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

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

Brilliant Company Ltd. has an existing paid-up equity share capital of ₹ 100 crore. Over the past few years, it has already issued sweat equity shares worth ₹ 20 crore. Now, it plans to issue additional sweat equity shares worth ₹ 10 crore. The board of directors passed a resolution and gave the approval for the allotment of shares.

Mr. Anuj and Ms. Anita are siblings who jointly hold 500 shares in AB Company. The share certificate was issued solely in Ms. Anita's name. Mr. Anuj sent an email to the company, requesting the issuance of an additional share certificate in his name, as he is a joint holder of the shares. In his request, he emphasized his equal ownership and the need for documentation reflecting the same. However, in response, the company denied his request, stating that as per company policy and applicable regulations, a separate share certificate cannot be re-issued in his name.

The company convened its 5th Annual General Meeting (AGM) on 12th September 2024 at the registered office. Notice for same was served on 20th August 2024. But due to certain technical errors the notice (which was delivered via e-mail) remained undelivered to the 3% of members who were to attend the AGM. Hence, the members (who were not able to attend meeting) were desperate to hold AGM again as the number of members who were not able to attend meeting was quite big. The company has issued unconditional apologies to its member who were not able to attend the meeting.

A shareholder, Mr. Dutta, who could not attend the meeting, wanted to inspect the minutes of the meeting. He visited the company's registered office on 16th September 2024 and was allowed to inspect the minutes for two hours. Later, he requested a physical copy of the minutes on 17th September 2024, along with the prescribed fees.

The company has declared dividend at the rate of 15% on its equity shares for the financial year ending 31st March 2025. However, the company has not made adequate profits during the financial year ending on 31st March 2025. The company had declared dividend of 10% in the financial year ending 31st March 2024. So now the company wants to declare the dividend at the rate of 15% out of its free reserves. A resolution for the same was passed by board of directors at the meeting.

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. The company has plans to issue additional sweat equity shares worth ₹10 crore. Choose the correct statement:

   (a) Company can only issue ₹ 5 crore this year and remaining ₹ 5 crore next year.

   (b) Company has already exhausted the limit to issue sweat equity shares.

   (c) Company can issue only ₹ 5 crore more to remain within the prescribed limit.

   (d) Company can issue only ₹ 4 crore more to remain within the prescribed limit.

2. The company refused to issue a share certificate to Mr. Anuj. Being a joint share holder (of 500 shares) is it Mr. Anuj's right to get the share certificate issued in his name also?

   (a) Yes, being a joint shareholder, Mr. Anuj has the right to get a share certificate issued in his name.

   (b) No. In case of joint holders, company shall issue only one share certificate and delivery of share certificate to any one of the joint holders will amount to delivery to all of them.

   (c) Yes, Mr. Anuj can file a complaint against the company and get the share certificate issued in his name.

   (d) Yes, because without share certificate Mr. Anuj will not be able to prove himself as shareholder of the company.

3. Due to technical error in the software, the notice for the AGM remained undeliverable to few members. What will be the impact this on the proceedings of the meeting?

(a) The meeting needs to be rescheduled as big number of persons missed their right to attend the meeting & vote.

(b) An unintentional failure to give notice or its non-receipt by entitled members does not invalidate the meeting's proceedings.

(c) If the error came to the company's notice prior to the meeting, the company is duty bound to reschedule it.

(d) Members who missed the AGM due to a notice delivery failure can declare the proceedings to be invalid.

4. The company wants to declare the dividend at the rate of 15% out of its free reserves. Choose the correct statement?

(a) The company has to declare dividend higher than the rate as paid for the year ended 31st March 2024.

(b) The dividend declared should not exceed the dividend paid in the year ended 31st March 2024.

(c) The company cannot declare any dividend as it incurred losses in the previous financial year.

(d) The company can declare dividend @15% inspite of inadequate profits in the financial year, if it fulfils the conditions as prescribed in the Companies Act, 2013 along with relevant Rules.

5. Based on provision of the Companies Act, 2013, by which date is the company legally required to furnish Mr. Dutta a copy of the minutes?

(a) Next working day

(b) within 2 working days

(c) within 7 working days

(d) within 10 working days

Case Scenario 2

Star LLP is a limited liability partnership engaged in the business of eco-friendly product manufacturing. The LLP was initially established with three partners: Apeksha, Rajesh, and Riverview Limited, a corporate entity. Apeksha and Rajesh are the designated partners, with Apeksha being a resident in India. Riverview Limited has appointed Anil, an individual, as its nominee to act on its behalf.

