

# CA INTER LAW

## INTEGRATED CASE STUDY MCQ'S

### Case Study 1

Mr. Varinder Singh is a philanthropist apart from being the founder and director of Paridhaan (P) Ltd. with paid-up share capital of ₹ 3 crore, engaged in business of renowned textile brand named, 'Paridhaan'. He is running an old age home, a shelter-home for orphans apart from a chain of art and language schools. These philanthropic initiatives and educational institutions established by him are operating under the banner of a charitable trust, in which he himself is one of the trustees.

The company is losing market share due to stiff competition from readymade brands resulting decline in turnover to ₹ 180 lakhs during the immediately preceding financial year, out of which 45% consists of export sales.

His son, Jimmy, who is also a shareholder and director in Paridhaan (P) Ltd., wishes to start a new business of e-learning platform and research-based technical education. He opted for a corporate form of doing business, because this may help in reaching out to leading global universities to sign MoUs for student and faculty exchange programs, in order to establish a global brand, especially after the rollout of the new education policy.

Jimmy wants to retain the entire control of educational activities. Jimmy met their family friend, Mr. Chawla, who is a renowned practicing Chartered Accountant. Mr. Chawla explains the various forms of companies, including One Person Company (OPC) with the procedural requirements for each, which could be considered by Jimmy for his education business. Jimmy decided to form OPC after considering the various pros and cons.

Jimmy appoints Mr. Wilson as a nominee to his OPC. Mr. Wilson who is in his 30s, is an academician and scholar, a graduate from MIT in CSE, and has done his masters with Jimmy. Mr. Wilson is from Cambridge, Massachusetts, USA and is basically a US national. But, he has been staying in India only, for the last couple of years. Mr. Wilson helps Jimmy in the promotion of OPC.

Mr. Chawla is an auditor of Sirmaur Pharma Limited, the AGM of which was convened on 31st August 2021. As he had already confirmed his appointment with Jimmy to meet him on that day, he asked his paid assistant, Mr. Anup, to attend the AGM on his behalf as the company had not exempted the auditor from attending the said meeting. Mr. Anup is Chartered Accountant, but currently is in full time employment with Mr. Chawla's firm since the last year or so.

Mr. Anup is not holding a certificate of practice. At that AGM, based upon the board's recommendation, Sirmaur Pharma Limited decided to issue fully paid up bonus share to its members out of its reserve and surplus available with it, which are as follows:

Source	Amount in Rs
Free Reserves	1.24 crores
Securities Premium Account	0.82 crores
Capital Redemption Reserve Account	1.07 crores

Reserves created by the revaluation of assets	0.63 crores
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**Multiple Choice Questions**

- 1.1) Considering the validity of nominating Mr. Wilson to the One Person Company of Jimmy, out of the following, which statement holds truth?**
- a) Mr. Wilson is a valid nominee because he is a natural person.
  - b) Mr. Wilson is a valid nominee because he is a natural person and is resident in India.
  - c) Mr. Wilson is a valid nominee because he attains the majority and also engaged in the promotion of OPC.
  - d) Mr. Wilson is not a valid nominee, because he is not a citizen of India.
- 1.2) What is the maximum amount, upto which fully paid bonus shares can be issued by Sirmaur Pharma Limited?**
- a) ` 2.06 crores
  - b) ` 3.13 crores
  - c) ` 3.76 crores
  - d) ` 2.69 crores
- 1.3) Mr. Varinder wants to take the benefits of relaxation available to a small company. Does Paridhaan (P) Ltd. meets the criteria to be classified as a small company?**
- a) Yes, because turnover is less than prescribed limit
  - b) Yes, because both paid-up share capital and turnover are less than the prescribed limit
  - c) No, because paid-up share capital is more than the prescribed limit
  - d) No, because both paid-up share capital and turnover is more than the prescribed limit
- 1.4) Jimmy is already a member of Paridhaan (P) Ltd. and has now promoted his own OPC. Is Jimmy eligible to incorporate an OPC as being an existing member and Director of Paridhaan (P) Ltd., which of the following statements is correct?**
- a) Not eligible, because a person who is a member of any other company cannot incorporate an OPC.
  - b) Not eligible, because a person who is director of any other company cannot incorporate an OPC as a member.
  - c) Eligible, because a person can incorporate one OPC as a member despite being a member in any other form of companies, other-than OPC.
  - d) Eligible, because a person can be a member of any number of companies including any number of OPCs.
- 1.5) Is Mr. Chawla liable for punishment for contravention of the provisions of Section 146 and Section 147 of Companies Act, 2013?**
- a) No, because attending AGM is not mandatory for auditor
  - b) No, because Mr. Chawla attends the AGM through his representative (Mr. Anup)

- c) Yes, because in all circumstances; auditor (Mr. Chawla) must attend the AGM and that too in person.
- d) Yes, because representative appointed by him in this case (i.e. Mr. Anup) is not qualified to be appointed as an auditor of such a company.

**Answers:**

- 1.1) d) - Mr. Wilson is not a valid nominee, because he is not a citizen of India.
- 1.2) b) - ` 3.13 Crores
- 1.3) c) - No, because paid-up share capital is more than the prescribed limit
- 1.4) c) - Eligible, because a person can incorporate one OPC as a member despite being a member in any other form of companies, other than OPC.
- 1.5) d) - Yes, because representative appointed by him in this case (i.e. Mr. Anup) is not qualified to be appointed as an auditor of such a company.

**Case Study 2**

Mr. Kumar Arijit is a renowned finance professional with wide experience in banking operations. Due to his experience, he has been appointed as director on the Board of various companies. He is working as the Executive Director - Finance of Doon Carbonates Limited (DCL) for the past 4-5 years and heading the finance department there. As per the object clause of the Memorandum of Association of DCL, it can raise funds by way of loans for the advancement of its business. Articles of Association of DCL authorizes the directors to borrow up to ` 50 lakhs on behalf of the company after passing a valid board resolution and any loans for amounts exceeding the above limit can be raised only after prior approval at a duly convened general meeting.

Board of Directors of DCL raised ` 80 lakhs from Srikant Finance Services after passing a board resolution and out of this amount, ` 60 lakhs was used to pay a legitimate liability of DCL by the directors. Such an act was ratified by the members in an EGM conducted thereafter. DCL is a widely held company with around 5600 members as per the members register.

The 21st AGM of DCL was convened on 1st September 2021. A total of 34 members attended the meeting out of which 7 members attending through proxy. 6 of such members were represented by single proxy, Mr. Das. The articles of DCL is silent about the quorum. The voting at such meeting was conducted through means of postal ballot for all the items of business on the agenda.

Mr. Kumar is also director of Padmani Silk Limited (PSL). PSL was established around 25 years back as a private company operating as a micro business with 10 employees in a three-room building. During those years, the company grew exceptionally and went public and was also listed on SME exchange. PSL declares the interim dividend out of the previous year's undistributed profit, on 31st August 2021, on the occasion of the 25th anniversary of the company. PSL deposited the amount of said dividend in a separate bank account with an NBFC on 4th of September, 2021.

The company has not incurred any loss during current F.Y. 2021-22 in any quarter. Mr. Kumar hails from a farming family and carries on the business of cultivation and milling of paddy. He is also the sole member of Fair Deal Limited (FDL), a one person company. FDL is operated as rice sheller and also deals in trading of high-quality basmati rice. Mr. Kumar's father is operating as a nominee for

the purposes of this OPC. The accounts department of FDL prepared and published only Profit and Loss Account and Balance Sheet as a financial statement and did not prepare cash flow statements and explanatory notes to accounts. A statement of changes in equity is not required in the case of FDL.

### **Multiple Choice Questions**

- 2.1) Regarding compliance for declaration and distribution of interim dividend by PSL, which of the following statements is correct?**
- a) There is a violation of the provisions because interim dividend can only be declared out of current year's profits.
  - b) There is no violation at all, and all the provisions prescribed by law have been complied with.
  - c) There is a violation because the bank account shall be designated and shall be one of existing banks account of company.
  - d) There is a violation because the bank account shall be opened with scheduled banks only.
- 2.2) Which of the following statements is correct, with reference to the requirement for financial Statements of 'Fair Deal Limited'**
- a) FDL fails to meet the requirement because its financial statement do not include explanatory notes to accounts
  - b) FDL fails to meet the requirement because its financial statements do not include cash flow statement
  - c) FDL fails to meet the requirement because its financial statements do not include explanatory notes to account and cash flow statement
  - d) FDL has complied with the requirements related to financial statements
- 2.3) The borrowing of the sum of ` 80 lakhs by the directors of DCL is**
- a) Void-ab-initio
  - b) Void
  - c) Voidable
  - d) Valid
- 2.4) Regarding the validity of the 21st Annual General Meeting of DCL, which of the following statements is correct?**
- a) The meeting doesn't have a quorum, because 30 members need to be personally present at the meeting.
  - b) The meeting is valid and has a quorum because 30 members are present at meeting either personally or through a proxy.
  - c) The meeting is valid and has a quorum, because only 5 members are required to be present, either personally or through a proxy, if the number of members as on the date of the meeting is more than five thousand but not more than ten thousand

- d) The meeting is valid and has a quorum, because only 15 members are required to be present, either personally or through a proxy, if the number of members as on the date of the meeting is more than five thousand but not more than ten thousand

### **Answer Key Question No. Answers**

- 2.1)** (d) There is a violation because the bank account shall be opened with scheduled banks only.
- 2.2)** (a) FDL fails to meet the requirement because its financial statement do not include explanatory notes to accounts
- 2.3)** (d) Valid
- 2.4)** (a) The meeting doesn't have a quorum, because 30 members need to be personally present at the meeting.

### **Case Study 3**

Mr. B R Mohanty, promoted two companies about two-decades ago. He promoted these companies along with two of his elder brothers and few friends, who are pharmaceutical and chemical engineers by profession. The companies are Well-Mount Limited (WML) dealing in wellness products and pharmaceuticals; and Tex-Mount Limited (TML) dealing in textile products. During these two decades, both WML and TML have grown magnificently as both the sectors expanded beyond imagination. Both companies went public and their stocks were listed on leading stock exchanges. TML did well in the past and emerged as a major export unit but in recent years the textile sector has witnessed stiff competition due to new entrants. The increased cost of the workforce and other input materials has also made the sector unprofitable. The recent lockdown has also affected the sector adversely. TML's bottom line for the current financial year is in the red. TML was declaring dividends since the very first year of operation and is willing to continue the tradition, considering dividend to be a signalling effect to an investor for the purpose of valuation. Rate of dividend declared for the immediately preceding five years was 9%, 10%, 8%, 5% and 2% (9% being five years ago and 2% being the previous year) respectively. The management at TML decided to declare dividends out of the accumulated profits of previous years. TML deals in exports and hence came under the scanner of the enforcement directorate, who have called for the financial statements and books of account of TML for scrutiny for the last 10 preceding financial years. In response to the said notice TML furnished financial statements and books of accounts for last 8 immediately preceding financial years only, stating that as per its article of association; TML is required to maintain and keep the books of account only for 8 immediately preceding financial years and that too without any records of vouchers pertaining to such accounts. WML is doing well, it has used the outbreak of COVID-19 as a business opportunity and has registered significant growth in both top and bottom line. For the past many years, WML declared a dividend at a constant rate of 20%. During the financial year 2020-21, WML earns a profit of ₹ 580 crores. Board of directors of WML has declared 25% dividend on 14th June 2021 without transferring any amount to the reserves. On 14th July 2021 a portion of the dividend declared remains unpaid, due to operation of law. This amount has been transferred to unpaid dividend account on 20th July 2021. CA. Dev was appointed as auditor from F.Y. 2018-19 onwards, under section 139 of the Companies Act, 2013, of WML in his individual capacity at the 17th AGM conducted on 29.09.2018.

### **Multiple Choice Questions:**

- 3.1)** In case of TML, which of the following statements is correct regarding the declaration of dividend
- a) TML can't declare the dividend because it has made loss in the current financial year.

- b) TML can declare the dividend but only up to 9% subject to satisfaction of other conditions as well.
- c) TML can declare the dividend but only up to 5% subject to satisfaction of other conditions as well.
- d) TML can declare the dividend but only up to 6.8% subject to satisfaction of other conditions as well.

**3.2) CA. Dev, who is the auditor of WML will have to vacate the office of the auditor at and can be reappointed again only at**

- a) 22nd AGM and 27th AGM
- b) 27th AGM and 32nd AGM
- c) 22nd AGM and 23rd AGM
- d) 22nd AGM and can't be re-appointed again.

**3.3) In case of WML, which of the following statements is correct regarding the declaration of dividend?**

- a) WML can't declare the dividend at a rate more than 20%
- b) WML can declare the dividend out of current year's profit but it needs to transfer sum equal to 20% to reserve first.
- c) WML can declare the dividend out current year's profit but it needs to transfer sum equal to 10% of paid-up share capital to reserve first.
- d) WML can declare the dividend out of current years' profit without transferring any % to reserve.

**3.4) In case of TML, regarding maintenance and preserving the books of account which of the following statements is correct?**

- a) TML needs to maintain and keep the books of account for 10 immediately preceding financial years, hence TML has violated the law
- b) TML has not violated the provisions of law because it has preserved the books of account for 8 immediately preceding financial years.
- c) TML has violated the provisions of law because it has preserved the books of account for 8 immediately preceding financial years without preserving the relevant vouchers pertaining to such books of account.
- d) TML has not violated the provisions of law because it is complying with its article of association.

**3.5) Regarding declaration and distribution of dividend by WML, which of the following statements is correct keeping in mind the various timelines?**

- a) WML has violated the law, because some of the dividend remain unpaid; irrespective of reason for non-payment
- b) WML has violated the law, because unpaid dividend has to be transferred to the unpaid dividend account on or before 19th July 2021.

- c) WML has not violated the law, because the unpaid dividend has been transferred to the unpaid dividend account on or before 21st July 2021.
- d) WML has not violated the law, because the unpaid dividend can be transferred to the unpaid dividend account at any time within 90 days from the date of declaration.

### Answer Keys Question No. Answers

- 3.1** (c) TML can declare the dividend but only up to 5% subject to satisfaction of other conditions as well.
- 3.2** (a) 22nd AGM and 27th AGM
- 3.3** (d) WML can declare the dividend out of current years' profit without transferring any % to reserve.
- 3.4** (c) TML has violated the provisions of law because it has preserved the books of account for 8 immediately preceding financial years without preserving the relevant vouchers pertaining to such books of account.
- 3.5** (c) WML has not violated the law, because the unpaid dividend has been transferred to the unpaid dividend account on or before to 21st July 2021.

### Case Study 4

Vignesh Fertilizers Limited (VFL) and Vivian Chemicals Private Limited (VCPL) were promoted around 30 years back by Mr. Vicky Tripathi and his family members. Mr. Vicky Tripathi and his younger brother Vinay Tripathi actively participate in the daily operations of both the companies. VCPL is wholly owned by Tripathi family, while Tripathi family has a majority stake of 65% in VFL. Due to the poor economic conditions in the agriculture sector and shifting of the farmers' focus to organic farming, the sales of Vignesh Fertilizers Limited is dipping and its bottom line has been in the red for the last couple of years. The unabsorbed loss of VFL for the current financial year is ₹ 9.8 crores. VFL didn't pay any dividends during the last four years. VFL has accumulated profit in the form of free reserves of ₹ 180 crores whereas paid-up share capital is ₹ 918 crores as per its latest audited financial statement and loss of ₹ 9.8 crores has not been deducted from such amount of free reserves. Since pressure from shareholders of the free float is mounting, management at VFL decided to pay a dividend this year out of accumulated profit. Finally, the dividend was declared on 31st August 2021. Some of the dividend remained unpaid as on 30th September 2021, 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 2021. VCPL is a mid-sized unlisted entity, with few branches (retail drug store) abroad and is not required to appoint a director under section 149(4). During the immediately preceding F.Y., its net worth was ₹ 280 crores, turnover was ₹ 590 crores and net profit was ₹ 45.8 crores. The profits and other information of the immediately preceding three years is given below:

Particulars	Year ended 31.3.2021 (₹ in crores)	Year ended 31.3.2020 (₹ in crores)	Year ended 31.3.2019 (₹ in crores)
Net Profit for the year as per section 198, including the below mentioned income.	45.8	52	35.8
Profit from foreign branches	1.8	9.1	5.4
Non-operating Income	8.6	2.7	0.8
Dividend Income	4.2*	0.0	2.4

\*Out of ` 4.2 crores, the amount of ` 1.8 crores is dividend received from a foreign company not having any place of business in India. The Board of Directors of VCPL is not clear whether they have to compulsorily form a CSR committee. In order to avoid adverse legal consequences, VCPL constitutes a CSR committee consisting of two (2) non-executive directors and one (1) executive director who was appointed as chairperson of the committee.

### **Multiple Choice Questions**

#### **4.1 In case of VFL, regarding the unpaid dividend, which of the following statements is correct?**

- a) VFL is guilty, of non-payment of dividend, because some of the dividends remain unpaid even after 30 days of declaration.
- b) VFL 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) VFL is guilty, because the list of beneficiaries does not contain the latest known address of beneficiaries and the amount unpaid.
- d) VFL is not guilty, because it has full-filled all the provisions of law pertaining to unpaid dividend.

#### **4.2 During the current year, is VCPL required to constitute CSR committee under section 135 of Companies Act 2013?**

- a) No, because it is a private company
- b) No, because it is an unlisted company and it has networth less than ` 500 crores
- c) Yes, because despite being unlisted company its turnover is above ` 500 crores
- d) Yes, because its net profit is above ` 5 crores

#### **4.3 In the case of VFL, what can be the maximum amount of dividends payable out of accumulated profits?**

- a) ` 109.8 crores
- b) ` 100 crores
- c) ` 42.3 crores
- d) ` 32.5 crores

#### **4.4 Considering the legal provisions regarding the constitution of CSR committee and the one constituted by VCPL, 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.

#### **4.5 What is the minimum amount to be spent by VCPL on CSR activities for F.Y. 2021-22?**

- a) ` 89.06 Lakhs
- b) ` 78.20 Lakhs
- c) ` 75.00 Lakhs



d) ₹ 73.80 Lakhs

### Answer Keys Question No. Answers

**4.1** (c) VFL is guilty, because the list of beneficiaries does not contain the latest known address of beneficiaries and the amount unpaid.

