

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

Paper-11 Capital Market Analysis & Corporate Laws

Time Allowed: 3 hours

Full Marks: 100

Working notes should form part of the answers.

Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates.

Section I (Capital Market Analysis)

Answer **Question No.1** (carrying 20 marks) which is compulsory and answer **any two** (carrying 20 marks each) from the rest in this section

Question 1.

(a) In each of the cases given below, one out of four is correct. Indicate the correct answer (=1 mark) and give workings/ reasons briefly in support of your answer (=1 mark) [7 x 2]

(i) Zenion Ltd. issued right shares that increased the market value of the shares of the company by ₹ 180 crore. The existing base year average is ₹ 750 crore. If the aggregate market value of all the shares included in the index before the right issue made is ₹ 1200 crore, what will be the new base year average?

- (A) ₹ 782.30 crore;
- (B) ₹ 862.50 crore;
- (C) ₹ 978.20 crore;
- (D) Insufficient information.

(ii) The Co-efficient of Correlation between returns of Moonshine Ltd. and SENSEX is 0.98. The expected returns on the stock of Moonshine Ltd. and SENSEX are 16% and 13.77% respectively. The return on 182 day T-Bill is 6.35%. If the standard deviation of the returns of Moonshine Ltd. is 21%, what would be the standard deviation of SENSEX's return?

- (A) 15.83%;
- (B) 16.51%;
- (C) 22.42%;
- (D) None of (A), (B), (C).

(iii) Consider the following data of Sun India Mutual Fund (Growth Plan):

Particulars	₹ in crore
Value of investments	2,757.00
Receivables	221.00
Other current Assets	643.00
Liabilities	390.00
Accrued Expenses	87.00

If the number of outstanding units is 155 crore and sales charge is 2.20% on the NAV, the public offering price will be:

- (A) ₹ 21.41;
- (B) ₹ 20.81;
- (C) ₹ 20.74;
- (D) Insufficient information.

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

- (iv) Ureka Ltd. has an excess cash of ₹ 9,00,000 which it wants to invest in short-term marketable securities. Expenses relating to investment will be ₹ 21,000. If the securities invested will have an annual yield of 10%, what would be the period of investment so as to earn a pre-tax income of 6%? (Ignore time value of money)
- (A) 6.50 months;
(B) 9.50 months;
(C) 10.00 months;
(D) Insufficient data.
- (v) Petronet Ltd. has both European Call and Put options traded on NSE. Both options have an expiration date of 6 months and exercise price of ₹ 40. The call and put are currently selling for ₹ 12 and ₹ 5 respectively. If the risk-free rate of interest is 8% p.a., what would be the stock price of Petronet Ltd? [Given $PVIF_{8\%,0.5 \text{ yr.}} = 0.9615$]
- (A) ₹ 55.46;
(B) ₹ 45.46;
(C) ₹ 31.46;
(D) None of (A),(B), (C).
- (vi) The Stock of Ventex Ltd. (FV ₹ 10) quotes ₹ 920 on NSE and the 3 months futures price quotes at ₹ 950 and borrowing rate is given as 8% p.a. If the expected annual dividend yield is 15% p.a. payable before expiry, then the theoretical price of 3 month Ventex Ltd. Futures would be:
- (A) ₹ 948.80;
(B) ₹ 939.90;
(C) ₹ 928.40;
(D) ₹ 936.90.
- (vii) The NAV of each unit of a closed-end fund at the beginning of the year was ₹ 18. By the end of the year its NAV equals ₹ 18.50. At the beginning of the year each unit was selling at a 2% Premium to NAV and by the end of the year each unit is selling at a 4% discount to NAV. If the closed-end fund paid year end distribution of income of ₹ 2.50 on each unit, the rate of return to the investor in the fund during the year would be:
- (A) 10.35%;
(B) 11.51%;
(C) 11.95%;
(D) None of the above.
- (b) Choose the most appropriate one from the stated options and write it down: [6×1]
- (i) An investor has received bonus shares from Albuno Ltd., a listed company, in the ratio of 1:2. After the receipt of bonus shares:
- (A) There is no change in stockholding and it remains the same;
(B) There is no change in stockholding, but more shares available for trading;
(C) Stockholding has gone up with more shares available for trading;
(D) Stockholding has gone up.
- (ii) Arbitrage pricing theory model helps to:
- (A) Reduce risk;
(B) Eliminate arbitrage;
(C) Identify the equilibrium asset price;
(D) None of the above.

