Mock Test Paper - Series II: March, 2025

Date of Paper: 28th March, 2025

Time of Paper: 10 A.M. to 1 P.M.

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. **(c)**

2. **(b)**

3. **(b)**

4. **(d)**

5. **(c)**

6. **(d)**

7. **(a)**

8. **(a)**

9. **(d)**

10. **(b)**

11. **(c)**

12. **(b)**

13. **(c)**

14. **(b)**

15. **(c)**

ANSWERS OF PART – II DESCRIPTIVE QUESTIONS

1. **(a)** The redemption of preference shares is governed by Section 55(2) of the Companies Act, 2013, which outlines specific conditions for redemption and payment of premium on redemption, if any. In the given case, the company can redeem the preference shares out of the following sources:

- Out of profits that would otherwise be available for dividend distribution.
- From the proceeds of a fresh issue of shares, specifically made for the purpose of redemption.

Since the company has retained earnings of ₹ 3 crore and free reserves of ₹ 2 crore, it can opt for redemption from these sources. Alternatively, it can issue new equity shares to raise funds for redemption.

Where such shares are proposed to be redeemed out of the profits of the company, there the sum to be redeemed, shall be transferred to a reserve, called Capital Redemption Reserve (CRR). The Capital Redemption Reserve (CRR) is a mandatory reserve that must be created when preference shares are redeemed using profits or free reserves. The amount to be transferred to CRR should be equal to the nominal value of the shares redeemed.

Accordingly, if the company redeems the shares using retained earnings and free reserves, it must transfer ₹ 5 crore (equal to the nominal value of shares) to the CRR account.

However, if the company issues fresh equity shares to fund the redemption, it is not required to create a CRR since the redemption is backed by new capital inflow. Once created, the CRR is treated with the same sanctity as paid-up share capital.

Hence in the present case, the company has two options, firstly if it redeems shares using profits and reserves, it must transfer ₹5 crore to CRR and secondly if it issues fresh equity shares, it does not need to create CRR.

(b) Section 2(35) of the Companies Act, 2013, defines the term "dividend" as any distribution of profits by a company to its shareholders, whether in cash or in kind, out of free reserves available for the purpose.

The above statement implies that shareholders do not have an inherent or guaranteed right to receive dividends from a company.

The decision to declare dividends lies with the board of directors, subject to shareholder approval and legal provisions under the Companies Act, 2013. The board of directors has the authority to recommend dividends. If they believe distributing dividends is not in the best interest of the company, they may choose not to declare them, even if the company has sufficient profits. Shareholders cannot force the company to declare dividends.

A company can declare dividends only out of:

a. Current year's profits after providing for depreciation.

b. Previous years profits transferred to reserves.

c. Money provided by the government (in case of guaranteed companies).

Before declaring a dividend, the company must set aside a specified percentage of profits in reserves if required.

Shareholders can approve the dividend recommended by the board at the Annual General Meeting (AGM), but they cannot demand a higher dividend.

The board may declare an interim dividend before the final accounts are prepared if they find it appropriate. If dividends remain unpaid for 30 days, the company must transfer them to a separate Unpaid Dividend Account.

Thereby, the distribution of dividends is subject to multiple considerations, including the company's profitability, legal compliance, and the board's discretion. The Companies Act, 2013, ensures that dividends are declared in a financially responsible manner, protecting both the company and its investors. Since shareholders cannot demand dividends as a matter of right, it is evident that dividends are not an absolute right but a discretionary benefit provided when the company deems it appropriate.

Validity of the Argument:

As per the stated facts, Mr. Arju argued that as a shareholder, he had an absolute right to receive dividends. He believed that since the company was in profitable state, dividends should be mandatorily distributed. His expectation of dividends was based on his investment, but the law does not guarantee an absolute right to dividends. The board has the authority to withhold dividends if it deems reinvestment necessary for the company's long-term growth. Therefore, while shareholders have a reasonable expectation of returns, they do not possess an unconditional entitlement to dividends.

Therefore, the argument of Mr. Arju is invalid in the light of the legal provision given in section 123 of the Companies Act, 2013.

(c) (1) No, said transaction cannot take place being invalid in nature. As per the Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000, the person resident outside India is prohibited from making investments in India in any form, in any company, or partnership firm or proprietary concern or any entity whether incorporated or not which is engaged or proposes to engage in agricultural. Therefore, John cannot buy an agricultural land in India.