**4.2** (d) Yes, because its net profit is above ₹ 5 crores

**4.3** (d) ₹ 32.5 crores

**4.4** (d) Constitution of the committee is valid because company is not required to appoint an independent director.

**4.5** (c) ₹ 75.00 Lakhs

### Case Study 5

Mr. Abhinav Gyan is a techie and one of the promoters of Doon Technology Limited (DTL). He did his engineering from one of the prestigious IIT in Computer Science and then pursued his Masters in management from IIM. He started DTL fifteen years back. DTL is famous for advanced technologies such as artificial intelligence, blockchain solutions and many others. The company went public a decade ago, but has not been listed yet. DTL is expanding its operations in the wake of opportunities arising out of Industrial Revolution IV, therefore it wishes to retain the profit for reinvesting in the growth of the company, but the shareholders are seeking dividend based on the larger bottom line. The outbreak of COVID-19 was another reason which had forced the directors to retain the earnings. After the closure of books of accounts for the year, the directors proposed a final dividend of 10% against the expectation of 20% by shareholders. However, considering the extended lock-down which caused a delay in delivering the projects (resulting in deferment of revenue and additional cost), directors wished to revoke the dividend. The shareholders sought appointment of internal auditor for audit on a concurrent basis, whereas management of DTL stated that it does not require to appoint an internal auditor under the law and that this will cause an unnecessary financial burden on the company. The excerpts from financial statements of the preceding financial year are as under;

Particulars	Amount in crores
Paid-up share capital	45
Turnover	495
Outstanding loans or borrowings*	105
Outstanding deposits#	22

\*Includes inter-corporate loan of ₹ 25 crores. # up-till 31st January, the outstanding deposit was ₹ 30 crores. Mr. Gyan bought 40,000 shares of Time Consultancy Services Ltd. (TCS) of face value - ₹ 10 each, out of his savings. On such shares, the final call of ₹ 2 was due but remained unpaid by Mr. Gyan. In the meantime, TCS declared dividend at a rate of 15%. Out of the total dividend of ₹ 8.4 crores declared on 31st August 2021, ₹ 0.42 crores remained unpaid as on 30th September 2021. Out of such ₹ 0.42 crores, ₹ 12 lakhs are on account of the operation of law and ₹ 3 lakhs are on account legal disputes of right to receive dividend. The unpaid dividend of ₹ 0.42 lakhs was finally paid on 12th December 2021, in full. Mr. Gyan comes from a humble background; hence as part of his ethical commitment to uplift the society by promoting education to children of the economically weak section, he decided to form a section 8 company named Gyan Foundation around 2 years back with the support of a fellow professional, who later become a member of such a company. Receipts

were in excess of expenditure and hence, it was decided that Gyan foundation will declare some dividend to its members.

### **Multiple Choice Questions**

**5.1 Regarding unpaid call money by Mr. Gyan, in light of dividend due to him from TCS, state which of following the statements is correct?**

- a) Dividend cannot be adjusted against the unpaid call money
- b) The dividend of ` 60,000 can be adjusted against unpaid call money
- c) The dividend of ` 48,000 can be adjusted against unpaid call money, if consent is given by Mr. Gyan.
- d) The dividend of ` 48,000 can be adjusted against unpaid call money, even if consent is not given by Mr. Gyan.

**5.2 Does DTL is required to appoint Internal Auditor u/s 138 of Companies Act 2013?**

- a) No, because DTL is unlisted company
- b) No, because paid-up share capital is less than the prescribed limit
- c) Yes, because turnover and outstanding deposits have been more than the prescribed limit
- d) Yes, because outstanding loan has been more than the prescribed limit

**5.3 With reference to the declaration of dividend by Gyan Foundation, state which of following statements hold truth?**

- a) Gyan Foundation can declare dividend out of the capital as well
- b) Gyan Foundation can declare dividend either out of current years or previous years' profit, but need to transfer a certain % to reserve.
- c) Gyan Foundation can't declare the dividend because three years has not been elapsed since its incorporation.
- d) Gyan Foundation can't declare the dividend in any case.

**5.4 What will be the amount of penalty which TCS needs to pay under section 127 of the Companies Act, 2013?**

- a) Up-to ` 1000 per day till the default continues
- b) ` 64,800
- c) ` 97,200
- d) ` 1,08,000

### **Answer Keys Question No. Answers**

**5.1** (b) The dividend of ` 60,000 can be adjusted against unpaid call money

**5.2** (c) Yes, because turnover and outstanding deposits have been more than the prescribed limit

**5.3** (d) Gyan Foundation can't declare the dividend in any case.

**5.4** (c) ` 97,200

**Case Study 6**

Mr. Mohit Aggarwal is a director of Superior Carbonates and Chemicals Limited (SCCL). SCCL was incorporated by Mr. S. K. Aggarwal (father of Mr. Mohit) on 05th July, 1995, as a public company. SCCL accepts a loan of ₹ 1.5 crores from Mr. Mohit and the loan is expected to be repaid after twenty four months.

SCCL in its books of account, records the receipt as a loan under non-current liabilities. At the time of advancing loan, Mr. Mohit affirms in writing that such amount is not being given out of funds acquired by him by borrowing or accepting loans or deposits from others and complete details of such loan transaction is furnished in the boards' report. DBSL which is an unlisted public company, also proposed to accept the deposits from the public as on 1st November, 2021, which would be due for repayment on 30th September, 2026.

DBSL also accepts a LAP (Loan against property) for a term of 10 years from a financial institution on 18th June 2021. Charge was created on that day, but DBSL failed to register the charge with the registrar within the prescribed time.

The Registrar granted a grace period of further 30 days to DBSL in respect of application filed by it for the same, however, still it failed to register the charge within the prescribed time. Finally, the application for registration of charge was furnished on 18th August 2021. SCCL has registered office in Paonta-sahib (Himachal Pradesh) and corporate office is situated in Dehradun (Uttarakhand) but around 15% of total members whose name is entered in members register are residents of Nainital (Uttarakhand). SCCL has a liaison Office at Nainital. Management of the company is willing to place the register of members at the Nainital Liaison Office.

DBSL convene its 7th AGM on 10th September, 2021 at the registered office of the company. Notice for same was served on 21st August 2021. 78% of members gave consent to convening AGM at shorter notice due to ambiguity and possibility of another lockdown starting from 11th September 2021, on account of the Omicron variant of COVID-19.

**Multiple Choice Questions**

**6.1 Pick the right statement regarding SCCL's willingness to keep and maintain the register of members at the Nainital liaison office.**

- a) Register of members shall be kept at either registered office or within the same city that too after passing the resolution, hence SCCL is not correct in placing it at the Nainital liaison office
- b) Register of members cannot be kept at any other place by SCCL, without passing an ordinary resolution
- c) Register of members can be kept at Nainital liaison office, after passing a special resolution, because more than 1/10th of the total members entered in the register of members reside there
- d) Register of members cannot be kept at Nainital liaison office, even after passing a special resolution, because less than 1/20th of the total members entered in the register of members reside there

**6.2 With reference to deposit proposed to be accepted by DBSL and its duration, you are required to identify which of the following statements is correct:**

- a) There is no requirement relating to the duration of deposit, DBSL can accept deposit for any duration.
- b) Since DBSL is an unlisted company, provisions relating to the duration of the deposit are not applicable to it.

- c) There is a provision of a minimum duration of six months, but no upper cap to length is provided. Hence deposit proposed to be accepted by DBSL would be in compliance to provisions of Law.
- d) Acceptance of deposits by DBSL would be in violation of provisions of law, because the maximum period of acceptance of deposit cannot exceed thirty-six months.

**6.3 With reference to application to the registrar for registration of charge by DBSL, which of the following statements is correct?**

- a) The charge cannot be registered now, even if the Registrar permits the same.
- b) The charge can be registered, if registrar permits with payment of ad-valorem fees.
- c) The charge can be registered, if registrar permits but with payment of additional fees as prescribed.
- d) The charge can be registered, with payment of standard fees.

**6.4 With reference to the loan advanced by Mr. Mohit to SCCL, state whether the same is to be classified as a deposit or not?**

- a) Deposit, because any sum advanced by the director whether loan or otherwise is always classified as a deposit.
- b) Deposit, because the tenor of the loan is for a period of more than six months.
- c) Not a deposit, because such amount is recorded as loan in books of account of SCCL.
- d) Not a deposit, because the necessary written declaration is provided by Mr. Mohit in respect of such loan advanced to SCCL.

**6.5 Considering the provision relating to length of Notice for AGM, pick out the right option:**

- a) Notice served by DBSL is not valid, because notice given within a shorter duration has to be consented to by all the members entitled to vote at AGM.
- b) Notice served by DBSL is not valid, because notice given within a shorter duration has to be consented to, by atleast 95% of members entitled to vote thereat.
- c) Notice served by DBSL is valid because such shorter notice has been consented to, by 75% of members entitled to vote thereat.
- d) Notice served by DBSL is not valid, because notice given within shorter duration needs to be at-least consented by 50% of the members entitled to vote at the AGM and that too, in writing

**Answer Keys Question No. Answers**

- 6.1 (c) Register of members can be kept at Nainital liaison office, after passing a special resolution, because more than 1/10th of the total members entered in the register of members reside there
- 6.2 (d) Acceptance of deposits by DBSL would be in violation of provisions of law, because the maximum period of acceptance of deposit cannot exceed thirty-six months.
- 6.3 (b) The charge can be registered, if registrar permits with payment of ad-valorem fees
- 6.4 (d) Not a deposit, because the necessary written declaration is provided by Mr. Mohit in respect of such loan advanced to SCCL.
- 6.5 (b) Notice served by DBSL is not valid, because notice given within a shorter duration has to be consented to by at-least 95% of members entitled to vote thereat.

### Case Study 7

Dr. N. Kulshrestha is a renowned professional and a director on the Board of various companies. Two among these are Mount Electrolux Limited (MEL) and Rock Electronics Limited (REL). Both are unlisted public companies. MEL accepts a contract from State Power Corporation to replace electromechanical meters with automated ("smart") meters for residential connections and fixing them outside the properties. The expected duration of the project is 150 days.

MEL is presently considering alternate sources of finance. The Board of MEL is looking forward to inviting deposits of ₹ 80 crores, but Dr. Kulshrestha is of the opinion that deposits are meant for funding long term requirements and the present need is for the short term period. A special resolution to take prior consent for the same was duly passed and filed with ROC. Extracts from the latest audited financial statement of MEL are as follows:-

Particulars	Amount in crores
Turnover	980
Paid-up Share Capital	410
Free Reserve	240
Capital Redemption Reserve	120
Security Premium Account	150

REL purchased an immovable property for its corporate office from GDI (Goenka Developer and Infrastructure). An agreement to sell was entered on 21st August, 2021. On 31st August, 2021, property was registered in name of REL.

One-month after the date of registration, on 30th September 2021, REL comes to know that the title of such property was encumbered as there was a previous loan due to a financial institution, through a letter from such financial institution. In the said letter, it was mentioned that charge on such property was registered in the name of the financial institution from 16th May 2020 with the Registrar of Companies.

21st AGM of REL was concluded on 30th May 2020 for the financial year 2019-20. The 22nd AGM for considering the financial statements of the year 2020-21 could not be convened till 30th September, 2021 due to out-break of COVID-19. Hence an application for extension was filed with the ROC. The ROC granted extension of two months and finally the 22nd AGM was convened and conducted on 9th November 2021. At the said 22nd AGM, the chairman of the Board of Directors was not present.

In his absence, a member (Mr. Venugopal) having the largest voting right proposed that he be elected as a chairperson, and members holding the majority of voting rights were in favour of this. But on the show of hands, Mr. Anand was identified as chairman of the meeting.

The other members demanded for a poll. The board members present were unanimously willing to appoint Dr. Kulshrestha as chairperson of the meeting and Dr. Kulshrestha also agreed for the same. The Articles of Association of REL is silent regarding election of chairman at general meetings.

### Multiple Choice Questions (MCQs) [2 Marks each]

**7.1 With reference to convening 22nd AGM of REL, which of the following statements is correct?**

- ROC has to grant an extension of 3 months
- REL has complied with the legal provisions relating to holding the AGM, by convening the 22nd AGM with the period of extension.
- REL has failed to comply with the legal provisions because AGM must be held with six months from the end of the financial year in all cases.

- d) REL has failed to comply with the legal provisions because the time gap between 21st and 22nd AGM is more than 15 months

**7.2 With reference to the duration of deposits (if invited and accepted by MEL), you are required to resolve the query/opinion of Dr. Kulshrestha?**

- a) MEL has to accept deposits for a minimum duration of six months.
- b) MEL can accept the deposit for five months for the entire ₹ 80 crores.
- c) MEL can accept the deposit for five months but maximum up to ₹ 77 crores.
- d) MEL can accept the deposit for five months but maximum up to ₹ 65 crores.

**7.3 With reference to the encumbered nature of the property purchased by REL from GDI; identify the date from which REL has notice of charge against such property.**

- a) 16th May 2020
- b) 21st August 2021
- c) 31st August 2021
- d) 30th September 2021

**7.4 With reference to sourcing of funds by acceptance of deposits, apprise the eligibility of MEL.**

- a) MEL is eligible to accept deposits
- b) MEL is not eligible to accept deposits, because it is a listed public company
- c) MEL is not eligible to accept deposits, because it has a paid-up share capital of less than five hundred crores.
- d) MEL is not eligible to accept deposits, because it has a turnover of less than one thousand crores.

**7.5 With reference to the legal provisions, regarding chairman at AGM, in the context of 22nd AGM of REL; pick the right option.**

- a) Dr. Kulshrestha will be the chairperson, because present board members are unanimously willing to appoint him and it's the discretion of the board to accept the demand of poll or not.
- b) Mr. Anand will be the chairman of the meeting until conclusion, because he is elected through a show of hands.
- c) Mr. Anand will be the chairman of the meeting, but only until some other person is elected as Chairman as a result of a poll, if any.
- d) Mr. Venugopal will be the chairman of the meeting, because he is favoured by members holding the majority of voting rights.

### **Answer Keys Question No. Answers**

- 7.1** (b) REL has complied with the legal provisions relating to holding the AGM, by convening the 22nd AGM with the period of extension
- 7.2** (b) MEL can accept the deposit for five months for the entire ₹ 80 crores.
- 7.3** (a) 16th May 2020
- 7.4** (a) MEL is eligible to accept deposits
- 7.5** (c) Mr. Anand will be the chairman of the meeting, but only until some other person is elected as Chairman as a result of a poll, if any.

**Case Study 8**

Mr. Nitin Balwani is a finance professional and one of the promoters of Sind Chemicals Private Limited (SCPL) and director at Prism Telecommunication Limited (PTL). SCPL is a private company, whereas PTL is a listed public company. SCPL has 196 individual members, apart from: - 6 employees including 3 KMPs (out of which 2 are in service and 4 are currently retired) who have been given shares of SCPL out of ESOP as a part of their remuneration while in service and have thus, become members of SCPL. - Mr. A, Mr. B and Ms. C, who are joint owners of 1000 shares, Mr. X and Ms. Y, who are also joint owners of 1200 shares of SCPL. Mr. Balwani is of the opinion that SCPL has crossed the maximum limit for members in the case of a private company. SCPL is growing, and is funding this growth through private equity placement. Allotment of shares took place on 18th August 2021, after a valid invitation to subscribe to a selected group of persons. The return of allotment was duly filed with the Registrar against this private placement on 8th September 2021. SCPL doesn't have a separate corporate office and operates from its registered office itself. Considering the expanding operations, the need for better reach and the shortage of the available space in present premises, SCPL shifted its registered office to the capital city of its domicile state as stated in Memorandum of Association on 28th August 2021. Copy of the rent agreement executed in this connection was furnished to the ROC on 9th October, 2021, in the prescribed form, along with an ordinary resolution passed in this regard. PTL is expanding its network in the country, trying hard to reach remote villages and towns. Member's base is also increasing. PTL also required funds for expansion and decided to raise money through issue of secured debentures. Debentures redeemable after 12 years were allotted on 31st August 2021. Debenture trustees were duly appointed before the issue of letter of offer and debenture trust deed is executed on 9th November 2021. PTL gives loan of ₹ 12 Lakhs to its company secretary-cum-law officer, who is a Key Managerial Person (KMP) under section 203 of Companies Act, 2013; for purchase of fully paid-up shares of the company (PTL). The consolidated monthly salary of company secretary-cum-law officer at PTL is ₹ 1.5 lakhs.

**Multiple Choice Questions**

**8.1 With reference to shifting of registered office by SCPL, identify the correct option out of the statements mentioned below;**

- a) SCPL has complied with the legal provisions.
- b) SCPL should have passed special resolution instead of an ordinary resolution.
- c) SCPL should have furnished intimation to ROC within 30 days.
- d) SCPL should have passed special resolution instead of ordinary resolution and should have intimated the same to the ROC within 30 days.

**8.2 With reference to the legal validity of the issue of secured debenture by PTL, identify the correct statement out of the following:**

- a) PTL has complied with the legal provision relating to issue and allotment of secured debentures.
- b) PTL has failed to comply with the law because the redemption period of the debentures is 12 years and the debenture trust deed is executed on 9th November 2021.
- c) PTL has failed to comply with the law because the redemption period of the debentures is 12 years.

- d) PTL failed to comply with the law because the debenture trust deed is executed on 9th November 2021.

**8.3 Examine the legality of granting a loan to the company secretary-cum-law officer by PTL and pick the correct statement out of following.**

- a) Valid, because a loan is granted to acquire fully paid-up shares
- b) Invalid, because a loan is granted by the company to its KMP to acquire its own shares.
- c) Invalid, because the amount of loan granted is more than the amount equal to six months' salary.
- d) Invalid, because a loan has been granted by the company to its KMP and that too for an amount exceeding six months' salary to acquire its own shares.

**8.4 With reference to the requirement related to the maximum number of members in case of a private company, you are required to quantify the number of members:**

- a) 198 Members, because joint owners need to be considered as a single owner and members whose membership arises out employment will not be counted
- b) 201 Members, because joint owners will be counted in full and members whose membership arises out employment will not be counted
- c) 201 Members, because joint owners need to be considered as a single owner and members whose membership arises out employment as KMP will not be counted.
- d) 202 Members, because joint owners need to be considered as a single owner and members whose membership arises out of employment will not be counted provided they are in service.

**8.5 Evaluate the legal validity of the return of allotment filed by SCPL in respect of the private placement, by selecting the correct option.**

- a) Default, because the return needs to be filed by 2nd of September, the penalty is ` 6000/-
- b) Default, because the return needs to be filed by 2nd of September, the penalty is ` 12000/-
- c) No Default, because the return needs to be filed by 17th of September, hence no penalty
- d) No Default, because the return needs to be filed by 17th of October, hence no penalty

**Answer Keys Question No. Answers**

- 8.1** (d) SCPL should have passed special resolution instead of ordinary resolution and should have intimated the same to the ROC within 30 days.
- 8.2** (b) PTL has failed to comply with the law because the redemption period of the debentures is 12 years and the debenture trust deed is executed on 9th November 2021.
- 8.3** (d) Invalid, because a loan has been granted by the company to its KMP and that too for an amount exceeding six months' salary to acquire its own shares.
- 8.4** (a) 198 Members, because joint owners need to be considered as a single owner and members whose membership arises out employment will not be counted.
- 8.5** (a) Default, because the return needs to be filed by 2nd of September, the penalty is ` 6000/-.