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

- (iii) A process of investment by a Sponsor or a Syndicate of Investors/Sponsors directly in a Company is referred as:
- (A) Bought out deal;
 - (B) Buy back of shares;
 - (C) Irredeemable preference shares;
 - (D) Deferred shares.
- (iv) Following is not a Money Market Instrument:
- (A) Treasury Bill;
 - (B) Certificate of Deposit;
 - (C) Equity Shares;
 - (D) Commercial Paper.
- (v) Markowitz Mean-Variance Model is used in:
- (A) Modern Portfolio Analysis;
 - (B) Traditional Portfolio Analysis;
 - (C) Modern Capital Market Analysis;
 - (D) None of the above.
- (vi) As per SEBI'S guidelines, a mutual fund should be established as a:
- (A) Public Limited Company;
 - (B) Trust;
 - (C) Private Limited Company;
 - (D) None of the above.

Answer to 1(a):

- (i) **B: 862.50 crore**

New Base year Average:

$$\text{Old Base Year Average} \times \frac{(\text{New Market Value})}{\text{Aggregate Market Value}}$$
$$= ₹ [750 \times (1200 + 180) \div 1200] \text{ crores} = ₹ 862.50 \text{ Crore}$$

- (ii) **A: 15.83%**

$$0.16 = R_F + (R_M - R_F)\beta = 0.0635 + (0.1377 - 0.0635) \times \beta$$

$$\text{Or, } \beta = 0.0965 \div 0.0742 = 1.30$$

$$\text{Again } \beta = (\sigma_M \rho_{Mm}) / \sigma_m$$

$$\text{Or, } \beta \sigma_m = \sigma_M \rho_{Mm} = 0.21 \times 0.98$$

$$\text{Or, } 1.30 \sigma_m = 0.2058 \text{ Or } \sigma_m = 0.1583 \text{ i.e. } 15.83\%.$$

- (iii) **C: ₹ 20.74**

$$\text{NAV} = \frac{\text{Total Current Assets} - \text{Total Current Liabilities}}{\text{No of Outstanding Units}}$$

$$= \frac{₹ (2757 + 221 + 643) - (390 + 87) \text{ crores}}{155 \text{ crores}} = ₹ 20.284$$

$$\text{Public Offering Price} = \frac{20.284}{1 - 0.022} = \frac{20.284}{0.978} = ₹ 20.74$$

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

(iv) **C: 10.00 months**

Pre- tax income required in investment of ₹ 900000

$$= ₹ 900000 \times 0.06 = ₹ 54,000$$

Let the period of investment be "P"

$$\therefore (900000 \times 0.10 \times \frac{P}{12}) - 21000 = 54000$$

$$\text{Or, } 7500 P = 54000 + 21000 = 75000$$

$$\text{Or, } P = 75000 \div 7500 = 10.00 \text{ months}$$

(v) **B: ₹ 45.46**

According to Call-Put Parity

$$C_o = P_o + S_o - PV (E)$$

$$12 = 5 + S_o - 40 \times 0.9615$$

$$\therefore S_o = 12 - 5 + 38.46 = ₹ 45.46$$

Where $C_o = 12$, $P_o = 5$

PV (E) = PV of Exercise Price

S_o = Stock Price

(vi) **D: ₹ 936.90**

Future Price = Spot Price + Costs of Carrying - Dividend

$$= 920 + 920 \times 0.08 \times 3/12 - 10 \times 0.15$$

$$= 920 + 18.40 - 1.50 = ₹ 936.90$$

(vii) **A: 10.35%**

The price of unit at the beginning of the year —

$$₹ 18 \times 1.02 = ₹ 18.36$$

The price of unit at the end of the year —

$$₹ 18.50 \times (1 - 0.04) = ₹ 17.76$$

The price of the fund fell by $(₹ 17.76 - ₹ 18.36) = ₹ - 0.60$

$$\text{Rate of return} = ₹ (2.50 - 0.60) \div ₹ 18.36 = 10.35\%$$

Answer to 1(b):

- (i) B. There is no change in stockholding, but more shares available for trading
- (ii) C. Identify the equilibrium asset price
- (iii) A. Bought out deal
- (iv) C. Equity Shares
- (v) A. Modern Portfolio Analysis
- (vi) B. Trust

Question 2.

