

## Paper-13: CORPORATE LAWS AND COMPLIANCE

Time Allowed: 3 hours

Full Marks: 100

### Section A (Corporate Laws)

Answer **Question No.1** (carrying 15 marks) which is compulsory and answer **any four** (carrying 15 marks each) from the rest in this section

1. (a) India Bank, a National Bank, acquired on 1<sup>st</sup> January 2014 a building, fully occupied by various tenants, from Mr. Raj, who is the owner of the building. In discharging of a Term Loan advanced to Mr. Raj, who had mortgaged the said building as security with the said Bank and failed to repay the Loan. The said Bank wants to keep the Building permanently with it and earn the rent from tenants. You are required to state with reference to the provisions of the Banking Regulation Act, 1949 whether the said Bank can do so. **[4]**

- (b) Nisha Textiles Ltd. is a company engaged in manufacture of fabrics. The Company has investments in shares of other Bodies Corporate including shares in Nisha Cotton Co. Ltd. and it has also advanced loans to other Bodies Corporate. The aggregate of all the investments made and loans granted by Nisha Textiles Ltd. exceeds 60% of its paid up share capital and free reserves and also exceeds 100% of its free reserves. In course of its business requirements, Nisha Textiles Ltd. has obtained a term loan from Industrial Development Bank of India and the same is still subsisting. Now the company wants to increase its holding from 70% to 80% of the equity share capital in Nisha Cotton Co. Ltd. by purchase of additional 10% shares from other existing shareholders.

State the legal requirements to be complied with by Nisha Textiles Ltd. under the provisions of the Companies Act, 2013 to give effect to the above proposal.

Will your answer be different if Nisha Textiles Ltd. would have defaulted in payment of matured fixed deposits accepted by it from the public? **[5]**

- (c) M/s Raja Limited was wound up by the court. The official liquidator invited claims from the creditors which stood as under:

Income Tax dues	₹ 11.00 lakhs
Sales Tax dues	₹ 5.00 lakhs
Dues of workers	₹ 25.00 lakhs
Unsecured loans payable to directors	₹ 25.00 lakhs
Trade creditors who supplied raw material	₹ 15.00 lakhs
Secured creditors being the bankers of the company	₹ 75.00 lakhs
Total	₹ 156.00 lakhs

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Official Liquidator could realize only ₹80.00 lakhs by sale of the assets and realization made from company's debtors, which is not sufficient to pay to all the creditors. Please decide the order of priority for payment to creditors explaining the relevant provisions of the Companies Act, 1956. [6]

- 2. (a)** A Public Company has been declaring dividend at the rate of 10% on equity shares during the last 5 years. The company has not made adequate profits during the year ended 31<sup>st</sup> March, 2015, but it has got adequate reserves which can be utilised for maintaining the rate of dividend at 20%.

Advise the Company as to how it should go about if it wants to declare dividend at the rate of 20% for the year 2014-15.

Would your answer be different if the company utilised only the profits made in the previous years and retained in the profit and loss account for the purpose of payment of dividend at the rate of 20% for the year 2014-15? [5]

- (b)** Following is the latest audited Balance Sheet of ABC Ltd.

Capital and liabilities	₹	₹	Assets	₹
Equity Share Capital (10000 shares of 100 each)	10,00,000		Goodwill	1,00,000
Less: Calls unpaid	10,000	9,90,000	Land and Buildings	10,50,000
Preference Share Capital		1,50,000	Plant and machinery	20,25,000
Securities Premium A/c		1,50,000	Equity shares in A Ltd.	1,25,000
Capital Redemption Reserve		2,25,000	Preference shares in B Ltd.	50,000
General Reserve		5,00,000	Debentures in C Ltd.	1,00,000
Profit & Loss A/c		2,20,000	Shares in P Ltd.	2,25,000
Sinking Fund Reserve		1,10,000	Capital in Z & Co.	1,00,000
Dividend Equalisation Reserve		60,000	Current Assets	55,000
Loan from TIIIC		10,00,000		
Deposits from S Ltd.		2,00,000		
Current Liabilities		1,25,000		
Provision for Taxation		1,00,000		
		38,30,000		38,30,000

The following is the additional relevant information:

- (i)** Of the equity shares capital, 3,000 shares have been issued as rights shares and 2,000 shares as bonus shares.
- (ii)** B Ltd. is subsidiary of ABC Ltd. with 90% shareholding, whereas A Ltd. is wholly owned subsidiary of ABC Ltd.