## Case Study 9

Mr. I J Gulati is a renowned research scholar in the field of agricultural science and had worked as a professor in the Agricultural University of Rajasthan. Mr. Gulati possesses diverse experience in latest techniques in irrigation and shed farming with technological intervention. He joined the board of National Fertilizers Limited (NFL) and Doon Agro Products Limited (DAPL) as an expert advisor and was later elevated to director in both the companies. The share capital of NFL is divided into different classes of shares. NFL wants to entrust varied rights to the shares of a particular class, for this purpose they took consent in writing from  $\frac{3}{4}$ th of the holders of the issued shares of that class but didn't pass the special resolution. Although terms of issue of the shares of that class don't prohibit such a variation, the memorandum of the company does not contain any such provision regarding the variation of rights. Mr. Gulati incorporated OPC which helps farmers with forecasts on the weather, new agricultural techniques, various fund schemes including the opportunity of interest subsidies and subvention, marketing opportunities, gains in supporting the business of agro-products, etc. Mr. Porwal who was appointed as a nominee, decided to permanently settle down with his son in USA. Hence prior to leaving for the US, he wishes to withdraw his consent as nominee. NFL holds 54% of the total share capital of Doon Fertilizers Limited (DFL), by virtue of this, NFL can exercise voting rights equivalent to 48% of the total voting power at DFL. NFL can change the composition of the board because it can appoint 5 out of a total of 12 directors at the board of DFL. DAPL has decided to buy-back its own shares and the relevant extracts from the balance sheet of DAPL are given below:-

Liabilities	Amount (In crores)
Paid-up Share Capital (30 crores shares of ` 10 each, fully paid – up)	300
Reserve and Surplus (free reserves) 6% Secured Debentures	350
	1000

The current market price of a share is ` 20 and the buy-back price is expected to be either ` 21 or 22 per share. The company is proposing to buy back at-least 3 crores shares. Apart from secured debentures, there is an unsecured debt of ` 200 crores. Since the price of ` 21/ ` 22 was not acceptable to many members, it was felt that special resolution is not expected to be passed. Therefore, it was decided to pass a board resolution to effect the buy-back. Buy-back process was initiated on 18th August 2021 and completed on 9th September 2021. Mr. Gulati had heard somewhere that the shares bought back should be physically destroyed.

### Multiple Choice Questions

**9.1 With reference to buy-back process initiated by DAPL, identify the correct statement:**

- DAPL can buy-back 3 crores shares @ ` 22 per share, as it can buy-back up to 7.5 crores shares.
- DAPL cannot buy-back 3 crores shares @ ` 22 per share, because the maximum amount available for buy-back is 65 crores.
- DAPL can buy-back 3 crores shares @ ` 21 per share, because the maximum amount available for buy-back is 65 crores.
- DAPL cannot buy-back 3 crores shares, even @ ` 21 per share.

**9.2 Identify the correct statement out of the following, regarding the status of DFL and its relationship with NFL**

- DFL is a subsidiary of NFL, as NFL holds more than 50% of the total share capital of DFL
- DFL is a subsidiary of NFL, as NFL can affect the composition of the board at DFL

- c) DFL is a subsidiary of NFL, as NFL holds more than 50% of the total share capital of DFL and can affect the composition of the board at DFL
- d) DFL is not a subsidiary of NFL

**9.3 Examine the legality of variation of rights in respect of a particular class of shares by NFL & pick the correct statement out of the following regarding validity of variation of shareholders' rights and compliance by NFL:**

- a) Invalid, because variation of shareholders' right is not allowed by law.
- b) Variation of shareholders' rights is valid, and necessary legal compliances are also met in full.
- c) Variation of shareholders' rights is valid, but NFL has failed to comply with the necessary requirement i.e. passing a special resolution at a separate meeting of the holders of the issued shares of that class.
- d) Variation of shareholders' rights is valid, but NFL is not authorized to entrust the same because its memorandum doesn't allow for the same.

**9.4 Mr. Porwal can withdraw his consent as a nominee, by giving written notice to**

- a) The sole member of the company
- b) Registrar of companies
- c) The sole member of company and to OPC
- d) OPC and to Registrar of companies

**9.5 By selecting the correct option, evaluate the legal validity of physically destroying the shares which were bought back by DAPL assuming all the conditions for such buyback are satisfied by DAPL.**

- a) DAPL is not legally required to physically destroy the shares
- b) DAPL shall extinguish and physically destroy the shares within a reasonable time after completion of the process of buy-back
- c) DAPL shall extinguish and physically destroy the shares by 16th September 2021
- d) DAPL shall extinguish and physically destroy the shares by 24th September 2021

### **Answer Keys Question No. Answers**

**9.1** (d) DAPL cannot buy-back 3 crores shares, even @ ` 21 per share.

**9.2** (d) DFL is not a subsidiary of NFL

**9.3** (b) Variation of shareholders' rights is valid, and necessary legal compliances are also met in full.

**9.4** (c) The sole member of company and to OPC

**9.5** (c) DAPL shall extinguish and physically destroy the shares by 16th September 2021.

### **Case Study 10**

Mr. Manoj Samwal is retired chief librarian from Central University of Technical Education. After retirement, he joined his family business as a whole-time director of Samwal Paper Mill Limited (SPML). Mr. Manoj also incorporated another company Doon Printers and Publishers Limited (DPPL), which is engaged in printing and publishing books of academic and professional importance. Assets of SPML were charged in favour of a financial institution as collateral for a loan. Due to default in the re-payment of the amount due, financial institutions has moved the court. The court

appointed Mr. Rawat as a receiver in its order dated 9th November, 2021. A copy of the order was received by him on 12th November 2021. DPPL is growing its business, for which it requires funds. After considering the available sources of funds and the cost of capital, DPPL decided to raise funds through the public deposit route. DPPL accepted deposits on 1st September 2021 by creating a charge on its assets.

During his employment, Mr. Manoj promoted a company for the purpose of promoting the customs, traditions, and language of the Garhwal region of Uttarakhand, the said company was licensed under section 8 with the name National Book Depot Foundation (NBD) alongwith his friends and relatives. Due to terms of his employment, he kept himself away from the management and operational activities of NBD. But now he has started participating in the management and daily operations of NBD, which is mainly engaged in the publication as well as the distribution of books based on Garhwal culture, the religious importance of Uttarakhand, and the opportunity for tourism. NBD has a registered office in Haridwar.

NBD organized a book fair at Garhwal Mandal Hall in Mussoorie, situated in the foothills of the Garhwal Himalayan range in Dehradun district of Uttarakhand. Mr. Manoj felt that if NBD conducts its AGM at the place where book fair is conducted, book fair will be a big hit as members could also enjoy and witness the culture Garhwal. There would also be a saving of cost. He therefore proposed this suggestion to the board of NBD.

Board of directors at NBD decided to convene AGM at Mussoorie during the book-fair. No directions with respect to place of AGM have been given to the Board of directors by the company at any of its general meetings.

Mr. Barthwal, one of the members of NBD found it difficult to attend the AGM, and so he authorized his son-in-law, Mr. Negi, a member as his proxy. Mr. Negi is a foreign national and was in India due to certain family ceremonies. Mr. Negi attended the meeting where he demanded a poll. The said meeting was adjourned to the next week, Mr. Negi attended the adjourned meeting too, where he requested to inspect the minute book.

### **Multiple Choice Questions**

#### **10.1 With reference to holding AGM at Mussoorie by NBD, identify the correct statement.**

- a) NBD has violated the provisions of the Act and is guilty because AGM can be held only at the registered office or at any other place in the same city.
- b) NBD is legally correct because the board of directors is authorized in this regard and hence their decision shall prevail.
- c) NBD can hold a meeting at a place outside the city in which registered office is situated, only after passing a special resolution and obtaining the permission of the central government.
- d) NBD has to get consent from all the members in writing or through electronic mode in advance to convene AGM at a place other than the city in which the registered office is situated.

#### **10.2 DPPL needs to register the charge by;**

- a) 16th September, 2021
- b) 1st October, 2021
- c) 16th October, 2021
- d) 31st October, 2021

**10.3 In furtherance to a court order regarding the appointment of Mr. Rawat as a receiver, Mr. Rawat shall give notice (along with a copy of the order) of such appointment to**

- a) The company by 9th December, 2021
- b) The company and the registrar by 9th December, 2021
- c) The company by 12th December, 2021
- d) The company and the registrar by 12th December, 2021

### **Answer Keys Question No. Answers**

**10.1** (b) NBD is legally correct because the board of directors is authorized in this regard and hence their decision shall prevail.

**10.2** (b) 1st October, 2021

**10.3** (b) The company and the registrar by 9th December, 2021

### **Case Study 11**

NAGARJUN AIRCONDITIONERS LTD. (NAL) is a contract manufacturing company incorporated on 1.2.2021 with the primary objective of manufacturing a full range of residential, commercial and portable air conditioners for renowned brands in India. NAL is a family owned unlisted public company, limited by shares. NAL has its registered office in Hyderabad, Telangana and marketing offices in four metropolitan cities at New Delhi, Kolkata, Mumbai and Bengaluru. SAMUGA, one of the seven members, who also had subscribed to the memorandum of association of NAL, unfortunately met with a road accident and expired on 31.03.2021.

All the remaining members attended the funeral. Business was as usual thereafter. All the members, as was the usual practice, were kept informed from time to time regarding all the important matters and issues relating to the company without fail by the CFO cum Company Secretary NIRANJAN. The Company continued its business only with its exiting other members for the next few months.

SUGUNA, the wife of SAMUGA was taken as a member of NAL on official records only on 20.12.2021. Meanwhile, NAL borrowed unsecured loans of ` 15 crores repayable on demand for meeting working capital needs between the period 15.10.2021 to 15.12.2021 from one of its directors.

MUDDU KRISHNA, who is only a family friend, but not a family member. The unsecured loan was borrowed with the stipulation of interest @10% p.a. payable on monthly basis on the outstanding amount(s) to MUDDU KRISHNA, until the demand for payment of principal is made in writing to the company. However, MUDDU KRISHNA, because of his strained relationship with NAGARJUN, the managing director of NAL, resigned as a director of the company on 31.12.2021 and demanded immediate repayment of the entire sum of ` 15 crores lent by him to NAL with interest of 10% p.a.

NAL followed delaying tactics, which finally resulted in MUDDU KRISHNA suing NAGARJUN severally for the entire debts owed by NAL to him, since he was the head of the family. There was no unpaid amount of NAGARJUN on the shares held by him of NAL.

MUDDU KRISHNA is also the member of One Person Company (OPC) MUDDU KRISHNA AGRO INDUSTRIES (OPC) PVT LTD. The OPC has been incorporated since the last one year. The Turnover of the OPC during the last financial year was ` 1 Crore. The paid up capital of the Company increased to ` 55 Lacs from ` 5 Lacs as on 15.01.2022. MUDDU KRISHNA after leaving the directorship with NAL continued his business as the member of his OPC. Years passed. Size of the business and share capital of NAL substantially increased. NAL plans to go for expansion in its capacity, keeping in mind export market, which required about ` 25 crores.

NAL started looking for various options for financing. One of the options considered was offer or invitation for subscription of equity through private placement. The Board identified a select group

of 50 persons and issued private placement offer and applications after passing a special resolution at a general meeting and also after duly following the required procedure under the corporate laws. Monies received on application were kept in a separate bank account with Canara Bank. However, for some reasons NAL could not allot the equity shares within a period of 60 days from the date of receipt of the application money. The private placement plan was effectively cancelled, duly following the required procedure.

NAL later opted for bank loans to finance the expansion. NAL is authorized by its articles of association to accept whole or any part of the amount of remaining unpaid calls from any member, although till date, no part of that amount has been called up.

NARESH, one of the shareholders deposited in advance the remaining amount due on his shares without any calls made by NAL. NAL declared dividend during the year after such advance money was paid by NARESH. NARESH wanted to exercise his voting rights also in respect of call money paid in advance at the general meeting.

BHUSHAN AIRCONDITIONERS PVT LTD (BAPL) has been holding 5% equity in NAL, since February 2018. During the month of February 2022, NAL invested in 70% equity shares of BAPL. NAGARJUN wants to understand from NIRANJAN the implications of 5% holding of BAPL.

### **Multiple Choice Questions (MCQs)**

**11.1 (i) The Board identified select group of 50 persons and issued private placement offer and applications duly following the required procedure under the corporate laws.**

- a) Public at large is to be informed about such an issue through release of public advertisement through utilizing any media, marketing, distribution channels or agents;
- b) A release of public advertisement in any local newspaper and one national newspaper informing private placement is sufficient.
- c) No company issuing securities under private placement shall release any public advertisements or utilize any media, marketing or distribution channels or agents to inform the public at large about such an issue.
- d) Informing the public at large through advertisement or otherwise is optional and the Board of Directors by passing a Board Resolution may decide the matter.

**(ii) However, for some reasons NAL could not allot the equity within a period of 60 days from the date of receipt of the application money.**

- a) The company shall repay the application money to the subscribers within 15 days from the expiry of 60 days and if the company fails to repay the application money within the aforesaid period, it shall also be liable to repay the money with interest @ 18% PA from the expiry of the 75th day;
- b) Since Private Placement, NAL can take further 60 days time with the subscribers agreeing to pay interest @18% PA from the extended date until the actual allotment.
- c) The company shall repay the application money to the subscribers within 15 days from the expiry of 60 days and if the company fails to repay the application money within the aforesaid period, it shall also be liable to repay the money with interest @ 12% PA from the expiry of the 60th day;
- d) The company shall repay the application money to the subscribers within 15 days from the expiry of 60 days and if the company fails to repay the application money within the aforesaid

period, it shall also be liable to repay the money with interest @ 12% PA from the expiry of the 75th day.

**11.2 NARESH, one of the shareholders deposits in advance the remaining amount due on his shares without any calls made by NAL. (i) NAL declared dividend during the year.**

- a) NARESH is not entitled to any dividend in respect of call money paid in advance;
- b) NARESH is entitled to proportionate dividend in respect of call money paid in advance, if authorized by a Board Resolution;
- c) NARESH is entitled to proportionate dividend in respect of call money paid in advance, if authorized by an Ordinary Resolution in a general meeting;
- d) NARESH is entitled to proportionate dividend in respect of call money paid in advance, if authorized by Articles of Association.

**(ii) NARESH wanted to exercise his voting rights also in respect of call money paid in advance in a general meeting;**

- a) NARESH can exercise his voting rights also in respect of call money paid in advance in a general meeting, since the relevant shares have been fully paid up.
- b) There would be no voting rights on that advance amount of NARESH in a general meeting till the amount is duly called for and adjusted;
- c) NARESH can exercise his voting rights also in respect of call money paid in advance in a general meeting, if agreed by a Board resolution.
- d) NARESH can exercise his voting rights also in respect of call money paid in advance in a general meeting, if agreed by an Ordinary resolution of Members.

**11.3 NAGARJUN wanted to understand from NIRANJAN the implications of 5% holding of BAPL.**

- a) BAPL shall surrender its 5% equity holding to NAL immediately once it becomes the subsidiary of NAL;
- b) BAPL shall transfer its 5% equity holding to any nominees of NAL before it becomes the subsidiary of NAL;
- c) BAPL shall immediately transfer its 5% equity holding to any other legal person or entity before investment by NAL;
- d) BAPL may continue to hold 5% equity holding in NAL.

**Answer Keys Question No. Answers**

**11.1 (i) (c)** No company issuing securities under private placement shall release any public advertisements or utilize any media, marketing or distribution channels or agents to inform the public at large about such an issue.

**11.1 (ii) (c)** The company shall repay the application money to the subscribers within 15 days from the expiry of 60 days and if the company fails to repay the application money within the aforesaid period, it shall also be liable to repay the money with interest @ 12% PA from the expiry of the 60th day.

**11.2 (i) (d)** NARESH is entitled to proportionate dividend in respect of call money paid in advance, if authorized by Articles of Association

**11.2 (ii)** (b) There would be no voting rights on that advance amount of NARESH in a general meeting till the amount is duly called for and adjusted

**11.3 (d)** BAPL may continue to hold 5% equity holding in NAL.

### Case Study 12

It was time for Triveni Kitchen and Home Gadgets Limited (TKHGL) based at Kozhikode, Kerala to redeem 30,000 redeemable preference shares of ₹ 100 each at a premium of ₹ 30 per share. These preference shares were issued five years back in January, 2017 i.e. during the Financial Year 2016-17 to finance the purchase of a state-of-the art compact plant which would replace certain worn-out machineries responsible for higher production costs. As a complimentary gesture, the employees who were required to operate the newly purchased plant were given the requisite training of fifteen days by the seller of the plant without any charge. Triveni is an established name in the world of kitchen and home gadgets with twelve years of presence – be it pressure cook wares, cooktops, grinders, OTGs, Microwaves, Built-in Gas HOBs, or kitchen hoods, to name a few. It was clarified by Shipra Dass, the financial controller of the company, that the profits were sufficient to meet the resultant liability arising out of the redemption of preference shares at a premium. Therefore, the redemption was carried out of the profits which were otherwise available for declaration of dividend to the shareholders of the company. After the redemption of preference shares, a requisite amount was transferred out of profits to Capital Redemption Reserve Account. As on the date of redemption, no liability on account of dividend payment to the preference shareholders was existing. It may be noted that the company was incorporated with an Authorised Capital of ₹ 250.00 lakhs divided into twenty-two lakhs equity shares of ₹ 10 each and 30,000 redeemable preference shares of ₹ 100 each. The equity shares were fully subscribed at the time of incorporation but the preference shares were issued as fully paid-up only five years back. The reserves of Triveni consisted of General Reserves, Dividend Equalisation Fund, Workmen Compensation Reserve and Investment Fluctuation Reserve. Included in the list of non-current assets were Land and Building, Plant and Machinery, Vehicles, and Furniture and Fixtures. Earlier, for the Financial Year 2020-21, the company had declared a dividend of ₹ 4 per share at its Annual General Meeting held on 7th September, 2021. However, a dividend of ₹ 42,000 payable on 10,500 equity shares remained unclaimed even after the expiry of statutory period within which dividend was required to be paid. The company owned a plot of land in Kochi, a prominent urban area of Kerala which was purchased by it after the date of its incorporation. As the property rates were going up, it was decided by Hariharan Nair, Venkatesh, Siva Kumar and Balakrishnan, the directors of the company, to revalue the plot during the current financial year 2021- 22. It was found that the fair market value of the plot was approximately six times the original price based on a moderate estimate. This resulted in a revaluation profit of ₹ 75.00 lakhs. The directors are contemplating to use the revaluation profit of ₹ 75.00 lakhs along with other distributable profits for declaration of dividend in the next Financial Year.

### Multiple Choice Questions

**12.1** Out of the given options, which should be the purpose for which amount lying to the credit of CRR Account can be utilised:

- a) Amount lying to the credit of CRR Account cannot be utilized for any purpose during the life-time of the company.
- b) Amount lying to the credit of CRR Account can be utilised for issuing fully paid-up bonus shares to the members of the company.
- c) Amount lying to the credit of CRR Account can be utilised for declaration of dividend.

- d) Amount lying to the credit of CRR Account can be utilised for paying up fresh issue of debentures to the members and such debentures shall be redeemed only after ten years from the date of issue.

**12.2 State the period within which the company must have transferred the unpaid dividend amount to a special account opened by it in that behalf in a scheduled bank.**

- a) Within three days after the expiry of the statutory period within which dividend was required to be paid.
- b) Within five days after the expiry of the statutory period within which dividend was required to be paid
- c) Within seven days after the expiry of the statutory period within which dividend was required to be paid.
- d) Within ten days after the expiry of the statutory period within which dividend was required to be paid.

