

MOCK TEST PAPER
FINAL (NEW) COURSE GROUP I
PAPER 4: CORPORATE AND ECONOMIC LAWS

Time Allowed: 3 Hours

Maximum Marks-100 Marks

DIVISION A: MULTIPLE CHOICE QUESTIONS (TOTAL OF 30 MARKS)**Instructions: All questions are compulsory****Integrated Case Scenario 1 (10 Marks)**

Mr. Shyam was removed from A Ltd. by the Board in which he was serving as a managing director, a whole-time key managerial personnel, with the condition that he will get compensation for his early vacation of office. The office of Mr. Shyam was vacated on 31.05.2020 and his original tenure of appointment with A Ltd. was upto 31.12.2022.

The remuneration drawn by Mr. Shyam since the date of his joining the office is as follows:

| F.Y. | Remuneration (₹ in lakhs) |
|---------------------------|---------------------------|
| 2018-19 | 55 |
| 2019-20 | 62 |
| 2020-21 (upto 31-05-2020) | 13 |

The data collected from the balance sheet of A Ltd. as on 31.03.2020 is as follows:

| Particulars | (₹ in lakhs) |
|--|--------------|
| Paid-up Share Capital | 1000 |
| Share Application Money | 200 |
| General Reserve | 500 |
| Revaluation Reserve | 250 |
| Securities Premium Account | 300 |
| Long term loan | 400 |
| Funded Interest Term Loan (Payable after 1 year) | 100 |
| Working capital loan | 200 |
| Mutual Fund Investments | 350 |
| Miscellaneous Expenditure not written off | 50 |

Mr. Tushar was appointed as the new managing director of A Ltd. on 1.08.2020 as a replacement of Mr. Shyam. The company decided to pay remuneration to Mr. Tushar as per Section 197(4) of the Companies Act, 2013. It was also decided to pay him following additional perquisites/ remuneration for F.Y. 2020-21:

| Particulars | (₹ in lakhs) |
|-------------------------------|--------------|
| Dearness allowance | 7 |
| House Rent Allowance | 5 |
| Contribution to annuity fund | 6 |
| Reimbursement of direct taxes | 4 |

| | |
|--|---|
| Additional Remuneration per month* | 2 |
| Sitting fees payable for a board meeting # | 1 |

*Remuneration for service to be provided by him in capacity of Consultant. Also he possesses requisite qualification for the same as opined by the Nomination and Remuneration Committee.

Mr. Tushar had attended 4 board meetings till 31.03.2021.

One of the members of A Ltd., Mr. Jay wanted to inspect contract of service entered into by A Ltd. with Mr. Tushar but Mr. Jay was denied to have such inspection on the grounds that the contract with Mr. Tushar was not in writing.

Based on the above case scenario, answer the following questions:

- The maximum amount of compensation to which Mr. Shyam is entitled for premature termination of his office shall be -
 - ₹ 1.1194 crores
 - ₹ 1.51125 crores
 - ₹ 1.80 crores
 - ₹ 1.55 crores
- The 'effective capital' of A Ltd. shall be -
 - ₹ 18 crores
 - ₹ 21 crores
 - ₹ 19 crores
 - ₹ 16 crores
- The maximum amount that can be paid to Mr. Tushar as per the provisions of Companies Act, 2013 for F.Y. 2020-21 shall be -
 - ₹ 118 lakhs
 - ₹ 104 lakhs
 - ₹ 80 lakhs
 - ₹ 86 lakhs
- For removal of Mr. Shyam, which type of resolution was required to be passed and what was the last date till which Mr. Tushar should have been appointed, in case he was not appointed on 1.08.2020?
 - Special Resolution and 30.11.2020 respectively
 - Board Resolution and 30.11.2020 respectively
 - Ordinary Resolution and 30.11.2020 respectively
 - Board Resolution and 31.08.2020 respectively
- Whether company's contention for denying inspection to Mr. Jay was correct and if not, what are the consequences of the same?
 - Not correct, as contract of service with a managing director should have been made in writing and kept at registered office of the company. A Ltd. liable to pay ₹ 25,000 and every officer in default liable to pay ₹ 5,000 for each default, as a penalty.
 - Partially correct, the member has no right to inspect copy of contract of service entered into with managing director but the company has defaulted in not making the contract in writing and

accordingly liable to pay ₹ 25,000 and every officer in default liable to pay ₹ 5,000 for each default, as a penalty.

