

Mock Test Paper - Series I: November, 2024

Date of Paper: 19th November, 2024

Time of Paper: 2 P.M. to 5 P.M.

INTERMEDIATE COURSE: GROUP – I
PAPER – 2: CORPORATE AND OTHER LAWS

Time Allowed – 3 Hours

Maximum Marks – 100

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory

Case Scenario 1

Prakash Limited and Vasudha Private Limited (VPL) were incorporated in January 1999 by Mr. Vicky Tripathi and his family members. Both the companies are engaged in the business of manufacturing machineries used in agricultural sector. Mr. Vicky Tripathi and his younger brother Vinay Tripathi actively participate in the daily operations of both the companies. Vasudha Private Limited is wholly owned by Tripathi family, while Tripathi family has a majority stake of 51% in Prakash Limited.

Due to the poor economic conditions in the agriculture sector and shifting of the farmers' focus to more advanced farming techniques, the sales of Prakash Limited is dipping and its bottom line has been in the red for the last couple of years. The unabsorbed loss of Prakash Limited for the current financial year is ₹ 9.8 crore. Prakash Limited didn't pay any dividends during the last four years. Prakash Limited has accumulated profit in the form of free reserves of ₹ 180 crore whereas paid-up share capital is 918 crore as per its latest audited financial statement and loss of ₹ 9.8 crore has not been deducted from such amount of free reserves. Since pressure from shareholders of the free float is mounting, management at Prakash Limited decided to pay dividend this year out of accumulated profit. Finally, the dividend was declared on 31st August 2024. Some of the dividend remained unpaid as on 30th September 2024, on account of operation of law; this was transferred to unpaid Dividend Account and a statement containing only the names of such beneficiaries was hosted on the website of the company on 9th November 2024.

Vasudha Private Limited is a mid-sized unlisted entity, with few branches abroad and is not required to appoint an independent director under section 149(4). During the immediately preceding F.Y., its net worth was ₹ 280 crore, turnover was ₹ 590

crore and net profit was ₹ 45.8 crore. The profits and other information for the immediately preceding three years are given below:

| Particulars | Year ended 31.3.2024 (₹ in crore) | Year ended 31.3.2023 (₹ in crore) | Year ended 31.3.2022 (₹ in crore) |
|---|---|---|---|
| Net Profit for the year as per section 198 (in accordance with applicable provisions) | 41.6 | 42.9 | 28 |

The Board of Directors of Vasudha Private Limited is not clear whether they have to compulsorily form a CSR committee. In order to avoid adverse legal consequences, Vasudha Private Limited constituted a CSR committee comprising of two (2) non-executive directors and one (1) executive director who was appointed as chairperson of the committee.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5, of **2 marks each**) given herein under:

1. In case of Prakash Limited, regarding the unpaid dividend, which of the following statements is correct?
 - (a) Prakash Limited is guilty, of non-payment of dividend, because some of the dividends remain unpaid even after 30 days of declaration.
 - (b) Prakash Limited is guilty, because the list of beneficiaries of unpaid dividend is hosted on the website after 30 days from the date it falls in the category of unpaid dividend.
 - (c) Prakash Limited is guilty, because the list of beneficiaries does not contain the latest known address of beneficiaries and the amount unpaid.
 - (d) Prakash Limited is not guilty, because it has full-filled all the provisions of law pertaining to unpaid dividend.

2. During the current year, is Vasudha Private Limited required to constitute CSR committee under the provisions of the Companies Act, 2013?
 - (a) No, because it is a private company
 - (b) No, because it is an unlisted company and it has net-worth less than ₹ 500 crore
 - (c) Yes, because despite being unlisted company its turnover is above ₹ 500 crore
 - (d) Yes, because the company meets the threshold criteria having net profits exceeding ₹5 crore in the immediately preceding financial year