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(iii) Z & Co. is a partnership firm. The directors seek advice as to whether the following additional investments can be made by a decision taken in a Board Meeting:

- |  |            |
|--|------------|
| a. Loan to A Ltd.                                      | ₹10,00,000 |
| b. Debentures in B Ltd                                 | ₹2,25,000  |
| c. Purchase of shares of Shree Ltd. in the open market | ₹95,000    |

State reasons.

**[8]**

(c) Mr. Ghanshyam goes abroad for four months from 04.11.2014 and an alternate director has been appointed in his place. Therefore, advice as to sending of notice as required under section 173 of the Companies Act, 2013.

**[2]**

3. (a) Divya, a resident in India is likely to inherit an immovable property in USA from her father, who is a resident outside India. Advise Divya about the restrictions, if any, in this regard. Will your answer be different if she is likely to inherit foreign securities?

**[4]**

(b) Best Automobiles Limited intends to make a public issue of 2,00,00,000 equity shares of ₹10 each through the 100% book building process indicating a price band.

You are required to answer the following with reference to the SEBI (Disclosure and Investor Protection) guidelines:

(i) What is the price band that can be indicated in the red herring prospectus, if the floor price is proposed to be fixed at ₹300 per equity share?

(ii) What are the restrictions, if the company wants to revise the price band during the bidding period?

(iii) How the shares are to be allocated to different categories of investors like Qualified Institutional Buyers, Retail Individual Investors, etc.?

**[8]**

(c) Mr. Nihar holding 3% Shares in Super Ltd., became a Director of this Company on 01.05.2014. The Company prior to his appointment as Director, had commenced transactions with A Ltd. in the next Board Meeting to be held on 10.05.2014, the Board proposes to discuss about price revisions sought for by A Ltd. Briefly explain –

(i) Whether Mr. Nihar should make a disclosure of his interest in A Ltd, assuming that the Company is going to have transactions with A Ltd. on a continuous basis, if yes, when and how? When should it be renewed?

(ii) Can he vote in the price revision resolution in the Board Meeting?

You are informed that Mr. Nihar holds 1.5% of the Share Capital of A Ltd and that his wife holds another 3% of the Share Capital of A Ltd.

**[3]**

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- 4. (a)** Mr. SOURAV is a director of M/s ASHEEKA Ltd. He has approached M/s Housing Finance Co. Ltd. for the purpose of obtaining a loan of ₹50 lacs to be used for construction of his residential house. The loan was sanctioned subject to the condition that M/s ASHEEKA Ltd. should provide the guarantee for repayment of loan installments by Mr. SOURAV. Advise Mr. SOURAV. **[5]**
- (b)** M/s Ahana Private Limited was incorporated in the year 2010 under the Companies Act, 1956 by 3 brothers, namely, Amit, Anil and Akhlesh. All the three were Promoter-directors named in the Articles of Association and subscribed for 100 shares each in the company through Memorandum of Association. Thereafter, from time to time, further shares were allotted in proportion of one-third to each of them and in due course, the company started earning substantial profits. Due to greed of money, the two brothers, namely, Amit and Anil, joined hands together to assume complete control of the company, leaving their brother, Akhlesh in lurch. Both the brothers got further shares allotted to themselves, thereby their joint shareholding increased from 66 2/3% to 90%, while the shareholding of Akhlesh got reduced from the erstwhile 33 1/3% to 10%. No notice of any Board Meeting was sent to Akhlesh, who was sidelined and was also removed as a Director.
- Aggrieved by the decisions taken by his two brothers at his back, Akhlesh seeks your advice for taking out appropriate proceedings before the court or judicial authority of competent jurisdiction. Also suggest the nature of reliefs he may claim while filing his case. **[4]**
- (c)** Amit, Biswajit, Shyam and Tarak are Directors of XYZ Ltd. Shyam and Tarak did not attend the Board Meeting which was properly convened. At the said Board Meeting, two Additional Directors was appointed. They are the wife and brother of Amit and Biswajit respectively, the Directors who attended the Board Meeting. Explain whether the Directors who attended the Board Meeting are entitled to vote on the subject-matter and whether the appointment of Additional Directors is valid. **[4]**
- (d)** Smart Banking Company Limited has advanced a sum of ₹25.00 lacs to Mr. Reliable, a director of the company, to meet his personal liabilities but due to some adverse conditions, Mr. Reliable is not in a position to repay the loan. The Board of directors of the company is considering to remit a sum of ₹10.00 lacs. The Board of Directors seeks your advice. **[2]**
- 5. (a)** Mr. Devesh was appointed as the managing director of Casual Industries Ltd. for a period of five years with effect from 1.4.2011 on a salary of ₹ 12 lakhs per annum with other perquisites. The Board of Directors of the company, on coming to know of certain questionable transactions, terminated the services of the managing director from 1.3.2014. Mr. Devesh termed his removal as illegal and claimed compensation from the company. Meanwhile the company paid a sum of ₹ 5 lakhs on ad hoc basis to Mr. Devesh pending settlement of his dues. Discuss with reference to Companies Act, 2013, whether:
- A. The company is bound to pay compensation to Mr. Devesh, and, if so, how much.  
B. The company can recover the amount of ₹ 5 lakhs paid on the ground that Mr. Devesh is not entitled to any compensation, because he is guilty of corrupt practices. **[4]**