(a) Ms. Kritika, an investor, has invested in three Mutual Fund Schemes as per listed below:

Particulars	MF – SG	MF – BN	MF - ZN
Date of Investment	01.12.2013	01.01.2014	01.03.2014
Amount of Investment	₹ 15,00,000	₹ 5,00,000	₹ 3,00,000
Net Asset Value (NAV) at entry date	₹ 10.50	₹ 10.25	₹ 10.10
Dividend received upto 31.03.2014	₹ 25,000	₹ 8,000	NIL

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

NAV as at 31.03.2014	₹ 10.40	₹ 10.30	₹ 9.90
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Required:

What is the effective yield on per annum basis in respect of each of the three schemes to Ms. Kritika upto 31.03.2014.

Take one year = 365 days, (Ignore time value of money)

Show calculations upto two decimal points.

(b) What do you mean by Underwriting? State the different types of methods of Underwriting. Also list out the advantages of Underwriting.

(c) Mr. Venkataraman's portfolio consists of six securities. The individual returns of each of the security in the portfolio is given below:

Security	Proportion of investment in the portfolio	Return
Wipro	10%	18%
Latham	25%	12%
SBI	8%	22%
ITC	30%	15%
RNL	12%	6%
DLF	15%	8%

Calculate the weighted average of return of the securities consisting the portfolio.

[6+(2+3+5)+4]

Answer:

(a) Calculation of Effective Yield on Per Annum Basis in respect of three Mutual Fund Schemes to Ms. Kritika up to 31.03.2014

	Particulars / Schemes	MF-SG	MF-BN	MF-ZN
1	Investment (₹)	15,00,000	5,00,000	3,00,000
2	Unit NAV at entry date (₹)	10.50	10.25	10.10
3	Nos. of Units (Investment / NAV at entry date)	1,42,857.14	48,780.49	29,702.97
4	Unit NAV at 31.03.2014 (₹)	10.40	10.30	9.90
5	Total NAV 31.03.2014 (₹)	14,85,714.26	5,02,439.05	2,94,059.40
6	Increase / Decrease of NAV (1- 5) (₹)	(14,285.74)	2,439.05	(5,940.60)
7	Dividend Received (₹)	25,000.00	8,000.00	NIL
8	Total yield Change in NAV + Dividend (₹)	10,714.26	10,439.05	(5,940.60)
9	Number of days	121	90	31
10	Effective Yield (% p.a.) [(Total Yield / Investment) x (365 / No. of days) x 100]	2.15%	8.47%	(23.32%)

(b) **Underwriting:** Underwriting is an agreement whereby the underwriter promises to subscribe to a specified number of shares or debentures or a specified amount of stock in the event of public not subscribing to the issue. If the issue is fully subscribed then there is no liability for the underwriter. If a part of share issues remain unsold, the underwriter will buy the shares. Thus underwriting is a guarantee for the marketability of shares.

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

Method of underwriting: An underwriting agreement may take any of the following three forms:

- 1. Standing behind the issue:** Under this method, the underwriter guarantees the sale of a specified number of shares within a specified period. If the public do not subscribe to the specified amount of issue, the underwriter buys the balance in the issue.
- 2. Outright purchase:** The Underwriter, in this method, makes outright purchase of shares and resells them to the investors.
- 3. Consortium method:** Underwriting is jointly done by a group of underwriters in this method. The underwriters form a syndicate for this purpose. This method is adopted for large issue.

Advantages of underwriting: Underwriting assumes great significance as it offers the following advantages to the issuing company:

1. The issuing company is relieved from the risk of finding buyers for the issue offered to the public. The company is assured of raising adequate capital.
2. The company is assured of getting minimum subscription within the stipulated time, a statutory obligation to be fulfilled by the issuing company.
3. Underwriters undertake the burden of highly specialized function of distributing securities.
4. Provide expert advice with regard to timing of security issue, the pricing of issue, the size and type of securities to be issued etc.
5. Public confidence on the issue enhances when underwritten by reputed underwriters.

(c) Calculate the weighted average of return of the securities

Security	Weight (W)	Return (%) (R)	(W X R)
Wipro	0.10	18	1.80
Latham	0.25	12	3.00
SBI	0.08	22	1.76
ITC	0.30	15	4.50
RNL	0.12	6	0.72
DLF	0.15	8	1.20
Total			12.98

So, portfolio return is 12.98%.

Question 3.

(a) A stock that pays no dividends is currently selling at ₹ 100. The possible prices for which the stock might sell at the end of one year with associated probabilities are:

End of year price	Probability
₹ 90	0.1
₹ 100	0.2
₹ 110	0.4
₹ 120	0.2

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

₹ 130	0.1
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- (i) Calculate the expected rate of return by year end,
 (ii) Calculate the standard deviations of the expected rate of return.

