

Test Series: May, 2020

MOCK TEST PAPER 1  
INTERMEDIATE (NEW): GROUP – I  
PAPER – 2: CORPORATE AND OTHER LAWS

*Division A is compulsory*

*In Division B, Question No.1 is compulsory*

*Attempt any Three questions out of the remaining Four questions*

Time Allowed – 3 Hours

Maximum Marks – 100

**Division A (30 Marks)**

1. Vishal Crockery Limited was incorporated on 24<sup>th</sup> September, 2010 under the jurisdiction of Registrar of Companies, Rajasthan with its registered office located in Jaipur and its manufacturing units spread out in Mumbai, Kanpur, Delhi and Ludhiana. Under the dynamic leadership of Hans Rajpal, the Chairman and Managing Director (CMD) of the company, it could easily be ascertained that the company had reached the new heights of success. The directors of the company numbered eight including CMD of which two were the independent directors.

The turnover of the company for the Financial Year 2018-2019 was Rs. 750.00crores – a whopping rise of more than 20% from the previous year and net profit stood at a prestigious figure of Rs. 6.60crores – also increased by Rs. 1.80 crores compared to the net profit of previous year. The company had a net worth of Rs. 250.00 crores; and it was noticed that the net worth had also registered a northern trend by more than 15%. The authorised and paid-up share capital of the company was Rs. 8.00 crores. Keeping in view the applicability of forming a CSR Committee for the current financial year 2019-20, a CSR Committee was formed with four directors as members of which one was the independent member. The Committee was, among others, given the responsibility to formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII.

The company plans to diversify its business by adding another segment to manufacture steel utensils and therefore, is desirous to shift its registered office to Mumbai from the present one at Jaipur which will help the company in easing out the new business. Another strategically important segment which the company tapped earlier and now wishes to engage itself on a large scale relates to manufacturing of stationery items.

The company hopes that with the shifting of registered office to Mumbai, it shall be able to target international markets to export its quality products. As on date, the export turnover of the company is not that much significant. The directors, Janardan Mittal (Finance) and Ratish Jain (Marketing), however, have in-depth knowledge of export markets, particularly those existing in UK and Singapore, where they can place their products successfully and achieve laurels for the company in terms of wealth maximisation.

During the current Financial Year 2019-20, the company under the CSR activities provided ample support for improvement of infrastructure in schools established at Mumbai, Kanpur, Delhi and Ludhiana. Not only this, the company contributed towards establishment of Digital Smart Classroom, Libraries and computer labs in these cities. The company also deployed mobile medical unit equipped with medical facilities and qualified doctors. In addition to this, a large number of public health and sanitation activities had been initiated under Swachh Bharat Abhiyan. The total amount spent on these activities was, till date, almost equal to the minimum spendable amount and it is hoped

that as the current Financial Year 2019-20 approaches its end, the total spending on CSR activities will certainly exceed the budgeted figure.

**Multiple Choice Questions (2 Marks each \* 3= Total 6 Marks)**

- (A) Which of the following criterion prompted Vishal Crockery Limited to mandatorily form a Corporate Social Responsibility (CSR) Committee for the current financial year?
- (i) The net profit had increased to Rs. 6.60crores and it was more by Rs. 1.80 crores in comparison to previous year's net profit.
  - (ii) The turnover was Rs. 750.00 crores which was increased by more than 20% as compared to the previous year.
  - (iii) The net worth was Rs. 250.00 crores which when compared to the previous year had registered an increase by more than 15%.
  - (iv) The paid-up share capital was Rs. 8.00 crores.
- (B) What is the minimum amount (in percentage form) that Vishal Crockery Limited is required to spend during the Financial Year 2019-20 on the CSR activities after it formed a Corporate Social Responsibility Committee.
- (i) Minimum 2% of the average net profits made during the two immediately preceding financial years.
  - (ii) Minimum 2% of the average net profitsmade during the three immediately preceding financial years.
  - (iii) Minimum 2.5% of the average net profitsmade during the two immediately preceding financial years.
  - (iv) Minimum 2.5% of the average net profits made during the three immediately preceding financial years.
- (C) In the given case scenario, Vishal Crockery Limited decided to undertake CSR activities at its own. In case, it had decided to engage an external Section 8 company for undertaking its CSR activities and such charitable company is not established by Vishal nor it is established by the Central/State Government or by any entity established under an Act of Parliament or a State Legislature, then what should be the established track which this Section 8 company should have in undertaking similar programs or projects which Vishal Crockery Limited wants it to accomplish?
- (i) Track record of minimum one year
  - (ii) Track record of minimum two years
  - (iii) Track record of minimum three years
  - (iv) None of the above
2. Vivek Shah is the Chief Finance Officer (CFO) and Sachin Bhatt is the Company Secretary of Jitendra Iron Works Private Ltd (JIWPL), in Manipal, Karnataka. JIWPL is an integrated set up of foundries and machine shops that add value by machining more than 75% of the castings manufactured to fully finished condition. JIWPL is one of the largest jobbing foundries producing grey iron castings required for automobile, farm equipment sector and diesel engines industry. JIWPL serves customers globally. The turnover of JIWPL is about Rs. 600 Crores, including export turnover of about Rs. 250 Crores.