(2) Yes the given statement or act of a NRI is valid under Schedule II(e) of the Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000. According to which deposits between a resident and a non-resident are permitted. So, NRI can open NRE (Non-Resident External) or FCNR (Foreign Currency Non-Resident) deposit accounts in India, which allow foreign currency deposits.

2. **(a)** Under normal circumstances, companies must provide shareholders with a statutory notice period before conducting an AGM. However, as per Section 101 of the Companies Act, 2013, an AGM can be convened on shorter notice if a specific percentage of shareholders approve it. In this case, the approval is determined by the number of shareholders rather than the number of shares they hold.

Conditions for Holding an AGM on Short Notice:

- An AGM may be conducted on shorter notice only if at least 95% of the members entitled to vote consent in writing or through electronic means.
- Unlike other general meetings (such as an EGM), where both the number of members and their shareholding percentage are considered, AGMs strictly require 95% approval from shareholders, irrespective of the number of shares they own.

Hence, this provision ensures that an AGM or other general meetings can be held on only when a majority of shareholders agree, thereby preventing any unfair advantage to a small group of shareholders or the board of directors. It strikes a balance and flexibility to deal with urgent company matters as well as to protect the shareholder rights.

Thus, in the case of an AGM, the argument of larger shareholders having more influence is invalid, as the Companies Act prioritizes shareholder consensus over shareholding percentage for short-notice approvals.

(b) **Sweat equity shares** are the shares that are issued by a company to its employees or directors at a discount or for consideration, other than cash. These shares are given as a reward for their contribution to the company's growth, such as providing intellectual property, technical expertise, or other valuable services. The holders of sweat equity shares shall rank pari-passu with other equity shareholders.

The issuance of sweat equity shares is regulated under Section 54 of the Companies Act, 2013, along with the Companies (Share Capital and Debentures) Rules, 2014.

Maximum Limit: To prevent excessive dilution of ownership, the law imposes certain limits on the amount of sweat equity shares a company can issue. As per Sub-rule 4 of the Companies (Share Capital and Debentures) Rules, 2014, a company can issue sweat equity shares within the following limits:

1. Annual Limit:

   - The company can issue sweat equity shares up to the higher of the 15% of the existing paid-up equity share capital, or Shares worth ₹ 5 crore.

2. Overall Limit: At any point in time, the total sweat equity shares issued (including all previous issues) cannot exceed 25% of the total paid-up equity share capital of the company.

In the present case the paid-up share capital of the company is ₹ 40 crore. The company has previously issued sweat equity shares worth ₹ 8 crore and now plans to issue ₹ 7 crore more this year. So according to annual limit imposed, 15% of ₹ 40 crore is ₹ 6 crore. The fixed limit is ₹ 5 crore. So considering the higher value in the current financial year, company can issue up to ₹6 crore in sweat equity shares.

Secondly, as per the overall limit imposed to issue sweat equity shares is 25% of Paid-Up Capital. So 25% of ₹ 40 crore is ₹ 10 crore. Previously the company issued sweat equity shares worth ₹ 8 crore. Since the company has already issued ₹ 8 crore worth of sweat equity shares, it cannot issue more than ₹ 2 crore under the 25% overall limit.

However, according to the annual limit, the company can issue shares worth ₹ 6 crore, but can issue further more upto ₹ 2 crore in sweat equity shares while staying within overall legal limits.

Yes, proposal to issue an additional ₹ 7 crore this year exceed the limits. Hence if the company wants to issue more sweat equity shares, it will have to increase its paid-up equity share capital to expand the permissible limit.

(c) As per Section 3 of the Indian Evidence Act, 1872, a document refers to any matter that is expressed or described upon a substance using letters, figures, or marks with the intention of recording information. Similarly, Section 3(18) of the General Clauses Act, 1897, states that a document includes any material on which information is written, expressed, or described through various means.

A document generally consists of four key elements:

1. Matter – The content or subject recorded in the document.

2. Record – The process of fixing or storing the matter on a particular medium.

3. Substance – The physical medium on which the information is recorded (paper, digital file, stone engraving, etc.).

4. Means – The method used to record the information, such as letters, numbers, symbols, or figures.

So a contract agreement between two businesses is a document because it contains matter (terms and conditions of the agreement). It is recorded in writing on a substance (paper or electronic document). It is written using letters and symbols to communicate between the parties.

