

Paper 2: Business law, Ethics and Communication (Old Course)

1. Rajesh has formed a 'One Person Company (OPC)' with his wife Roopali as nominee. For the last two years his wife Roopali is suffering from terminal illness and due to this hard fact he wants to change her as nominee. He has a trusted and experienced friend Ramnivas who could be made nominee or his (Rajesh) son Rakshak who is of seventeen years of age. Whom should he nominate as nominee in place of his wife?
 - (a) Since blood relation can only be appointed as nominee in case of OPC, Rajesh needs to appoint his son Rakshak.
 - (b) Rajesh can appoint his friend Ramnivas as nominee in his OPC
 - (c) Roopali is not agreeable to the proposal of Rajesh and hence, Rajesh cannot change her as the nominee
 - (d) Either Rakshak or Mr. Ramnivas can be appointed as nominee
2. Abha formed a 'One Person Company (OPC)' on 15-10-2017 with her husband Akhil as nominee and Rs. 10 lacs as Authorised and paid-up share capital. In the month of April 2018 she got in touch with a foreigner and is expecting to receive a substantial export order by May 2018 whose final delivery must be completed by December 2018. She is contemplating to convert her OPC into a private limited company before she receives the export order in May 2018.
 - (a) Since Abha is the sole member of OPC she is having full discretion to voluntarily convert it into a private limited company any time after 15-10-2017.
 - (b) Abha can voluntarily convert her OPC into a private limited company only after the expiry of first financial year by which the accounts are closed (i.e. after 31-3-2018 without any restriction.)
 - (c) Abha can voluntarily convert her OPC into a private limited company only after she delivers duly audited first financial statements and Annual Return to the concerned Registrar of Companies by due date and without making payment of any additional fee.
 - (d) Abha can voluntarily convert her OPC into a private limited company only after expiry of two years from 15-10-2017 (i.e. on 15-10-2019 or thereafter).
3. Arun along with his wife Arunima is running successfully a trading business. His friend Akash has suggested him to form a 'One Person Company (OPC)' whose striking feature is 'limited liability'. Arun is all convinced to get incorporated OPC but he is in a dilemma as to how to depict the name of such OPC in the Memorandum. Select the best option for him.
 - (a) Aru-&-Aru (One Person Company) Trading Private Limited
 - (b) One Person Company - Aru-&-Aru Trading & Co.
 - (c) Aru-&-Aru Trading (One Person Company)
 - (d) Aru-&-Aru Trading Private Limited (One Person Company)
4. Anupam got incorporated 'One Person Company' with his sister Alpana as the nominee and about three years have passed satisfactorily. From time to time Anupam does a number of charitable works and is attached with three NGOs undertaking such assignments. In the meantime his business under his OPC has also flourished. Now he is

contemplating to convert the OPC either as a Section 8 company (i.e. formation of companies with charitable objects) or as a private or public company. Select the best option for him.