(b) A prospective investor has collected the following information pertaining to returns on stocks A & B.

Stock	Correlation Coefficient (with market)	Standard Deviation	Expected Return
A	0.6	0.3	0.12
B	0.4	0.2	0.11

Expected market return = 0.10
 Risk free rate of return = 0.06
 Variance of market return = 0.01

You are required to find out:

- (i) The beta for an equally weighted portfolio of stocks A & B.
 (ii) The required rate of return as per CAPM for portfolio of 50% each of A & B.
 (iii) Are A & B are under-priced, overpriced or correctly priced according to CAPM?

(c) Describe the various risks associated with derivatives?

(d) Mention few services which are offered by a merchant bank. Write the distinctions between merchant banks and commercial banks.

[4+(3+1+3)+4+(2+3)]

Answer:

(a)

(i) Probability	0.1	0.2	0.4	0.2	0.1
Return	-10	0	10	20	30

$$E(R) = 0.1(-10) + 0.2(0) + 0.4(10) + 0.2(20) + 0.1(30)$$

$$= -1.0 + 0 + 4.0 + 4 + 3.0$$

$$= 10.0\%$$

(ii) $\sigma^2 = [0.1(-10-10)^2 + 0.2(0-10)^2 + 0.4(10-10)^2 + 0.2(20-10)^2 + 0.1(30-10)^2]$

$$\sigma = 10.95\%$$

(b)

(i) Beta of a stock is given by $\beta_i = \rho_{im} \times \frac{\sigma_i \sigma_m}{\sigma_m^2}$

Where, ρ_{im} = Correlation coefficient of the stock with the market

σ_i = Standard deviation of the stock returns

σ_m = Standard deviation of market returns

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

Let's β_A , β_B and β_{AB} be the beta of stock A, stock B and portfolio of stock A & B in equal proportion.

$$\beta_A = 0.6 \times \frac{0.3}{\sqrt{0.01}} = 1.8$$

$$\beta_B = 0.4 \times \frac{0.2}{\sqrt{0.01}} = 0.8$$

$$\begin{aligned}\beta_{AB} &= 0.5 \beta_A + 0.5 \beta_B \\ &= 0.5 \times 1.8 + 0.5 \times 0.8 \\ &= 1.3\end{aligned}$$

(ii) According to CAPM the equilibrium required rate of return is given by

$$R_P = R_f + \beta_P (R_m - R_f)$$

$$\begin{aligned}\text{Here, } R_m &= 0.10 \\ \beta_P &= \beta_{AB} = 1.3 \\ R_f &= 0.06 \\ R_P &= 0.06 + 1.3(0.10 - 0.06) \\ &= 0.112 \\ &= 11.2\%\end{aligned}$$

(iii) Required rate of return for stock A

$$\begin{aligned}R_A &= R_f + \beta_A (R_m - R_f) \\ &= 0.06 + 1.8 (0.10 - 0.06) \\ &= 0.132 \\ &= 13.2\%\end{aligned}$$

The expected rate of return from stock A is 12% therefore security is overpriced.

Required rate of return for Stock B

$$\begin{aligned}R_B &= R_f + \beta_B (R_m - R_f) \\ &= 0.06 + 0.8 (0.10 - 0.06) \\ &= 0.092 \\ &= 9.2\%\end{aligned}$$

The expected rate of return from B is 11%, therefore security is under priced.

(c) Various risks associated with derivatives are as follows:

- (i) **Market Risk** – Price sensitivity to fluctuations in interest rates and foreign exchange rates.
- (ii) **Liquidity Risk** – Most derivatives are customized instruments, hence may exhibit substantial liquidity risk.

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

- (iii) **Credit Risk** – Derivatives trades not traded on exchange are traded in the Over the Counter (OTC) markets. OTC contracts are subject to counter party defaults.
- (iv) **Hedging Risk** – Derivatives are used as hedges to reduce specific risks. If the anticipated risks do not develop, the hedge may limit the funds total return.
- (v) **Regulatory Risk** – Owing to the high risk characteristics inherent in the derivatives market, the regulatory controls is sometimes too oppressive for market participants.

(d) Few services which are offered by a merchant bank:

1. Corporate counselling,
2. Project counselling,
3. Loan syndication,
4. Issue management:
 - Public issue through prospectus
 - Marketing
 - Pricing of issues
5. Underwriting of public issue,
6. Portfolio management.