3. What is the implication of the fact that Prakash Limited has not paid dividends for the last four years while having free reserves?
 - (a) The company is in violation of the Companies Act, 2013, for not declaring dividends.
 - (b) The shareholders can legally challenge the management for not utilizing free reserves for dividends.
 - (c) There is no legal obligation to declare dividends even if the company has free reserves.
 - (d) The company must now use all of its free reserves to pay dividends to satisfy shareholder demands.
4. Considering the legal provisions regarding the constitution of CSR committee and the one constituted by Vasudha Private Limited, state which of following the statements hold truth?
 - (a) Constitution of the committee is invalid because it doesn't consist of an independent director.
 - (b) Constitution of the committee is invalid because its chairperson is an executive director.
 - (c) Constitution of the committee is valid because it depends purely upon the discretion of management.
 - (d) Constitution of the committee is valid because company is not required to appoint an independent director.
5. What is the minimum amount to be spent by Vasudha Private Limited on CSR activities for F.Y. 2024-25?
 - (a) ₹ 89.06 Lakh
 - (b) ₹ 78.20 Lakh
 - (c) ₹ 75.00 Lakh
 - (d) ₹ 73.80 Lakh

Case Scenario 2

Rahul and Meenakshi, two young entrepreneurs, founded “Educom Innovators LLP” under the Limited Liability Partnership Act, 2008, with a focus on providing digital education solutions. Rahul brought technical expertise, while Meenakshi managed the business operations. According to the LLP Agreement, both contributed equally and shared profits equally. After two years of growth, they decided to admit Anshul, an industry expert, as a partner to expand their reach. Anshul agreed to contribute additional capital and bring industry contacts. However, shortly after joining, Anshul discovered that certain key compliance filings, including Form 11 (Annual Return) and Form 8 (Statement of Accounts and Solvency), were pending. Concerned, Anshul wanted to understand his liability and insisted that the LLP immediately address the compliance issues. Meanwhile, Rahul proposed to amend the LLP Agreement to reflect Anshul’s new profit-sharing ratio and allocate specific decision-making powers to him. As they worked through these matters, they consulted a legal advisor to

understand how the Limited Liability Partnership Act, 2008, impacted their responsibilities, liabilities, and compliance obligations.

On the basis of above facts and by applying applicable provisions of the Limited Liability Partnership Act, 2008 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 6-8, of **2 marks each**) given herein under:

6. When Anshul joined Educom Innovators LLP, he discovered that key compliance filings, including the Annual Return and Statement of Accounts and Solvency, were pending. What is Anshul's liability as a newly admitted partner concerning these past compliance lapses?
 - (a) Anshul has no liability for past compliance lapses since he was not a partner when they occurred.
 - (b) Anshul shares equal liability for past compliance lapses because he is now a partner in the LLP.
 - (c) Anshul is only liable if the LLP Agreement specifically assigns responsibility to him for compliance.
 - (d) Anshul's liability for past compliance is limited to his capital contribution in the LLP.

7. In light of Anshul's concern about the pending compliance filings, which of the following best describes the responsibilities of the partners in Educom Innovators LLP regarding compliance with the LLP Act, 2008?
 - (a) Only the designated partners are responsible for ensuring compliance with filing obligations under the LLP Act.
 - (b) All partners, including new partners like Anshul, are equally responsible for compliance, regardless of the LLP Agreement.
 - (c) Compliance responsibilities can only be assigned to one partner, who will bear full accountability.
 - (d) The legal advisor is responsible for handling compliance, and the partners have no liability once they hire legal counsel.

8. Suppose in the given scenario, Educom Innovators LLP fails to file the Statement of Account and Solvency or Annual Return for any five consecutive financial years, which of the following could occur?
 - (a) Educom Innovators LLP may be wound up the Tribunal
 - (b) Takeover of Educom Innovators LLP by the persons appointed by the Registrar of Companies
 - (c) Revocation of all partner rights until filings are complete
 - (d) The losses for these 5 consecutive years shall be shared equally by all the partners irrespective of the profit sharing ratio as decided in the LLP agreement.

Case Scenario 3

In 2024, New Limited, a company specializing in international trade, needed to send an important notice to one of its clients, Mr. A, regarding a contractual amendment. According to the company's internal regulations and the contract terms, the notice had to be served by post.