After a few years, Rajesh decides to retire, leaving Apeksha and Riverview Limited as the remaining partners. Due to some administrative oversight, Star LLP continues its operations without appointing a new partner. This situation persists for seven months, with Apeksha being aware of the reduced number of partners. During this period, Star LLP enters into several contracts and incurs significant financial 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. Given that Rajesh retired and Star LLP continued with only Apeksha and Riverview Limited, what should Star LLP have done within six months to comply with the LLP Act?

   (a) Dissolved the LLP

   (b) Continue operating with one designated partner

   (c) Appoint at least one body corporate which should be a foreign company

   (d) Appointed at least one more partner who should also be a designated partner, as every LLP should have at least two designated partners

7. According to the Limited Liability Partnership Act, 2008, choose the correct statement in relation to who must be a resident in India among the designated partners?

   (a) At least one individual designated partner shall be resident in India

   (b) All designated partners shall only be resident in India

   (c) It is mandatory for only corporate partners to be resident in India

   (d) At least four designated partners shall be resident in India

8. In the given case scenario suppose Riverview Limited also leaves the LLP and the LLP continues business for more than six months with only one partner, who is personally liable for the obligations incurred during that period?

   (a) Apeksha

   (b) Both Apeksha and Riverview Limited

   (c) Riverview Limited

   (d) Apeksha, Rajesh and Riverview Limited

Case Scenario 3

Green Wood Limited ("GWO") is establishing an integrated organic food processing facility in Kerala. On 15th January, 2024, the Central Food Safety Authority issued a comprehensive notification containing following requirements:

- All new food processing units must employ qualified Quality Assurance Officers ("QAOs") for each processing line
- The Managing Director of the company is authorized to appoint such QAOs, with appointment letters to be issued "within 30 days from selection"
- Each QAO must obtain mandatory certification from Food Safety Regulatory Board within "21 days from appointment"
- The facility must install specified safety equipment by 1st March, 2024
- Monthly compliance reports must be submitted from "1st to 7th of every month"

On 10th February, 2024, while implementing these requirements, GWO faced following situations:

(a) A selected QAO candidate was found submitting forged experience certificates

(b) Another QAO, after appointment, failed to maintain safety protocols leading to minor contamination

(c) The 21st day for certification of one QAO fell on 29th February, 2024 (when the certification office was closed for local holiday), followed by weekend

(d) The contamination incident violated both Food Safety Act and State Public Health Act

On the basis of above facts and by applying applicable provisions of the General Clauses Act, 1897, 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. Regarding Managing Director's authority over QAOs, which power is available without explicit mention?

    (a) Power to accept resignation only

    (b) Power to suspend but not dismiss

    (c) Power to transfer between units

    (d) Power to suspend and dismiss

10. If a QAO is selected on 25th January, 2024, what is the last date for issuing appointment letter?

    (a) 23rd February, 2024

    (b) 24th February, 2024

    (c) 25th February, 2024

    (d) 26th February, 2024

11. Regarding the contamination incident violating two Acts, what is the correct legal position?

    (a) Only major violation should be prosecuted

    (b) Only Food Safety Act being special law applies

    (c) Company can be prosecuted under either/both but punished only once

    (d) Both Acts must be independently enforced

Independent case scenarios

12. The Board of Directors of ABC Limited are contemplating to declare interim dividend in the last week of July, 2024 but the company has incurred loss during the current financial year up to the end of June, 2024. However, it is noted that during the previous five financial years i.e., 2019-20, 2020-21, 2021-22, 2022-23 and 2023-24, the company had declared dividend at the rate of 8%, 9%, 12%, 11% and 10% respectively. Advise the Board as to the maximum rate at which they can declare interim dividend despite incurring loss during the current financial year.

    (a) Maximum at the rate of 10%.

    (b) Maximum at the rate of 11%.

    (c) Maximum at the rate of 10.5%.

    (d) Maximum at the rate of 11.5%. **(2 Marks)**

13. Entrenchment enhance the protection. ABC Limited, an existing private company willing to insert the provisions for entrenchment; it

    (a) Can amend the article by passing an ordinary resolution

    (b) Can amend the article by passing a special resolution

    (c) Can amend the article agreed by all the members

    (d) Can't amend article to make the provisions for entrenchment **(2 Marks)**

14. Mr. X had resided in India for less than 182 days during the financial year 2022-2023. He arrived in India on April 1, 2023, to conduct business and intends to leave the business on April 30, 2024, with plans to depart from India on June 30, 2024. What is Mr. X's residential status for the financial year 2023-2024 under the FEMA, 1999? How many days did Mr. X stay in India during the financial year 2023-2024?