The distinctions between merchant banks and commercial banks are summarized below:

1. Commercial banks basically deal and debt related finance and their activities are appropriately arrayed around credit proposal, credit appraisal and loan sanctions. On the other hand, the area of activities of merchant bankers is “equity and equity related”. They deal with mainly funds raised through money market and capital market.
2. Commercial banks are asset oriented and their lending decisions are based on detailed credit analysis of loan proposals and the value of security offered against loans. They generally avoid risks. The merchant bankers are management oriented. They are willing to accept risk of business.
3. Commercial bankers are merely financiers. The activities of merchant bankers include project counselling, corporate counselling in areas of capital restructuring, amalgamations, mergers, takeover etc, discounting and rediscounting of short term paper in money markets, managing, underwriting and supporting public issues in new issue market and acting as brokers and advisers on portfolio management in stocks exchange. Merchant banking activities have impact on growth, stability and liquidity of money markets.

Question 4.

(a) An investor has the following position on options of ONGC:

- (i) Long one call option with a premium of ₹ 25 per stock at an exercise price of ₹ 400.
- (ii) Long one put option with a premium of ₹ 5 per stock at an exercise price of ₹ 300.

The prevailing market price of the ONGC is ₹ 350. Options are European options with expiration period of 3 months.

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

You are required to find out the profit or loss to the investor in the following market situations:

- (i) At expiration if the price of the ONGC remained at present level.
- (ii) At expiration if the price of the ONGC rises to ₹ 500.
- (iii) At expiration if the price of the ONGC falls to ₹ 250.

(b) What do you mean by Exchange Traded Funds (ETF)? State the applications of it.

(c) Shares of Vinani Ltd. has a beta factor of 1.8. The NIFTY has yielded a return of 17%, 6.75% ₹ 100 Treasury Bills are traded at ₹ 108. Ascertain –

- i. Expected return on shares of Vinani Ltd. under CAPM.
- ii. Alpha Factor of shares of Vinani Ltd. if the past 5 years actual return on shares of Vinani Ltd. are – 22.50%, 26.30%, 25.70%, 23.40% and 27.60%.

[(2+2+2)+(2+6)+(3+3)]

Answer:

(a) Long Call — it will be exercised if stock price increases above strike price.

Long Put — it will be exercised if stock price decreases below strike price.

ONGC Stock price	Action by the buyer	Investor's	
		Payoff	Profit in ₹
₹ 350	Call: Not exercised Put: Not exercised	₹ 0 + ₹ 0	- ₹ 25 - ₹ 5 = - ₹ 30
₹ 500	Call: Exercised Put: Not exercised	₹ 100 + ₹ 0	- ₹ 25 + ₹ 100 - ₹ 5 = ₹ 70
₹ 250	Call: Not exercised Put: Exercised	₹ 0 + ₹ 50	- ₹ 25 - ₹ 5 + ₹ 50 = ₹ 20

(b) Exchange Traded Funds (ETFs) are just what their name implies: baskets of securities that are traded, like individual stocks, on an exchange. Unlike regular open-end mutual funds, ETFs can be bought and sold throughout the trading days, like any stock.

The concept of ETF first came into existence in the USA in 1993. It took several years to attract public interest. Most ETFs charge lower annual expenses than index mutual funds. However, as with stocks, one must pay a brokerage to buy and sell ETF units, which can be a significant drawback for those who trade frequently or invest regular sums of money.

Applications of ETF are:

1. Managing Cash Flows - Investment and fund managers, who see regular inflows and outflows, may use ETFs because of their liquidity and their capability to represent the market.
2. Diversifying Exposure - If an investor is not aware about the market mechanism and does not know which particular stock to buy but likes the overall sector, investing in shares tied to an index or basket of stocks, provides diversified exposure and reduces risk.
3. Efficient Trading - ETFs provide investors a convenient way to gain market exposure viz. an index that trades like a stock. In comparison to a stock, an investment in an ETF index product provides a diversified exposure to the market

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

Section II (Corporate Laws)

Answer **Question 5** (carrying 10 marks) which is compulsory and answer **any two** (carrying 15 marks each) from the rest in this section.

Question 5.