**12.3 How much amount the company would have transferred to Capital Redemption Reserve (CRR) Account?**

- a) ` 39,00,000
- b) ` 30,00,000
- c) ` 19,50,000
- d) ` 15,00,000

**12.4 Please advise the directors with respect to use of the revaluation profit.**

- a) The directors can use the revaluation profit of ` 75.00 lakhs along with other distributable profits for declaration of dividend.
- b) The directors cannot use the revaluation profit of ` 75.00 lakhs along with other distributable profits for declaration of dividend.
- c) The directors can use only 75% of the revaluation profit of ` 75.00 lakhs along with other distributable profits for declaration of dividend.
- d) The directors can use only 50% of the revaluation profit of ` 75.00 lakhs along with other distributable profits for declaration of dividend.

**12.5 If the company had decided not to utilise such profits for the purpose of redemption which other option could it have used for accomplishing such redemption?**

- a) No other option is available for the purpose of redemption of preference shares except profits which are otherwise available for declaration of dividend to the shareholders of the company.
- b) Out of the proceeds of a fresh issue of shares made for the purpose of redemption of preference shares.
- c) Out of the proceeds of a fresh issue of debentures to be redeemed only after ten years.
- d) Out of the proceeds of a long-term loan raised from the bankers of the company for the purpose of redemption of preference shares.



**Answer Keys Question No. Answers**

- 12.1** (b) Amount lying to the credit of CRR Account can be utilised for issuing fully paid-up bonus shares to the members of the company.
- 12.2** (c) Within seven days after the expiry of the statutory period within which dividend was required to be paid.
- 12.3** (b) ` 30,00,000
- 12.4** (b) The directors cannot use the revaluation profit of ` 75.00 lacs along with other distributable profits for declaration of dividend.
- 12.5** (b) Out of the proceeds of a fresh issue of shares made for the purpose of redemption of preference shares.

**Case Study 13**

Vishal Crockery Limited was incorporated on 24th September, 2014 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, the company had reached new heights of success. There were eight directors in the company including the CMD out of which two were independent directors. The turnover of the company for the Financial Year 2020-21 was ` 750.00 crores – a whopping rise of more than 20% from the previous year and the net profit stood at an impressive figure of ` 6.60 crores – an increase of ` 1.80 crores as compared to the net profit of the previous year. The company had a net worth of ` 250.00 crores; and it was noticed that the net worth had also registered a northernwestern trend by more than 15%. The authorised and paid-up share capital of the company was ` 8.00 crores. Keeping in view the applicability of forming a CSR Committee for the current financial year 2021-22, a CSR Committee was formed with four directors as members of which one was an independent director. The Committee was, among other objectives, given the responsibility of formulating and recommending to the Board, a Corporate Social Responsibility Policy which would indicate the activities to be undertaken by the company within the framework specified in Schedule VII. The company plans to diversify its business by adding another segment to manufacture steel utensils and therefore, is desirous of shifting its registered office to Mumbai from Jaipur which will help the company in carrying on the new business effectively. Another strategically important segment which the company tapped earlier and now wishes to engage itself in on a large scale relates to manufacturing of stationery items. The company hopes that with the shifting of registered office to Mumbai, it will be able to target international markets to export its quality products. As on date, the export turnover of the company is not 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 wealth maximisation. During the current Financial Year 2021-22, the company provided ample support for improvement of infrastructure in schools established at Mumbai, Kanpur, Delhi and Ludhiana as part of its CSR activities. In addition, the company contributed towards establishment of Digital Smart Classroom, Libraries and computer labs in these cities. The company also deployed mobile medical units 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 amount prescribed and it is hoped that as the F.Y. 2021-22 approaches its end, the total spending on CSR activities will certainly exceed the budgeted figure. Vishal Crockery Limited 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.

### **Multiple Choice Questions [2 Marks each]**

**13.1 Which of the following factors would have prompted Vishal Crockery Limited to mandatorily form a Corporate Social Responsibility (CSR) Committee for the current financial year?**

- a) The net profit had increased to ` 6.60 crores during F.Y. 2020-21 and it was more by ` 1.80 crores in comparison to previous year's net profit.
- b) The turnover was ` 750.00 crores during F.Y. 2020-21 which was an increase of more than 20% as compared to the previous year.
- c) The net worth was ` 250.00 crores during F.Y. 2020-21 which when compared to the previous year had registered an increase by more than 15%.
- d) The paid-up share capital was ` 8.00 crores during F.Y. 2020-21.

**13.2 What is the time period within which, the Central Government shall dispose of the application filed by the company for shifting of its registered office to Mumbai in Maharashtra?**

- a) within thirty days
- b) within forty-five days
- c) within sixty days
- d) within ninety days

**13.3 What is the minimum amount (in percentage) that Vishal Crockery Limited is required to spend during the Financial Year 2021-22 on the CSR activities?**

- a) 2% of the average net profits made during the two immediately preceding financial years.
- b) 2% of the average net profits made during the three immediately preceding financial years.
- c) 2.5% of the average net profits made during the two immediately preceding financial years.
- d) 2.5% of the average net profits made during the three immediately preceding financial years.

**13.4 What should be the established track, Section 8 company should have in undertaking similar programs or projects which Vishal Crockery Limited wants it to accomplish?**

- a) Track record of minimum one year
- b) Track record of minimum two years
- c) Track record of minimum three years
- d) Track record of minimum four years

### **Answer Keys Question No. Answers**

**13.1** (a) The net profit had increased to ` 6.60 crores and it was more by ` 1.80 crores in comparison to previous year's net profit.

**13.2** (c) within sixty days

**13.3** (b) 2% of the average net profits made during the three immediately preceding financial years.

**13.4** (c) Track record of minimum three years

**Case Study 14**

Satyavaan Expert Packers and Movers Limited, a reliable and well established company, was incorporated on 20th September, 2014 with an aim to provide convenient and innovative ways of moving customers' household items, re-location of businesses and offices, shifting of vehicles, etc. in the northern region. Their services have been professionally designed to ensure maximum customers satisfaction. The company had been formed by the directors Vijay Khanna, Pranav Chaturvedi, Vansh Khurana, Roopali Datta and Shikha Kumar whose friendship had developed during their college days. By dint of hard work and their business acumen, the promoters had successfully created a niche for themselves amid cut-throat competition. The company has a fleet of over 500 vehicles, 55 branches, several professionals and technical and non-technical employees. Over a period of time, Satyavaan has become a trusted brand, and prospective customers prefer to engage it, whenever they want to relocate their offices or homes, since services are provided in a convenient and cost-effective manner. The authorised capital of the company is ` 150.00 lakhs divided into 15,00,000 equity shares of ` 10 each. At the time of incorporation, its paid-up capital was ` 1,00,00,000 and there were 50 shareholders. The registered office of the company is situated in Green Park, Kanpur. With a view to provide world-class relocation and moving solutions throughout the country, the directors decided to enlarge the capital base of the company. During the mid of the current financial year, it offered remaining 5,00,000 shares to another 120 persons at a premium of ` 10 per share on private placement basis. Among others, Ria, a freelance software consultant and her younger sister Ruchi, a management consultant in Infratech Solutions Limited which is wellknown company for its high export turnover, were also identified as the prospective subscribers. Similar requests were also received from another twelve persons. Their requests were given due consideration by the directors. All the identified persons who were offered shares paid the required amount (including premium) as per the terms of the offer. The allotment of the shares was made much before the statutory period. Immediately after the aforesaid allotment of shares, the company rolled out its expansion plan as envisaged earlier and utilised the funds so obtained for the requisite purpose. However, the company is desirous of tapping more prospective investors by offering them equity shares on private placement basis during the remaining part of the current financial year. For this purpose, it was proposed to increase the authorised capital from the present ` 150.00 lakhs to ` 300.00 lakhs. In addition to the further allotment of shares on private placement basis, the company is also contemplating to raise deposits from the members. However, Vijay Khanna and Roopali Datta are of the opinion that the company should consider raising of deposits only in the next financial year since the funds already raised need to be properly utilized.

**Multiple Choice Questions**

**14.1 What is the maximum period statutorily allowed within which the allotment of such 5,00,000 shares must be made by the company:**

- a) Shares must be allotted within 30 days of the receipt of application money towards such shares.
- b) Shares must be allotted within 45 days of the receipt of application money towards such shares.
- c) Shares must be allotted within 60 days of the receipt of application money towards such shares.
- d) Shares must be allotted within 90 days of the receipt of application money towards such shares.

**14.2 In case, the company also contemplates to raise deposits from public in addition to its members, which of the following option is applicable, apart from satisfying other conditions:**

- a) In order to raise deposits from public besides members, the company should have net worth of minimum ` 100 crores and a turnover of minimum ` 500 crores.
- b) In order to raise deposits from public besides members, the company should have net worth of minimum ` 150 crores and a turnover of minimum ` 250 crores.
- c) In order to raise deposits from public besides members, the company should have net worth of minimum ` 150 crores or a turnover of minimum ` 750 crores.
- d) In order to raise deposits from public besides members, the company should have net worth of minimum ` 100 crores or a turnover of minimum ` 500 crores.

**14.3 How many more such prospective shareholders can be invited by the company for investment in the capital of the company under private placement, if such offer is not to be made to qualified institutional buyers or to employees of the company under ESOP?**

- a) The company can offer equity shares maximum up to the 30 prospective shareholders in the remaining part of the current financial year.
- b) The company can offer equity shares maximum up to the 55 prospective shareholders in the remaining part of the current financial year.
- c) The company can offer equity shares maximum up to the 80 prospective shareholders in the remaining part of the current financial year.
- d) The company can offer equity shares maximum up to the 130 prospective shareholders in the remaining part of the current financial year.

**14.4 State the time period within which the company is required to refund the application money to the subscribers if it had failed to allot the shares within the statutorily allowed period.**

- a) The application money must be refunded within sixty days from the expiry of statutorily period allowed within which the allotment of shares ought to have been made.
- b) The application money must be refunded within fortyfive days from the expiry of statutorily period allowed within which the allotment of shares ought to have been made.
- c) The application money must be refunded within thirty days from the expiry of statutorily period allowed within which the allotment of shares ought to have been made.
- d) The application money must be refunded within fifteen days from the expiry of statutorily allowed period within which the allotment of shares ought to have been made

### **Answer Keys Question No. Answers**

**14.1** (c) Shares must be allotted within 60 days of the receipt of application money towards such shares.

**14.2** (d) In order to raise deposits from public besides members, the company should have net worth of minimum ` 100 crores or a turnover of minimum ` 500 crores.

**14.3** (c) The company can offer equity shares maximum up to the 80 prospective shareholders in the remaining part of the current financial year.

**14.4** (d) The application money must be refunded within fifteen days from the expiry of statutorily allowed period within which the allotment of shares ought to have been made.

**Case Study 15**

Ratnakar Cement Manufacturers and Traders Limited (RCMTL) having its registered office at Connaught Place, New Delhi was registered with an Authorised Share Capital of ` 5,00,00,000 divided into 50,00,000 shares of ` 10 each. As on date, its paid-up share capital is ` 4,00,00,000 (40,00,000 shares of ` 10 each) and its securities premium account has a balance of ` 40,00,000. Its cement manufacturing plants are located at Faridabad (Haryana), Raebareli and Haldwani (Uttar Pradesh), Rudrapur (Uttarakhand) and Chanderia (Rajasthan). The company which produces cement under the brand name 'Ratnakar Cement', has expertise in manufacturing 53 Grade Ordinary Portland Cement that is used mainly in RCC and pre-stressed concrete of higher grades; but in case of plant located at Faridabad, the company also additionally manufactures Portland Pozzolana Cement (PPC) and White Cement. Having higher degree of fineness and corrosion-resistant quality, PPC, manufactured by the company, is responsible for making the concrete more denser. Besides, due to its distinct impermeable excellence, PPC is preferred over ordinary cement for mass concreting work and therefore, RCMTL has a sizeable market to cater. The integrated network of traders pan India which RCMTL commands helps it in achieving its annual sales targets almost every year. Except Faridabad cement plant which is of recent origin having state-of-the-art machinery, all other plants were taken over by the RCMTL at different time intervals from other cement manufacturers; and now they either need renovation or replacement. Further, on the basis of market survey, RCMTL has gathered data which indicates that there is heavy demand for Sulphate Resisting Portland Cement (SRC) which is mainly used for foundation work, construction of basements and underground structures, sewage and water treatment plants, etc. where due to water or soil, 'sulphate attack' is more than anticipated. Thus, in addition to catering to the increasing demand for PPC, RCMTL is also desirous of manufacturing Sulphate Resisting Portland Cement (SRC). In view of these developments, the company has plans for upgrading its Rudrapur cement manufacturing plant by installing an ultra-modern unit so that it can also manufacture SRC and compete effectively with its competitors by providing high-quality cement across the whole range of different qualities currently available in the markets both in India and abroad. The banking needs of RCMTL are mainly fulfilled by the National Commercial Bank Limited. It can finance fifty percent of the cost of plant from its own resources but the remaining fifty percent of cost can be financed only by availing loan from National Commercial Bank Limited with whom it is banking since its incorporation. The loan proposal prepared by RCMTL for part financing the cost of ultra-modern cement plant against the security of factory land and building situated at Rudrapur as well as yet to be purchased ultramodern plant, with a view to avail loan from National Commercial Bank Limited (NCBL) stands sanctioned by the Head Office of NCBL; and the sanction has been conveyed by the Connaught Place branch of NCBL to RCMTL.

**Multiple Choice Questions**

**15.1 Which kind of charge shall be created by the NCBL on the assets of the company to be secured?**

- a) Fixed Charge
- b) Floating Charge
- c) Either Fixed or Floating Charge as desired by RCMTL
- d) Partly fixed and partly floating charge

**15.2 Which Registrar of Companies needs to be approached for the registration of charge created in favour of NCBL concerning the securities offered by RCMTL?**

- a) ROC of Uttar Pradesh and Uttarakhand as the securities are located at Rudrapur (Uttarakhand)

- b) ROC of Delhi and Haryana since RCMTL has registered office at Connaught Place, New Delhi
- c) As per the discretion of RCMTL, any of the ROCs can be approached
- d) ROC of West Bengal since the Head Office of NCBL which has sanctioned loan is situated at Kolkata

**15.3 What is the time limit for within which this charge must be registered with the respective ROC?**

- a) Within 10 days of creation of charge
- b) Within 15 days of creation of charge
- c) Within 30 days of creation of charge
- d) Within 60 days of creation of charge

**15.4 Advise the company, in next how many days, the charge can be permitted to be registered assuming that the charge was created after 02-11-2018 if due to some unintended mistake, RCMTL could not register the charge created on its fixed assets in favour of NCBL within the statutory period primarily allowed?**

- a) Within next 10 days
- b) Within next 15 days
- c) Within next 20 days
- d) Within next 30 days

**Answer Keys Question No. Answers**

**15.1** (a) Fixed Charge

**15.2** (b) ROC of Delhi and Haryana since RCMTL has registered office at Connaught Place, New Delhi

**15.3** (c) Within 30 days of creation of charge

**15.4** (d) Within next 30 days

**Case Study 16**

Green Pepper Films and Media Limited (GPFML), a major and well-established entertainment company, is engaged in the activities relating to production of TV programmes, distribution of motion pictures, etc. It has its own privately-owned studio facility which is used to produce films either by the company or by other players belonging to film industry. The company was formed by Sourabh Sharma, Vaishnavi Valsara, Hiten Chaudhary and Ritwik Chopra - a team of core media professionals as an integrated media house in 2010; the quartet is also the directors on the board of the company. Later on, Vaishnavi transferred 1,00,000 equity shares held by her to Vasant, her cousin, who is based at London. GPFML has become one of the leading TV production houses in the country with the passage of time. The authorized capital of the company is ₹ 5.00 crores divided into 4,00,00,000 equity shares of Re. 1 each and 1,00,000 8.5% non-cumulative preference shares of ₹ 100 each. Initially, the company issued 75% of its equity shares which were fully subscribed. Around 70% of equity shares issued so far are held by the four promoters and their relatives. In the year 2021, the company issued 50,000 preference shares of ₹ 100 each to its existing shareholders by augmenting its authorised share capital, on which, as per the terms which were already approved by the shareholders, 8.5% p.a. dividend was payable when declared. It may be noted that the company had also issued the remaining 1,00,00,000 equity shares with a view to raise funds for TV software development. For the financial year, 2021-22, the Board of Directors proposed to declare a dividend of ₹ 3 per equity share. It was ensured that only the residual profits remaining after making

payment of dividend to the preference shareholders at 8.5% were to be utilised for making payment of dividend to the equity shareholders. As the residual profits were sufficient to meet the liability arising on payment of dividend of ₹ 3 per equity share, the proposed dividend was approved by the shareholders at the Annual General Meeting held on 3rd August, 2022. Accordingly, the requisite amount on account of declared dividend was transferred to a special bank account opened with the company's bankers. However, dividend amounting to ₹ 15,600 payable to certain equity shareholders remained unclaimed even after the expiry of statutory period within which dividend was required to be paid. Accordingly, the directors took steps to transfer the unclaimed amount to the Unpaid Dividend Account.

### **Multiple Choice Questions**

**16.1 What is the maximum time within which the amount of declared dividend must be deposited in a separate bank account?**

- a) The declared dividend needs to be deposited maximum within three days from the date of declaration.
- b) The declared dividend needs to be deposited maximum within five days from the date of declaration.
- c) The declared dividend needs to be deposited maximum within seven days from the date of declaration.
- d) The declared dividend needs to be deposited maximum within ten days from the date of declaration.

**16.2 From the given four options choose the one which would not have found place in the resolution that was passed for authorizing the issue of preference shares.**

- a) The issue of preference shares is non-convertible.
- b) The issue of preference shares is convertible.
- c) The issue of preference shares is redeemable.
- d) The issue of preference shares is irredeemable.

**16.3 What is the time limit within which the unclaimed dividend must be transferred to a special account opened with a scheduled bank for this purpose?**

- a) The unpaid or unclaimed dividend must be transferred to a special account within three days from the expiry of the statutory period within which it was to be paid or claimed.
- b) The unpaid or unclaimed dividend must be transferred to a special account within five days from the expiry of the statutory period within which it was to be paid or claimed.
- c) The unpaid or unclaimed dividend must be transferred to a special account within seven days from the expiry of the statutory period within which it was to be paid or claimed.
- d) The unpaid or unclaimed dividend must be transferred to a special account within ten days from the expiry of the statutory period within which it was to be paid or claimed.

**16.4 As regards the redemption of the preference shares what is the maximum term, the company could have prescribed, so as to use the proceeds for the maximum possible period, if such issue made was not for funding any infrastructure projects?**

- a) The company would have prescribed maximum twenty five years from the date of issue within which the preference shares were required to be redeemed.
- b) The company would have prescribed maximum twenty years from the date of issue within which the preference shares were required to be redeemed.
- c) The company would have prescribed maximum fifteen years from the date of issue within which the preference shares were required to be redeemed.
- d) The company would not have prescribed any term if the company wanted the preference shares to be irredeemable so as to use the proceeds forever.

