

## C.A. Final (Old Course)

### First Study

Subject: Corporate Law & Secretarial Practice

*Instructions:*

- (i) *Question no 1,2 & 3 are compulsory and four from the rest.*
- (ii) *Date of Examination : 08.03.2010*
- (iii) *Total Number of Questions : 9*
- (iv) *Total marks : 100*
- (v) *Total duration : 3 Hours*
- (vi) *Use of two colour pens (black & blue or Black or Pink etc) is NOT allowed. Use only single colour pen.*
- (vii) *Begin answer of the next question in new page.*

**Question 1.** Answer any two of the following questions:

(a) Mr. Rajendra is a director of M/s HCBS Ltd. He has approached M/s Ram Housing Finance Co. Ltd. for obtaining a loan of Rs.60 lakhs to be used for construction of his residential house. The loan was sanctioned but on a condition that M/s HCBS Ltd. should provide the guarantee for repayment of loan installments by Mr. Rajendra. Advise Mr. Rajendra.

(5 Marks)

(b) Ahmedabad Stock Exchange (ASE) has refused to grant listing of the shares to Moon light Limited but the ASE has not disclosed any reason therefore. The company wants to challenge the decision of the ASE in the Civil Court. Advise the company pursuant to relevant provisions of the Securities Contracts (Regulation) Act, 1956.

(5 Marks)

(c) The shares of Vinod Utensils Ltd. were listed in Madras Stock Exchange. The stock exchange delists the shares of the Company. The Company aggrieved by the delisting, approaches you to advise them on the remedies available. Give your suggestions to the Company keeping in mind the provisions of Securities Contracts (Regulation) Act, 1956.

(5 Marks)

**Question 2** Answer any two of the following:

(a) State the kind of approval required for the following transaction under the Foreign Exchange Management Act, 1999:

(i) Sunidhi, a young and upcoming playback singer of India wants to perform at a Musical Extravaganza in Pali for Indians residing there. Foreign exchange to the extent of \$ 20,000 is required for this purpose.

(ii) Ram wants to draw USD 20,000 to make donation to a Charitable Trust situated in North Korea.

(7 Marks)

(b) Mr. Ram, a citizen of India, left India for employment in Australia on 15<sup>th</sup> June, 2007. Mr. Ram purchased a flat at Ahmedabad for Rs.45 lakhs in September, 2008. His brother, Mr. Shyam employed in Ahmedabad, also purchased a flat in the same building in September, 2008 for Rs. 45 lakhs. Mr. Shyam's flat was financed by a loan from a housing finance company and the loan was guaranteed by Mr. Ram. Examine with reference to the provisions of Foreign Exchange Management Act, 1999, whether purchase of flat and guarantee by Mr. Ram are capital account transactions and whether these transactions are permissible.

(7 Marks)

(c) The Competition Commission of India has received a complaint that M/s. Zoya Company has been abusing its dominant position in the FMCG industry. Explain briefly the factors that will be considered by the commission to ascertain whether M/s. Zoya Company enjoys a dominant position in the industry.

(7 Marks)

**Question 3** Answer any two of the following:

(a) Discuss briefly the powers vested in the SEBI to regulate and prevent undesirable transactions in securities under the Securities Contracts (Regulation) Act, 1956, by virtue of the SEBI Act, 1992.

(8 Marks)

(b) The Balance Sheet of GSW Ltd as at 31.3.2009 disclosed the following details:

(i) Authorised share capital	Rs. 800 crores
(ii) Paid up share capital	Rs. 300 crores
(iii) Reserves and surplus	Rs.1500 crores

The company has issued in the year 2004, Fully Convertible Debentures of Rs.100 crores which are due for conversion in the year 2009. The company proposes, after conversion of Debentures to issue Bonus shares in the ratio of 1:1. Explain briefly the requirements of the Companies Act, 1956 and the Securities and Exchange Board of India (SEBI) guidelines to be followed by the company in this regard.

(8 Marks)

(c)(i) What do you understand by “non Obstante clause”. Give an example.

(ii) “Section 159 of Companies Act 1956 states that every company should file an annual return to the registrar, giving the particulars prescribed in Schedule V”. What is the legal status of Schedules to the Act.

*(8 Marks)*

**Question 4**

(a) The following information is available from the audited Balance sheet of Scoop Ltd:

	<b>Rs. In lakhs</b>
Equity Share Capital	60
Calls outstanding	01
Preference Share Capital	21
Share application money	10
Securities Premium Account	15
Capital Redemption Reserve	18
Fixed Assets Revaluation Reserve	09
General Reserve	30
Profit and Loss Account (credit balance)	17
Dividend Equalisation Reserve	05

The Company proposes to acquire 3 lakhs equity shares of Rs.10 each of P Ltd. It also intends to execute a corporate guarantee for Rs.25 lakhs in favour of G Ltd a wholly owned subsidiary company and a corporate loan of Rs.50 lakhs to A Ltd. State the legal requirements to be complied with to give effect to the above proposals.