A CCTV recording of an incident is a document. Even though it is not written on paper, it is still a document because it records matter (the incident), is stored on a medium (hard drive or tape) and can be used as proof in a legal proceeding.

3. (a) The Companies Act, 2013, allows companies to issue equity shares with differential voting rights (DVRs), which provide different voting power compared to ordinary equity shares. However, to prevent excessive concentration of control in the hands of a few shareholders, the Act places specific restrictions on the total voting power that can be assigned to DVR shares.

Conditions to issue shares with differential rights

1. The company should have filed annual returns and financial statements for the last three financial years.

2. The company must obtain shareholder approval through a ordinary resolution.

3. The company must have a consistent track record of profitability.

4. There should be no default in the payment of dividends, interest, or repayment of loans.

According to Equity Shares with Differential Rights [Rule 4 of the Companies (Share capital and Debenture) Rules, 2014], a company can issue shares with differential voting rights, but the total voting power of such shares cannot exceed 74% of the total voting rights at any point in time. This ensures that at least 26% of the total voting power remains with ordinary equity shareholders, thereby maintaining a balance in decision-making.

Example to understand the above rule.

Hind Ltd. has 2,000 total shareholders, including:

Regular Equity Shareholders (with normal voting rights)

DVR Shareholders (with differential voting rights)

Step 1: Understanding Voting Power Distribution

Let's assume Hind Ltd. issues DVR shares where each shareholder has twice the voting power compared to regular equity shareholders.

Regular Equity Shareholders = 600 shareholders → 600 votes

DVR Shareholders = 400 shareholders → Each holding 2 votes → 800 votes

Total Voting Power in the Company = 600 + 800 = 1,400 votes

Step 2: Applying the 74% Rule

74% of 1,400 total votes = 1,036 votes

The DVR shareholders collectively hold 800 votes, which is below 1,036 votes. Hence this provision strikes a balance by allowing companies to issue differential voting rights shares and restrict the over concentration of power with dominating few group of peoples. By capping DVR voting power at 74%, the company ensures that the control is not excessively prejudiced in favor of DVR shareholders.

(b) A One Person Company (OPC)allows a single entrepreneur to establish a business with limited liability while ensuring continuity through the appointment of a nominee. The role of the nominee is crucial, as they automatically become the company's owner in case of the original member's death or incapacity.

1. Legal Process for Nominee Withdrawal

   In case if a nominee wishes to withdraw his consent the following steps must be followed:

   a. The nominee must submit a written notice to both the sole member (Mr. Dan) and the company.

   b. Mr. Dan has 15 days to appoint a new nominee.

   c. The new nominee, Mr. Akram, must provide written consent in Form INC-4.

   d. Mr. Akram must submit Form INC-4 to the Registrar of Companies (RoC) to update the company's records.

2. Impact on the Memorandum of Association (MoA)

   A change in the nominee's name does not alter the Memorandum of Association (MoA). The law ensures that nominee changes do not require formal amendments, simplifying administrative processes.

3. Membership Restriction on Multiple OPCs

   As per Rule 3(2) of the Companies (Incorporation) Rules, 2014, an individual cannot be a member of more than one OPC at any given time. Therefore, Mr. Dan cannot start another OPC unless he exits his current one. Similarly, Mr. Akram cannot be a nominee for multiple OPCs.

(c) In legal interpretation, 'construction' refers to the process of determining the true meaning and intent behind a statute or legal document. It extends beyond the literal words of the text and considers the broader legislative purpose, historical context, and other relevant factors. This method helps courts and legal professionals resolve ambiguities and apply laws in a just and reasonable manner.

As per the stated statement "No vehicles are allowed in the park" can have a strict literal interpretation which would mean that all types of vehicles, including bicycles, baby strollers, and even wheelchairs, are prohibited in the park. However, through legal construction, courts may consider the legislative intent behind the law. If the primary goal is to prevent pollution and ensure pedestrian safety, the restriction may only apply to motorized vehicles, while bicycles and strollers may still be allowed.

Significance of Construction in Legal Interpretation:

1. Clarifies Legislative Intent: Construction ensures that laws are interpreted in alignment with the intention of the lawmakers rather than relying solely on the literal meaning of the words.
2. Resolves Ambiguities: Many legal texts contain vague or unclear language. Construction helps eliminate confusion and ensures a consistent application of the law.
3. Ensures Justice: By considering context and broader objectives, legal construction prevents unfair or unintended consequences that could arise from rigid literal interpretations.
4. Adapts Laws to Changing Contexts: Societal norms and circumstances evolve over time. Construction allows laws to be interpreted in a way that remains relevant and applicable to modern situations.