### Answer Keys Question No. Answers

- 16.1** (b) The declared dividend needs to be deposited maximum within five days from the date of declaration.
- 16.2** (d) The issue of preference shares is irredeemable.
- 16.3** (c) The unpaid or unclaimed dividend must be transferred to a special account within seven days from the expiry of the statutory period within which it was to be paid or claimed.
- 16.4** (b) The company would have prescribed maximum twenty years from the date of issue within which the preference shares were required to be redeemed.

### Case Study 17

ABZ Limited is engaged in generating power supply in the state of Karnataka. Forty per cent of the equity capital of ABZ Limited is held by the Central Government; twenty per cent by State Government and the balance forty percent by other public shareholders. The market price of ABZ Limited is ` 150. ABZ is having the power to appoint majority of the Board of Directors of North South Private Limited engaged in manufacturing cosmetics for young India. Along with this, ABZ has control of 46% of voting power of East West limited, a company engaged in providing logistics solutions. East West limited holds 56% shares in WENS Ltd., and WENS Ltd. is having capital structure as follows: Paid up capital – ` 200 lakhs and turnover ` 35 crores The capital structure of the other companies mentioned above is as follows:

(figures in Rs)

ABZ	Net worth - 550 crore	Turnover - 1500 crore	-
East West limited	Paid up Capital – 20 crore	Bank borrowings from FIs– 15 crore	-
North South Pvt Ltd	Paid up capital – 15 crore	Turnover – 200 crore	bank borrowings from FIs– 55 crore

The promoters of WENS Ltd. wanted to expand business across India and globally as well, for which it needs to have funds and they are thinking of getting the shares of the company - listed on NSE by inviting the public for subscription of its shares. Finally, they issued prospectus as per section 32 of the Act on 30th January, 2021 in which details regarding price and quantity of shares was not given. As they were not able to decide upon the exact price, they proceeded by giving floor price along with a range, within which bids can move and let the subscribers to bid on the quantity and price. After the end of bidding process, price was determined and final prospectus was issued. Company WENS Ltd successfully raised capital. After round about a year of raising capital, the capital structure of company was as follows:

Particulars	Rs
Unsecured loan	15 lakhs



Paid up capita	350 lakhs
Depreciation provision	5 lakhs
Securities premium	8 lakhs
Capital reserve	10 lakhs
Free reserve	12 lakhs

Promoters of WENS Ltd. have decided to buy back their securities u/s 68(1) of Companies Act to consolidate their stake in company. They obtained necessary authorization and approval and followed prescribed procedure. Love & Co., a sole proprietor audit firm, is the statutory auditor of North South Pvt. Ltd. It has been auditing the company since F.Y. 2017-18.

### Multiple Choice Questions

**17.1 Which of the following companies will be defined as a Government company u/s 2(45) of the Companies Act, 2013?**

- a) ABZ and North South Pvt. Ltd.
- b) ABZ and East West Limited
- c) ABZ and WENS Limited
- d) North South Pvt. Ltd. and WENS Ltd.

**17.2 How is ABZ Limited related with North South Pvt. Ltd. and East West Ltd.?**

- a) Holding Company and Associate
- b) Subsidiary Company and Associate
- c) Associate Company and Joint Venture
- d) Holding Company and Joint Venture

**17.3 Whether the term of office of Love & Co. has expired, after conducting the audit for F.Y. 2021-22? If yes, on what criteria can we conclude that its term has expired as per Section 139(2) of Companies Act?**

- a) Borrowings from Financial Institutions is ` 55 crore of North South Pvt. Ltd. and rotation of individual auditor is compulsory after 5 years
- b) Turnover is ` 200 crore or more and rotation of individual auditor is compulsory after 5 years
- c) Paid up share capital is ` 15 crore and rotation of individual auditor is compulsory after 5 years
- d) North South Pvt Ltd is subsidiary of ABZ Ltd. and rotation of individual auditor is compulsory after 5 years.

**17.4 What is the maximum amount of buy-back, WENS Ltd. can make?**

- a) 28 lakhs
- b) 20 lakhs
- c) 30 lakhs
- d) 12 lakhs

**17.5 Which type of prospectus has been issued by WENS Ltd. to raise capital from market**

- a) Shelf Prospectus
- b) Abridged Prospectus

- c) Red Herring Prospectus
- d) Deemed Prospectus

**Answer Keys Question No. Answers**

**17.1** (a) ABZ and North South Pvt. Ltd.

**17.2** (a) Holding Company and Associate

**17.3** (a) Borrowings from Financial Institutions is ` 55 crore of North South Pvt. Ltd. and rotation of individual auditor is compulsory after 5 years

**17.4** (a) 28 lacs

**17.5** (c) Red Herring Prospectus

**Case Study 18**

Golden Oak Plaza Limited (GOPL) is a public company, dealing in designer items made from Oak wood. The objects clause in the memorandum empowers the company to give guarantee in respect of loans made to subsidiary or associate companies, but the Articles of Association has not delegated this power to the board of directors and reserves the power with members. The Board of Directors of GOPL passed board resolution to provide guarantee for one of the associate companies which was provided within the limits prescribed by section 186(2) of the Companies Act, 2013. However, such an act of the Board was not ratified by the members of the company in the subsequent meeting held. GOPL is in need of capital for further expansion of business. The Board of directors of GOPL is looking at both the options of public issue as well as private placement. Mr. Vivek Partap who is compliance officer of the company informed Mr. Bhavay Thakur, CFO, about the limitation associated with private placement, especially ceiling limit on the number of persons to whom securities can be offered. Office of Mr. Thakur has lined up the names of 120 investors to whom securities can be issued if private placement takes place. After hours of discussion and deliberation, GOPL decided to float capital through capital market and entered in process of raising of further capital from capital market by issue of prospectus. Prospectus is registered with the Registrar of Companies (ROC) on 10th January 2022. GOPL hired Shark Broking Solution as underwriting agent. Underwriting commission was agreed at rate of 4%. Mr. Alok invested in securities issued by the company, and he was having knowledge about the internal irregularity within the company with respect to the process regarding title of securities but he remained silent. Later when the company denied making repayment to him due to defect in title, Mr. Alok sued the company quoting doctrine of indoor management as defence; but company denied his claim

**Multiple Choice Questions**

**18.1** What is the maximum number of persons to whom an offer may be made under Private placement?

- a) Maximum of two hundred persons in a particular financial year, including qualified institutional buyers and employees of the company being offered securities under a scheme of employees stock option;
- b) Maximum of two hundred persons, in a particular financial year excluding qualified institutional buyers and employees of the company being offered securities under a scheme of employee's stock option;
- c) Maximum of two hundred persons, including qualified institutional buyers and employees of the company being offered securities under a scheme of employees stock option; inclusive of any such placement during previous years also;

- d) Maximum of two hundred persons, excluding qualified institutional buyers and employees of the company being offered securities under a scheme of employees stock option; inclusive of any such placement during previous years also.

**18.2 Assess the validity of board resolution by board of directors of GOPL to undertake guarantee for one of the associate companies.**

- a) Valid
- b) Void
- c) Voidable
- d) Void-ab-initio

**18.3 Is Mr. Alok eligible to take defence of 'Doctrine of Indoor Management'**

- a) Yes, because company deny in making payment to him
- b) Yes, defence of 'Doctrine of Indoor Management' is unconditional and without exception
- c) No, rule of constructive notice is absolute and doctrine of indoor management can't be raised in any circumstances
- d) No, because 'Doctrine of Indoor Management' has exception of knowledge of irregularity.

**18.4 To keep prospectus valid, within how many days GOPL, is supposed to issue the registered prospectus?**

- a) Within 30 days from date of registration with ROC
- b) Within 60 days from date of registration with ROC
- c) Within 90 days from date of registration with ROC
- d) Within 120 days from date of registration with ROC

**18.5 Which of following statement is legally valid in regard to underwriting commission offered by GOPL if the articles of company are silent relating to such rate of commission?**

- a) Maximum underwriting commission can be 5% in case of shares
- b) Maximum underwriting commission can be 2.5% in case of shares
- c) There is no maximum ceiling limit on underwriting commission in case share
- d) Underwriter cannot appoint sub-underwriters

**Answer Keys Question No. Answers**

**18.1** (b) Maximum of two hundred persons, in a particular financial year excluding qualified institutional buyers and employees of the company being offered securities under a scheme of employees stock option.

**18.2** (d) Void-ab-initio

**18.3** (c) No, rule of constructive notice is absolute and doctrine of indoor management can't be raised in any circumstances

**18.4** (c) Within 90 days from date of registration with ROC

**18.5** (a) Maximum underwriting commission can be 5% in case of shares

**Case Study 19**

Sirmaur Ispat Limited (SIL) deals in varieties of metals and products manufactured there from. Since the company is running into losses, SIL has decided to restructure its capital. In order to keep the morale of the shareholders high, SIL decided to declare dividend out of reserves. Since there is a limit on issue of dividend, out of past reserves, company decided to issue fully paid bonus shares. The CFO has asked you, the Finance Manager to study and report on the legal aspects involved in issue of bonus shares. Company borrowed monies, and the charge was created on 02.11.2021, against the land and building of the manufacturing unit of SIL. SIL failed to register the charge till 01.12.2021. SIL a wellgoverned company which wishes to ensure favourable relations with investors through transparent reporting. Annual report of SIL contains details which are beyond the legal requirements. The latest AGM of SIL was conducted on 30th August 2021. While finalizing the minutes of meeting of AGM, SIL's chairperson wishes to remove the statement made by retiring director stating that the same is defamatory in nature to the company. One of the existing independent directors raises the question on exclusion of said matter and requested the company secretary to redraft the minutes containing said matter.

**Multiple Choice Questions**

**19.1 What is the date by which SIL has to file its Annual Return for the year ended 31st March, 2021?**

- a) 14th September, 2021
- b) 29th September, 2021
- c) 29th October, 2021
- d) 28th November, 2021

**19.2 SIL cannot issue fully paid up bonus share to its members out of:-**

- a) Free Reserves
- b) Securities Premium Account
- c) Capital Redemption Reserve Account
- d) Reserves created by the revaluation of assets.

**19.3 Which of the following is not a condition, for issue of fully paid bonus shares?**

- a) Should be authorized by AOA
- b) Can only be issued against fully paid shares
- c) Should be authorized by a special resolution
- d) Bonus Shares shall not be issued in lieu of dividend

**19.4 Regarding exclusion of certain matter from minutes of AGM of SIL; which of following statement is correct?**

- a) All the matters need to be incorporated in minutes
- b) It is chairperson's exclusive right to include or exclude certain matters from minutes of the AGM
- c) Chairperson can only express his opinion that which matter should be excluded from minutes, but his decision is not binding
- d) Since independent director has raised the question on exclusion of certain matter hence minutes need to be redrafted.

**Answer Keys Question No. Answers**

**19.1** (c) 29th October, 2021

**19.2** (d) Reserves created by the revaluation of assets.

**19.3** (c) Should be authorized by a special resolution

**19.4** (b) It is chairperson's exclusive right to include or exclude certain matters from minutes of the AGM

**Case Study 20**

Mr. Purshottam Prasad, a business graduate from a leading B-School, has been running a chain of restaurants as a sole proprietor concern. The business is based in Chennai. Mr. Prasad, in order to develop the business; decided to corporatize his business but he is concerned with dilution of his control over business decisions. Mr. Prasad, during a journey met Mr. Chinmay Dass; one of his old school friends. Mr. Chinmay Das is presently working in one of the leading corporate advisory firms. Mr. Prasad seeks advice from Mr. Dass, regarding conversion of sole proprietorship concern to a company and also stated his intention to keep the entire control in his hands of the company. Mr. Dass informed Mr. Prasad, about a new type of company, called One Person Company (OPC), which can be formed under Companies Act, 2013. Mr. Dass quoted Section 2(62), which defines 'one person company' as a company which has only one person as a member. Mr. Prasad, felt OPC is correct form of business for him, hence he promoted an OPC, 'Casa Hangout (OPC) Private Limited', on 14th September, 2021, by converting his sole proprietary business into a corporate form and became the sole member. Mr. Prasad, appointed his younger son, Mr. Vijay, who was 21 year old then, as nominee to the OPC. Mr. Anand who is a famous food blogger and old friend of Mr. Prasad was appointed as director of OPC, and Mr. Prasad, himself also became director of the company. Mr. Vijay is a professional photographer, and went abroad for a certification course on 23rd October 2021. He came back on 1st of March 2022. He established a photo-studio as an OPC called 'Best Click (OPC) Private Limited' (one Person Company) on 20th March 2022, in which Mr. Raj is nominee and he became sole member. Mr. Prasad met an accident on 25th March 2022, in which he lost his life. Nomination clause was invoked, as a result of which Mr. Vijay had to take charge over 'Casa Hangout (OPC) Private Limited' as its sole member with immediate effect. On 30th March 2022, Mr. Karan was appointed as a new nominee to 'Casa Hangout (OPC) Private Limited', who gave his written consent on 31st March 2022. Mr. Karan who is an investment banker by profession, is of the opinion that 'Casa Hangout (OPC) Private Limited' needs to amend its object clause and add 'carry out investment in securities of any body corporate' as one of its objects. The financial statements of 'Casa Hangout (OPC) Private Limited' for the financial year ended on 31st March 2022, did not contain cash flow statements signed by Mr. Anand who was left as only director after the death of Mr. Prasad.

**Multiple Choice Questions**

**20.1** Which of the following persons is eligible to be nominee of an OPC?

- a) Any natural person excluding minor
- b) Any legal person excluding minor
- c) Any natural person, who is resident of India; but excluding minor
- d) Any natural person, who is a citizen of India; but excluding minor

**20.2** Mr. Karan, if he wishes to withdraw his consent as nominee, can do so by giving a written notice to:-

- a) Director of OPC and to sole member of company

- b) Director of OPC and to Registrar of companies
- c) Sole member of company and to OPC
- d) Sole member of company and to Registrar of companies

**20.3 In case of change of Nominee in Casa Hangout (OPC) Private Limited, a notice shall be given to ROC by OPC; in form number INC-4 along with written consent of Nominee in form INC-3 from Mr. Karan; within**

- a) 30 days from date of appointment of Mr. Karan
- b) 30 days of receipt of the notice of withdrawal (because he will become member) of consent as nominee by Mr. Vijay
- c) 30 days from date of intimation of written consent of Mr. Karan
- d) 15 days from date of intimation of written consent of Mr. Karan

**20.4 A person, other than minor; at specific point of time;**

- a) Can be a member in any number of OPCs but nominee in one OPC
- b) Can be a member in one OPC and nominee in any number of OPCs
- c) Can be a member in one OPC and nominee in another one OPC
- d) Can be a member and nominee both in any number of OPCs

**20.5 Which of following statement is correct, with respect to financial Statements of 'Casa Hangout (OPC) Private Limited'?**

- a) Must be signed by one director
- b) Must be signed by at-least two directors
- c) Must contain cash flow statement as part of financial statements
- d) None of the above

**20.6 With reference to opinion of Mr. Shankar to add 'carry out investment in securities of body corporate' object, 'Casa Hangout (OPC) Private Limited', choose the correct option:-**

- a) Cannot carry out non-banking financial investment activities & investment in securities of body corporate'
- b) Cannot carry out non-banking financial investment, but can invest in securities of body corporate'
- c) Can carry-out non-banking financial investment & invest in securities of body corporate'
- d) None of the above

### **Answer Keys Question No. Answers**

**20.1** (d) Any natural person, who is a citizen of India; but excluding minor

**20.2** (c) Sole member of company and to OPC

**20.3** (b) 30 days of receipt of the notice of withdrawal (because he will become member) of consent as nominee by Mr. Vijay.

**20.4** (c) Can be member in one OPC and nominee in another one OPC

**20.5** (a) Must be signed by one director

**20.6** (a) Cannot carry out non-banking financial investment activities & investment in securities of body corporate'

**Case Study 21**

Michael Mascaren is the Chief Finance Officer (CFO) and Sachin Bhat is the Company Secretary (CS) of Jitendra Iron Works Private Ltd. (JIWPL), respectively, located in Manipal city of 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 and diesel engines sectors. JIWPL serves customers globally. The turnover of JIWPL is about ` 600 crores, including export turnover of about ` 250 crores. During the year 2021, JIWPL planned expansion to enhance its production capacity to meet the increasing demand from its customers, by importing fully automatic plant and equipments from Germany for the unit at Manipal and also by acquiring a machining unit at Nairobi, Kenya. The means of finance of the expansion project were as follows:-

(a) JIWPL received an amount of ` 25 crores from Malini Shetty, wife of one of the promoter directors of the company, Mahesh Shetty. Mahesh Shetty wanted Sachin Bhat to brief him regarding any compliance needed from the perspective of acceptance of such deposit amount. (b) The Board also approached the main banker of the company viz., Bank of Baroda. The Bank after proper credit analysis, sanctioned:-

1. A term loan of ` 50 crores to JIWPL, repayable in 6 years, for importing a fully automatic plant and equipment from Germany for the expansion project for the unit in Manipal against the security of the assets imported, along with the land and building situated in Manipal. Also sanctioned were interchangeable non funded limits for foreign letters of credit and bank guarantee totalling to ` 25 crores against the security of liquid assets in the form of fixed deposits and mutual funds.
2. Along with the aforesaid term loan, JIWPL was also sanctioned an additional amount of ` 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 involved in the expansion project of JIWPL in Manipal.
3. Further, a term loan for ` 75 crores, repayable in 6 years was also sanctioned for acquisition of a machining plant along with land and building at Nairobi, Kenya for its subsidiary company named - Jitendra Machining Pvt Ltd. (JMPL). The said loan was disbursed through the overseas branch of Bank of Baroda at Nairobi specifically to meet the continuous demand of a major customer in Kenya with an eye to capture the African market also. The loan given was against the security of properties at Nairobi. 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 entered in the register of members (ROM), 20 members, reside in Mangaluru, a nearby city. These members requested the company for some reasons to maintain the ROM in the company's liaison office in Mangaluru, instead of Manipal henceforth. The board of JIWPL approved allotment of shares to two new members on 1.1.2022 and their names are to be entered into the Register of Members by the Secretarial Department. M/S Suresh Poojary & Co. are the statutory auditors of the company appointed at the Annual General Meeting of the company during the year 2020 to hold the office from the conclusion of that meeting till the conclusion of the sixth meeting thereafter. However, in the annual general meeting held during the year 2021, no ratification resolution for the appointment of the auditor was passed for the F.Y. 2021-22.

**Multiple Choice Questions**

**21.1 In connection with the loan from Malini Shetty, the CS has to ensure :-**

- a) That the particulars of amount received are immediately entered in the register of deposits maintained in such manner and in such format as prescribed;

- b) That a circular is immediately issued 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
- c) That a declaration is obtained to the effect that the amount given is not sourced from borrowed funds or by accepting loans or deposits from others and disclose the details of money so accepted in the Board's Report;
- d) That the particulars of deposits received are filed within 30 days from the date of its receipt with the Registrar.

