

Paper-13: CORPORATE LAWS AND COMPLIANCE

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	Learning objectives	Verbs used	Definition
LEVEL C	KNOWLEDGE What you are expected to know	List	Make a list of
		State	Express, fully or clearly, the details/facts
		Define	Give the exact meaning of
	COMPREHENSION What you are expected to understand	Describe	Communicate the key features of
		Distinguish	Highlight the differences between
		Explain	Make clear or intelligible/ state the meaning or purpose of
		Identify	Recognize, establish or select after consideration
		Illustrate	Use an example to describe or explain something
	APPLICATION How you are expected to apply your knowledge	Apply	Put to practical use
		Calculate	Ascertain or reckon mathematically
		Demonstrate	Prove with certainty or exhibit by practical means
		Prepare	Make or get ready for use
		Reconcile	Make or prove consistent/ compatible
		Solve	Find an answer to
		Tabulate	Arrange in a table
	ANALYSIS How you are expected to analyse the detail of what you have learned	Analyse	Examine in detail the structure of
		Categorise	Place into a defined class or division
		Compare and contrast	Show the similarities and/or differences between
		Construct	Build up or compile
		Prioritise	Place in order of priority or sequence for action
		Produce	Create or bring into existence
	SYNTHESIS How you are expected to utilize the information gathered to reach an optimum conclusion by a process of reasoning	Discuss	Examine in detail by argument
		Interpret	Translate into intelligible or familiar terms
Decide		To solve or conclude	
EVALUATION How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify	
	Evaluate	Appraise or asses the value of	
	Recommend	Propose a course of action	

Paper-13: CORPORATE LAWS AND COMPLIANCE

Full Marks: 100

Time Allowed: 3 Hours

This paper contains 3 questions. All questions are compulsory, subject to instructions provided against each question. All workings must form part of your answer. Assumptions, if any, must be clearly indicated.

Question 1: Answer all questions

[20 Marks]

- (a) Yusuf, an employee of ABC Ltd., was appointed as an alternate director. In the meantime, the original director returned and wanted to attend the Board meeting. Advise. 3
- (b) Is there any maximum limit on shareholding by the promoter in an Indian Insurance company, as per Insurance Act, 1938? 3
- (c) The Promoters of a Company to be registered under the Companies Act, 1956 having its main object of carrying on the business as manufacturer and stockist of Iron and Steel, proposes that the names of the Companies is to be "ABC Steel Bank Limited". You are required to state with reference to the provisions of the Banking Regulation Act, 1949, whether the said Company with the proposed name can be registered. 3
- (d) In a proceeding before the Competition Commission of India involving two pharmaceutical companies, the plaintiff requested the presiding officer to call upon the services of experts from the pharmaceutical sector to determine the truth of the allegations levelled by it against the respondent. The respondent opposed the request on the ground that such action cannot be taken by the Competition Commission. You are required to state with reference to the provisions of the Competition Act, 2002, whether the contention of the respondent is tenable. 3
- (e) The object clause of the Memorandum of Association of LSR Private Ltd, Lucknow authorized to do trading in fruits and vegetables. The company, however, entered into a Partnership with Mr. J and traded in steel and incurred liabilities to Mr. J. The Company, subsequently, refused to admit the liability to J on the ground that the deal was 'Ultra Vires' the company. Examine the validity of the company's refusal to admit the liability to J. Give reasons in support of your answer. 3
- (f) Can CSR be integrated with decision making? 3
- (g) What are the functions of the supervisory board under Cromme Code. 2

Question 2: Answer any four questions

[60 Marks]

Question 2(a)

- (i) Dev Limited issued a notice for holding of its annual general meeting on 7th November, 2014. The notice was posted to the members on 16.10.2014. Some members of the company allege that the company had not complied with the provisions of the Companies Act, 2013 with regard to the period of notice and as such the meeting was not validly called. Referring to

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the provisions of the Act, decide -

- (a) Whether the meeting has been validly called?
 - (b) If there is a shortfall in the number of days by which the notice falls short of the statutory requirement, state and explain by how many days does the notice fall short of the statutory requirement?
 - (c) Can the shortfall, if any, be condoned?
- (ii) The promoters of a public company propose to have the strength of the Board of directors as eleven. They also propose to make the managing director and whole time directors as directors not liable to retire by rotation. They seek your advice on the following matters:
- (a) Maximum number of persons, who can be appointed as directors not liable to retire by rotation.
 - (b) How many of the remaining directors will have to retire by rotation every year at the annual general meeting?
- (iii) Advise the Board of directors of a public company about their powers in respect of the following proposals explaining the relevant provisions of the Companies Act, 2013;
- Buy-back of shares of the company upto 10% of the paid up equity share capital.

[5+6+4 = 15]

Question 2(b)

(i) 500 equity shares in 'XYZ Limited' were acquired by Mr. 'B'. But the signature of Mr. 'A', the transferor, on the transfer deed was forged. Mr. 'B', after getting the shares registered by the company in his name, sold 200 equity shares to Mr. 'C' on the strength of the share certificate issued by 'XYZ Limited'. Mr. 'B' and Mr. 'C' were not aware of the forgery. What are the rights of Mr. 'A', 'B' and 'C' against the company with reference to the aforesaid shares?