(a) Non-Resident, 182 days

(b) Resident, 365 days

(c) Resident but Not Ordinarily Resident (RNOR), 240 days

(d) Resident, 91 days **(2 Marks)**

15. After five years of stay in USA, Mr. Amar came to India at his paternal place in New Delhi on October 25, 2022, for the purpose of conducting business with his two younger brothers Rajesh and Somesh and contributed a sum of ` 10,00,000 as his capital. Simultaneously, Mr. Amar also started a proprietary business of selling artistic brass ware, jewellery, etc. procured directly from the manufacturers based at Moradabad. Within a period of two months after his arrival from USA, Mr. Amar established a branch of his proprietary business at Minnesota, USA. You are required choose the appropriate option with respect to residential status of Mr. Amar and his branch for the financial year 2023-24 after considering the applicable provisions of the Foreign Exchange Management Act, 1999:

(a) For the financial year 2023-24, Mr. Amar and his branch established at Minnesota, USA, are both persons resident outside India.

(b) For the financial year 2023-24, Mr. Amar is a resident in India but his branch established at Minnesota, USA, is a person resident outside India.

(c) For the financial year 2023-24, Mr. Amar and his branch established at Minnesota, USA, are both persons resident in India.

(d) For the financial year 2023-24, Mr. Amar is a person resident outside India but his branch established at Minnesota, USA, is a person resident in India. **(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) Vardha Ltd., a textile company, had issued 5,00,000 preference shares of ₹ 100 each in 2015, which are now due for redemption in 2025. The company has retained earnings of ₹3 crore and free reserves of ₹2 crore.

Being an expert, you are asked to recommend possible options that the management can avail as regard redemption of shares according to the provisions of the Companies Act, 2013? **(5 Marks)**

(b) Green Ltd., a power generating company, attracted numerous investors due to its strong growth potential. Mr. Arju, one of the investor purchased a significant number of shares in Green Ltd., expecting regular returns in the form of dividends. Over the years, Green Ltd. performed well and consistently declared dividends. However, in 2023-2024, despite reporting profits, the board of directors decided not to distribute dividends, citing the need to reinvest earnings for future expansion.

Seeing this, 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. He raised his concerns at the Annual General Meeting (AGM), questioning the board's decision. Looking at the given scenario, assess the argument of Mr. Arju in the light and support of the relevant legislation. **(5 Marks)**

(c) Analyse the following situations and comment upon the legal validity of the transactions in the light of the FEMA,1999.

(1) John, a foreign national (not of Indian origin), wants to buy agricultural land in India.

(2) An NRI wants to open a fixed deposit account in an Indian bank using foreign currency. **(4 Marks)**

2. (a) A company intends to hold its Annual General Meeting (AGM) on shorter notice due to urgent business requirements. However, some shareholders argue that their larger shareholding should grant them greater influence in approving the short notice. Based on the provisions of the Companies Act, 2013, clarify whether their argument is valid and substantiate why the number of shareholders matters more than the number of shares they hold in such cases. **(5 Marks)**

(b) One X Ltd., a technology-based company, has a paid-up equity share capital of ₹ 40 crore. The company previously issued sweat equity shares worth on ₹ 8 crore and now plans to issue an additional ₹ 7 crore this year.

Describe sweat equity shares, and to whom are they issued? What is the overall maximum limit to issue sweat equity share, and does the proposed issuance exceed the limit? **(5 Marks)**

(c) CCTV recording of an incident can be considered as a document. Explain what do you understand by the word document and how will you justify your answer in accordance with the provision of the General Clauses Act, 1897? **(4 Marks)**

3. (a) To prevent excessive concentration of control among a group of shareholders, describe with the help of an example how the Companies Act, 2013, imposes limits and regulates the voting power of shares with differential rights (equity shares)? **(5 Marks)**

(b) Mr. Dan, an Indian citizen decides to start a software development company and opts for a One Person Company (OPC). He appoints his friend, Mr. Rohit as the nominee at the time of incorporation, following all legal requirements. After two years, Mr. Rohit wants to withdraw his nomination. Mr. Dan then nominates Mr. Akaram in his place and submits the necessary Forms to the Registrar of Companies (RoC).

Considering the legal provisions governing OPCs, analyze the following:

1. What legal process must be followed when a nominee withdraws his consent?

2. How does the change of nominee impact the Memorandum of Association (MoA) of the company?

3. Can Dan own another OPC while still being a member of Dan Technologies OPC Pvt. Ltd.? **(5 Marks)**

(c) "No vehicles are allowed in the park." Comment on the statement, explaining the concept of 'Construction' in legal interpretation. Mention its significance in determining the legal interpretation. **(4 Marks)**

4. (a) Moringa Ltd. initially issued preference shares with a fixed 10% dividend. Later, the company decided to reduce the dividend rate to 8%, as the company's profit margins declined in the last two quarters. Some preference shareholders opposed this change, arguing that their rights were being altered unfairly. The company, however, claimed that the change was valid under its Articles of Association. Will

Moringa Ltd. be able to proceed with the change. What legal provisions under the Companies Act, 2013, govern such variations in shareholders' rights, and what procedural requirements must be followed? **(5 Marks)**

(b) Analyzing the role and liabilities of Designated Partners in a Limited Liability Partnership (LLP) under the LLP Act, 2008, answer the following questions:

(i) In a LLP where all partners are corporate entities, can a corporate body be appointed as a designated partner?

