

**PAPER 13 – Corporate Laws and Compliance**

**SECTION A**

**[Answer to Q.No.1 is compulsory and attempt any 4 from the rest]**

1. (a) Star Ltd. is authorized by its articles to accept the whole or any part of the amount of remaining unpaid calls from any member although no part of that amount has been called up. A shareholder deposits in advance the remaining amount due on his shares without any calls made.

Referring to the provisions of the Companies Act, 1956, state the rights and liabilities of the shareholder, which will arise on the payment of calls made in advance. **[3]**

(b) Bridge Ltd. is an infrastructure company with paid up capital and free reserve of ₹ three crores and one and half crores respectively. The Board of directors granted a loan of ₹ 1 crores to Satyam Ltd and also gave a guarantee to IFCI for giving a loan of ₹ 1.50 crores to Nelson Ltd. Bridge Ltd. has not given any other loan or guarantee to anyone. A group of shareholders of Bridge Ltd. objected to the above deals on the ground that they are violative of the provisions of the Companies Act, 1956. Applying the provisions of the said enactment relating to inter-corporate loans and investments in the given case, decide:

- (i) Whether the objection raised by the shareholders is tenable?
- (ii) Would your answer be the same in case the amount of loan granted is ₹ 1.50 crores and the guarantee given is for an amount of ₹ 2 crores?
- (iii) What would be your answer in case Bridge Ltd. is a private company not being the subsidiary of any public limited company? **[2+1+1=4]**

(c) In the context of Court rulings in the matter of merger, answer the following :

- (i) Whether exchange ratio approved by shareholders of merging companies can be questioned by a small group of dissenting shareholders?
- (ii) Whether transferor company is justified in excluding assets held on lease and license arrangement, from those transferred to the transferee company? **[2+2=4]**

(d) The Board of Directors of a public limited company borrowed in excess of the limits as laid down by the Companies Act, 1956. The money was utilized for genuine purposes in the interests of the company. Can the company repudiate the liability being ultra vires the director? **[4]**

2. (a) XYZ Ltd., over years, enjoys high reputation and its General Reserve is many times more than the paid up capital of the Company. There is apprehension of cornering the shares of the company by some persons likely to result in change in the Board of Directors which may be prejudicial to the public interest.

Advise, as to how can XYZ Ltd. block the transfer of shares of the company under the provisions of the Companies Act, 1956. **[8]**

(b) In the general meeting of X Ltd., held on 02.05.2013, Mr. Adi was appointed as a director. On that day, he was not holding any equity shares in X Ltd. As per the articles of association of X Ltd., the share qualification is the holding of 500 equity shares. On 15.06.2013 Mr. Adi applied for 1,000 equity shares in X Ltd. and the shares were allotted on 10.07.2013. Mr. Adi claims that he was holding the qualification shares within the time specified in Companies Act. Discuss the validity of the arguments of the director. **[4]**

## PTP\_Final\_Syllabus 2012\_Jun2014\_Set 2

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**(c)** The auditor of the ACB Company resigned his office on 31<sup>st</sup> Nov. 2011, while the financial year of the company ends on the 31<sup>st</sup> March 2012. Explain how the auditor will be appointed? **[3]**

3. **(a)** Shri Basu was appointed as a Member of the CCI by Central Government. He has a professional experience in international business for a period of 11 years, which is not a proper qualification for appointment of a person as Member. Pointing out this defect in the constitution of CCI, Mr. Sen, against whom CCI gave a decision, wants to invalidate the proceedings of CCI. Examine whether Mr. Sen will succeed. **[3]**

**(b)** X Co. Ltd., a closely held company comprised of two groups of shareholders – one foreign and the other Indian. The foreign group holds 60% and the Indian 40% of the shares of the company. 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, therefore, approached the Company Law Board for action against the foreign group for oppression. Referring to the provisions of the Companies Act, 1956 and/or the decided case laws, discuss -

(i) Whether the contention of oppression against the foreign group by the India group is tenable?

(ii) What are the powers of the Company Law Board in this regard? **[2+3=5]**

**(c)** Wealth Bank of India, a Nationalised Bank, acquired a building from Mr. Shyam on 1<sup>st</sup> Dec, 2008 in discharging a term loan advanced to him, who had mortgaged the said building as security and failed to repay the loan. The building was given on rent to various companies by Mr. Shyam. Now, the bank wants to keep the building as it is and earn the rent. With the reference to the provisions of the Banking Regulation Act, 1949, state, whether the bank can do so. **[4]**