On April 15, 2024, the company's legal department prepared the notice and addressed it to Mr. A at his registered address. The notice was properly addressed, prepaid, and sent via registered post with acknowledgment due to ensure the highest level of confirmation for delivery.

A few days later, on April 20, 2024, the notice was returned with a stamp indicating that it was "not claimed" by Mr. A. The legal department recorded the return of the notice and noted the endorsement.

The company's legal advisor referred to past case laws for similar scenarios to ensure that the notice was considered legally served under section 27 of the General Clauses Act, 1897. They reviewed the following precedents:

United Commercial Bank v. Bhim Sain Makhija: It was noted that merely sending a notice by registered post without the acknowledgment due did not provide sufficient legal protection for proving service.

Jagdish Singh v. Natthu Singh: This case demonstrated that if a notice sent by registered post was returned with a refusal endorsement, it was considered served.

Smt. Vandana Gulati v. Gurmeet Singh alias Mangal Singh: It was established that if a notice sent by registered post to a proper address was returned with an endorsement like "not claimed", it was deemed served unless proven otherwise.

On the basis of above facts and by applying applicable provisions of the General Clauses Act, 1897 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 9-11 of **2 marks each**) given herein under:

9. According to section 27 of the General Clauses Act, 1897, what three conditions must be fulfilled for a service by post to be deemed effective?
 - (a) Properly addressed, Pre-paid, and Posting by ordinary post
 - (b) Properly addressed, Pre-paid, and Posting by registered post
 - (c) Properly addressed, Pre-paid, and Sending by courier
 - (d) Properly addressed, Pre-paid, and Hand delivery
10. In the case of *United Commercial Bank v. Bhim Sain Makhija*, why was the presumption of service under registered post found to be insufficient?
 - (a) Because the notice was sent by ordinary post
 - (b) Because the notice was sent by registered post but not with acknowledgment due
 - (c) Because the address was incorrect
 - (d) Because the recipient did not respond

11. What does the case of *Jagdish Singh v. Natthu Singh* demonstrate about the service of notice?
- (a) Notice sent by registered post without return endorsement is invalid
 - (b) Notice sent by registered post and returned with refusal endorsement is deemed served
 - (c) Notice sent by ordinary post is deemed served if not returned
 - (d) Notice served by hand delivery is always valid

Independent case scenarios

12. ABC Private Limited is a project engineering, procurement and construction company. The company has bagged a contract from the Government of State of Kerala for construction of Water Dam. The company has involved a project consultancy firm situated in Australia for preparing techno-economic feasibility report to enable it to start construction work of dam. The company had paid USD 7,000,000 to vendor of Australia.

The company also availed the services of Software Company situated in Denmark for the migration of its accounting software from SAP to Oracle for which the company had paid USD 2,000,000 to the software company.

Considering the provisions of Foreign Exchange Management Act, 1999, which of the below mentioned statement is correct:

- (a) The company can make payment of USD 7,000,000 and USD 2,000,000 without any approval.
 - (b) The company can make payment of USD 7,000,000 without any approval and USD 2,000,000 after obtaining prior approval of the Reserve Bank of India (RBI).
 - (c) The company can make payment of USD 7,000,000 and USD 2,000,000 after obtaining prior approval of RBI.
 - (d) The company can make payment of USD 7,000,000 after obtaining prior approval of RBI and USD 2,000,000 without any approval. **(2 Marks)**
13. Mr. Narain Srinivas had enrolled himself for management course of three years with IOL, Mumbai. Out of three years, two years of educational course would be provided at the campus of IOL, Mumbai and one year of educational course would be provided at University of Auckland under student exchange program. Mr. Narain Srinivas is required to pay tuition fee of ₹10 lakh directly to IOL, Mumbai for two years course and USD 200,000 to University of Auckland.