(ii) If an LLP agreement does not specify the designated partners, whether LLP can be validly formed without designated partners under the LLP Act, 2008?

(iii) A designated partner of an LLP in India is planning to relocate permanently to another country.

(iv) XYZ LLP was penalized for non-compliance, but one of the designated partners claims he was unaware of the regulatory requirements. Can he avoid liability? **(5 Marks)**

(c) Ms. Mona employed in X-One Corporation, adopted a three-month-old baby applied for maternity leave under her company's policy, which provided 26 weeks of paid maternity leave. However, her employer rejected the request, stating that maternity leave applies only to biological mothers as per the law. Mona approached the court against the company decision. In related to the above case, explain how the Rule of Beneficial Construction can be applied and interpreted as a welfare legislation? **(4 Marks)**

5. (a) Energy Mills Ltd. has issued equity shares with a face value of ₹10 per share. Mr. Amit and Mr. Burman are both friends. Mr. Amit holds 1,000 fully paid-up shares (₹10 per share paid), while Mr. Burman holds 1,000 partly paid-up shares (₹5 per share paid). When the company declares a 10% dividend, a dispute arises and Mr. Burman expects the same dividend amount as paid to Mr. Amit. However, the company insists on paying dividends based on the actual amount paid-up on the shares as mentioned in AOA.

In the light of the given provisions under the Companies Act, 2013, elucidate the legal position in the following situation:

(I) Whether the company's decision to distribute dividends based on the paid-up amount is legally valid? How does the Companies Act, 2013 regulate dividend distribution in such cases?

(II) What role does the Articles of Association play in determining this situation? **(5 Marks)**

(b) Adhar Ltd. and Mittal Ltd. both took loans from different banks and provided security against them. Adhar Ltd. mortgaged its factory building and machinery, while Mittal Ltd. pledged its stock-in-trade, raw materials, and accounts receivable.

Specify the type of charges created in both cases. Justify your answer in light with the relevant provisions under the Companies Act, 2013. Also, analyze what would happen if both companies fail to repay their loans. **(5 Marks)**

(c) Mr. P resided in India during the Financial Year 2023-2024. He left India on 15th July 2024 for Switzerland for pursuing higher studies in Biotechnology for 2 years. What would be his residential status under the Foreign Exchange Management Act, 1999 during the Financial Years 2024-2025 and 2025-2026?

Mr. P requires every year USD 25,000 towards tuition fees and USD 30,000 for incidental and stay expenses for studying abroad. Is it possible for Mr. P to get the required Foreign Exchange and, if so, under what conditions?

Give your answer as per the provisions of the Foreign Exchange Management Act, 1999. **(4 Marks)**

6. (a) ABHI Ltd. is holding its Annual General Meeting (AGM) to pass a crucial resolution regarding the expansion of its business operations. However, many shareholders are unable to attend the meeting in person due to their prior commitments and engagements. Despite their absence, they still wish to express their views and participate in the decision-making process.

Considering the provisions of the Companies Act, 2013, how can these shareholders delegate their voting rights and ensure their participation in the meeting without being physically present? What mechanisms are available under the Act to facilitate their involvement? **(5 Marks)**

(b) X-Sale Ltd. declared a dividend in 2015, but some shareholders did not claim it. As per the Companies Act, 2013, the unclaimed dividend was transferred to the Unpaid Dividend Account. After 2022, the unclaimed amount was transferred to the Investor Education and Protection Fund (IEPF).

On the basis of above given facts answer the following question-

(i) Define IEPF and write what amounts are credited to the IEPF?

(ii) How is the IEPF utilized?

(iii) What steps should Mr. Victor, the shareholder take to reclaim his dividend?

(5 Marks)

(c) Examine the given situations in the light of the FEMA, 1999:

1. LMN Ltd. had total foreign exchange earnings of USD 600 million in the last three financial years. What is the maximum amount the company can donate without RBI approval?

2. STU Ltd. had foreign exchange earnings of USD 250 million over the last three financial years. It plans to donate USD 3 million to a university fund. Does it need RBI approval? **(4 Marks)**