*(8 Marks)*

(b) The Board of Directors of Viral Fabrics Ltd. at a meeting held on 10.1.2009 “Resolved to borrow a sum of Rs. 30 crores from a nationalized bank. Subsequently the said amount was received by the company. One of the Directors, who opposed the said borrowing as not in the interest of the company, has raised an issue that the said borrowing is outside the powers of the Board of Directors. The company seeks your advice and the following data is given for your information:

(i) Share Capital	Rs. 10 crores
(ii) Reserves and Surplus	Rs. 10 crores
(iii) Secured Loans	Rs. 30 crores
(iv) Unsecured Loans	Rs. 10 crores

Advice the management of the company.

*(7 Marks)*

**Question 5**

(a) X, a shareholder of RST Ltd. wants to get the affairs of the company investigated. Advice X as to when and by whom an application for investigation into the affairs of a company can be made?

*(8 Marks)*

(b) AIPL maintains the Minutes Book of the Board Meetings in loose -leaf system and get them bound once in three months. Is the company following right procedure? Board meetings were held on 22<sup>nd</sup> March, 2009 and 11th April, 2009. Mr. M, who was the Chairman of these two Board Meetings died on 1.5.2009, without signing the Minutes. Advice AIPL as to “how should be the Minutes be signed and by whom”?

*(7 Marks)*

**Question 6**

(a) What are the powers and functions of the Board of Directors of a Producer Company under Companies Act, 1956?

*(8 Marks)*

(b) Define the term “Director Identification Number” (DIN). Also describe the procedure to obtain DIN as enumerated under the Companies Act, 1956 read with the relevant Rules.

(7 Marks)

**Question 7**

(a) Krishna Yarn Limited has its subsidiary company Woolmarc Ltd, which is formed to carry out some of the objectives of Krishna Yarn Limited. Krishna Yarn Ltd suspends one of its several businesses, by passing a resolution at the company's extraordinary general meeting, with effect from 1<sup>st</sup> January 2009. The business so suspended continues to be suspended until March 2009. On 1<sup>st</sup> April 2009, a group of shareholders of Krishna Yarn Ltd filed a petition in the court for winding of the company on the ground of suspension of business by the company. Referring to the provisions of the Companies Act, 1956, decide:

- (1) Whether the shareholders' contention shall be tenable?
- (2) What would be your answer in case Krishna Yarn Ltd suspends all its business?
- (3) Can shareholders of Woolmarc Ltd. file a petition in the court for winding up of their company (Woolmarc Ltd) on the ground that the holding company viz, Krishna Yarn Ltd has suspended its entire business, though Woolmarc Ltd. has not suspended business?

(8 Marks)

(b) A Mortgage was created over the property of a Public Company. The loan was advanced by a relative of the director. All the directors already knew this fact. Thus the director was interested in the transaction. But he has neither disclosed his interest nor abstained from voting while approving the said transaction. Later on a suit was filed for setting aside the mortgage on the ground that since the interested director voted on the matter, the contract was void. Advise with reasons.

- (i) Whether the contract became void due to non-disclosure of interest by the concerned director?
- (ii) Is there any ban on such a contract under the Companies Act, 1956?

(7 Marks)

**Question 8**

(a) The issued, subscribed and paid-up share capital of Navya Nidhi Company Limited is Rs.10 lakhs consisting of 90,000 Equity shares of Rs.10 each fully paid up and 10,000 Preference shares of Rs.10 each fully paid up. Out of members of company, 400 members holding one preference share each and 50 members holding 500 equity shares applied for relief Under Sections 397 and 398 of the Companies Act, 1956. As on the date of petition, the company had 600 Equity shareholders and 5,000 Preference shareholders. Examine whether the above petition under Section 397 and 398 is maintainable. Will your answer be different, if preference shareholders have subsequently withdrawn their consent?

(8 Marks)

(b) On 1<sup>st</sup> January, 2009 the Board of Directors of CP Ltd. appointed Mr. Rahul as Sole Selling Agent of the Company for a period of five years. On 6<sup>th</sup> February, 2009 CP Ltd. in its General Meeting disapproved the appointment of Mr. Rahul as Sole Selling Agent of the Company. Explain:

- i) Is Mr. Rahul entitled to "compensation for Loss of Office"?
- ii) Are there some other circumstances when compensation for loss of office is prohibited to a Sole Selling Agent?

(7 Marks)

**Question 9**

(a) Majority of the Board of Directors of M/s BD Ltd. have reasons to believe that some of the business activities carried on in the name of the company is prima facie against the interest of the company and its members. They want the matter to be referred to Central Government in the form of an application for appointment of an Inspector to reach to the bottom of the matter and unveil and truth. In this connection you are required to:

- (i) State the steps required to be taken with reference to the provisions of the Companies Act, 1956.

(8 Marks)

(b) The shareholders and creditors of WC Limited, in meeting convened for approval of a scheme of reconstruction of the company, passed resolutions.

The scheme of reconstruction provided for the following:

- (i) Sale of vacant land and appropriation of proceeds for payment of outstanding wages, tax dues

and repayment of loan.

(ii) Unsecured creditors to forego 40% of their claims against the company and receive debentures for the balance amount.

A few share holders and creditors raised objections against the said arrangements. Advise the directors about the steps to be taken to give effect to the proposed scheme under the Companies Act, 1956.

*(7 Marks)*