4. (a) In companies, shareholders may hold different classes of shares, such as:

Equity Shares – Carry voting rights and represent ownership in the company.

Preference Shares – Have priority in receiving dividends but usually have limited voting rights.

When a company modifies or alters the rights associated with a specific class of shares, it must comply with Section 48 of the Companies Act, 2013, to ensure fairness and transparency.

For Moringa Ltd. to validly reduce the dividend rate on preference shares, it must satisfy the following conditions under Section 48:

- There should be a provision in the Company's Articles of Association (AOA) or Memorandum of Association (MOA) permitting the variation of class rights. If there is no such provision, the terms of the issue of preference shares must not prohibit such a variation.
- The company must obtain written consent from the holders of at least 75% of the issued shares of that class of affected shareholders (preference shareholders in this case).
- Alternatively, a special resolution approving the variation must be passed at a separate class meeting of preference shareholders.
- If the change in preference share rights affects equity shareholders, then three-fourths of such equity shareholders must also approve the variation.
- Shareholders holding at least 10% of that class who did not consent or vote in favor of the resolution can apply to the Tribunal. The variation will only take effect if confirmed by the Tribunal.

Hence Moringa Ltd. cannot alone reduce the preference dividend from 10% to 8%. If company fails to follow these legal provisions, the change in preference share rights would be invalid, and affected shareholders may challenge the decision in the Tribunal.

(b) The LLP Act, 2008, under Sections 7 and 8, outlines the eligibility, responsibilities, and liabilities of Designated Partners (DPs). Following are the answers:

(i) Every LLP must have at least two designated partners, and at least one must be a resident of India. Where if, all partners are bodies corporate, at least two individuals must be appointed as designated partners. Therefore, as per the stated law a corporate body cannot be appointed as a designated partner. Only individuals are eligible to be appointed as DPs.

(ii) The incorporation document must specify the designated partners, or they must be appointed per the LLP agreement.

Accordingly, if an LLP agreement does not specify the designated partners, they the partners specified in the incorporation document containing designated partners can validly form the LLP in compliance with the LLP Act, 2008.

(iii) As per the LLP Act, 2008, at least one designated partner of the LLP must be a resident of India. A resident of India is defined as a person who has stayed in India for at least 120 days in the financial year. If the designated partner is permanently relocating, he may no longer require to fulfill the residency criteria of staying in India for at least 120 days in the financial year.

(iv) Designated partners are responsible for ensuring that the LLP complies with the LLP Act, 2008.

a. If the LLP fails to comply with statutory requirements, designated partners are held personally liable for penalties.

b. They may face fines or legal consequences for any violations of the LLP Act.

Where if, the designated partners, claims he was unaware of the regulatory requirements. He cannot take plead of the ignorance and cannot avoid the liability.

(c) The Rule of Beneficial Construction is a judicial approach used to interpret statutes in a way that best serves their intended purpose, particularly when dealing with welfare legislation. This principle is applied when a legal provision can be understood in more than one way, allowing courts to choose the interpretation that ensures maximum benefit to the intended class of people.

In welfare laws, such as labour laws, social security laws, and laws protecting marginalized communities, this rule helps remove ambiguities and ensures that the law is applied in a just and equitable manner. One area where this rule has been significantly applied is in maternity leave benefits for adoptive mothers.

Maternity leave is an essential right granted to women to allow them time to recover from child birth and care for their new-borns. Laws in many countries, including India, grant paid maternity leave to working women.

However, a strict interpretation of such laws often restricts these benefits only to biological mothers, creating an unfair disadvantage for adoptive mothers who also need time to bond with their adopted child.

The court will apply the Rule of Beneficial Construction, stating that:

1. Purpose Over Literal Meaning: The law's primary objective is child welfare and mother-child bonding, not just post-delivery recovery. Therefore, maternity leave should not be denied based on a narrow interpretation.

2. No Discrimination Between Biological and Adoptive Mothers: Excluding adoptive mothers would create unjust discrimination against working women who adopt, violating the spirit of gender equality.

Hence the court can ruled in favour of the adoptive mother, directing the employer to grant her full maternity leave benefits.