**(d)** The Smart Traders Association was maintained by a joint Hindu Family consisting of 21 major and 4 minor members. The Association is carrying the business for earning profits and they were not registered as a Company under the Companies Act, 1956 or other law. State whether Smart Traders Association is having any legal status? Will there be any change in the status of the Association if the members of the Smart Traders Association subsequently reduced to 15? Support your answer with the correct provision of law. **[3]**

4. **(a)** Tintin Ltd. issued convertible debentures during the financial year 2011-12 wants to alter the terms of redemption. Is it permissible under the provision of SEBI (Securities and Exchange Board of India) regulations? **[2]**

**(b)** The object clause of the Memorandum of a company empowers it to carry on distillery business and any other business that is allied to it. The company wants to alter its Memorandum so as to include the cinema business in its objects clause. Advise the company. **[4]**

**(c)** Section 14(2) of the Insurance Regulatory and Development Authority Act, 1999 specifies the powers and functions of the Insurance Regulatory and Development Authority. List out those powers and functions of the Authority. **[7]**

## PTP\_Final\_Syllabus 2012\_Jun2014\_Set 2

---

- (d)** At an Annual General Meeting held on 20.09.2012, an auditor was appointed to hold office up to the conclusion of next Annual General Meeting. The next Annual General Meeting was convened on 15.09.2013 but stood adjourned without transacting any business. Does the retiring auditor continue in office? **[2]**
5. **(a)** State whether there is any restriction under the Foreign Exchange Management Act, 1999 in respect of drawal of foreign exchange for payments due on account of amortization of loans in the ordinary course of business. **[2]**
- (b)** Pigmi Ltd. Co. issued and published its prospectus to invite the investors to purchase its shares. The said prospectus contained false statement. Mr. A purchased some partly paid shares of the company in good faith on the Stock Exchange. Subsequently, the company was wound up and the name of Mr. A was in the list of contributors. Decide:  
(i) Whether Mr. A is liable to pay the unpaid amount?  
(ii) Can Mr. A sue the directors of the company to recover damages? **[3]**
- (c)** M/s Naira Infotech Ltd. was incorporated on 01.04.2012. No General Meeting of the company has been held so far. Explain the provisions of the Companies Act, 1956 regarding the time limit for holding the first Annual General Meeting of the Company and the power of the Registrar to grant extension of time for the First Annual General Meeting. **[4]**
- (d)** Mr. Lal has been arrested for a cognizable and non bailable offence punishable for a term of imprisonment for more than three years under the Prevention of Money Laundering Act, 2002. Advise, as to how can he be released on bail in this case? **[3]**
- (e)** A public limited company has only seven shareholders, all the shares being paid-up in full. All the shares of one such shareholder are sold by the Court in an auction and purchased by another shareholder. The company continues to carry on its business, thereafter. Discuss the liabilities of the shareholders of the company. **[3]**
6. **(a)** 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 "PQR Iron & 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. **[2]**
- (b)** M/s. Alian Limited was wound up with effect from 15.04.2013 by an order of the Court. Mr. X, who ceased to be a member of the company from 01.07.2012, has received a notice from the liquidator that he should deposit a sum of ₹ 5,000 as his contribution towards the liability on the shares previously held by him. In this context explain whether Mr. X can be called a contributory and whether he can be made liable and whether there is any limitation on his liability. **[4]**
- (c)** The working of Mega Stock Exchange Association Ltd. is not being carried on by its Governing Board in public interest. On receipt of representations from various Investors and investors' Association, the Central Government is thinking to withdraw the recognition granted to the said Stock Exchange. You are required to state the circumstances and

procedure for withdrawal of such recognition as per the provisions of Securities Contracts (Regulation) Act, 1956 in this regard. **[5]**

**(d)** On scrutiny of the sole selling agency agreement of ABC Company Ltd., with P, the Central Government finds that the agreement is prejudicial to the interests of the company and cancels it. P consults you as the advisability of challenging the order of the Central Government. Please advise P as to the chances of his successfully challenging the order of the Central Government. **[4]**

**SECTION B**

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

7. **(a)** State the benefits of Corporate Social Responsibility (CSR). **[5]**
- (b)** Define Corporate Governance. Write the core objectives of Corporate Governance. **[5]**
- (c)** Describe the core elements which should be covered by Corporate Social Responsibility (CSR) as per the Corporate Social Responsibility Voluntary Guidelines, 2009. **[5]**
- (d)** List the steps which must be applied to every aspects of the Whole Life-cycle Costing (WLCC). **[5]**
- (e)** Clarify the following statements: **[5]**
- (i) Codification of Corporate Governance in India started with the recommendations of Kumar Mangalam Birla Committee.
  - (ii) Corporate Social Responsibility is distinct from corporate philanthropy.
- (f)** Describe the factors responsible for increasing attention towards Corporate Social Responsibility by the Corporates. **[5]**