- (c) Not correct, if contract of service is not in writing then a written memorandum should have been prepared depicting terms of contract of service with Mr. Tushar and kept at registered office of the company. A Ltd. liable to pay ₹ 25,000 and every officer in default liable to pay ₹ 5,000 for each default, as a penalty.
- (d) Correct, if contract is not in writing then member cannot ask for inspection of the same and accordingly there are no consequences on the company for such denial.

Integrated Case scenario 2 (8 Marks)

Mela Nidhi Ltd. provides following information from its financial statements as on 31.03.2021, which are audited by QR LLP, an audit firm which has completed 3 years of its 2nd term, in the company:

| Particulars | (₹ in lakhs) |
|----------------|--------------|
| Total Deposits | 260 |
| Gross Income | 90 |
| Profits | 40 |

One of the directors, Mr. Raj has completed his 10 years term in the company and Mr. Yash is willing to propose his own candidature for directorship in the company through a notice.

The company accepted new deposits from 12 persons as follows:

| Number of People who made deposit | Type of Deposit made |
|-----------------------------------|----------------------|
| 6 | Term Deposit |
| 4 | Savings Deposit |
| 2 | Recurring Deposit |

Apart from the aforementioned persons, Mr. Dev, an Indian citizen, wanted to make a term deposit for ₹ 1 lakh, who recently returned from US after staying for 4 years, for carrying on business in India, whose proposal is on hold with company.

Based on the above case scenario, answer the following questions no. 6 to 9.

6. What should be the minimum value of net owned funds and unencumbered term deposits that Mela Nidhi Ltd. should have, considering the amount of total deposits?
- (a) ₹ 13 lakhs and ₹ 26 lakhs respectively
- (b) ₹ 26 lakhs and ₹ 26 lakhs respectively
- (c) ₹ 10 lakhs and ₹ 26 lakhs respectively
- (d) ₹ 20 lakhs and ₹ 13 lakhs respectively
7. If Mela Nidhi Ltd. provides locker facilities to its members then how much maximum income it could have earned from such facilities and what maximum amount of dividend it can declare, if there was a default in payment of interest by Mela Nidhi Ltd.?
- (a) ₹ 22.5 lakhs and ₹ 10 lakhs respectively
- (b) ₹ 18 lakhs and ₹ 8 lakhs respectively
- (c) ₹ 9 lakhs and ₹ 4 lakhs respectively
- (d) ₹ 18 lakhs and ₹ 10 lakhs respectively

8. For how many years, Mr. Raj is not eligible for reappointment as director in Mela Nidhi Ltd. and what amount of deposit Mr. Yash should make along with the notice of his candidature for directorship?
- (a) 2 years and ₹ 10,000 respectively
 - (b) 2 years and no deposit is required in case of Nidhi company
 - (c) 5 years and ₹ 10,000 respectively
 - (d) 2 years and ₹ 1,00,000 respectively
9. What shall be the aggregate figure of minimum number of shares that would have been issued to the aforementioned 12 persons and minimum number of shares that savings account holder and recurring account holder should atleast held, if face value of shares is ₹ 10 each?
- (a) 66 and 6 respectively
 - (b) 96 and 12 respectively
 - (c) 120 and 6 respectively
 - (d) 66 and 12 respectively