(a) Choose the most appropriate alternative from the stated options and write it down: [6×1]

- (i) The concept of Corporate Governance was initiated on the recommendation of the report by:
(A) Mr. Narayana Murthy;
(B) Mr. Kumar Mangalam Birla;
(C) Dr. Y.V. Reddy;
(D) None of the above.
- (ii) Prospectus is not required to issue by/in respect of:
(A) Private limited company;
(B) Sweat equity shares;
(C) Rights issue;
(D) All of the above.
- (iii) Under Competition Act, 2002, penalty for offences in relation to furnishing of information is:
(A) ₹ 5 lakhs;
(B) ₹ 25 lakhs;
(C) ₹ 10 lakhs;
(D) ₹ 50 lakhs.
- (iv) In the context of classification of risk, cash/reserve management risk will fall under:
(A) Liquidity Risks;
(B) Legal Risks;
(C) System Risks;
(D) Credit Risks.
- (v) The Government has allowed foreign institutional investors such as pension funds, mutual funds investment trust etc. to invest in the Indian Capital Market provided they are registered with:
(A) RBI;
(B) SEBI;
(C) Central Government;
(D) Registrar of the companies.
- (vi) As per Clause----- of the Listing Agreement, a listed company is required to obtain a certificate from the auditors of the entity as regards compliance of conditions of corporate governance as stipulated in that clause. (Fill in the gap from the below)
(A) 45;
(B) 46;
(C) 49;
(D) None of the above.

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

(b) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s): [4×1]

- (i) The Competition Commission shall consist of a Chairperson and not less than two and not more than _____ other Members to be appointed by the Central Government.
- (ii) The minimum number of witness should be present at the time of signing the Memorandum of Association of a public limited company at the time of its formation is _____.
- (iii) The information sought for by an applicant under the RTI Act shall be furnished within _____ days.
- (iv) The _____ has the power to fill up the casual vacancy caused in the Board if no provision in AOA.

Answer to 5(a):

- (i) B. Mr. Kumar Mangalam Birla
- (ii) D. All of the above
- (iii) C. ₹ 10 lakhs
- (iv) A. Liquidity Risks
- (v) B. SEBI
- (vi) C. 49

Answer to 5(b):

- (i) ten
- (ii) one
- (iii) thirty
- (iv) Board of Directors

Question 6.

(a) Jupiter Textiles Ltd. was incorporated on 1st January, 2012. On 1st November, 2014 a political party approaches the company for a contribution of ₹ 12 lakhs for political purpose.

Your advice is sought in respect of the under mentioned issues:

- (i) Is the company legally authorized under the Companies Act, 2013 to give this political contribution?
- (ii) Will it make any difference, if the company was in existence on 1st October, 2011?
- (iii) Can the company be penalised for violation of the applicable provisions relating to political contribution?
- (iv) What are the disclosure requirements in this regards?

(b) State some of the procedures which an auditor has to follow in order to evaluate going concern uncertainties.

(c) A company may issue Sweat Equity Shares of a class of shares already issued if few conditions are fulfilled. State those conditions which are required to be fulfilled.

[(2+1+2+2)+4+4]

Answer:

(a) As per section 182, the following companies shall not make a political contribution:

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

- (i) A Government company.
- (ii) A company which has been in existence for less than 3 financial years.

In the given case:

- (i) M/s XYZ Ltd. cannot make any political contribution because the company is not in existence for a period of 3 financial years.
- (ii) If XYZ were incorporated on 01.10.2011, it may make a political contribution as on 01.11.2014 because in such a case, it would have been in existence for 3 financial years. However, it shall comply with the following conditions:
 - (a) The amount of contribution shall not exceed 7.5% of average net profits during 3 immediately preceding financial years.
 - (b) The Board shall make a political contribution only by passing a resolution at a Board meeting.
 - (c) The company shall disclose in its profit and loss account the amount of political contribution and the name of the political party or the person to whom such amount has been contributed.
- (iii) If a company makes a political contribution in contravention of section 182, following consequences shall follow:
 - (a) The company shall be punishable with fine which may extend to 5 times the amount so contributed.
 - (b) Every officer of the company who is in default shall be punishable with imprisonment up to 6 months and with fine upto 5 times the amount contributed.
- (iii) Section 182 of the Companies Act, 2013 seeks to impose an obligation to disclose in its profit and loss account the total amount contributed and name of the party to which such amount has been contributed.

(b) Evaluating the going concern uncertainties:

In Order to evaluate various going concern uncertainties an Auditor needs to follow certain procedures which may include:

- 1) Analyze and discuss cash flow, profit and other relevant forecasts with management
- 2) Review events occurring after the balance sheet date for items affecting the entity's ability to continue as a going concern.
- 3) Analyze and discuss the entity's latest available interim financial statements.
- 4) Review the terms of debentures and loan agreements and determine whether any have been breached.
- 5) Read minutes of the meeting of shareholders, the board of directors and important committees for reference to financing difficulties.
- 6) Review the status of matters under litigation and claims
- 7) Confirm the existence legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assess the financial ability of such parties to provide additional funds.
- 8) Consider the entity's position concerning unfilled orders.