- (a) Since OPC belongs to Anupam, he has full discretion to convert the OPC either as a Section 8 company or as a private or public company
 - (b) Since OPC was formed as a private company, the only option available with Anupam is to get it converted into a private limited company. Moreover, there is specific prohibition on converting OPC into a public limited company
 - (c) There is specific prohibition on converting OPC into a Section 8 company; otherwise it can be converted into a private or public company without any hindrance.
 - (d) Since Anupam does a lot of charitable works there is no prohibition if he converts his OPC into a Section 8 company (companies formed with charitable objects).
5. Ravi is the owner of a grocery store. In March 2018, he got the idea of forming a 'One Person Company' and convinced his sister Ruchika, an Indian citizen who resides in London but visits India from time to time, to become nominee in his OPC. In the year 2017, Ruchika first came to India on 10th January and left for London on 26th February. Thereafter, she again visited India on 7th June and remained here till 10th October and boarded an evening flight for London on the same day. From then onward she did not visit India in the year 2017 but on 2nd January 2018 she came to India for a short duration and left for London on 14th February, 2018. Is it possible for Ravi to appoint Ruchika as nominee?
- (a) Ruchika can be appointed as nominee by Ravi because she is a natural person, an Indian citizen and resided in India for more than 90 days during the year 2017.
 - (b) Ruchika can be appointed as nominee by Ravi because she is a natural person, an Indian citizen and resided in India for more than 182 days during the years 2017 and 2018 i.e. prior to March 2018 when Ravi contemplated to form his OPC.
 - (c) Ravi cannot appoint Ruchika as nominee in his OPC because she did not reside in India for 182 days or more during the year 2017 though she is a natural person and also an Indian citizen.
 - (d) Since Ravi is the sole member of his OPC who will look after all its affairs and the appointment of nominee is just a formality, a visit to India during 2017 for any number of days would make Ruchika eligible to be appointed as nominee.
6. Arshi, is the sole member of his OPC and he has appointed Vishal (his dear friend) as his nominee. Now, Vishal is leaving India permanently and has set up his own business in Italy. Due, to this fact, he has withdrawing his consent to continue as nominee in the said OPC.
- (a) Vishal cannot withdraw his consent to act as a nominee of the OPC
 - (b) Only Arshi has a right to remove Vishal as a nominee
 - (c) Vishal can withdraw his consent to act as a nominee of the OPC by giving proper notice
 - (d) Vishal cannot withdraw his consent only when he is disabled but not due to the reason that he has set up his own business.

7. Vivek is in trading business whereby he supplies handmade gloves and socks to many charitable trusts who supports the elderly people. Vivek now wants to expand his business and wants to reap the benefits of company form of organisation by opening his business as an OPC registered under section 8 of the Companies Act, 2013. Advise Vivek:
- (a) Vivek cannot form an OPC as he is in trading business
 - (b) Vivek cannot form an OPC to be registered under section 8 of the Companies Act, 2013
 - (c) Vivek can form an OPC to be registered under section 8 of the Companies Act, 2013
 - (d) Vivek can form an OPC as a private company and then convert it into a section 8 company
8. A Company limited by shares can issue equity shares with differential voting rights. Which of the following is not a necessary condition to be fulfilled before issue of such shares:
- (a) The articles of association of the company shall authorize issue of shares with differential rights;
 - (b) The issue of shares shall be authorized by an ordinary resolution passed at a general meeting of the shareholders;
 - (c) The issue of shares shall be authorized by special resolution passed at a general meeting of the shareholders;
 - (d) The company shall have consistent track record of distributable profits for the last three years;
9. When an unlisted public company issues shares at a premium, amount of the premium received on those shares is transferred to a "securities premium account". For which purpose amount lying in securities premium account shall be used?
- (a) In writing off preliminary expenses of the company;
 - (b) In writing off pre-incorporation expenses of the company;
 - (c) For purchase of immovable assets;
 - (d) For paying managerial remuneration;
10. A Private Company can issue preference shares which are liable to be redeemed within particular period, only if articles authorizes such issue. Within how much such preference shares have to be redeemed?
- (a) Within a period not exceeding 10 years;
 - (b) Within a period not exceeding 15 years;
 - (c) Within a period not exceeding 20 years;
 - (d) Within a period not exceeding 25 years;
11. Annual general meeting need to be called by giving 21 days' clear notice. However it can be called on a shorter notice if members entitled to vote in that meeting give their consent in writing or by electronic mode. In such case, how many members have to give their consents?