Independent MCQ's

10. "Allotment of shares by the directors of the company by which the existing majority is reduced to minority." As per provisions of the Companies Act, 2013, the above act of the company should be classified as.....? **(1 Mark)**
- (a) Oppression
 - (b) Mismanagement
 - (c) Material change in the company
 - (d) All of the above
11. In which of the following cases the issue of prospectus by a company incorporated outside India will be invalid in law considering the provisions of Chapter XXII of Companies Act, 2013. **(1 Mark)**
- (a) The Consent to the issue of the prospectus required from any person, as an expert is attached to the copy for the registration of prospectus to be delivered to the Registrar.
 - (b) In case where the prospectus is signed by the duly authorized agents of the directors and the copy of power of attorney is not attached with the copy of prospectus to be delivered for Registration.
 - (c) A company incorporated outside India not having place of business in India.
 - (d) A Company to be incorporated outside India.
12. Ultra Ltd. was incorporated on 13th May 2019. After one year of its incorporation the shareholders of company came to know that some transaction inside the company was not in accordance with the provision of Companies Act and also prejudicial in the interest of company and its members, so some shareholder decided to make application to Central Government to conduct investigation into affairs of the company by appointing inspector under the provision of Companies Act, 2013. **(2 Marks)**
- Does application of shareholder can be acceptable under the provision of Companies Act, 2013.
- (a) No, shareholder didn't have right to make application under Section 210 of Companies Act, 2013.
 - (b) Yes, shareholder after passing special resolution can make application to Central government to conduct the investigation under section 210 of Companies Act, 2013.
 - (c) Yes, shareholder can make application without special resolution as company business is not in interest of company and member.
 - (d) No, shareholder even after passing special resolution cannot make application under Section 210 of Companies Act, 2013.

13. Under what circumstances the meeting of the creditors may be dispensed by the NCLT? **(1 Mark)**
- if 70% of the creditors in value agree and confirm to the scheme by way of affidavit
 - if 80% of the creditors in value agree and confirm to the scheme by way of affidavit
 - if 90% of the creditors in value agree and confirm to the scheme by way of affidavit
 - None of the above
14. What is the mandatory period for completion of Corporate Insolvency Resolution Process (CIRP) against a corporate debtor? **(1 Mark)**
- 180 days which includes the time taken in legal proceedings in relation to such resolution process of the corporate debtor.
 - 270 days which includes the time taken in legal proceedings in relation to such resolution process of the corporate debtor.
 - 330 days which includes the time taken in legal proceedings in relation to such resolution process of the corporate debtor.
 - 365 days which includes the time taken in legal proceedings in relation to such resolution process of the corporate debtor.
15. Mr. Raman, a non-resident, has a Special Investment Plan (SIP) with a mutual fund in India. Mr. Raman, due to some financial problems, requested his brother Mr. Raghav who is an Indian resident, to make the payment of few subsequent instalments of SIP on his behalf. You are required to advise Mr. Raghav whether such transaction is permitted considering the provisions of Foreign Exchange Management Act (FEMA), 1999. **(2 Marks)**
- Such transaction is not permitted as it amounts to payment for the credit of non-resident.
 - Such transaction is permitted as Mr. Raghav can enter into such transaction on behalf of his non-resident brother.
 - Such transaction is not permitted as Mr. Raghav cannot enter into such transactions on behalf of his non-resident brother.
 - Such transaction is permitted if Mr. Raghav obtains prior permission of the Reserve Bank of India.
16. An association was holding the certificate of registration making it eligible for acceptance of foreign contribution established for the betterment of poor children. Central Government later cancelled the certificate of the association for violation of the terms and conditions of certificate for being not engaged in chosen activity for the poor children. Such association again applied for the registration. State whether the association is eligible for registration- **(2 Marks)**
- Yes, it can apply freshly at any time
 - No, permanently becomes disqualified
 - yes, after 3 years from the date of cancellation of certificate
 - after reasonable opportunity of being heard, and on warning, same registration will be restored.
17. State which of the following statements are correct with regard to filing of "Caveat" under Section 18C of the SARFAESI Act, 2002: **(1 Mark)**
- If a secured creditor files a caveat against the proposed action of the borrower to file an application with Debts Recovery Tribunal under section 17, the secured creditor has to issue notice of the caveat to the borrower within 7 days from the date of filing the caveat, as per Section 18C of the Act.
 - The validity of the caveat is 60 days from the date of lodging of the caveat.
 - Both the above statements are correct.

