

CA Final - Law - June 2009 -
Roll No. :
Question Paper

Total No. of Questions—9]

[Total No. of Printed Pages—7

Time Allowed—3 Hours

Maximum Marks—100

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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 who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Question Nos. 1, 2 and 3 are compulsory.

Answer any **four** from the rest of the questions.

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

- | | |
|--|---|
| ✓(a) The Board of Directors of XYZ Ltd. filled up a casual vacancy caused by the death of Mr. P by appointing Mr. C as a director on 3rd April, 2009. Unfortunately Mr. C expired on 15th May, 2009 after working about 40 days as a director. The Board now wishes to fill up the casual vacancy by appointing Mrs. C in the forthcoming meeting of the Board. Advise the Board in this regard. | 5 |
| (b) M/s Goyanka & Company, which is a member of a recognised stock exchange desire to buy and sell shares of Crossroads Company Limited on their own count as well as on behalf of investors. Advise M/s Goyanka & Company whether there are any restrictions for dealing in securities on their own count under the provisions of the Securities Contracts (Regulation) Act, 1956. | 5 |
| ✓(c) The Mewar Rural Financial Corporation, Udaipur, established under a special statute issued 5 years bonds to public directly and not through any Stock Exchange. Decide whether the said act of the Mewar Rural Financial Corporation is in violation of the provisions of the Securities Contracts (Regulation) Act, 1956. | 5 |

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✓2. Answer any **two** of the following :

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

- (i) L a famous playback singer of India wants to perform a musical night in Paris for Indians residing there. Foreign exchange to the extent of US D 20,000 is required for this purpose.
- (ii) M requires US D 5,000 to make payment related to 'call back services' of telephone.
- (iii) N wants to pursue a course in business management in New York. He wants to draw US D 50,000 towards expenses for studying abroad.
- (iv) R wants to draw US D 20,000 to make donation to a charitable trust situated in South Korea.

(b) Mr. Raman is a software engineer of Armtex Ltd. The company sent him to Japan to develop a software programme there on deputation for 2 years. He earned a sum of US \$ 3,000 as a honorarium there. On his return to India he wants to hold this foreign currency with him. Whether Mr. Raman will be allowed to keep the foreign currency with him ?

✓(c) The Central Government on the recommendation of selection committee appoints Mr. RKP aged 56 years as Member of the Competition Commission of India to be effective from 1st January, 2009. State with reference to the provisions of Competition Act, 2002 the term for which he will be appointed and whether he can be reappointed as such and also if he resigns after two years whether the vacancy can be filled up by the Chairman of the commission.

You are further required to mention the composition of the selection committee on whose recommendation the Central Government appoints Chairman and other members of the Competition Commission of India.

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

(a) Point out the circumstances whereunder the following powers may be exercised by the Securities and Exchange Board of India :

- (i) Prohibiting a company from issuing or publishing any document or advertisement soliciting money from public for the issue of securities.

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(ii) Pass cease and desist order in relation to any listed company.

What remedies are available to the companies against such orders under the Securities and Exchange Board of India Act, 1992.

✓(b) The Balance Sheet of Get Well Soon Ltd. as at 31.3.2009 disclosed the following details :

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

(c) The word "May" doesn't mean "Shall". Yet the word 'May' under certain circumstances mean "Shall". Discuss the statement in the context of interpretation of statutes and the importance of distinction between mandatory and directory provisions.

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4. ✓(a) The following information is available from the audited Balance Sheet of Makewell Ltd. :

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	Rs. in lakhs
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

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

- ✓(b) Sunrise Limited is a subsidiary company of Hotline Limited. The financial year of Sunrise Limited is 1st July to 30th June, whereas the financial year of Hotline Limited is from 1st April to 31st March every year. To maintain uniformity and consolidation of annual accounts the Board of Directors of Hotline Limited decided that the accounting year of Sunrise Limited for the year 1st July, 2007 to 30th June, 2008 be extended from present 12 months to 21 months i.e. 1st July, 2007 to 31st March, 2009.

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Mention, in the light of the provisions of the Companies Act, 1956, the steps to be taken by the Hotline Limited in this regard.

5. (a) The issued, subscribed and paid-up share capital of ABC 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 the 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.