Mr. Narain had left India on 20th August 2022 to complete his degree from University of Auckland. In the last month of final year of the course, he got an offer from one of the reputed company situated in Auckland and had accepted the offer and he decided to work there. On 1st September 2023, Mr. Narain had visited India for 30 days to meet his family and on 1st October 2023 had left India to carry on his employment.

Considering the provisions of Foreign Exchange Management Act, 1999, which of the below mentioned options correctly determined the residential status of Mr. Narain Srinivas:

- (a) Mr. Narain Srinivas to be treated as resident in India for Financial Year (FY) 2023-2024 and FY 2024-2025.
- (b) Mr. Narain Srinivas to be treated as resident in India for FY 2022-2023 and FY 2023-2024.
- (c) Mr. Narain Srinivas to be treated as non-resident for FY 2023-2024 and FY 2024-2025 as he left India for higher studies.
- (d) Mr. Narain Srinivas to be treated as resident in India for FY 2023-2024 since he stays in India for more than 182 days and non-resident for FY 2024-2025. **(2 Marks)**

14. Green Tree Limited is planning to issue debentures to the public and, as per the legal requirements, must appoint a debenture trustee before making an offer. The company is considering several individuals for this role:

- 1. Mr. Sharma, who owns a small number of shares in Green Tree Limited as an investor.
- 2. Ms. Kapoor, who previously lent ₹ 5,000 to Green Tree Limited and is currently a lender.
- 3. Mr. Verma, who has provided a personal guarantee to ensure the repayment of the debentures issued by Green Tree Limited.

Based on the provisions of the Companies Act, 2013 and relevant rules, who among the following is eligible to be appointed as a Debenture Trustee for Green Tree Limited?

- (a) Only Mr. Sharma.
- (b) Only Ms. Kapoor
- (c) Only Mr. Verma
- (d) None of Mr. Sharma, Ms. Kapoor or Mr. Verma are eligible to be appointed as Debenture trustee of Green Tree Limited. **(2 Marks)**

15. Best Limited initially created a charge in favor of LKJ Bank for a financial facility. This charge was duly registered. A few months later, LKJ Bank enhanced the credit facility by an additional ₹ 40 crore. However, due to an oversight, Best Limited failed to register the modification to the original charge with the Registrar of Companies. The company has now realized this error and is concerned about the potential impact on its records and compliance.

As per the provisions of the Companies Act, 2013, what steps should Best Limited take to correct the situation regarding the unregistered modification of the charge?

- (a) Ignore the oversight since the original charge was registered.
- (b) Re-register only the original charge with the updated facility amount.

- (c) File an application with the Central Government for rectification of the Register of Charges.
- (d) Contact LKJ Bank to withdraw the enhanced facility until the registration is completed. **(2 Marks)**

PART – II Descriptive Questions (70 Marks)

Question No.1 is compulsory.

*Attempt any **Four** questions out of the remaining **Five** questions.*

1. (a) Alpha Limited (listed on Stock Exchange) was incorporated on 1st October, 2019 with a paid-up share capital of ₹ 200 crore. 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 5 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? **(5 Marks)**
- (b) Examine the following situations in the light of the Companies Act, 2013:
 - (i) Mr. Prem, a Chartered Accountant, has been appointed as an auditor of A Limited in the Annual General Meeting of the company held in September 2023, in which he accepted the assignment. Subsequently, in January 2024 he joined as a partner in the consultancy firm where Mr. Ajay is also a partner. Mr. Ajay is also working as a Finance Executive of A Limited.
 - (ii) Mr. Tom, a practicing Chartered Accountant, holds securities in B Limited with a face value of ₹ 1,00,000. Considering this, can Mr. Tom be appointed as the auditor of B Limited, or does his holding disqualify him from the role? **(5 Marks)**
- (c) Referring to the provisions of the Foreign Exchange Management Act, 1999, state the kind of approval required for the following transactions:
 - (i) A requires U.S. \$ 5,000 for remittance towards hiring charges of transponders.
 - (ii) B requires U.S. \$ 2,000 for payment related to call back services of telephones. **(4 Marks)**
2. (a) Mr. Romit is an employee of PQR Trading Private Limited. As per his contract of employment, his annual salary is ₹ 5,00,000. Mr. Romit paid to the company ₹ 5,30,000 in the nature of non-interest bearing security deposit. Referring to the provisions of the Companies Act, 2013, decide whether this amount received from Mr. Romit will be considered as deposit as per rule 2(1)(c)? **(5 Marks)**