- (a) 75% of members entitled;
 - (b) 90% of members entitled;
 - (c) 91% of members entitled;
 - (d) 95% of members entitled;
12. In Annual General Meeting, which one of the follow will be treated as special business?
- (a) declaration of any dividend;
 - (b) fixing of the remuneration of the auditors;
 - (c) appointment of directors in place of those retiring;
 - (d) regularization of Director's Appointment;
13. A, B, C, D, E, F, G want to incorporate a public limited company. However, G wants his private limited company to be its member instead of himself. Following this proposition of G, D also wants his registered partnership firm to be its member instead of himself.
- (a) Both G and D are required to sign the Memorandum of newly formed company in their individual capacity and not through their concerns.
 - (b) Private Limited company of G can be the subscriber to the Memorandum of newly formed company but D has to sign the Memorandum in his individual capacity.
 - (c) Both G and D have to obtain the consent of other five persons in writing before their private limited company and partnership firm subscribe to the Memorandum.
 - (d) Private Limited company of G cannot be the subscriber to the Memorandum of newly formed company but registered partnership firm of D can be the subscriber to the Memorandum.

Answer (b); [Hint: A private limited company is an artificial juristic person having separate legal entity whereas a registered partnership firm is not; and therefore, private limited company can be member of another incorporated entity.]

14. Ravi and Ragini have formed a Section 8 company; date of incorporation being 18.02.2018 and they being the directors and also the shareholders. During June, 2018 it transpired that two unsuitable articles were required to be altered for smooth functioning of the company. Advise.
- (a) Since articles regulate the internal management of the company, both Ravi and Ragini being directors and shareholders are themselves capable of altering the articles.
 - (b) In case of Section 8 company, articles can be altered only if the company shows profits consecutively for two years.
 - (c) In case of Section 8 company, prior approval of the Central Government is required to be obtained before its articles are altered.
 - (d) In case of Section 8 company, at least one year must elapse from the date of its incorporation before its articles are altered but there is no need to obtain prior permission of the Central Government.
15. Amar made an application, his wife Abhilasha being other proposed subscriber and got reserved a name for incorporation of a private limited company but the Registrar of

Companies, Delhi and Haryana, much before the incorporation, found that the name was applied by furnishing wrong information.

- (a) The reserved name shall be cancelled by the ROC because the name was applied by furnishing wrong information and Amar who made the application shall be liable to a penalty up to Rs. one lac.
 - (b) The reserved name, after seeking explanation from Amar and after he pays a penalty of Rs. one lac shall be allotted by the ROC and the company shall be incorporated by this name.
 - (c) The reserved name shall be cancelled by the ROC but Amar shall not be liable to pay any penalty because cancellation of name in itself is a penalty.
 - (d) Besides cancellation of the reserved name Amar and Abhilasha shall be debarred from making an application for reservation of name for one year from the date on which cancellation letter was issued by the ROC.
16. Roma along with her six friends has got incorporated Roma Trading Ltd. in May 2017. She kept the paid-up share capital at Rs. 30 lacs. Further, in April 2018, she noticed that in the last financial year, the turnover of the company was well below Rs. 2 crores. Advise whether the company can be treated as a 'small company'.
- (a) Roma Trading Ltd. is definitely a 'small company' since its paid-up capital is much below Rs. 50 lacs and also its turnover has not exceeded the threshold limit of Rs. 2 crores.
 - (b) The concept of 'small company' is applicable only in case of a private limited company/OPC and therefore, despite meeting the criteria of 'small company' it being a public limited company cannot enjoy benefits of 'small company'.
 - (c) Unlike a private limited company/OPC which automatically becomes a 'small company' as soon as it meets the criteria of 'small company', Roma Trading Ltd. being a public limited company has to maintain the norms applicable to a 'small company' continuously for two years so that, thereafter, it is treated as a 'small company'.
 - (d) If all the shareholders of Roma Trading Ltd. give an undertaking to the ROC stating that they will not let the paid share capital and also turnover exceed the limits applicable to a 'small company' in the next two years, then it can be treated as a 'small company'.
17. H Ltd. is the holding company of S Pvt. Ltd. As per the last profit and loss account for the year ending 31st March, 2018 of S Ltd. its turnover was to the extent of Rs. 1.50 crores; and paid up share capital was Rs. 40 lacs. Since S Pvt. Ltd., as per the turnover and paid up share capital norms, qualifies for the status of a 'small company' it wants to be categorized as 'small company'. Advise.
- (a) If H Ltd. converts itself into a private limited company, S Pvt Ltd. being its subsidiary can be categorized as a 'small company' since it meets turnover and paid up share capital norms applicable to a 'small company'.
 - (b) So long as S Pvt. Ltd. meets the turnover and paid up share capital norms applicable to a 'small company' (which at present is the case), it shall be categorized as a 'small company'.