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- (b)** The promoters of a Company to be registered under the Companies Act, 2013 having its main object of carrying on the business as manufacture and stockiest of Iron and Steel, proposes that the name of the Company is to be 'Abha Steel Bank Limited'. You are required to state whether the said company with the proposed name can be registered. **[3]**
- (c)** Printed Computer is a Singapore based company having several business units all over the world. It has a unit for manufacturing computer printers with its headquarters in Pune. It has a branch in Dubai which is controlled by the headquarters in Pune. What would be the residential status under FEMA, 1999 of printer units in Pune and that of Dubai branch? **[4]**
- (d)** BOD of M/s SK Ltd., in its meeting held on 29<sup>th</sup> May, 2014 declared an interim dividend payable on paid up equity share capital of the company. In the Board meeting scheduled for 10<sup>th</sup> June, 2014, the Board wants to revoke the said declaration. You are required to state with reference to the provisions of the Companies Act, 2013 whether the BOD can do so. **[4]**
- 6. (a)** Mr. Naman holding 3% Shares in OPQ Ltd., became a Director of this Company on 01.05.2014. The Company prior to his appointment as Director, had commenced transactions with A Ltd. in the next Board Meeting to be held on 10.05.2014, the Board proposes to discuss about price revisions sought for by A Ltd. Briefly explain –
- (i) Whether Mr. Naman should make a disclosure of his interest in A Ltd, assuming that the Company is going to have transactions with A Ltd. on a continuous basis, if yes, when and how? When should it be renewed?
  - (ii) Can he vote in the price revision resolution in the Board Meeting?
  - (iii) You are informed that Mr. Naman holds 1.5% of the Share Capital of A Ltd and that his wife holds another 3% of the Share Capital of A Ltd. **[2+3=5]**
- (b)** The Central Govt. acquired a Banking Company. The scheme of acquisition, apart from other matters, provided for the quantum of compensation payable to the shareholders of the acquired Bank. Some Shareholders are not satisfied with the amount of compensation fixed under the scheme of acquisition.
- Is there any remedy available to the shareholders under the provisions of the Banking Regulation Act, 1949? **[3]**
- (c)** What are the qualifications to be appointed as members of Central Commission as per The Indian Electricity Act, 2003? Also state the functions of the Central Commission. **[3+4=7]**

**Section B**

**(Corporate Governance and Responsibilities)**

[Answer **any five** questions from Q.No.7 (a) to (f)]

7. (a) What is Corporate Governance? What is the need for Corporate Governance in India?
- (b) State the advantages of Good Corporate Citizenship.
- (c) State the factors influencing Corporate Social Responsibility (CSR).
- (d) Would you advocate the following understandings with relation to CSR? Discuss.
- Businesses invest the money, therefore they decide the modus operandi of the CSR initiative
  - Financial resources alone can meet CSR needs of an enterprise.
  - CSR is interchangeable with corporate sponsorship, donation or other philanthropic activities.
- (e) Can whole life risk be analysed?
- (f) Discuss, "Governance in India – The Path Ahead" **[5×5 = 25]**