examine the validity of the above payment of remuneration to X. *(4 Marks)*
- 4 (a) Wonder Limited went for a public issue of Equity shares (Rs. 10 crores) of Rs. 10 each. The shares were subscribed to an extent of 95% of the total issue. The shares of the company were accepted for listing by Bombay Stock Exchange but subsequently the permission was cancelled on certain grounds. On an appeal to the Central Government by the company, the decision of the Stock Exchange was held to be valid. As a result, the application money had become refundable to the allottees. The company, had no prospects of doing any business and there was a complete deadlock among the Directors. Looking at the circumstances, certain creditors filed a petition in the court for winding up of the company on the ground that the company had become commercially insolvent. The shareholders of the company object to the petition of the creditors. Decide giving reasons:
- (i) Whether the objections of the shareholders will sustain and the court can dismiss the petition of creditors for winding up of the company
- (ii) State the provisions of the Companies Act, 1956 in this regard. *(8 Marks)*
- (b) (i) F Ltd. is a foreign collaborator in B Ltd incorporated in India under the Companies Act, 2013. The foreign collaborator holds 49% of the shareholding. The Board meetings of B Ltd are usually held in India and sometimes meetings of the Board are called at a very short notice for which there is a provision in the Articles of Association that during such situations notices of the meetings of the Board can be sent by e-mail. State in this connection whether such a provision in the Articles of Association of a foreign collaborated company is valid within the purview of the provisions of the Companies Act, 2013. *(4 Marks)*
- (ii) An arrangement has been made among the cotton producers that the cotton produced by them will not be sold to mills below a certain price. The arrangement is in writing but it is not intended to be enforced by legal

proceeding. Examine whether the said arrangement can be considered as an agreement within the meaning of Section 2(b) of the Competition Act, 2002.

(4 Marks)

- 5 (a) Examine the validity of the following with reference to the provisions of the Companies Act, 2013:-
- (i) EF Limited appointed a individual firm, Rakesh & Company, Chartered Accountants, as Auditors of the company at the Annual General Meeting held on 30th September, 2015. Mrs. K, wife of Mr. Rakesh invested in the equity shares face value of Rs. 1 lakh of EF Limited on 15th October, 2015. But Rakesh & Company continues to function as statutory auditors of the company.
 - (ii) Mr. Suresh, a Chartered Accountant, was appointed by the Board of Directors of AB Limited as the First Auditor. The company in General Meeting removed Mr. Suresh without seeking the approval of the Central Government and appointed Mr. Gupta as Auditor in his place. (8 Marks)
- (b) (i) Discuss the composition of SFIO to investigate frauds relating to a company. (4 Marks)
- (ii) Discuss on the Prohibition of loans to the persons under the Insurance Act, 1938 made as per the Insurance Laws (Amendment) Act, 2015. (4 Marks)
- 6 (a) (i) Mr. Z an expert in modern agriculture practices is willing to lend his services as a director of M/s. Lord Krishna Cotton Producer Company Ltd. registered under Section 581C of the Companies Act, 1956. Advise Mr. Z as to how he can be appointed as a director including (1) The total number of directors that can be appointed (2) The tenure of the directors (3) The time limit within which the appointment should be made (4) the co-option of directors and (5) the voting powers of such co-opted directors. (4 Marks)
- (ii) 60% shares of Indo-French Ltd. are held by the French group and balance by the Indian group. As per Articles of Association of the company, both groups had equal managerial powers. The relationship between the two groups soured and the operations of the company reached a deadlock. The Indian group approached the Company Law Board (CLB) for action against the French group for oppression as stated in section 397 of the Companies Act, 1956.
- Based on the above said facts, decide the following issues.
- (I) Whether the contention of oppression against the French group by the Indian group is tenable?
 - (II) What are the powers of CLB in this regard? (4 Marks)
- (b) (i) Draft a board resolution for appointment of Mr. Paul as the managing director for 5 years with effect from 1st June, 2014 of DBM Limited passed in the above

stated board meeting. (4 Marks)

(ii) "Money Laundering" does not mean just siphoning of fund."

Comment on this statement explaining the significance and aim of the Prevention of Money Laundering Act, 2002. (4 Marks)

7. Attempt any Four-

- (a) Some changes in the particulars of a Director, who has already obtained a Director Identification Number have taken place. Now the Director wants to incorporate the changes in his DIN in the database maintained by the Central Government in this regard. Describe the procedure to be followed by the Director. (4 Marks)
- (b) Mr. Atharva, a director of Northway highway Tolls Private Limited, authorised by board of directors to prepare and file return, report or other documents to registrar on behalf of the company. He timely filed all the required documents to Registrar; however, subsequently it is found that the filed documents are false in respect to material particulars (knowing it to be false) submitted to registrar. Explain the penal provision under the Companies Act, 2013. (4 Marks)
- (c) What are the powers of the Central Government under the Companies Act, 2013 with respect for a appeal against acquittal. (4 Marks)
- (d) Explain Asset Reconstruction, Financial Assets under the Securitization and Reconstruction of Financial Assets Enforcement of Security and Interest Act, 2002. (4 Marks)
- (e) What is meant by 'disclaimer of onerous property' and how the same is exercised during winding up. Explain the circumstances under which such a disclaimer is not allowed. (4 Marks)