- (c) S Pvt. Ltd. cannot be categorized as a 'small company' because it is the subsidiary of another company.
 - (d) Categorisation of S Pvt. Ltd. is possible only if H Ltd., the holding company, also meets the turnover and paid up share capital norms applicable to a 'small company'.
18. Abhilasha and Amrita have incorporated a 'not for profit' private limited company which is registered under Section 8 of the Companies Act, 2013. One of their friends has informed them that their company can be categorized as a 'small company' because as per the last profit and loss account for the year ending 31st March, 2018, its turnover was less than Rs. 2.00 crores and its paid up share capital was less than Rs. fifty lacs. Advise.
- (a) A section 8 company, which meets the criteria of 'turnover' and 'paid-up share capital' in the last financial year, can avail the status of 'small company' only if it acquires at least 5% stake in another 'small company' within the ensuing financial year.
 - (b) If the acquisition of minimum 5% stake in another 'small company' materializes in the second financial year (*and not in the ensuing financial year*) after meeting the criteria of 'turnover' and 'paid-up share capital' then with the written permission of concerned ROC, it can acquire the status of 'small company'.
 - (c) The status of 'small company' cannot be bestowed upon a 'not for profit' company which is registered under Section 8 of the Companies Act, 2013.
 - (d) A section 8 company, if incorporated as a private limited company (*and not as public limited company*) can avail the status of 'small company' with the permission of concerned ROC, after it meets the criteria of 'turnover' and 'paid-up share capital'.
19. Sukant and Sukriti, architects by profession and residents of Janakpuri, Delhi, have formed a company by the name Suk Architects and Consultants Private Limited, whose registered office is situated in a somewhat less inhibited market area of Gurugram, Haryana. They do not consider it to be a safe place. Therefore, to be on safer side they have kept all the documents and information relating to incorporation of their company (that were originally filed with Registrar for registration of Company) at Sukant's residence. Is their action justified?
- (a) It is their prerogative to keep all the documents and information relating to incorporation of their company at a place which they think is quite safe – even if it is Janakpuri, Delhi.
 - (b) Considering registered office to be unsafe, they can keep all the documents and information relating to incorporation of their company at any place in Haryana only where Gurugram is situated but for this purpose they must seek permission of the ROC.
 - (c) If they do not want to seek permission of ROC, considering registered office to be unsafe, they can keep all the documents and information relating to incorporation of their company at any place which should be within three kms. of their registered office but in Gurugram only.
 - (d) They have to keep all the documents and information relating to incorporation of their company at the registered office, only.

20. Savita and her husband Sukesh have got incorporated Savi Trading Company Private Limited with authorised and paid up share capital of Rs. 40 lacs. As per its last profit and loss account relating to the FY 2017-18, the turnover was Rs. one crore and seventy lacs. Accordingly, their company is considered as a 'small company' in the FY 2018-19. They think that the status of 'small company', once bestowed, will continue till next 10 financial years. Advise.
- Their contention that the status of 'small company', once bestowed, will continue till next 10 financial years is absolutely correct.
 - The status of 'small company', once bestowed, can continue till next 7 financial years only.
 - The status of 'small company' will keep on changing from time to time, for it is not permanent for any particular period.
 - If ROC permits, the status of 'small company' can continue maximum for three years including the year in which it is attained.

Solution

1	(b)	2	(d)	3	(d)	4	(c)
5	(c)	6	(c)	7	(b)	8	(c)
9	(a)	10	(c)	11	(d)	12	(d)
13	(b)	14	(c)	15	(a)	16	(b)
17	(c)	18	(c)	19	(d)	20	(c)