- (b) MNO Limited are finalising its financial statements and found that the value of one of its properties has increased. The company came across certain other transactions also and got confused as to what should be included as 'free reserves'.
- The company has approached you to define to them the meaning of the term "free reserves" for dividend distribution as per the provisions of the Companies Act, 2013. **(5 Marks)**
- (c) Explain the following with reference to the provisions of the General Clauses Act, 1897:
- (i) Movable Property
- (ii) Oath **(4 Marks)**
3. (a) Explain the provisions of the Companies Act, 2013- who can get a licence to operate as a section 8 company (non profit organization)? **(5 Marks)**
- (b) Verma Limited has Equity Share Capital of 20,000 shares @ ₹10 each. The Company has received a requisition from Mr. Jai and Mr. Narayan each holding 3,000 equity shares to call an Extraordinary General Meeting to remove Managing Director of the company who has been found to be involved in some malpractices. The company failed to call the said meeting. The requisitionists desires to call the meeting by themselves to pass the resolution to remove the Managing Director. Explain the validity of such resolution passed in the said meeting referring the provisions of the Companies Act, 2013. **(5 Marks)**
- (c) Does an explanation added to a section widen the ambit of a section? **(4 Marks)**
4. (a) Anoj Limited declared a final dividend to its shareholders at the Annual General Meeting on 1st August, 2024. As per the decision, the dividend payment was to be made within the stipulated 30-day period. However, due to internal financial constraints, the company failed to pay the declared dividend and did not dispatch the dividend warrants to the shareholders within the required timeframe. The default continued until 15th October, 2024, leading to shareholder complaints.
- In light of this scenario, what specific punishments and liabilities could the company and the directors face due to this failure to pay the declared dividend within the 30-day period? Give your answer as per the provisions of the Companies Act, 2013. **(5 Marks)**
- (b) Define the term 'Financial Year' as per the provisions of the Limited Liability Partnership Act, 2008. **(5 Marks)**
- (c) What is the effect of proviso? Does it qualify the main provisions of the enactment? Explain it with reference to Interpretation of Statutes. **(4 Marks)**

5. (a) Kishore, Kanshik, Yuvan and Bhora were partners in ABC & Associates LLP. Yuvan resigned from the firm effective from 11th November, 2024 but this was not informed to the Registrar of Companies by the Limited Liability Partnership or Yuvan. Whether Yuvan will still be liable for the loss of firm of the transactions entered after 11th November, 2024? Give your answer as per the provisions of the Limited Liability Partnership Act, 2008. **(5 Marks)**
- (b) The auditor of ABC Limited (not a government company) has resigned on 31st December, 2023, while the Financial year of the company ends on 31st March, 2024. Explain how such an auditor shall be appointed, as per the provisions of the Companies Act, 2013. **(5 Marks)**
- (c) What do you understand by the term 'Good Faith'. Explain as per the provisions of the General Clauses Act, 1897. **(4 Marks)**
6. (a) Examine the validity of the following decision of the Board of Directors with reference to 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 1/10th 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. **(5 Marks)**

OR

- (a) ABC Limited served a notice of General Meeting upon its members. The notice stated that a resolution to increase the share capital of the company would be considered at such meeting. Raj, a shareholder of the company complained that the amount of the proposed increase was not specified in the notice. Is the notice valid? **(5 Marks)**
- (b) Explain the provisions of the Companies Act, 2013 [read along with the Companies (Registration of Foreign Companies) Rules, 2014] in respect of 'Audit of accounts of foreign company'. **(5 Marks)**
- (c) Explain the meaning of term 'Current Account transactions' as defined under the Foreign Exchange Management Act, 1999. **(4 Marks)**