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State with details whether the above petition under Section 397 and 398 is maintainable. Will your answer be different, if preference shareholders have subsequently withdrawn their consent ?

- (b) Mr. Shrikant is working as Chief Accountant in Black Marbles Limited. The Board of Directors of the said company propose to charge him with the duty of ensuring compliance with the provisions of the Companies Act, 1956 so that books of account can be properly maintained and Balance Sheet and Profit and Loss Account can be prepared as per the provisions of law.

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Draft a "Board Resolution" for the said purpose.

Also point out the consequences in case of default, when such a resolution is passed.

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6. (a) As per their Articles of Association the maximum number of Directors of each of the following companies is 9 :

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- (i) Goodheart Company Limited.
- (ii) Frontline Trading Private Limited
- (iii) Hindustan Zink Limited (a Government company under Section 617 of the Companies Act, 1956).

The Board of Directors of the aforesaid companies propose to increase the number of Directors to 15. Advise, whether under the provisions of the Companies Act, 1956, the Board of Directors can do so ?

- (b) Mr. Ramnathan is a Director of Fraudulent Ltd., Honest Ltd. and Regular Ltd. For the financial year ended on 31st March, 2008 two irregularities were discovered against Fraudulent Ltd. Fraudulent Ltd. did not file its annual accounts for the year ended 31.3.2008 and failed to pay interest on loans taken from a financial institution for the last three years.

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On 1st June, 2009 Mr. Ramnathan is proposed to be appointed as additional director of Goodwill Ltd., which company has sought a declaration from Mr. Ramnathan and he also submitted the declaration stating that the disqualification specified in Section 274 of the Companies Act, 1956 is not attracted in his case. Decide under the provisions of the Companies Act :

- (i) Whether the declaration submitted by Mr. Ramnathan to Goodwill Ltd. is in order ?
- (ii) Whether Mr. Ramnathan can continue as a Director in Honest Ltd. and Regular Ltd. ?

7. (a) The promoters of Balaji Producer Company Ltd., proposed to be registered under Section 581C of the Companies Act, 1956 desire to have the following information :

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- (i) Can the company be registered with seven individuals ?
- (ii) What is the minimum number of directors required to be appointed ?
- (iii) The time limit within which the first annual general meeting of the company should be held after incorporation.

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P. T. O.

- (iv) Whether the funds of the company can be given as loans to any of the directors of the company ?

Advise the promoters on the abovesaid issues with relevant details.

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- (b) AB Ltd. fails to raise its paid up capital upto Rs. 5 lakhs so as to comply with the provisions of the Companies (Amendment) Act, 2000. The Registrar of companies New Delhi struck off the name of the company from the Register in 2003. Mr Mercy a creditor of the company having information that there are assets available with the company, seeks your advice on the following issues :
- (i) Can the name of the company be restored ?
 - (ii) If the answer of the above question is in the affirmative, who can apply for restoration and who is the competent authority for considering the restoration of name ?
 - (iii) Is there any time limit for making application for restoration and if so how many years ?
8. (a) A mortgage was created over the property of a public company. The loan was advanced by the son 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 :
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- (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 ?
- (b) Decide in the light of the provisions of the Companies Act, 1956 the validity and extent of powers of Board of Directors and the procedure to be complied with in the following matters :
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- (i) Delegation of power to the Managing Director of the company to invest surplus funds of the company in the shares of some companies.

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(ii) Donation of Rs. 5 lakhs to a hospital established exclusively for the benefit of employees and a donation of Rs. 5 lakhs to a charitable trust registered under Section 12A and exempted under Section 80G of the Income-tax Act, 1961.

(iii) Donation of Rs. 5 lakhs to a political party registered with the appropriate authority.

9. (a) The shareholders and creditors of Wagonbound Company Limited, in meetings convened for approval of a scheme of reconstruction of the company, passed resolutions. The scheme of reconstruction provided for the following :

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(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 shareholders 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.

(b) High Value Builders Ltd. is financially insolvent and is unable to pay its debts. Mr. X an unsecured creditor has to recover a sum of Rs. 5 lakhs from the company. Advise Mr. X about the steps and the procedure to be followed to put the company into compulsory winding up, as an alternative for the recovery of his dues.

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