**21.2 In connection with the loan disbursed in Kenya, while creating a charge in India, where the instrument relates solely to the properties at Kenya, the copy can be verified by a Certificate issued-**

- a) under the hand of some person other than the company who is interested in the mortgage or charge;
- b) under the hand of some person other than the company who shall not be interested in the mortgage or charge
- c) Only under the hand of one of the directors of JIWPL
- d) Only under the hand of a practicing Company Secretary or a practicing Chartered Accountant

**21.3 In connection with maintenance of the Register of Members (ROM) at the Liaison office at Mangaluru instead of Manipal, state which of the following statements is correct:**

- a) 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.
- b) The ROM can be maintained in Mangaluru by passing a special resolution in a general meeting.
- c) The board of directors by passing a board resolution at one of its meetings, may direct the company secretary to maintain the ROM in Mangaluru.
- d) The ROM can be maintained at Mangaluru after passing a special resolution in a general Meeting provided more than 1/3rd of the members, whose names are entered in the ROM request for such a change.

**21.4 The board of JIWPL approved allotment of shares to two (2) new members on 1.1.2022 and their names are to be entered into the ROM by the Secretarial Department.**

- a) Entries in the ROM shall be made within 30 days of allotment of Shares, on Board approval
- b) Entries in the ROM shall be made immediately on allotment of shares, on Board approval.
- c) Entries in the ROM shall be made within 7 days of the date of the Board approving allotment.
- d) Entries in the ROM shall be made within 10 days of the date of the Board approving allotment.



**21.5** M/S Suresh Poojary & Co. are the statutory auditors of the company appointed during the annual general meeting of the company during the year 2021 to hold the office from the conclusion of that meeting till the conclusion of the sixth meeting thereafter. However, during the annual general meeting of the year 2020, no ratification resolution for the appointment of the auditor was passed

- a) JIWPL should have placed the matter relating to appointment of statutory auditor in the AGM during 2021 by way of an ordinary resolution.
- b) JIWPL should have placed the matter relating to appointment of statutory auditor in the AGM during 2021 by way of a special resolution.
- c) The statutory auditors appointed in the AGM during 2020 shall be deemed to have vacated the office, if no ratification by the members at every annual general meeting thereafter.
- d) There is no need of ratification and the statutory auditors can continue to hold office after the conclusion of the AGM held during the year 2021 also.

### **Answer Keys Question No. Answers**

- 21.1** (c) That a declaration is obtained to the effect that the amount given is not sourced from borrowed funds or by accepting loans or deposits from others and disclose the details in the Board's Report
- 21.2** (a) under the hand of some person other than the company who is interested in the mortgage or charge;
- 21.3** (b) The ROM can be maintained in Mangaluru by passing a special resolution in a general meeting.
- 21.4** (c) Entries in the ROM shall be made within 7 days of the date of the Board approving allotment
- 21.5** (d) There is no need of ratification and the statutory auditors can continue to hold office after the conclusion of the AGM held during the year 2021 also.

### **Case Study 22**

The Board of Directors of LESCO Pharmaceuticals Limited (hereinafter referred to as "company") were meeting again in the month of May 2021 for the discussion of two important agenda which had a direct relation to the ensuing Annual General Meeting scheduled on 30th September 2021. The first agenda was related to the authentication of financial statements and the second one was in connection with dividend. Although the first item in the agenda did not take much time and necessary Board resolution was passed, the second agenda was a matter of concern for the directors. Ms. Sunita, one of the directors proposed that since the company had not made any profits during the year, it would not be appropriate to declare any dividend for the financial year 2020-21. However, all other directors felt that last year's rate of dividend of 5% should be maintained and the same should at least be paid this year to keep the shareholders happy. Ms. Sunita again objected by saying that the legal provisions as envisaged under Section 123 of the Companies Act, 2013 clearly states that dividend by a company for any financial year should be paid or declared out of the profits of the company of that year and since there was no profit there was no requirement to pay SUCH dividend. She strongly contended that paying dividend was a matter of financial choice by the Board of Directors and accordingly, the board should take an informed decision. The priority for the Board is to ensure that cash flow is maintained first and then the "happiness" of the shareholders be considered. Another director, Mr. Robinder suggested that the company had made a substantial gain on revaluation of assets and if that would be considered then there would be sufficient profits for declaration of dividends out of such gain. Finally, the Chairman-

cum-Managing Director, Mr. Ramesh interfered and suggested that perhaps there is a provision in the Companies Act, 2013 relating to payment of dividend in the absence of profits and that the Company Secretary, Ms. Ameeka should work out the possibilities and all legal aspects connected therewith and then call for another Board Meeting for finalising the payment of dividend. The meeting then ended with a vote of thanks to the Chair.

### **Multiple Choice Questions**

**22.1 Which of the following is the correct statement relating to the source for payment of dividend by the company?**

- a) Profits of the Company of that year only arrived at after providing for depreciation.
- b) Profits of the Company of that year arrived at after providing for depreciation or for any previous year or years arrived at after providing for depreciation or through any reserves available.
- c) Profits of the Company of that year arrived at after providing for depreciation or for any previous year or years arrived at after providing for depreciation and remaining undistributed i.e. free reserves.
- d) Profits of the Company of that year or previous year(s) but not necessary to provide for depreciation.

**22.2 With reference to claim made by Ms. Sunita relating to source of payment of dividend, whether you agree with such contention made by her?**

- a) Completely agree with the contention of Ms. Sunita that only profits are the source for payment of Dividend.
- b) Partly agree with Ms. Sunita but apart from Profits, a company can pay dividend out of money provided by the Central or State Government in pursuance of the guarantee given by them.
- c) Partly agree with Ms. Sunita that apart from profits (either current year or previous year), even in the event of inadequacy or absence of profits, a company may declare dividend out of free reserves, subject to fulfilling certain conditions.
- d) Partly agree with Ms. Sunita that company can pay dividends not only out of profits but also out of money provided by Central Government or State Government in pursuance of the guarantee given by them or out of money available in free reserves, and in each case subject to fulfilment of conditions as prescribed.

**22.3 Which of the option is correct with regard to the proposal made by Mr. Robinder?**

- a) Gain made by a company in form of revaluation of assets is definitely available for payment of Dividend.
- b) Gain made by a company in form of revaluation of assets is available only upon satisfaction of terms and conditions prescribed.
- c) Gains made by a company in form of revaluation of assets in not available for computing profits for declaration of dividends.
- d) Gains made by a company in form of revaluation of assets which are only buildings are not available and in all other assets they are available.

**22.4 Which of the following is correct with respect to the situation as referred by Mr. Ramesh to Ms. Ameeka assuming other conditions, if any, for the same would also be satisfied?**

- a) The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year.
- b) The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the two years immediately preceding that year.
- c) The rate of dividend declared shall be the average of the rates at which dividend was declared by it in the five years immediately preceding that year.
- d) The rate of dividend declared shall not exceed the rate at which dividend was declared by it in any of the three years immediately preceding that year.

**22.5 Which of the following is correct with respect to the situation as referred by Mr. Ramesh to Ms. Ameeka assuming other conditions, if any, for the same would also be satisfied?**

- a) The amount that can be drawn from such accumulated profits shall not exceed one fifth of the sum of its paidup share capital and free reserves as appearing in the latest audited financial statement.
- b) The amount that can be drawn from such accumulated profits shall not exceed one tenth of the sum of its paidup share capital and free reserves as appearing in the latest audited financial statement.
- c) The amount that can be drawn from such accumulated profits shall not exceed one tenth of its paid-up share capital as appearing in the latest audited financial statement.
- d) The amount that can be drawn from such accumulated profits shall not exceed one tenth of the average of its paid-up share capital and free reserves as appearing in the latest three years audited financial statement.

### **Answer Keys Question No. Answers**

- 22.1** (c) Profits of the Company of that year or for any previous year or years after providing for depreciation and remaining undistributed i.e. free reserves.
- 22.2** (d) Partly agree with Ms. Sunita that company can pay dividends not only out of profits but also out of money provided by Central Government or State Government in pursuance of the guarantee given by them or out of money available in free reserves, and in each case subject to fulfilment to conditions prescribed.
- 22.3** (c) Gains made by a company in form of revaluation of assets in not available for computing profits for declaration of dividends.
- 22.4** (a) The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the three years immediately preceding that year.
- 22.5** (b) The amount that can be drawn from such accumulated profits shall not exceed one tenth of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.

**Case Study 23**

The Board of Directors of Dr. Mahindra Laboratories Limited (hereinafter referred to as the “company”) were having their Board meeting on 9th July 2021. Despite the Covid-19 pandemic, the company results for the first quarter (hereinafter referred to as “Q-1”) showed some great numbers. The maximum turnover was on account of sale of sanitisers, masks and other related products. All the directors felt jubilant about the results particularly at a time when majority of the companies were struggling to even pay salaries and meet their operating costs. One of the directors, Mr. Sanjay, was looking at the way the share price of the company was trading. It showed an upward trend despite stock prices falling for many reputed companies. The closing share price of the Company was ` 217.80. It was evident that the capital markets were responding well with the results of the Q-1 and also with the results of financial year 2020-21. With these favourable aspects in mind, Mr. Sanjay, proposed to the Board that an interim dividend be declared for the shareholders. He expressed his view that this would not only boost the confidence of the investors in the wake of the Pandemic situation, but also strengthen the position of the company among its competitors. Accordingly, he proposed to declare an interim dividend of 10% and the source of interim dividend proposed was as follows: (a) Out of Profits earned in the Financial year 2020-21 (b) Out of Profits earned in the Financial year 2021-22 (From the Q-1 ending 30th June 2021) Ms. Jyoti, one of the directors expressed her concern whether interim dividend could be declared at this point of time or should the company wait for the ensuing Annual General Meeting (AGM). Mr. Sanjay clarified that as per Section 123(3) and 123(4) of the Companies Act, 2013, interim dividend can be declared during any financial year and at any time during the period from the closure of the financial year till the holding of the AGM. Since the AGM of the company was proposed to be held on 30th September 2021, the company can easily pay dividend to the shareholders. One of the Directors, Ms. Sharda, said that the results of the Financial Year 2020-21 were already approved by the Board of Directors in meeting held on 10th May 2021 and the duly authenticated financial statement are presently in the process of audit. To this, Mr. Sanjay convinced all the directors that since the AGM is not yet held for FY 2020-21, it is implied that the annual accounts have not yet been adopted by the shareholders and hence, there was scope for paying interim dividend out of profits of FY 2020-21.

**Multiple Choice Questions**

**23.1 Which of the following is correct with regard to the source out of which the interim dividend may be paid?**

- a) The interim dividend can be paid out of profits earned by the company in the FY 2020-21 and also out of the profits earned in the first quarter of FY 2021-22.
- b) The interim dividend cannot be paid out of profits earned by the company in the FY 2020-21 but can be paid out of the profits earned in the first quarter of FY 2021-22.
- c) The interim dividend can be paid out of profits earned by the company in the FY 2020-21 but not out of the profits earned in the first quarter of FY 2021-22.
- d) The interim dividend can be paid out of accumulated profits only.

**23.2 Going by the facts of the case, if the interim dividend of the company was declared in the said board meeting held in July month, then by what date should the amount be deposited in a separate account maintained with the scheduled bank for dividend purposes?**

- a) By 14th July 2021
- b) By 15th July 2021

- c) By 16th July 2021
- d) By 17th July 2021

**23.3 Which of the option is correct with regard to ratification of the payment of dividend?**

- a) Interim dividend is declared by the Board of Directors and can be ratified by the Managing Director of the company.
- b) Interim dividend needs the approval of the auditors with regard to the calculation of the rate and hence can be ratified on their subsequent approval.
- c) Interim dividend is declared by the Board of Directors but the same needs to be ratified at the ensuing AGM by the members.
- d) Interim dividend once declared and paid needs no ratification thereafter.

**23.4 In case the company would have incurred loss during the current financial year upto the end of the quarter immediately preceding the date of declaration of interim dividend, then what should be the rate of the interim dividend?**

- a) The rate of interim dividend declared shall not be at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.
- b) The rate of interim dividend declared shall be less than the average of the rates at which dividend was declared by it in the five years immediately preceding that year.
- c) The rate of interim dividend declared shall be the average of the rates at which dividend was declared by it in the three years immediately preceding that year.
- d) In case of a loss, then interim dividend cannot be declared in the first place and only final dividend can be declared.

**23.5 By what date should the interim dividend declared in the meeting held in the July month, be paid to the members of the company?**

- a) 8th August 2021
- b) 9th August 2021
- c) 10th August 2021
- d) 11th August 2021

**Answer Keys Question No Answers**

**23.1** (a) The interim dividend can be paid out of profits earned by the company in the FY 2020-21 and also out of the profits earned in the first quarter of FY 2021-22.

**23.2** (a) By 14th July 2021

**23.3** (c) Interim dividend is declared by the Board of Directors but the same needs to be ratified at the ensuing AGM by the members.

**23.4** (a) The rate of interim dividend declared shall not be at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

**23.5** (a) 8th August 2021

**Case Study 24**

VXN Steels Limited (hereinafter referred as the “Company”), a Public Limited Company, is a 100% export-oriented unit, in Koraput, in the State of Odisha. Its paid-up capital is ₹ 200 crores divided into 20 crores of shares of ₹ 10 each. The company decided to make a capital expenditure of ₹ 100 crores towards purchase of equipment and land and ₹ 25 crores for machinery. The company approached banks and financial institutions (FI) for financing the capital requirement of equipment, land and machinery by way of term loans. The banks and FIs have agreed to advance money; but on a condition that the company has to give necessary security for the amount of advance/loans. In this regard, a charge on the property was also required to be created. The company has informed to the banks and FIs that it has mortgaged the said fixed assets in favour of the banks and FIs in their books of accounts. The company was formed in April 2021 and being a newly incorporated company, the company was not much well versed with the provisions of the Companies Act, 2013 (hereinafter referred to as the “Act”) and also the company secretary was yet to be appointed. Accordingly, they have asked the banks and FIs to do the needful compliances with respect to the creation of charges. The banks and FIs informed the Company that as per relevant provisions of the Act, if a company contravenes any provisions, there shall be levied punishment/penalty provisions under the Companies Act, 2013, and hence the necessary legal requirements will have to be complied by the company and not by them. The company was however of the view that “creation of charges” being a protection available to the bank and FIs, the legal requirement only relates to filing of charges and not of any other consequences. Hence, it was decided by the company to delay the process of filing the charges and regularising the same by paying additional fees for delayed filing. The company understood that there was no situation inviting any sort of punishment and at the worst, the enhanced punishment, if any, will lead to levy of fine. The loan agreement was signed and the charges were created on 14th May 2021, respectively, and the documents creating charges were filed on 24th June 2021 with the Registrar of Companies for creation of charges.

**Multiple Choice Questions****24.1 Which of the Statement is correct regarding mortgaging of the fixed assets?**

- a) Fixed Charges are created as security whenever a company obtains term loans from financial institutions or Banks.
- b) Floating Charges are created as security whenever a company obtains term loans from financial institutions or Banks.
- c) A charge is to be created only when a company obtains term loans from financial institutions.
- d) Creation of charge or otherwise depends upon the Registrar of Companies and company can maintain their own records for repayment purposes.

**24.2 In the given case scenario, by which date the creation of charges should have been filed at the first place?**

- a) By 14th June 2021
- b) By 13th June 2021
- c) By 14th July 2021
- d) By 13th July 2021

**24.3 In the given case scenario, if the company fails to register the charge, then can the banks and FIs file the necessary charges?**

- a) It is the duty of the company to create charges and get it registered and no other entity can do so on behalf of the company. Hence penalty provisions will apply.
- b) In case the company fails to register the charges, then the person in whose favour the charge is created has to mandatorily get the charge registered
- c) In case the company fails to register the charges within the prescribed period of 30 days then, the person in whose favour the charge is created can get the charge registered.
- d) In case the company fails to register the charge then the Registrar of Companies can issue order to the Company or to the Charge-holder to take necessary action for registering the charge.

### **Answer Keys Question No. Answers**

- 24.1** (a) Fixed Charges are created as security whenever a company obtains term loans from financial institutions or Banks.
- 24.2** (b) By 13th June 2021
- 24.3** (c) In case the company fails to register the charges within the prescribed period of 30 days then, the person in whose favour the charge is created can get the charge registered.

### **Case Study 25**

Indian Mining Limited, an unlisted public company, (hereinafter referred as “Company”) has its mining unit in Koraput in the State of Odisha. Its paid-up capital is ` 15 crores divided into 15,00,000 equity shares of ` 100 each. The Company has also issued debentures to the extent of ` 20 crores. The company’s registered office was located in the city of Bhubaneswar in the State of Odisha. As per provisions of the Companies Act, 2013, Companies are required to maintain Statutory registers. The Company had a practice of maintaining one combine register for both Members as well as Debenture-holders. The company has decided to declare dividend for the financial year 2021-22 and hence there is a requirement for closing the register of members. The company has closed its Register of Members, by giving a minimum of 10 days’ notice. It was observed that at least 80% of the total members were residing in the capital city of New Delhi. Hence the company decided to keep its register of members in one of its offices situated in the locality of Saket, New Delhi. It was felt that the appropriate place for keeping the register of members should be the place where majority of members are residing. Accordingly, it passed an ordinary resolution for maintaining the register of members at a place other than the registered office. The practice of the company for making entries in the Register of members was within 10 days of the approval by the Board approving the transfer of shares.

### **Multiple Choice Questions**

- 25.1** Which of the following statements apply to Indian Mining Limited with respect to closing of the register of members?
- a) Yes, the company can close the register of members by giving at least 14 days prior notice.
  - b) Yes, the company can close the register of members by giving at least 7 days prior notice.
  - c) No, the Company is not allowed to close the register of members as it is the most important statutory register.
  - d) Yes, the Company can close the register of members by giving at least 7 days prior notice and in such manner as specified by SEBI by advertisement one in vernacular newspaper and other in English newspaper.

**25.2 What is the time limit for which the Register of Members (ROM) may be closed?**

- a) The ROM may be closed for any period not exceeding 45 days at any one time.
- b) The ROM may be closed for any period not exceeding 30 days at any one time and for an aggregate of 60 days in one year.
- c) The ROM may be closed for any period not exceeding 30 days at any one time.
- d) The ROM may be closed for any period not exceeding 30 days at any one time and for an aggregate of 45 days in one year.

**25.3 Is the company complying with the provisions of the Act in maintaining the register of members at New Delhi instead of Bhubaneswar?**

- a) Yes, the company is complying in maintaining the register at New Delhi instead of Bhubaneswar as an ordinary resolution has been passed by the company.
- b) No, the company is not complying in maintaining the register at New Delhi instead of Bhubaneswar as no special resolution has been passed.
- c) No, the company is not complying in maintaining the register at New Delhi instead of Bhubaneswar as no special resolution of the members and no approval from the Central Government has been obtained for keeping the register of members in a different place other than the registered office.
- d) Yes, the company is complying in maintaining the register at New Delhi instead of Bhubaneswar as there is no restriction regarding the place where register has to be maintained.

**25.4 Is the practice of the company correct in maintaining the same register for equity shareholders (members) as well as for debenture-holders?**

- a) Yes, it is correct because both are stakeholders of the company.
- b) No, it is incorrect because there is a requirement of maintaining a separate register for debenture holders.
- c) Yes, it is correct as there is no provision in company law regarding register of debenture holders. It is only for equity shareholders who are the members of the company for whom register is to be maintained.
- d) Yes, it is correct because both equity shareholder and debenture holders contribute to the capital of the company.