- (d) None of the above statements are correct.
18. Shivdeep submitted his claim as an operational creditor to the liquidator of Chiranjeevi Food Products Limited, a company under liquidation. If Shivdeep wants to vary his claim, state the time period within which he can do so after its submission. **(1 Mark)**
- (a) Five days
 (b) Ten days
 (c) Fourteen days
 (d) Fifteen Days

DIVISION B: Descriptive questions (70 Marks)

Question no. 1 is compulsory. Attempt any **four** questions out of the remaining **Five** questions.

1. (a) Decide in the light of the Companies Act, 2013, on the following proposals of loans for consideration before the Honesty Ltd. **(6 Marks)**
- 1) Loan to its director, Mr. A for construction of residential house as a personal loan.
 - 2) Loan to Mr. B, its whole time Director.
 - 3) Loan to X Ltd. in the ordinary course of business and the rate prescribed is not less than bank rate prescribed by the reserve bank.
- (b) Examine the following situations in the light of the relevant provision of the Companies Act, 2013: **(8 Marks)**
- (1) The Board of Director of ABC Ltd. declared interim dividend for the current financial year 2020-2021. The proposal of dividend declaration was accepted at the meeting and dividend was declared. However, due to some reasons, the company failed to pay the dividend to the shareholders within prescribed period. Mr. futuristic, a director on the board of this company, had offer of appointment in other company PQR Ltd. He wishes to take up the post in the appointed company. Discuss on the appointment of Mr. Futuristic in PQR Ltd.
 - (2) Mr. Talented was a director in a holding company and also in its subsidiary company. He was drawing his managerial remuneration from both the companies in his capacity as a director. It was brought to the attention of the company that he cannot draw remuneration from both the companies because of virtue of relationship as a holding and subsidiary company. Discuss on the legality of drawing managerial remuneration by Mr. Talented from both the companies.
2. (a) A group of members holding 380 lakh issued share capital in Zolo Ltd., a listed public company having total issued share capital of 15,000 lakhs as per latest financial statements alleged that company board of director is conducting an act which is beyond the scope of the articles or memorandum of the company without altering the memorandum or articles of the company. They make application to tribunal (NCLT) to restrain the company from doing such an act. With reference to the provision of Companies Act, 2013 ascertain whether the application will be admitted by tribunal (NCLT). **(8 Marks)**
- (b) Milap Limited, a company incorporated in India, has obtained consultancy services from an entity based in France for setting up the software programme in their company. The consideration for such services is required to be paid in foreign currency. The compliance officer of Milap Limited requires your advice regarding threshold limit of remittance that can be made without prior approval of RBI. You as a qualified Chartered Accountant are required to advise the compliance officer considering the provisions of Foreign Exchange Management Act, 1999 and regulations thereunder: **(6 Marks)**

3. (a) XYZ Limited is being wound up by the tribunal. All the assets of the company have been charged to the company's bankers to whom the company owes ₹ 5 crores. The company owes following amounts to others:

- Dues to workers – ₹ 1,25,00,000
- Taxes Payable to Government – ₹ 30,00,000
- Unsecured Creditors – ₹ 60,00,000

You are required to compute with the reference to the provision of the Companies Act, 2013 the amount each kind of creditors is likely to get if the amount released by the official liquidator from the secured assets and available for distribution among creditors is only ₹ 4,00,00,000/-

(8 Marks)

- (b) Mr. 'B' purchased a flat out of the proceeds earned by Drug Trafficking. The flat was attached by the Director, Enforcement Directorate after complying the procedures under Section 5 of the Prevention of Money Laundering Act, 2002. Mr. 'B' got a stay from the High Court for any proceedings under the said Act. The stay was subsequently vacated.