During the year 2019, JIWPL planned expansion to enhance its production capacity to meet the increasing demand from its customers, by importing fully automatic plant and equipment from Germany for the unit at Manipal. The means of finance of the expansion project:-

- (a) JIWPL received an amount of Rs 25 Crores from Malini Shetty, wife of one of the promoter director of JIWPL, Mahesh Shetty. Mahesh Shetty wanted to know from Sachin Bhatt any compliance needed from the perspective of acceptance of Deposits.
- (b) The Board and the CFO also approached the main banker of the company viz., Bank of Baroda. The Bank after proper credit analysis, sanctioned an amount of Rs. 50 Crores for meeting the working capital needs of the expansion project, which included interchangeable limits of cash credit, foreign and inland bills for negotiation and acceptance. The security cover was floating charge on the book debts, inventory and other current assets of the expansion project in Manipal of JIWPL.

The CFO and the CS together coordinated with the legal department of the Bank on procedures relating to creation of security and registration of charges.

The registered office of JIWPL is located in Manipal. Out of the company's 180 members, 20 members, who are entered in the Register of Members reside in Mangaluru, a nearby city, requested the company for some reasons to maintain the Register of Members in the company's liaison office in Mangaluru, instead of Manipal henceforth.

**Multiple Choice Questions (2 Marks each\*3= Total 6 Marks)**

- (A) JIWPL received an amount of Rs 25 Crores from Malini Shetty, wife of one of the promoter directors Mahesh Shetty of JIWPL. Mahesh Shetty wanted to know from Sachin Bhatt any compliance needed from the perspective of acceptance of deposits. The CS has to ensure -:
  - (i) That the particulars of amount received are immediately entered in the register of deposits maintained in such manner and in such format as prescribed;
  - (ii) To issue immediately a circular to the members of the company with a statement of deposits accepted as on date with the names of each depositor, amount(s) received as on date, the due date(s) and the liability(ies) on the due date(s) in respect of each depositor
  - (iii) That a declaration is to be obtained to the effect that the amount given is not sourced from borrowed funds or accepting loans or deposits from others and disclose the details in the Board's Report;
  - (iv) To file the particulars of deposits received within 30 days from the date of its receipt with the Registrar.
- (B) JIWPL was also sanctioned an additional amount of Rs. 50 Crores for meeting the working capital needs of the expansion project., which included interchangeable limits of cash credit, foreign and Inland bills for negotiation and acceptance. The security cover was floating charge on the book debts, Inventory and other current assets of the expansion project of JIWPL. A floating Charge, in general is created by way of :
  - (i) Passing a board resolution
  - (ii) Signing and acknowledging the Credit Sanction letter
  - (iii) Mortgage
  - (iv) Hypothecation or lien.
- (C) The registered office of JIWPL is located in Manipal. Out of the company's 180 Members, 20 members, who are entered in the register of members (ROM) reside in Mangaluru, a nearby city. These members requested the company for some reasons to maintain the Register of members (ROM) in the company's liaison office in Mangaluru, instead of Manipal henceforth.
  - (i) The ROM shall be maintained only at the registered office in Manipal and maintaining in a place other than the registered office is not permitted under the Companies Act 2013 and the relevant Rules there under.