**25.5 Which of the following statement is correct with regard to the time period for the entries in the register of members?**

- a) The entries have to be made within 14 days of the date of approval by the Board.
- b) The entries have to be made within 21 days of the date of approval by the Board.
- c) The entries have to be made within 17 days of the date of approval by the Board.
- d) The entries have to be made within 7 days of the date of approval by the Board.

**Answer Keys Question No. Answers**

**25.1** (b) Yes, the company can close the register of members by giving at least 7 days prior notice.



**25.2** (d) The ROM may be closed for any period not exceeding 30 days at any one time and for an aggregate of 45 days in one year.

**25.3** (b) No, the company is not complying in maintaining the register at New Delhi instead of Bhubaneswar as no special resolution has been passed.

**25.4** (b) No, it is incorrect because there is a requirement of maintaining a separate register for debenture holders.

**25.5** (d) The entries have to be made within 7 days of the date of approval by the Board.

### Case Study 26

AXN Logistics Limited (hereinafter referred as “Company”) is a Public Limited Company with a share capital of ` 200 crores divided into 2 crores equity shares of ` 100 each. It is engaged in the transportation of raw materials and goods, situated in Barbil, a mining town in the State of Odisha. The Company wanted to expand from its existing line of logistics business to also providing services in the area of leasing of its equipments and vehicles. This was, however, mentioned as an “object” in the existing Object clause of the Memorandum of Association (“MOA”) of the Company. But there was a need to increase the share capital of the company and the existing amount stated in the capital clause of the MOA was not sufficient. Accordingly, the company decided to call an extra ordinary general meeting (EGM) to obtain the approval of the members for increasing the authorised share capital of the company from ` 200 crores to ` 250 crores for making a consequent amendment to its existing MOA. The company decided to hold an EGM on 27th August 2021 and accordingly planned for the manner in which the notice, agenda and explanatory statement was required to be sent to its shareholders. After undergoing the relevant provisions of the Companies Act, 2013 and its own Articles of Association, the following aspects were decided with regard to the sending of the notice of the EGM that was proposed to be held on 27th August 2021.

- (a) The proposed date for sending the notice would be 5th August 2021. Notice would be sent only by email as an attachment to the email.
- (b) The notice would be given to every member of the company, legal representative of any deceased members or the assignee of an insolvent member.
- (c) In the agenda, since there was only one item which required approval, there is no need for an explanatory statement to be annexed to the notice.
- (d) In Article No. 34 of the Articles of Association of the Company, it was provided that if the company wishes to curtail the requirement of the minimum number of days with respect to the length of notice vis a vis provided in the Companies Act, 2013, then it can do so provided a unanimous Board resolution to that effect is passed by the Board of Directors.

### Multiple Choice Questions

**26.1** Which of the statement is correct with respect to date of sending notice and its mode of sending?

- a) Yes, it is correct that notice is sent by email but it should be given on or before 4th August 2021.
- b) Yes, it is correct that notice is sent by email but it should be given on or before 6th August 2021.
- c) Yes, it is correct that notice is sent by email and also the proposed date for sending the same is proper.
- d) No, it is not correct as the notice for the EGM should mandatorily be sent by post and the notice should be given on or before 3rd August 2021.

**26.2 Which of the statement is correct?**

- a) The notice for an EGM can be sent as an attachment to e-mail.
- b) The notice for an EGM has to be mandatorily be sent by post.
- c) The notice for an EGM has to be sent by way of an attachment to an email as well as by post.
- d) The notice for an EGM has to be sent by way of an attachment to an email and by way of advertisement in the newspaper

**26.3 Which of the following statement is correct?**

- a) The notice shall be given to every member of the company, legal representative of any deceased members or the assignee of an insolvent member.
- b) The notice shall be given to every member of the company, legal representative of any deceased members or the assignee of an insolvent member and the auditor or auditors of the company.
- c) The notice shall be given to every member of the company, legal representative of any deceased members or the assignee of an insolvent member, the auditor or auditors and every director of the company.
- d) The notice shall be given to every member of the company and the legal representative of any deceased member.

**26.4 Which of the statement is correct in respect of the contention made that there is no need for an explanatory statement to be annexed with the notice?**

- a) Only in Annual General Meeting (AGM) there may be special business or ordinary business depending on the matter of the agenda. Whereas, all businesses conducted in Extraordinary Meeting (EGM) are Ordinary Businesses. Hence no need for explanatory statement.
- b) Only in Annual General Meeting (AGM) there may be special business or ordinary business depending on the matter of the agenda. Whereas, all businesses conducted in Extraordinary Meeting (EGM) are Special Businesses. Hence there is a need for explanatory statement.
- c) Irrespective of AGM or EGM, special business will be decided on the basis of the type of resolution to be passed. In the case of the given company since only ordinary resolution is required, the business is also ordinary and hence no need for explanatory statement.
- d) An explanatory statement is needed when the company wants to furnish important information relating to the agenda. Thus, in this case there is need for explanatory statement.

**26.5 Would you agree with the company's contention of curtailing the length of notice?**

- a) The contention of the company is correct as wide powers are given to companies to decide upon the length of notice.
- b) The contention of the company is not correct because the statutory provision on the length of notice would prevail over Articles of the company with respect to the minimum length of notice.
- c) The contention of the company is correct because it is not a listed company.
- d) The contention of the company is not correct because it did not provide newspaper advertisement regarding the length of the notice it has adopted.

**Answer Keys Question No. Answers**

- 26.1** (c) Yes, it is correct that notice is sent by email and also the proposed date for sending the same is proper.
- 26.2** (a) The notice for an EGM can be sent as an attachment to e-mail.
- 26.3** (c) The notice shall be given to every member of the company, legal representative of any deceased members or the assignee of an insolvent member, the auditor or auditors and every director of the company.
- 26.4** (b) Only in Annual General Meeting (AGM) there may be special business or ordinary business depending on the matter of the agenda. Whereas, all businesses conducted in Extraordinary Meeting (EGM) are Special Businesses. Hence there is a need for explanatory statement.
- 26.5** (b) The contention of the company is not correct because the statutory provision on the length of notice would prevail over Articles of the company with respect to the minimum length of notice.

**Case Study 27**

The Dohra Port Company Limited (hereinafter referred as “Company”) is a joint venture between two giant Companies in the country namely ATTA Steel Limited and B & T Limited. Its paid-up capital is ` 1500 crores divided into 15,00,00,000 equity shares of ` 100 each. The number of members of the company is 8500 members out of which majority shares (80% to the total share capital) is held by the two giant companies. The company was conducting its 5th Extra-Ordinary General Meeting (EGM) on 29th May 2021 at 11:00 AM in the registered office of the company and the following members were present in the meeting at the designated time. I. Mr. A (representative of ATTA Steel Limited holding 40% share capital) II. Mr. B (representative of B & T Limited holding 40% share capital) III. Mrs. C (holding 100 shares) IV. Ms. D (holding 500 shares) V. Ms. E (holding 1000 shares) VI. Mr. F (being Proxy of original shareholder of 10 shares) VII. Mr. G (holding 100 shares) VIII. Mr. H (holding 200 shares) Another 25 members (each holding 500 shares) reported to the meeting at 11:45 AM as there was heavy traffic congestion on the way. The Company Secretary, Ms. Kripa commenced the meeting at 11:00 AM as per the scheduled time because there were 5 members personally present (other than the representatives of corporates and the proxy) and the minimum quorum needed for a public limited company was already available. However, she requested the Chairman to go slow on the agenda as she received text messages from 25 members that they would be shortly joining the meeting. Accordingly, when the rest of the members joined the meeting, the main agenda of the meeting was discussed at length. The auditor, present in the meeting objected at 11:55 AM that the quorum as required by company law was not present and hence the meeting should be adjourned. He said that since the meeting started late, it should be adjourned to 29th June 2021, exactly one month from the present date at the same time i.e. 11:00 AM and at the same place.

**Multiple Choice Questions**

- 27.1** What is the correct position with regard to quorum of the company for the EGM held on 29th May 2021?
- a) The Company Secretary, Ms. Kripa had rightly ascertained the quorum for the meeting at 11:00 AM – as 5 members.
- b) The correct quorum was rightly ascertained only when the 25 members joined the meeting -  $5 + 25 = 30$  members.

- c) The correct quorum was present as the shareholders holding majority shares were already present during the commencement of the meeting.
- d) The correct quorum was not ascertained as there were only 7 members present at the time of commencement of meeting.

**27.2 Can the presence of Mr. F be counted for the purpose of Quorum?**

- a) Yes, he can be counted for the purpose of Quorum as he is physically present.
- b) No, he cannot be counted for the purpose of Quorum as he is a proxy.
- c) Yes, he can be counted for the purpose of Quorum as he is a proxy for the original shareholder.
- d) No, he cannot be counted for the purpose of Quorum as he is proxy for a shareholder who holds only 10 shares.

**27.3 Is the objection of the auditor correct?**

- a) Yes, the auditor is correct about the adjournment of the meeting.
- b) No, the auditor is not correct about the adjournment of the meeting as the required quorum was present after the 25 members joined the meeting at 11:45 AM.
- c) Yes, the auditor is correct about the lack of quorum but not correct about the day of holding the adjourned meeting.
- d) Yes, the auditor is correct about the lack of quorum as well about the adjournment of the meeting.

**27.4 From the case it was observed that, “However, she requested the Chairman to go slow on the agenda as she received text messages from 25 members that they would be shortly joining the meeting”. Is this kind of practice allowed as per the provisions of company law?**

- a) Yes, it is very much allowed, keeping the practical difficulties into consideration.
- b) No, it is never allowed, as there is no validity of messages being sent at the time of meeting.
- c) Yes, it is very much allowed, as the law provides for ascertainment of quorum at any point of time of the meeting.
- d) No, it is not allowed, as the law provides for the requirement of quorum within half an hour from the time appointed for the meeting.

**Answer Keys Question No Answers**

- 27.1** (d) The correct quorum was not ascertained as there were only 7 members present at the time of commencement of meeting.
- 27.2** (b) No, he cannot be counted for the purpose of Quorum as he is a proxy.
- 27.3** (c) Yes, the auditor is correct about the lack of quorum but not correct about the day of holding the adjourned meeting.
- 27.4** (d) No, it is not allowed, as the law provides for the requirement of quorum within half an hour from the time appointed for the meeting.

**Case Study 28**

Trusted Industries Limited (hereinafter referred as “Company”), a listed company on the National Stock Exchange (NSE) was holding its Annual General Meeting on 30th September 2021 at the large auditorium of its registered office in the city of Guwahati. The company wanted to apply the provision of the new mode of voting introduced in the Companies Act, 2013 which provided that a member in the prescribed class of companies can exercise his right to vote by electronic means. The company made all the arrangements relating to the holding of the meeting, especially for voting through electronic means. The company had sent notices to all concerned persons in the prescribed manner to enable them to carry out the procedure of voting. The company had clearly provided that the time for opening of e-voting shall remain open for not less than two days and shall close at 4:00 PM on the date preceding the date of the general meeting. The notice of the meeting provided the following information: - That the company is providing facility for voting by electronic means and the business may be transacted through such voting; - That the members who have cast their vote by remote e-voting prior to the meeting may also attend the meeting but shall not be entitled to cast their vote again. Further, the company decided to publish a public notice by way of an advertisement in newspaper immediately on completion of dispatch of notices of the meeting. The company also specified in the notice that the remote e-voting will not be allowed beyond the specified date and time. The company appointed an independent Chartered Accountant in practice to be the scrutinizer for the remote e-voting process. The meeting was successfully conducted and as soon as the results of the voting were ascertained, the results were declared along with the report of the scrutiniser placed on the website of the company. The company had appointed an agency for the e-voting and the results of the voting immediately thereafter were declared by the Chairman and were put up on the website of the agency.

**Multiple Choice Questions****28.1 What is the correct position with regard to the time for opening of e-voting?**

- a) The time for opening of e-voting shall remain open for not less than two days and shall close at 4.00 PM on the date preceding the date of the general meeting.
- b) The time for opening of e-voting shall remain open for not less than three days and shall close at 4.00 PM on the date succeeding the date of the general meeting.
- c) The time for opening of e-voting shall remain open for not less than three days and shall close at 5.00 PM on the date preceding the date of the general meeting.
- d) The time for opening of e-voting shall remain open for not less than three days and shall close at 5.00 PM on the date succeeding the date of the general meeting

**28.2 Regarding the putting up of results of the voting on the website, which of the statement is correct in connection with the procedure followed by the Company?**

- a) It is sufficient to put up the results of the voting along with the report of the scrutiniser on the company's website immediately after the meeting.
- b) It is essential to put up the results of the voting along with the report of the scrutiniser on the company's website and also on the website of the agency immediately after the meeting.
- c) It is essential to put up the results of the voting along with the report of the scrutiniser on the company's website and also on the website of the agency immediately after the

meeting. Along with this, the company should simultaneously forward results to the concerned stock exchange(s) where the shares are listed.

- d) It is sufficient to put up the results of the voting along with the report of the scrutiniser on the company's website immediately after the meeting and give a notice in the newspaper about the uploading of information on the website.

**28.3 With respect to the information in the notice of the meeting about the facility for voting by electronic means and remote voting, which of the following statement should be added to the notice?**

- a) The notice is complete with respect to electronic voting and remote e-voting and hence no other information is needed.
- b) The notice should also provide that the facility for voting, either through electronic voting system or ballot or polling paper shall also be made available at the meeting.
- c) The notice should also provide that the facility for voting, either through electronic voting system or ballot or polling paper shall also be made available at the meeting and members attending the meeting who have not already cast their vote by remote e-voting shall be able to exercise their right to vote at the meeting.
- d) The notice should provide general information about the voting process and all detailed information shall be provided at the commencement of the meeting and also be uploaded / displayed on the company's website.

**28.4 Regarding the newspaper advertisement as decided to be published by the company immediately on completion of dispatch of notices of the meeting, which of the following statement is correct?**

- a) The newspaper advertisement should be made at least 21 days before the date of general meeting.
- b) The newspaper advertisement should be made at least 14 days before the date of general meeting.
- c) The newspaper advertisement should be made at least 7 days before the date of general meeting.
- d) The newspaper advertisement should be made at least 10 days before the date of general meeting.

**Answer Keys Question No Answers**

**28.1** (c) The time for opening of e-voting shall remain open for not less than three days and shall close at 5.00 PM on the date preceding the date of the general meeting.

**28.2** (c) It is essential to put up the results of the voting along with the report of the scrutiniser on the company's website and also on the website of the agency immediately after the meeting. Along with this, the company should simultaneously forward results to the concerned stock exchange(s) where the shares are listed.

**28.3** (c) The notice should also provide that the facility for voting, either through electronic voting system or ballot or polling paper shall also be made available at the meeting and members attending the meeting who have not already cast their vote by remote e-voting shall be able to exercise their right to vote at the meeting.

- 28.4** (a) The newspaper advertisement should be made at least 21 days before the date of general meeting.

### Case Study 29

Purple Airlines Limited (hereinafter referred to as “Company”), a public limited company which is in the process of getting its shares listed on the National Stock Exchange (NSE), Kolkata. In this regard, many meetings of the board of directors as well as of the members have regularly been held. One of the members of the Company, Mr. Jyotiranjana, felt that certain decisions taken by the company were not being properly executed as there were numerous newspapers reports about the functions & feasibility of the company’s going concern. Hence, he decided to inspect the minute book of the general meetings to understand the actual proceedings of the discussion held in the meetings. He approached the company on 27th August 2021, and requested the Company Secretary to permit inspection of the minute book at 2:00 PM. The Company Secretary refused to allow for the inspection saying that he could apply for taking the copies of the minutes of the meetings but was not entitled to inspect the minute book at the office. Accordingly, he made an application for obtaining the copies of the minutes of the meeting held on 15th July 2021. The application was made by him on 28th August 2021 to the company in the prescribed form and along with the fees suggested by the company which was ₹ 100 for each page of the minute. The company informed that for soft copies it would be ₹ 50/- per page. Mr. Jyotiranjana, waited for 10 days and when no copies were made available to him, he again approached the company for the copies. He was informed that since the Articles of Association prescribed a minimum period of 14 days, he would receive the copies of the minutes on or before 11th September 2021. Finally, he received the copies of the minutes which consisted of 10 pages and a fees of ₹ 1,000/- was charged from him (₹ 100/- for each page). Jyotiranjana had also asked for furnishing soft copies of the minutes of the meeting in respect of the previous general meetings held during a period immediately preceding three financial years. (FY 18-19, FY 19-20 and FY 20-21) The total number of pages were 95 and he was asked to pay ₹ 4,750/- (Being the charges of ₹ 50 per page). Mr. Jyotiranjana found that all the pages of the minutes were initialled and signed by the Chairman of the meeting. However, in 2 cases, he observed that the minutes were signed by another person, Mr. Ranjan, who was not the Chairman of the meeting but it was mentioned that he being the general manager was duly authorised by the Board of Directors to sign the minutes for the purpose. He also observed that the company followed a practice of recording the minutes within 2 weeks of the conclusion of the meeting.

### Multiple Choice Questions

**29.1** Which of the following statement is correct with respect to contention of the Company Secretary relating to inspection of the minutes of general meetings?

- a) Inspection of the minutes of general meetings cannot be permitted to any member and only copies can be furnished. The contention of the company was correct in this regard.
- b) Inspection of the minutes of general meetings is permitted during business hours, to any member with charge, subject to reasonable restrictions as specified in Articles or as imposed in general meeting, for at least 2 hours in each business day.
- c) Inspection of the minutes of general meetings is permitted during business hours, to any member without charge, subject to reasonable restrictions as specified in Articles or as imposed in general meeting, for at least 4 hours in each business day.

- d) Inspection of the minutes of general meetings is permitted during business hours, to any member without charge, subject to reasonable restrictions as specified in Articles or as imposed in general meeting, for at least 2 hours in each business day.

**29.2 Is the fees prescribed by the company (for taking the copies of the minute book) in line with the Company Law requirements?**

- a) Yes, it is correct, as the company is free to prescribe in its Articles of Association a reasonable fee for taking copies from the minute book maintained by the company.
- b) The amount may be fixed in the Articles of Association but it should not exceed a sum of ` 10/- for each page and for furnishing soft copies of the minutes of the meeting of any previous general meeting held during a period immediately preceding three financial years has to be provided free of cost.
- c) The amount may be fixed in the Articles of Association but it should not exceed a sum of ` 10/- for each page and for furnishing soft copies of the minutes of the meeting of any previous general meeting held during a period immediately preceding three financial years, has to be provided for a sum of not exceeding ` 1/- for each page.
- d) The amount may be fixed in the Articles of Association but it should not exceed a sum of ` 100/- for each page and for furnishing soft copies of the minutes of the meeting of any previous general meeting held during a period immediately preceding three financial years has to be provided for a sum not exceeding ` 10/- for each page.

**29.3 Which of the following statement is correct with regard to time period for furnishing the required copies of the minutes?**

- a) The contention of the company is correct.
- b) The contention of the company is incorrect as the company is required to furnish the copies of the minutes within 11 working days.
- c) The contention of the company is incorrect as the company is required to furnish the copies of the minutes within 7 working days.
- d) The contention of the company is incorrect as the company is required to furnish the copies of the minutes within 3 working days.

