

Roll No.

FINAL
GROUP-I PAPER-4
CORPORATE AND
ALLIED LAWS

MAY 2014

Total No. of Questions – 7

Total No. of Printed Pages – 8

Time Allowed – 3 Hours

Maximum Marks – 100

CBP

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Attempt any five questions from the remaining six questions.

Marks

1. (a) Suspecting of bungling the financial resources of the company, the shareholders of Dubious Industries Ltd. led by Mr. X, at the Annual General Meeting of the company held on 30-09-2013 resolved to appoint M/S Sharma & Sharma, the Statutory Auditors of the company to carry out special audit in accordance with the provisions of the Companies Act, 1956. The management of the company refused to co-operate with the statutory auditors in carrying out the special audit. Examine whether the management is justified in their refusal. Advise Mr. X with reference to the relevant provisions of the Companies Act, 1956. **5**
- (b) CBA Ltd. wants to declare dividend in the year 2013-14 though it will not earn any profit this year due to heavy losses. The company has been declaring dividend for the last 5 years. To maintain its reputation the company wants to declare dividend this year too out of accumulated past profits. Explain how the company can achieve the objective to declare dividend. **5**

CBP

P.T.O.

- (c) Mr. AMR was appointed as a sole selling agent of M/S ZYX Ltd. with effect from 1st January, 2009 for a period of five years. Mr. AMR earned his remuneration during the year 2009 to 2011 as mentioned below : 4
- | | | |
|-----------|---|----------|
| Year 2009 | – | 5,00,000 |
| Year 2010 | – | 6,00,000 |
| Year 2011 | – | 7,00,000 |
- From 1st January, 2012, the sole selling agency agreement was terminated by ZYX Ltd. Calculate the amount of compensation payable by the company to Mr. AMR under the provisions of Companies Act, 1956.
- (d) A group of complainants have alleged that Mr. Z, a Member of the Securities and Exchange Board of India (SEBI) has pecuniary interest in some of the cases that came up before the Board and that he misused his position and therefore, he should be removed from his office. The complainants seek your advice. Advise. 6
2. (a) Sweet Tea Limited wants to sell its tea by entering into contract with the following parties : 8
- (1) Tea Bros, a partnership firm in which a director of Sweet Tea Limited is a partner.
 - (2) R & T Private Limited in which one of the director of Sweet Tea Limited is a member.
 - (3) Strong Tea Limited in which one of the directors of Sweet Tea Limited is a director holding 3% of the paid up capital of Strong Tea Limited.
- Advise the steps that should be taken by Sweet Tea Limited taking into account the relevant provisions of the Companies Act, 1956 for entering into contracts in which the directors are interested.

- (b) (i) Mr. OK is a director of VRS Ltd. He intends to construct a residential building for his own use. The cost of construction is estimated at ₹ 1.35 Crores, which Mr. OK proposes to finance partly from his own sources to the tune of ₹ 60 lacs and the balance ₹ 75 lacs from housing loan to be obtained from a housing finance company. For the purpose of obtaining the loan, he has approached the housing finance company which has in principle agreed to grant the loan, but has put a condition. The condition put by the housing finance company is that the Company VRS Ltd. of which Mr. OK is a director should provide the guarantee for repayment of the loan and interest as per the terms of the proposed agreement for granting the loan to Mr. OK. You are required to advise Mr. OK on the matter with reference to the provisions of the Companies Act, 1956. 8
- (ii) Draft a Board Resolution of VRS Ltd. for providing guarantee for ₹ 75 lacs in respect of a loan to be obtained by Mr. OK, a director thereof from a Housing Finance Company for construction of a residential house for his own use.
3. (a) ABC Private Limited was incorporated on 15-09-2013 in the State of Maharashtra by a group of Professional Engineers without any knowledge about the maintenance of the books of account. The company has appointed you as the Chief Accounts Officer at New Delhi where the books of account will be maintained. Keeping the provisions of Section 209 of the Companies Act, 1956, advise the management on 8
- (i) the nature of books to be maintained
- (ii) the period for which the accounts have to be preserved and
- (iii) the steps to be taken if the books of accounts are to be kept in New Delhi.

(4)

CBP

Marks

- (b) The Balance Sheet of Royal Ltd. as at 31-03-2013 disclosed the following details :

(i) Authorised share capital	₹ 400 crores
(ii) Paid up share capital	₹ 150 crores
(iii) Reserves and surplus	₹ 750 crores

The company has issued in the year 2008, Fully Convertible Debentures of ₹ 100 crores which are due for conversion in the year 2013. The company proposes, after the 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.