- (ii) By passing a Special Resolution in a General Meeting, the ROM can be maintained in Mangaluru.  
(iii) The Board of Directors by passing a Board Resolution in one of its meetings, may direct the Company Secretary to maintain the ROM in Mangaluru.  
(iv) If more than 1/3rd of the members, whose names are entered in the ROM request for the change, then only the ROM can be maintained at Mangaluru after passing a Special Resolution in a General Meeting.
3. For appointing an auditor other than the retiring auditor,  
(a) Special notice is required.  
(b) Ordinary notice is required.  
(c) Neither ordinary nor special notice is required.  
(d) Approval of Central Government is required. **(1 Mark)**
4. Which one of the following requires ordinary resolution?  
(a) to change the name of the company  
(b) to alter the articles of association  
(c) to reduce the share capital  
(d) to declare dividends. **(1 Mark)**
5. Swastik Private Limited passed a Special Resolution to change its name to Swastik Darshan Private Limited on 30<sup>th</sup> May, 2019. Relevant MCA filing was done on due time and then Company got its new stationery printed on 1<sup>st</sup> July, 2019. However there was a delay in issue of Certificate and Company received new certificate on 20<sup>th</sup> August, 2019 which was issued on 10<sup>th</sup> August, 2019. Company wants to enter into a lease agreement for new premise. When they can do such agreement in new name of the Company?  
(a) 30<sup>th</sup> May, 2019  
(b) 1<sup>st</sup> July, 2019  
(c) 20<sup>th</sup> August, 2019  
(d) 10<sup>th</sup> August, 2019 **(1 Mark)**
6. Extra Limited is a growing Company and requires additional funds for expansion from time to time. They are following the same process for making an offer to public and then issue those shares. This is very time and energy consuming for them. Kindly advise them if there is any way out.  
(a) During first offer they shall file prospectus with a validity on one year, so subsequent offer issued during the period of validity of that prospectus, no further prospectus is required;  
(b) During first offer they shall file prospectus with a validity on two years, so subsequent offer issued during the period of validity of that prospectus, no further prospectus is required;  
(c) During first offer they shall file shelf prospectus with a validity on one year, so subsequent offer issued during the period of validity of that prospectus, no further prospectus is required;  
(d) During first offer they shall file shelf prospectus with a validity on two years, so subsequent offer issued during the period of validity of that prospectus, no further prospectus is required. **(1 Mark)**
7. Which of the following is not an Immovable Property?  
(a) Land

- (b) Building  
(c) Timber  
(d) Machinery permanently attached to the land **(1 Mark)**
8. As per the Negotiable Instruments Act, 1881, when the day on which a promissory note or bill of exchange is at maturity is a public holiday, the instrument shall be deemed to be due on the.....  
(a) said public holiday  
(b) 5 days succeeding public holiday  
(c) next succeeding business day  
(d) next preceding business day **(1 Mark)**
9. Rule of Beneficial construction is also known as—  
(a) Purposive construction  
(b) Mischieve Rule  
(c) Heydons's Rule  
(d) All of the Above **(1 Mark)**
10. Formal legal document which creates or confirms a right or record a fact is a—  
(a) Document  
(b) Deed  
(c) Statute  
(d) Instrument **(1 Mark)**
11. A negotiable instrument drawn in favor of a minor is  
(a) Void  
(b) void but enforceable  
(c) Valid  
(d) none of the above **(1 Mark)**
12. The preamble is most important in any legislation, it:  
(a) Provides definitions in the Act.  
(b) Expresses scope, object and purpose of the Act.  
(c) Provides summary of the entire Act.  
(d) None of the above. **(1 Mark)**
13. In Roopali Marketing Company Private Limited (Authorised capital 50,000 shares of Rs. 10 each and paid-up share capital of Rs. 4,50,000), 1000 shares are jointly held by Abeer and Abheek; another 800 shares are jointly held by Seema and Srividya; and another 1200 are jointly held by Ramesh, Raksha and Rajneesh. Further, 42,000 shares are held by 193 individual persons in their individual capacity. Is it possible for the company to induct more persons?  
(a) The company is unable to induct more persons since it already has two hundred individual members.  
(b) The company can induct four more persons as members.