(c) A company may issue Sweat Equity Shares of a class of shares already issued if the following conditions are fulfilled:

1. The issue of these shares is authorized by a special resolution passed by the company in the general meeting.

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

2. The resolution shall specify the number of shares, current market price, consideration if any and the class or classes of directors or employees to whom such equity shares are to be issued.
3. Allotment can be within 12 months from the date of passing the Special Resolution.
4. Not less than one year has, at the date of the issue elapsed since the date on which the company was entitled to commence the business.
5. The sweat equity shares of a company whose equity shares are listed on a recognized stock exchange are issued in accordance with the regulations made by the Securities Exchange Board of India in this behalf. However in the case of a company whose equity shares are not listed on any recognized stock exchange, the sweat equity shares are issued in accordance with the guidelines as may be prescribed.

Question 7.

(a) The Public Information Officer of Kolkata Municipal Corporation has turned down the request for information lodged by Ms Mitrika Roy on the grounds that the request was sent through an e mail and on the ground that the same was in Bengali and not in English.

Are his contentions correct in law as per the Right to Information (RTI) Act, 2005?

(b) Akash had applied for the allotment of 1,000 shares in a company. No allotment of shares was made to him by the company. Later on, without any further application from Akash, the company transferred 1,000 partly-paid shares to him and placed his name in the Register of Members. Akash, knowing that his name was placed in the Register of Members, took no steps to get his name struck from the Register of Members. The company later on made final call. Akash refuses to pay for this call. Referring to the provisions of the Companies Act, 2013, examine whether his refusal to pay for the call is tenable and whether he can escape himself from the liability as a member of the company.

(c) State few objectives to change the object clause of the Memorandum of Association. Also list the procedures to be adopted for alteration of object clause in the Memorandum of Association.

[4+4+(2+5)]

Answer:

(a) Section 6(1) of the RTI Act, 2005 enjoins that a person desirous of obtaining information shall make a request in writing or through electronics means in English or in the official Language of the Area, in which the Application is being submitted, to the Public Information Officer. The Section makes two things clear:

- (i) The request can be through electronic Media. E-mail is an accepted form of Electronic Communication.
- (ii) The request can be in English or in the official language of the Area in which the application is being submitted.

In Kolkata, Bengali is the official language of the Area.

Therefore, the refusal on the grounds that the request was not in English and that the same was sent through e-mail, is not justified.

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

(b) Register of members is a prima facie evidence of any matters directed or authorized to be inserted therein by the Act. A person, who knowingly permits entering his name in the register of members, becomes a member by estoppels or acquiescence. In other words, if the name of a person is entered in the register of members, although he is not a member, but such person does not object to it (i.e. he does not apply for rectification of register of members), he becomes a member by estoppels.

As per the above, Akash is a member by estoppels, since he knowingly permitted entering his name in the register of members. So he is liable to pay the final call, as a member by estoppels is liable to pay the unpaid call.

(c) The object clause of the Memorandum of Association can be changed for the following purposes of enabling the company:

- To carry on its business more economically or more efficiently.
- To attain its main purpose by new or improved means
- To enlarge or change the local area of operation
- To carry on some business which under existing circumstances may conveniently or advantageously be combined with the objects specified in the Memorandum.

The following principles are applicable in case of Alteration of Objects Clause -

1. **Special Resolution Requirement:** Alteration of Objects Clause of MOA requires a Special Resolution by Members in a General Meeting.
2. **Special Requirements in case of Unutilised Proceeds of Prospectus Issue:** These are as under -

SR by Postal Ballot	A Company, which has raised money from public through Prospectus and still has any unutilised amount out of the money so raised, shall change its objects for which it raised the money through Prospectus only if a Special Resolution is passed by the Company by Postal Ballot.
Notice to Share-Holders	<p>Notice in respect of the Resolution for altering the objects shall contain the following particulars -</p> <p>(a) the total money received,</p> <p>(b) the total money utilized for the objects stated in the Prospectus,</p> <p>(c) the unutilized amount out of the money so raised through Prospectus,</p> <p>(d) the particulars of the proposed alteration or change in the objects,</p> <p>(e) the justification for the alteration or change in the objects,</p> <p>(f) the amount proposed to be utilised for the new objects,</p> <p>(g) the estimated financial impact of the proposed alteration on the Earnings & Cash Flow of the Company,</p> <p>(h) the other relevant information which is necessary for the members to take an informed decision on the proposed resolution,</p> <p>(i) the place from where any interested person may obtain a copy of the Notice of the Resolution to be passed.</p>
Advertisement	<p>(a) Details of the resolution shall be published in the Newspapers (one in English and one in vernacular language) which is in circulation at the place where the Registered Office of the Company is situated.</p> <p>(b) The Advertisement giving details of each resolution to be passed for change in objects shall be published simultaneously with the despatch of Postal Ballot Notices to Shareholders.</p>
Website	The Notice shall also be placed on the Website of the Company, if any.