State the relevant provisions of the PMLA, 2002 for computing the period of provisional attachment including extension, if any.

Whether Mr. 'C', son of Mr. 'B' can occupy the flat during the period of provisional attachment?

(6 Marks)

4. (a) Securities and Exchange Board of India (SEBI) has undertaken inspection of books of accounts and records of LR Ltd., a listed public company. Specify the measures which may be taken by SEBI under the Securities and Exchange Board of India Act, 1992 to protect the interest of investors and securities market, on completion of such inquiry.

(8 Marks)

- (b) AWP Limited defaulted in repayment of a term loan taken from a Nationalized Bank against the security created as first charge on its Land & Buildings. The Bank classified the debt from AWP Limited as Non-Performing Asset. The Bank issued Notice pursuant to Section 13 of the SARFAESI Act, 2002 to the Company to discharge its liabilities in full within a period of 60 days from the date of Notice. The Company objected for full settlement and the time limit for settlement. The Bank did not respond to the objection of the Company. In the light of the provisions of the SARFAESI Act, 2002 decide:

- (i) Whether the objection of the Company is valid?
- (ii) Whether the Bank has to respond to the objection of the Company?
- (iii) Whether the Bank has right to enforce the security interest without the intervention of the Court?

(6 Marks)

5. (a) Radix Ltd. is a company registered in Thailand. Although, it has no place of business established in India, yet it is engaged in online business through remote delivery of healthcare services in India. State the legal position as to the nature of the Radix Ltd. as a foreign company in the light of the Companies Act, 2013.

(8 Marks)

- (b) The following particulars relate to Star House (P) Limited which has gone into Corporate Insolvency Resolution Process(CIRP): On the basis of the information, lay down the priority order in which the liquidator shall distribute the proceeds under the Insolvency & Bankruptcy Code, 2016.

| S. No. | Particulars | Amount in (₹) |
|--------|--|---------------|
| 1. | Amount realized from the sale of liquidation of Assets | 7,00,000 |
| 2. | Secured Creditors who has relinquished the security | 2,50,000 |

| | | |
|----|---|----------|
| 3. | Unsecured Financial Creditors. | 2,00,000 |
| 4. | Income Tax Payable within a period of two years preceding the liquidation commencement date. | 25,000 |
| 5. | Cess Payable to State Government within a period of one year preceding the liquidation commencement date. | 10,000 |
| 6. | Fees payable to resolution professional. | 37,500 |
| 7. | Expenses incurred by the resolution professional in running the business of M/s. Star House (P) Limited on Going concern. | 17,500 |
| 8. | Workmen salary payable for a period of thirty months Preceding the liquidation commencement date. The workmen salary is equal per month. | 1,50,000 |
| 9. | Equity Shareholders. | 5,00,000 |

(6 Marks)

6. (a) (i) In the annual general meeting of XYZ Ltd., while discussing on the matter of retirement and reappointment of director Mr. X, allegations of fraud and financial irregularities were levelled against him by some members. This resulted into chaos in the meeting. The situation was normal only after the Chairman declared about initiating an inquiry against the director Mr. X, however, could not be re-appointed in the meeting. The matter was published in the newspapers next day. On the basis of such news, whether the court can take cognizance of the matter and take action against the director on its own?

Justify your answer with reference to the provisions of the Companies Act, 2013. **(4 Marks)**

- (ii) The members of EBX Limited decided to pass a resolution for appointing Mr. S as an Independent director of the company. Draft a specimen resolution to be passed at the said meeting. **(4 Marks)**

- (b) (i) Explain the time limit for completion of the Corporate Insolvency Resolution Process?

(3 Marks)

- (ii) The Adjudicating Authority appointed under the Prevention of Money Laundering Act, 2002 issued an order attaching certain properties of XYZ Limited alleged to be involved in money laundering for a specified period. The company aggrieved by the order of the Adjudicating Authority seeks your advice about the remedy that is available under the Act. Advise explaining the relevant provisions of the Prevention of Money Laundering Act, 2002.

(3 Marks)