- (c) The company can induct another 20 persons (i.e. 10% of two hundred individual members) after seeking permission from the concerned ROC.
- (d) If the company does not want to seek permission of the concerned ROC, it can induct only 10 more persons (i.e. 5% of two hundred individual members). **(2 Marks)**
14. Atul contracts to indemnify Neha against the consequences of any proceedings which Chirag may take against Neha in respect of a sum of Rs. 15000/- advanced by Chirag to Neha. Now, Neha who is called upon to pay the sum of money to Chirag but she fails to do so. Now, as per the provisions of the Indian Contract Act, 1872, advise the future course of action to be taken by Chirag.
- (a) Chirag can recover the amount only from Neha
- (b) Chirag can recover the full amount from Atul
- (c) Chirag cannot recover the amount from Atul
- (d) Chirag can recover at least 10% of the total amount from Neha **(2 Marks)**
15. Mr. Vishal parks his car at a parking lot, locks it, and keeps the keys with himself. Which of the following statement is correct in this regard?
- (a) This is a case of bailment
- (b) The parking people has possession of the car of Mr. Vishal
- (c) The parking people has custody of car of Mr. Vishal
- (d) This is the case of mortgage **(2 Marks)**
16. M drew a cheque amounting to Rs. 2 lakh payable to N and subsequently delivered to him. After receipt of cheque N endorsed the same to C but kept it in his safe locker. After sometime, N died, and P found the cheque in N's safe locker. State the nature of the Instrument as amounting to endorsement under the Negotiable Instrument Act, 1881.
- (a) Yes its an endorsement, as P becomes the holder of the cheque that he found in the N's safe locker.
- (b) No, its not an endorsement, as P does not become the holder of the cheque
- (c) Yes, its an endorsement, as P was a ultimate custodian of the cheque
- (d) No, its not an endorsement, as N endorsed it to C and not to the P. **(2 Marks)**

**Division B (70 Marks)**

1. (a) Aptech Technology Limited (listed on Stock Exchange) was incorporated on 1<sup>st</sup> October, 2019 with a paid-up share capital of Rs. 200 crores. Within this small time of 4 months, it has earned huge profits and has topped the charts for its high employee friendly environment. The company wants to issue sweat equity to its employees. A friend of the CEO of the company has told him that they cannot issue sweat equity shares as 2 years have not elapsed since the time company has commenced its business. The CEO of the company has approached you to advise them about the essential conditions to be fulfilled before the issue of sweat equity shares especially since their company is just a few months old. **(6 Marks)**
- (b) Cadila Ltd. incurred loss in business upto current quarter of financial year 2018-19. The company has declared dividend at the rate of 12%, 15% and 18% respectively in the immediately preceding three years. In spite of the loss, the Board of Directors of the company have decided to

declare interim dividend @ 15% for the current financial year. Examine the decision of Cadila Ltd. stating the provisions of declaration of interim dividend under the Companies Act, 2013.

**(6 Marks)**

- (c) Explaining the provisions of the Indian Contract Act, 1872, answer the following:
- (i) A contracts with B for a fixed price to construct a house for B within a stipulated time. B would supply the necessary material to be used in the construction. C guarantees A's performance of the contract. B does not supply the material as per the agreement. Is C discharged from his liability?
  - (ii) C, the holder of an overdue bill of exchange drawn by A as surety for B, and accepted by B, contracts with X to give time to B. Is A discharged from his liability? **(4 Marks)**
- (d) Manoj owes money to Umesh. Therefore, he makes a promissory note for the amount in favour of Umesh, for safety of transmission he cuts the note in half and posts one half to Umesh. He then changes his mind and calls upon Umesh to return the half of the note which he had sent. Umesh requires Manoj to send the other half of the promissory note. Decide how rights of the parties are to be adjusted in reference to the Negotiable Instruments Act, 1881. **(3 Marks)**
2. (a) ABC Limited has on its Board, four Directors viz. W, X, Y and Z. In addition, the company has Mr. D as the Managing Director. The company also has a full time Company Secretary, Mr. C, on its rolls. The financial statements of the company for the year ended 31 March, 2019 were authenticated by two of the directors, Mr. X and Mr. Y under their signatures.
- Referring to the provisions of the Companies Act, 2013:
- (i) Examine the validity of the authentication of the Balance Sheet and Statement of Profit & Loss and the Board's Report.
  - (ii) What would be your answer in case the company is a One Person Company (OPC) and has only one Director, who has authenticated the Balance Sheet and Statement of Profit & Loss and the Board's Report? **(6 Marks)**
- (b) Examine the validity of the following decision of the Board of Directors with reference of the provisions of the Companies Act, 2013:
- In an Annual General Meeting of a company having share capital, 80 members present in person or by proxy holding more than 1/10<sup>th</sup> of the total voting power, demanded for poll. The chairman of the meeting rejected the request on the ground that only the members present in person can demand for poll. **(4 Marks)**
- (c) Mrs. A delivered her old silver jewellery to Mr. Y a Goldsmith, for the purpose of making new a silver bowl out of it. Every evening she used to receive the unfinished good (silver bowl) to put it into box kept at Mr. Y's Shop. She kept the key of that box with herself. One night, the silver bowl was stolen from that box. Whether the possession of the goods (actual or constructive) delivered, constitute contract of bailment or not? **(4 Marks)**
- (d) What are the circumstances under which a bill of exchange can be dishonored by non-acceptance? Also, explain the consequences if a cheque gets dishonored for insufficiency of funds in the account. **(3 Marks)**
3. (a) Sudarshan Exports Ltd. was dealing in export of rubber to specified foreign countries. The company was willing to purchase rubber trees in Andhra Pradesh. The prospectus issued by the company contained some important extracts of the expert report and number of trees in Andhra