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

Dissent	Dissenting Shareholders shall be given an opportunity to exit by the Promoters and Shareholders having control, in accordance with SEBI Regulations.
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3. Filing with ROC and Registration thereof:
- (a) Copy of the Special Resolution shall be filed with ROC in Form No. MGT.14, within 30 days from the date of passing the Special Resolution.
 - (b) ROC shall register any alteration of the MOA with respect to the objects of the Company, and certify the registration within 30 days from the date of filing of the Special Resolution.

Question 8.

(a) A, who was appointed as a Director at the last AGM (Annual General Meeting) resigned. The Board filled up the vacancy by appointing B. But within few days of his becoming Director, B died. The Board wishes to appoint C in place of B in the next Board Meeting. Can the Board do so?

(b) What is Project Governance? State the benefits of Project Governance?

(c) X, a chemical manufacturing company distributed ₹ 20 lacs to scientific institutions for furtherance of scientific education and research. Referring to the provisions of the Companies Act, 2013 decide whether the said distribution of money was "Ultra vires" the company?

(d) In the case of winding up by the Tribunal, state the powers of the Liquidator, with the sanction of the Tribunal.

[3+(2+2)+2+6]

For part (d) of the above question, provisions relating to Companies Act, 1956 is considered while answering since corresponding sections of Companies Act, 2013 are still not enforced.

Answer:

(a) Casual vacancy u/s 161(4) of the Companies Act, 2013 is the vacancy arising in the office of the director appointed by the Company in the General Meeting before the expiry of his term of office.

In the above case, the vacancy on account of death of B cannot be considered as a casual vacancy in the office of the director, as the appointment of B himself was not originally made by the Company in General Meeting.

However, in the interest of the smooth working of a company, if the casual vacancy is in an office which was filled by election at a general meeting, then the Board may fill the casual vacancy as many times as necessary, i.e., if the original appointment was made by the company in the General Meeting any subsequent casual vacancy to the office of the Director can be filled by the Board [Company News & Notes 01.07.1963 issue].

Hence, in the above case, the Board can appoint C as Director.

(b) Project Governance extends the principle of Governance into both the management of individual projects via Governance structures, and the management of projects at the business level, for example via Business Reviews of Projects. Today, many organisations are developing models for 'Project Governance Structures', which can be different to a traditional Organisation Structure in that it defines accountabilities and responsibilities for

Answer to MTP_Final_Syllabus 2008_Jun2015_Set 2

strategic decision-making across the project. This can be particularly useful to project management processes such as change control and strategic (project) decision-making. When implemented well, it can have a significantly positive effect on the quality and speed of decision making on significant issues on projects.

Benefits of Project governance: Project governance will:

- 1) Outline the relationships between all internal and external groups involved in the project.
- 2) Describe the proper flow of information regarding the project to all stakeholders.
- 3) Ensure the appropriate review of issues encountered within each project.
- 4) Ensure that required approvals and direction for the project is obtained at each appropriate stage of the project.

(c) Donation of ₹ 20 lacs for furtherance of scientific education and research is permissible, as it is incidental or ancillary to the main objects of the company and it is conducive to the continued growth of the company as chemical manufacturers as was held in *Evans v Brunner Mond & Company*.

(d) The powers of the Liquidator, with the sanction of the Tribunal in a winding up by the Tribunal [section 457(1) of the Companies Act, 1956]:

1. To constitute or defend any suit, prosecution, or other legal proceeding, civil or criminal, in the name and on behalf of the company.
2. To carry on the business of the company so far as may be necessary for the beneficial winding up of the company.
3. To sell the immovable and movable property and actionable claims of the company by public auction or private contract, with power to transfer the whole thereof to any person or body corporate, or to sell the same in parcels.
4. To sell whole of the undertaking of the company as a going concern.
5. To raise on the security of the assets of the company any money requisite.
6. To do all such other things as may be necessary for winding up the affairs of the company and distributing of its assets.