5. (a) The Companies Act, 2013, under Section 51, provides two possible ways for distributing dividends:

1. Equal Dividend on All Shares
2. Proportional Dividend Based on Paid-up Amount

According to the given scenario

i. Mr. Amit has 1,000 shares × ₹ 10 (fully paid) = ₹ 10,000

   10% of 10,000 = ₹ 1000

ii. Mr. Burman has 1,000 shares × ₹ 5(partially paid) = ₹ 5,000

   10% of 5000 = ₹ 500

   Hence Mr. Amit receives ₹ 1,000 as he holds fully paid-up shares, whereas Mr. Burman receives ₹ 500, as his shares are partly paid-up (₹ 5 per share instead of ₹ 10).

   Hence following shall be the answer to the questions:

   (I) The decision of the company to distribute dividends in proportion to the paid-up amount on shares is legally valid, provided that its Articles of Association (AOA) explicitly permit such a practice. This is in accordance with Section 51 of the Companies Act, 2013. It states that the company if so authorised by article, may be permitted to pay dividends in proportion to the amount paid-up on each share. The Board of Directors of a company may decide to pay dividends on pro rata basis if all the equity shares of the company are not equally paid-up. However, in the case of preference shares, dividend is always paid at a fixed rate.

   (II) The Articles of Association play a crucial role in deciding how dividends are paid.

   (a) If the AOA is silent on the matter, dividends must be paid equally on all shares of the same class.

   (b) If the AOA expressly allows, dividends may be paid in proportion to the paid-up value of shares.

Proportional Dividend Based on Paid-up Amount: As in the given case, the AOA allows, dividends can be paid in proportion to the paid-up value of shares.

(b) A charge may be either fixed or floating. A 'Fixed Charge' is a charge on specific assets of the borrowing company. These assets are of permanent nature like land and building, machinery, office premises, etc. Further, these assets are identified at the time of creation of charge. A fixed charge is usually created by way of mortgage or by deposit of title deeds.

When a charge is created on such assets, the charge remains 'fixed' and the borrowing company is not permitted to sell such assets during the period of charge though it may use them.

Assets under fixed charge can be sold only with the permission or consent of the charge-holder.

Floating Charge

A 'Floating Charge' is created on assets or a class of assets which are of fluctuating or changing in nature- like raw material, stock-in-trade, debtors, etc. It is a charge upon assets both present and future. The assets under floating charge keep on changing because the borrowing company is permitted to use them for trading or producing final goods for sale.

In the given scenario, following nature of charges are created w.r.t the following companies:

1. Fixed Charge (Adhar Ltd.):

   The company mortgaged its factory building and machinery, which are permanent, identifiable assets. Since these assets do not change frequently, the bank created a fixed charge over them. The company cannot sell these assets without the bank's approval during the loan tenure. In case the company fails to repay the loan, the bank can take possession of the factory and machinery to recover its dues.

2. Floating Charge (Mittal Ltd.):

   The company pledged stock-in-trade, raw materials, and accounts receivable, which are changing in nature.The bank created a floating charge, allowing Mittal Ltd. to use, sell, and replenish these assets in the normal course of business. In case if the company repays the loan**,** the floating charge automatically ceases.

   However, if the company fails to repay**,** the floating charge crystallizes, meaning:

- The bank converts the floating charge into a fixed charge.
- Mittal Ltd. loses control over its assets.
- The bank can seize and sell the assets to recover its loan amount.

Hence in the above case, Adhar Ltd., loan is secured by a fixed charge, limiting its ability to dispose of the secured assets where as in the case of Mittal Ltd., loan is secured by a floating charge, allowing normal business operations unless a default occurs. If both companies default, the bank can take control of the respective assets and sell them to recover the loans.

(c) **Residential Status:** According to section 2(v) of the Foreign Exchange Management Act, 1999, 'Person resident in India' means a person residing in India for more than 182 days during the course of preceding financial year [Section 2(v)(i)]. However, it does not include a person who has gone out of India or who stays outside India for employment outside India or for any other purpose in such circumstances as would indicate his intention to stay outside India for an uncertain period.

Generally, a student goes out of India for a certain period. In this case, Mr. P who resided in India during the financial year 2023-2024 left on 15.7.2024 for Switzerland for pursuing higher studies in Biotechnology for 2 years, he will be resident as he has gone to stay outside India for a 'certain period'. RBI has however clarified in its AP circular no. 45 dated 8th December 2003, that students will be considered as non-residents. This is because usually students start working there to take care of their stay and cost of studies.