(ii) Apple Company Limited has 10 directors on its board. Two of the directors have retired by rotation at an Annual General Meeting. The place of retiring directors is not so filled up and the meeting has also not expressly resolved 'not to fill the vacancy'. Since the AGM could not complete its business, it is adjourned to a later date. At this adjourned meeting also the place of retiring directors could not be filled up, and the meeting has also not expressly resolved 'not to fill the vacancy'. Advice:

- (a) Whether in such a situation the retiring directors shall be deemed to have been re-appointed at the adjourned meeting?
- (b) In case at the adjourned meeting, the resolutions for re-appointment of these directors were lost?
- (c) Whether such directors can continue in case the directors do not call the Annual General Meeting?

(iii) What is the required quorum for holding a Board meeting? Examine the following cases:

- (a) In a Board meeting, only 3 directors were present out of the total of 11 directors. None of the 3 directors was interested in any of the items of the agenda. Examine the validity of meeting.
- (b) In a meeting of the Board, out of the total of 11 directors, 7 directors were present of which only 2 directors were not interested in one of the transactions. How should the meeting deal with the matter?

[4+5+6 = 15]

Question 2(c)

(i) ABC Company Limited at a general meeting of members of the company passes an ordinary resolution to buy-back 30% of its equity share capital. The articles of the company

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empower the company for buy-back of shares. The company further decides that the payment for buy-back be made out of the proceeds of the company's earlier issue of equity shares. Explaining the provisions of the Companies Act, 2013 and stating the sources through which the buy-back of companies own shares be executed, examine:

(a) Whether company's proposal is in order?

(b) Would your answer be still the same in case the company, instead of 30%, decides to buy-back only 20% of its equity share capital?

(ii) Asim, a 15% shareholder of a company and other shareholders have lost confidence in the Managing Director (MD) of the company. He is a director not liable to retire by rotation and was re-appointed as Managing Director for 5 years w.e.f. 1.4.2005 in the last Annual General Meeting of the company.

Mr. Asim seeks your advice to remove the MD after following the procedure laid down under the Companies Act, 2013.

(a) Specify the steps to be taken by Mr. Asim and the Company in this behalf;

(b) Is it necessary to state reasons to support the resolution for his removal?

(iii) Prithvi Limited is paying remuneration to its non-executive directors at the rate of one percent of the net profits of the company distributed equally among all the non-executive directors. Is it possible for the company to pay minimum remuneration to non-executive directors besides sitting fees in the event of loss in a financial year? Answer with reference to Companies Act, 2013.

[4+(4+4)+3 = 15]

Question 2(d)

(i) A company issued a prospectus. All the statements contained therein were literally true. It also stated that the company had paid dividends for a number of years, but did not disclose the fact that the dividends were not paid out of trading profits, but out of capital profits. An allottee of shares wants to avoid the contract on the ground that the prospectus was false in material particulars. Decide.

(ii) The last three years' balance sheets of Fantastic Ltd. contain the following information and figures:

	As at 31.03.2013 (₹)	As at 31.03.2014 (₹)	As at 31.03.2015 (₹)
Paid up capital	50,00,000	50,00,000	75,00,000
General Reserve	40,00,000	42,50,000	50,00,000
Credit Balance in Profit & Loss Account	5,00,000	7,50,000	10,00,000
Debenture Redemption Reserve	15,00,000	20,00,000	25,00,000
Secured Loans	10,00,000	15,00,000	30,00,000

On going through other records of the company, the following is also determined:

Net profit for the year

₹ 12,50,000 - As at 31.03.2013

₹ 19,00,000 - As at 31.03.2014

₹ 34,50,000 - As at 31.03.2015

In the ensuing Board meeting scheduled to be held on 5th November, 2015, among other items of agenda, following items are also appearing:

(a) To decide about borrowings from financial institutions on long-term basis.

(b) To decide about contributions to be made to charitable funds.

Based on above information, you are required to find out as per the provisions of the

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Companies Act, 2013 the amount upto which the Board can borrow from financial institutions and the amount upto which the Board of directors can contribute to charitable funds during the financial year 2015-16 without seeking the approval in general meeting.

(iii) Explain the power of the Registrar to conduct inspection and inquiry as per the provisions of Companies Act, 2013.

[4+6+5 = 15]

Question 2(e)

(i) M, who was appointed as additional director at the Board meeting held on 31st May, 2014 continues to be in his office on the ground that the annual general meeting for the financial year 2013-14 was not held as required under the Act. Whether continuation of M in the office is valid? Will your answer be different if M was also appointed as managing director for a period of 5 years with effect from 1st June 2014 at the same Board meeting?

(ii) Can an insurer assume risk without receiving the premium, as per Insurance Act, 1938?

(iii) Trinity Bank Limited acquired a building from ABC College in discharging a term loan advanced. The building had been mortgaged as security with the bank and the college had failed to repay the loan. The bank proposes to retain the building with it and let out on commercial basis to shops.

[6+5+4 = 15]

Question 3: Answer any two questions

[20 Marks]

Question 3(a)

(i) "The concept of Memorandum of Understanding (MoU) has been designed to provide flexibility and autonomy to CPSEs such that it facilitates them in pursuing the objectives and purposes, for which the enterprises have been set up." In the light of the above statement, explain the concept of MoU in India.

(ii) Triple Bottom Line Approach of Corporate Social Responsibility (CSR).

[5+5 = 10]

Question 3(b)

(i) State the factors influencing Corporate Social Responsibility (CSR).

(ii) 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.

[5+5 = 10]

Question 3(c)

(i) Explain the importance of 'Ethics' for a finance and accounting professional.

(ii) If you are an accounting professional in a large multinational corporation, what steps would you undertake to create an ethical accounting environment? [5+5 = 10]