Pradesh. The report was found untrue. Mr. Alok purchased the shares of Sudarshan Exports Ltd. on the basis of the expert report published in the prospectus. Will Mr. Alok have any remedy against the company? State also the circumstances where an expert is not liable under the Companies Act, 2013. **(5 Marks)**

(b) Examine the following situations in the light of the Companies Act, 2013:

(i) Mr. A, a Chartered Accountant, has been appointed as an auditor of X Ltd. in the Annual General Meeting of the company held in September 2019, in which he accepted the assignment. Subsequently, in January 2020 he joined as a partner in the consultancy firm where Mr. B is also a partner. Mr. B is also working as a Finance Executive of X Ltd.

(ii) "Mr. Vivek", a practicing Chartered Accountant, is holding securities of Data Ltd. having face value of Rs. 1000/-. Whether Mr. Vivek is qualified for appointment as an Auditor of Data Ltd.? **(5 Marks)**

(c) Mr. V draws a cheque of Rs. 11,000 and gives to Mr. B by way of gift. State with reason whether-

(i) Mr. B is a holder in due course as per the Negotiable Instrument Act, 1881?

(ii) Mr. B is entitled to receive the amount of Rs. 11,000 from the bank? **(4 Marks)**

(d) 'The meaning of a word is to be judged by the company it keeps'. Explain the concept of 'Noscitur A Sociis'. **(3 Marks)**

4. (a) The directors of Smart Computers limited borrowed a sum of money from Mr. Tridev. The company's articles provided that the directors may borrow on bonds such sums as may, from time to time, be authorized by resolution passed at a general meeting of the company. The shareholders claimed that there had been no such resolution authorizing the loan, and therefore, it was taken without their authority and the company is not bound to repay the loan to Tridev. In the light of the contention of shareholders, decide whether the company is bound to pay the loan. **(6 Marks)**

(b) Discuss the following situations in the light of 'deposit provisions' as contained in the Companies Act, 2013 and the *Companies (Acceptance of Deposits) Rules, 2014*, as amended from time to time.

(i) Polestar Traders Limited received a loan of Rs. 30.00 lacs from Rachna who is one of its directors. Advise whether it is a deposit or not.

(ii) Is it in order for the Diamond Housing Finance Limited to accept and renew deposits from the public from time to time? **(4 Marks)**

(c) Komal Ltd. declares a dividend for its shareholders in its Annual General Meeting held on 27<sup>th</sup> September, 2019. Referring to provisions of the General Clauses Act, 1897 and Companies Act, 2013, advice:

(i) The dates during which Komal Ltd. is required to pay the dividend?

(ii) The dates during which Komal Ltd. is required to transfer the unpaid or unclaimed dividend to unpaid dividend account? **(4 Marks)**

(d) How will you interpret the definitions in a statute, if the following words are used in a statute?

(i) Means, (ii) Includes

Give one illustration for each of the above from statutes you are familiar with. **(3 Marks)**



5. (a) Mr. A was having 500 equity shares of Open Sky Aircrafts Limited. Mr. B acquired these shares of the company from Mr. A but the signature of Mr. A, the transferor on the transfer deed was forged. The company registered the shares in the name of Mr. B by issuing share certificate. Mr. B sold 100 equity shares to Mr. C on the basis of share certificate issued by Open Sky Aircrafts Ltd. Mr. B and Mr. C are not having the knowledge of forgery. State the rights of Mr. A, Mr. B and Mr. C under the Companies Act, 2013. **(5 Marks)**
- (b) Briefly explain the provisions enforced by the Companies (Amendment) Act, 2019 when a charge created before 02-11-2018 [before the commencement of Companies (Amendment) Act, 2019] is not registered within the prescribed period of thirty days as provided in Section 77 (1) of the Companies Act, 2013. **(5 Marks)**
- (c) Comment on the following 'Principal is not always bound by the acts of a sub-agent'. **(4 Marks)**
- (d) What is the meaning of service by post as per provisions of the General Clauses Act, 1897? **(3 Marks)**