Mr. P will be treated as person resident in India for Financial Year 2024-2025 till 16th July 2024 and from 17th July 2024, he will be considered as person resident outside India.

However, during the Financial Year 2025-2026, Mr. P will be considered as person resident outside India as he left India on 15th July 2024.

Foreign Exchange for studies abroad: According to Para I of Schedule III to Foreign Exchange Management (Current Account Transactions), Amendment Rule, 2015 dated 26th May, 2015, individuals can avail of foreign exchange facility for the studies abroad within the limit of USD 2,50,000 only. Any additional remittance in excess of the said limit shall require prior approval of the RBI. Further proviso to Para I of Schedule III states that individual may be allowed remittances (without seeking prior approval of the RBI) exceeding USD 2,50,000 based on the estimate received from the institution abroad. In this case the foreign exchange required is only USD 55,000 per academic year and hence approval of RBI is not required.

6. **(a)** In company management, shareholder participation is essential for decision-making. However, all the shareholders may not always be able to attend meetings physically. The Companies Act, 2013, ensures that their rights are not diminished due to their absence. It facilitates the shareholders to delegate their voting power and remain actively involved in key decisions by appointing a proxy. Section 105 of the Companies Act, 2013 and Rule 19 of the Companies (Management & Administration) Rules, 2014 contain provisions relating to the proxies.

A proxy is a person appointed by a shareholder to attend and vote on their behalf at a general meeting. Every member entitled to vote at a meeting can appoint a proxy. A proxy can be any person, not necessarily a shareholder. The appointment of proxy shall be in Form No. MGT-11. [Rule 19(3)]

The proxy form must be submitted 48 hours before the meeting. The instrument appointing a proxy shall be in writing and signed by the appointer or his attorney duly authorised in writing. If the appointer is a body corporate, the instrument shall be under its seal or be signed by an officer or an attorney duly authorised by the body corporate.

As a compliance requirement, in every notice calling a meeting of a company which has a share capital, or the articles of which provide for voting by proxy at the meeting, should include a statement that a member is entitled to appoint a proxy. Hence the Act ensures the shareholders participation in the meeting, keeps decisions comprehensive with fair corporate governance.

(b) (i) The Investor Education and Protection Fund (IEPF) is a fund established by the Central Government under Section 125 of the Companies Act, 2013. It is meant to collect and utilize unclaimed or unpaid amounts related to investments, such as dividends, matured deposits, and debentures, and to promote investor awareness and protection.

The following amounts *inter alia* are credited to the IEPF:

- Unpaid dividends that remain unclaimed for seven years.
- Matured deposits and debentures unclaimed for seven years.
- Proceeds from fractional shares due to mergers or bonus issues.
- Application money for securities that were never allotted and remained unclaimed.

- Interest accrued on unclaimed deposits and debentures.
- Donations, grants, and income from investments of the fund.

(ii) IEPF is utilized in the following manner:

- The IEPF safeguards investor interests by holding unclaimed dividends, matured deposits, and debentures.
- It allows investors to reclaim their money after proper verification.
- The fund is also used for investor education, awareness programs, and legal reimbursements for class action suits.
- It prevents companies from misusing unclaimed funds and ensures they remain accessible to rightful owners.

(iii) Mr. Victor can recover his unclaimed dividend by following the proper procedure.

Mr. Victor must visit the IEPF portal and download Form IEPF-5. He should fill in all the required details in the Form. After submission, the company will verify and forwards the claim to the IEPF Authority. Upon successful verification the IEPF Authority will process the refund, and Mr. Victor will receive his unclaimed dividend.

(c) The given situations can be examined in the light of the Schedule II of the FEM (Current Account Transactions) Rules, 2000. According to the Regulation, wherever, Donations exceeding one per cent. of their foreign exchange earnings during the previous three financial years or USD 5,000,000, whichever is less, it shall require prior approval of RBI.

Accordingly, following shall be the answers:

(1) 1% of Foreign Exchange Earnings = (1/100) × 600 million = USD 6 million

USD 5 million limit (whichever is less) applies.

Since USD 5 million is less than USD 6 million, LMN Ltd. can donate up to USD 5 million without RBI approval.

(2) 1% of Foreign Exchange Earnings = (1/100) × 250 million = USD 2.5 million

Maximum limit before requiring RBI approval = Lesser of USD 2.5 million or USD 5 million = USD 2.5 million

Since USD 3 million exceeds the limit of USD 2.5 million, STU Ltd. needs RBI approval.