4. (a) Mr. RK, a director of Excellent Limited has applied for a loan of ₹ 70 lacs for the purpose of financing the education of his son. The company has applied to the Central Government for approval to grant the loan. While the matter is under consideration of the Central Government, the company has lent a sum of ₹ 50 lacs to Mr. RK. Finally, the Central Government has rejected the company's request for the grant of loan and Mr. RK has refunded the amount of ₹ 50 lakhs to the company. The above said facts have been pointed out by the auditors of the company in their audit report and based on that report the Registrar of Companies has issued a show cause notice to the company and its directors. Examine whether the company has contravened any of the provisions of the Companies Act, 1956 and the remedial action to be taken by the company in this regard.

CBP

- (b) A group of minority shareholders of SP Financiers Limited has made a complaint to the Central Government that the persons in charge of the management of the company have been guilty of fraud and negligence causing huge losses to the company and to the detriment of minority shareholders. Examine the powers of the Central Government to redress the grievances of the minority shareholders of the company under the provisions of the Companies Act, 1956. 8
5. (a) Superb Limited went for a public issue of Equity shares (₹ 10 crores) of ₹ 10 each. The shares were subscribed to an extent of 95% of the total issue. The shares of the company were accepted for listing by Bombay Stock Exchange but subsequently the permission was cancelled on certain grounds. On an appeal to the Central Government by the company, the decision of the Stock Exchange was held to be valid. As a result, the application money had become refundable to the allottees. The company, had no prospects of doing any business and there was a complete deadlock among the Directors. Looking at the circumstances, certain creditors filed a petition in the court for winding up of the company on the ground that the company had become commercially insolvent. The shareholders of the company object to the petition of the creditors. Decide giving reasons :
- (i) Whether the objections of the shareholders will sustain and the court can dismiss the petition of creditors for winding up of the company ?
- (ii) State the provisions of the Companies Act, 1956 in this regard.

(6)

CBP

Marks

- (b) Due to financial irregularities, the affairs of MNP Bank Limited have gone from bad to worse and this fact has come to the notice of the Reserve Bank of India as well as Central Government. Examining the provisions of the Banking Regulation Act, 1949, answer the following : **8**
- (i) Powers of RBI to inspect the Bank.
- (ii) Powers of Central Government to give directions in this matter.
6. (a) (i) In the case of a producer company, the auditor is required to report on additional matters apart from the provisions contained in Section 227 of the Companies Act, 1956. State the additional matters on which the auditor has to report in the case of a producer company. **4**
- (ii) State the documents that are required to be delivered by a foreign company at the time of establishment of a place of business in India. State to whom the said documents are to be delivered. **4**
- (b) Mutual Distrust Private Limited has two shareholders namely A and B holding 51% and 49% respectively. Both are working as directors. Due to differences between them, A decides to hold a board meeting on 30th April, 2014 but the same could not be held due to non-co-operation from B and lack of quorum. Advice A about the steps that can be taken under the Companies Act, 1956 to resolve the matter. **8**

CBP

7. Attempt any four :

- (a) Mr. V, a person of Indian origin and resident of USA desires to acquire two immovable properties in India comprising 4
- (i) a residential flat in Mumbai and
 - (ii) a farm house on the outskirts of Mumbai.

Explain the steps he has to take in this matter having regard to the provisions of FEMA, 1999.

- (b) MNO Tyres Limited is in the business of manufacture of automotive tyres for the past one year. To increase its market share, the company has decided to reduce the prices of tyres. The cost structure of the passenger car tyre is as under : 4

- (i) Cost of production ₹ 5,000 per tyre
- (ii) Selling price ₹ 6,000 per tyre

The company started selling tyres @ ₹ 5,200 per tyre and the other tyre manufacturers made a complaint to the Competition Commission of India stating that MNO Tyres Limited is guilty of predatory pricing having the effect of reducing the competition or eliminating the competition. Advise MNO Tyres Limited as to the meaning of predatory pricing and whether the company can be said to have indulged in the said practice having regard to the provisions of the Competition Act, 2002.

- (c) The Board of directors of SUV Limited, a banking company incorporated in India, for the accounting period ended 31-03-2013 transferred 15% of its net profit to its Reserve Fund. Certain shareholders of the company object to the above act of the Board on the ground that it is violative of the provisions of the Banking Regulation Act, 1949. Decide whether the contention of the shareholders is tenable under the Banking Regulation Act, 1949. **4**
- (d) Explain the meaning of the terms “non-performing asset” and “asset reconstruction” used in the SARFAESI Act, 2002. **4**
- (e) Explain the meaning of the term “Money Laundering”. Z, a known smuggler was caught in transfer of funds illegally exporting narcotic drugs from India to some countries in Africa. State the maximum punishment that can be awarded to him under Prevention of Money Laundering Act, 2002. **4**
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