**29.4 Which of the following is the correct provision with respect to signing of minutes of general meetings?**

- a) The practice of the company is not correct. Each page of the minute should be initialled or signed and the last page to be dated and signed by the Chairman of the same meeting within 30 days or in the event of the death or inability of that Chairman within that period, by a director duly authorized by the Board for the purpose.
- b) The practice of the company is not correct. Each page of the minute should be initialled or signed and the last page to be dated and signed by the Chairman of the same meeting within 30 days or in the event of the death or inability of that Chairman, then by the Chairman of the next succeeding meeting.
- c) The practice of the company is not correct. Each page of the minute should be initialled or signed and the last page to be dated and signed by the Chairman of the same meeting



within 7 days or in the event of the death or inability of that Chairman within that period, by a director duly authorised by the Board for the purpose

d) The practice of the company is correct.

**29.5 The company followed a practice of recording the minutes within 2 weeks of the conclusion of the meeting. In this regard, which of the following statement is correct?**

- a) The practice of the company is correct in recording the minutes within 2 weeks of the conclusion of the meeting.
- b) The practice of the company is incorrect in recording the minutes within 2 weeks of the conclusion of the meeting. It should be recorded within 7 working days.
- c) The practice of the company is incorrect in recording the minutes within 2 weeks of the conclusion of the meeting. It should be recorded within 10 working days.
- d) The practice of the company is incorrect in recording the minutes within 2 weeks of the conclusion of the meeting. It should be recorded within 14 working days.

### **Answer Keys Question No. Answers**

- 29.1** (d) Inspection of the minutes of general meetings is permitted during business hours, to any member without charge, subject to reasonable restrictions as specified in Articles or as imposed in general meeting, for at least 2 hours in each business day.
- 29.2** (b) The amount may be fixed in the Articles of Association but it should not exceed a sum of ` 10/- for each page and for furnishing soft copies of the minutes of the meeting of any previous general meeting held during a period immediately preceding three financial years has to be provided free of cost.
- 29.3** (c) The contention of the company is incorrect as the company is required to furnish the copies of the minutes within 7 working days.
- 29.4** (a) The practice of the company is not correct. Each page of the minute should be initialled or signed and the last page to be dated and signed by the Chairman of the same meeting within 30 days or in the event of the death or inability of that Chairman within that period, by a director duly authorised by the Board for the purpose.
- 29.5** (a) The practice of the company is correct in recording the minutes within 2 weeks of the conclusion of the meeting.

### **Case Study 30**

Magic Cosmetics Private Limited (MCPL) was incorporated on 12th August 2021 with its registered office situated in Dehradun and branch offices at Delhi and Jaipur. The company was engaged in the business of manufacturing herbal products used as cosmetics. The company had prepared its books of accounts and other relevant books and records and financial statements for the year ending 31st March 2022. The company maintains its books of accounts on a double entry system of accounting on an accrual basis and keeps the books of account and other relevant books and papers and financial statements in the city of Jaipur in Rajasthan, which happens to be its major branch office. Gradually, the activities of the company grew and it opened its first branch office outside India in Colombo, Sri Lanka. The business started developing well and necessary records and documents including the books of account of the branch were maintained. One of the Directors, Mr. Lal, felt it necessary to inspect the books of account and other relevant documents maintained at Colombo branch. However, due to his busy schedule, he could not personally inspect the records and accordingly sought necessary financial information through his attorney holder. The board of

directors of the company had entrusted Ms. Priyanka, the General Manager of the Company to fulfil all the duties with regard to complying with the provisions of the company law in relation to maintaining the books of account, place of keeping the books of account, time period for preservation of books and all relevant papers and such things as prescribed in this regard. The Company maintains its “books of account” in a place (Jaipur) other than the registered office (Dehradun) of the company.

### **Multiple Choice Questions [2 Marks each]**

**30.1 What is the company law requirement with reference to “books of account” that is required to be maintained by Magic Cosmetics Private Limited?**

- a) Records maintained in respect of all sales and purchases of goods and services by the company and the assets and liabilities of the company.
- b) Records maintained in respect of sum of money received and expended and matters in relation to which the receipts and expenditure take place, all sales and purchases of goods and services by the company and the assets and liabilities of the company.
- c) Records maintained in respect of sum of money received and expended and matters in relation to which the receipts and expenditure take place, all sales and purchases of goods and services by the company, the assets and liabilities of the company and the items of cost as prescribed.
- d) a balance sheet, profit and loss account, cash flow statement, any explanatory note annexed to.

**30.2 Which of the following is the correct statement relating to place of keeping “books of account”?**

- a) The company can maintain its “books of account” in any place within India as the Board of Directors may decide.
- b) The company can maintain its “books of account” in any place within India as the Board of Directors may decide but the same has to be intimated with the Registrar before 31st March of that year.
- c) The company can maintain its “books of account” in any place within India as the Board of Directors may decide but the same has to be intimated with the Registrar within 7 days of the decision of Board.
- d) The company cannot maintain its “books of account” in any place other than its registered office.

**30.3 As observed in the case, can a director seek with respect to financial information maintained outside the country (i.e. financial information relating to books of account maintained in Colombo)**

- a) A director can inspect and seek information from any Branch of the Company located within the country only.
- b) The director can seek the information through his attorney holder with respect to financial information maintained outside the country also.
- c) The director can seek the information only individually and not through his attorney holder with respect to financial information maintained outside the country.

- d) The director can seek the information through his representative with respect to financial information maintained outside the country.

**30.4 With regard to preservation of the books of MCPL, the books of accounts for the FY 2021-22 needs to be kept in good order until at least which of the following years?**

- a) FY 2026-27
- b) FY 2027-28
- c) FY 2028-29
- d) FY 2029-30

**30.5 Which of the statement is correct with respect to entrusting Ms. Priyanka for maintaining the books?**

- a) Only the Managing Director can be entrusted to take the responsibility for the maintenance of books of account etc.
- b) Only the Managing Director or any Whole time director can be entrusted to take the responsibility for the maintenance of books of account etc.
- c) Only Whole time director (in charge of finance) or Chief Financial Officer can be entrusted to take the responsibility for the maintenance of books of account etc.
- d) Only the Managing Director or the Whole time director (in charge of finance) or Chief Financial Officer or any other person of a company charged by the Board with such duty can be entrusted to take the responsibility for the maintenance of books of account etc.

### **Answer Keys Question No Answers**

- 30.1** (c) Records maintained in respect of sum of money received and expended and matters in relation to which the receipts and expenditure take place, all sales and purchases of goods and services by the company, the assets and liabilities of the company and the items of cost as prescribed.
- 30.2** (c) The company can maintain its “books of account” in any place within India as the Board of Directors may decide but the same has to be intimated with the Registrar within 7 days of the decision of Board.
- 30.3** (c) The director can seek the information only individually and not through his attorney holder with respect to financial information maintained outside the country.
- 30.4** (d) FY 2029-30
- 30.5** (d) Only the Managing Director or the Whole time director (in charge of finance) or Chief Financial Officer or any other person of a company charged by the Board with such duty can be entrusted to take the responsibility for the maintenance of books of account etc.

### **Case Study 31**

Dream Real Estate Builders and Developers Ltd. was incorporated in 2015 as a public company. The company is engaged in the business of development of agriculture land for commercial and residential use, construction of commercial malls and residential flats and the matters incidental thereto. In the beginning of January, 2022, the company received a mega project to construct a commercial mall in the Wagholi area of Pune. The company was in advance stage of negotiation with some farmers having a total agriculture land area of 20 Bighas (approximately 5.38 lakhs Square feet). The cost of conversion of such agriculture land for urban uses, development of land

and construction cost of the shopping mall and offices was estimated to ` 500 crores. The promoters of the company planned to come out with public issue to finance this project. They dialogued with the Merchant Bankers, Bankers to the Issue and other intermediary agencies and professionals and filed Prospectus with the SEBI for its approval. In the prospectus the company mentioned about the construction of mall in Wagholi area of Pune, on the land, for which the company has got lease license rights for next 100 years from the present land owners. But in fact, the company was not having any lease agreement with the land owners and only the talks were at the pre-final stage. The company entered in to agreement with the underwriters to pay commission @ 5% of the issue price at which the shares will be issued. However, the Articles of the company were silent on payment of such commission. The prospectus filed with the SEBI got approved. The issue was launched, oversubscribed and the allotment formalities were completed within the prescribed time frame. After the successful completion of the issue, the land owners changed their decisions and did not execute the lease deed in favour of the company. As a result, the purpose for which the money was raised from public could not be utilised for that specific project. The company therefore, invested such funds raised through the public issue, in buying and trading with equity shares of other companies and made a good profit. The purpose for such buying and trading was to utilise the funds for the time being, till any new real estate project came in the hands of the company. Suresh, is an advocate, based in Pune. The farmers who were land owners of their agriculture land in Wagholi, Pune had consulted, Suresh, some time before the launch of the public issue by the company, to know the pros and cons of giving of land on lease to the company. Meanwhile, when the issue opened, Suresh, who was already having the idea of such land dealing, applied and got the allotment of shares. Later on, he came to know that farmers never executed lease license in favour of the company which leads to material mis-statement of facts in the prospectus issued by the company, at the time of issue. The company was actually not having the rights to use the land for the next 100 years, which in fact, the company had mis-stated in the prospectus, that it was having such lease license agreement. Aggrieved from this, Suresh filed a complaint against the company, its promoters and directors. When the issue was listed on the bourses, it opened with the premium over the issue price. Mahendra purchased 1000 shares from the secondary market. When Mahendra came to know from some media sources, that the company had mis-represented the material facts in the prospectus, he also decided to initiate legal action against the company

### **Multiple Choice Questions**

#### **31.1 What will be the fate in relation to the complaint file by Suresh?**

- a) The company is not liable for any civil liability in this case.
- b) The company is not liable since Surendra has not suffered any loss, as the issue opened above its issue price and Surendra could have sold his shares.
- c) Since the Prospectus was duly approved and vetted by the SEBI, the company cannot be held accountable for anything, which was later on proved wrong.
- d) The company and every person who, is a director at the time of issue of the prospectus, has authorised himself to be named in the Prospectus as director, is a promoter, has authorised the issue of the prospectus and the expert, shall be liable for such mis- statement.

#### **31.2 Whether Mahendra will get a decision in his favour if he files a case against the company?**

- a) Yes, as the company has raised money by misstatement of facts.
- b) No, since he has purchased the shares from the secondary market and not by first reading the Prospectus and then subscribing in IPO.

- c) No, as Mahendra can easily sale the shares in the secondary market and realise the amount.
- d) Mahendra should sale the shares in the secondary market and if there is any loss, then for such loss, he can file the case against the company for which he would get decision in his favour.

**31.3 Who shall be held responsible for the criminal liability if it is proved that such misstatement in the prospectus was intended to mislead or deceive the subscribers?**

- a) The company shall be held responsible.
- b) Neither the company nor its employees shall be held responsible for the criminal liability.
- c) Every person who authorises the issue of prospectus containing the mis-leading statement shall be held responsible for the criminal liability.
- d) Only the Legal Adviser who drafted the Prospectus containing the mis-leading information shall be held responsible for the criminal liability.

**31.4 Choose the correct option in relation to utilization of money raised by company through issue of prospectus:-**

- a) Since the idle funds earn no money, it is always better to deploy such funds in a judicious and profitable manner.
- b) The company has every right to utilise the money in other projects, if the project for which the money was raised could not be implemented.
- c) The company shall not use any amount raised by it through prospectus for buying or trading or otherwise dealing in equity shares of the other listed company.
- d) The company should refund the money so raised to the investors since the object behind raising the money could not be accomplished.

**31.5 The company paid commission of underwriting @ 5% on the issue price of the shares. Is it violations of the provisions of the company law?**

- a) No, it is not violation since the Companies Act, 2013 permits for payment of such commission.
- b) The payment of commission should be authorised by the Board of the company.
- c) The payment of commission should be authorised by the Articles of Association of the company.
- d) The rate of commission was not reasonable looking to the size of the issue.

**Answer key Question No Answers**

- 31.1** (d) The company and every person who, is a director at the time of issue of the prospectus, has authorised himself to be named in the Prospectus as director, is a promoter, has authorise the issue of the prospectus and the expert, shall be liable for such mis-statement.
- 31.2** (b) No, since he has purchased the shares from the secondary market and not by first reading the Prospectus and then subscribing in IPO.
- 31.3** (c) Every person who authorises the issue of prospectus containing the mis-leading statement shall be held responsible for the criminal liability.
- 31.4** (c) The company shall not use any amount raised by it through prospectus for buying or trading or otherwise dealing in equity shares of the other listed company.

**31.5** (c) The payment of commission should be authorised by the Articles of Association of the company.

### Case Study 32

Progressive Ltd is a public limited company engaged in the business of manufacturing of non-leather shoes, chappals and other footwear. It decided to raise funds to meet out the funding requirement for establishment of a new manufacturing unit in a village near Ahmedabad. The company issued a Follow-on Public Offer (FPO) to raise ₹ 30 crores as follows:

Particulars	Amount
Issue of Equity shares Number of Shares: 1,00,00,000 Face Value of ₹ 10 per share at a premium of ₹ 20 per share (Issue price @ ₹ 30 per equity share) The amount on equity shares would be called up in two instalments: ♣ First call @ ₹ 20 per share. ♣ Second and final call @ ₹ 10 per share.	Rs 30 Crores

The issue was fully subscribed and the shares were allotted to the investors. The company had made only the first call, however some of the investors paid the entire amount in the first call itself (i.e., ₹ 30 per equity shares). The company accepted this money. The investors who paid the calls in advance were demanding for the payment of interest on the amount so un-called, but paid by them and also demanded for enhanced voting rights. The company, after such successful completion of the FPO, was planning to raise further funds through issue of preference shares and debentures in order to meet out some foreign orders and expansion of its existing plant at Bhavnagar. The company proposed to issue as follows:-

Particulars	Amount in crores
Issue of Redeemable Preference Shares (Coupon rate - 10%) Number of Preference Shares: 20,00,000 Face Value of Preference Shares ₹ 100 [50% of the Preference shares shall be redeemed at the end of 10th year from the date of allotment and rest 50% shall be redeemed at the end of 25 years from the date of allotment]	20
Issue of Irredeemable Preference Shares (Coupon rate - 20%) 10 lakh shares of Face Value of ₹ 100 each.	10
Issue of convertible Debentures with voting rights (Coupon rate - 10%) 10 lakh convertible debenture, face Value of ₹ 100 each (These debentures shall be converted into equity after the end of 5 years from the date of allotment. Till conversion, the debenture holders shall carry the voting rights)	10
Issue of secured Debentures maturing after 12 years 10 lakhs secured debentures, face Value ₹ 100 each, maturing at the end of 12th year from the date of allotment.	10

The Articles of the company have requisite provisions for issue of capital through equity and preference shares and to raise money through debentures. The company had also raised finance from a banking company earlier and total amount due as on 31.03.2021 was ₹ 20 crores. At the time of availment of loan from the bank, there was a clause in the loan agreement that if the company is not able to service the loan, the loan amount shall be converted into equity after 2 years from the date of availment. The conversion of debt into equity shares shall be at a discount of 10% of the face value. As the company was not able to service the repayment of interest on loan and payment of principal, the loan amount was now eligible for conversion at the pre-agreed discount rate. The company approached you being a professionally qualified Chartered Accountant to get your

professional advice on the issues planned and narrated by the company.

### **Multiple Choice Questions**

#### **32.1 What shall be your advice with respect to the calls-in-advance?**

- a) The company should return back such un-called amount to the investors.
- b) The company may retain such un-called amount, however no interest liability arises.
- c) The company may keep such amount, if so, authorised by the Articles. However, they are not entitled for any voting rights till the amount is duly called up.
- d) The company may forfeit the amount so un-called.

#### **32.2 What is your opinion with respect to the issue of irredeemable preference shares proposed by company?**

- a) Yes, the company can issue any type of preference shares, whether it be redeemable or irredeemable.
- b) If the articles of the company permit the company to issue irredeemable preference Shares, then it can issue.
- c) The financial position of the company is not good, since it could not repay the loan raised from the F.I.
- d) The company cannot issue irredeemable preference shares.

#### **32.3 What is your opinion with respect to the issue of redeemable preference shares proposed by company if such funds are not to be raised for any infrastructure project?**

- a) There is no prohibition on issue of redeemable preference shares, by any company, having any maturity period.
- b) The company should avoid issuing the preference shares with such long term bearing the coupon rate @ 20%, since it may be a financial burden on the company, if the interest rates fall down in coming time.
- c) As per the provisions of the Companies Act, 2013, the redeemable period of the preference shares shall not exceed 20 years from the date of issue, so the tenure of rest 50% of the redeemable preference share should be reduced so as, not to exceed the issue period of 20 years.
- d) As the Article of the company permits, the preference shares can be issued maturing after 20 years from the date of issue.

#### **32.4 How you will guide the company with respect to the issue of shares at discount to the banking company by converting the loan?**

- a) Companies Act, 2013 do not allow to issue shares at discount to the face value in any case.
- b) If the company is unable to liquidate the loan amount, it can seek special permission form the Central Govt. (MCA) to convert such loan into equity
- c) A company may issue shares at a discount to its creditor when its debts is converted into shares in pursuance of any statutory resolution plan or debt restructuring plan in accordance with any guidelines or directions or regulations specified by the RBI.
- d) The loan may be converted into equity but it should at par and not at discount.

**32.5 Is it valid to issue convertible debentures carrying voting rights?**

- a) No, till the debentures are converted into equity, such debentures cannot carry the voting rights.
- b) If the articles of the Company permit, then the company may issue such debentures.
- c) If prior approval from the existing shareholders is obtained by the Company in the General Meeting, by an ordinary resolution, it can issue such debentures.
- d) The company can issue such debentures carrying the voting rights provided a special resolution is moved in the General Meeting of the company and it is approved by the 3/4th of majority of the shareholders.

**32.6 Can the company issue such secured debentures as aforesaid if such funds are not to be raised for any infrastructure project?**

- a) Yes, the company can issue such debentures
- b) Yes, the company can issue such debentures, provided it contains such provisions in its articles for the same.
- c) The company may issue such debentures provided the date of its redemption shall not exceed 10 years from the date of issue.
- d) The company may issue such debentures if approved by its shareholders by passing a special resolution.

**Answer Keys Question No. Answer**

- 32.1** (c) The company may keep such amount, if so, authorised by the Articles. However, they are not entitled for any voting rights till the amount is duly called up.
- 32.2** (d) The company cannot issue irredeemable preference shares.
- 32.3** (c) As per the provisions of the Companies Act, 2013, the redeemable period of the preference shares shall not exceed 20 years from the date of issue, so the tenure of rest 50% of the redeemable preference share should be reduced so as, not to exceed the issue period of 20 years.
- 32.4** (c) A company may issue shares at a discount to its creditor when its debts is converted into shares in pursuance of any statutory resolution plan or debt restructuring plan in accordance with any guidelines or directions or regulations specified by the RBI.
- 32.5** (a) No, till the debentures are converted into equity, such debentures cannot carry the voting rights. 32.6 (c) The company may issue such debentures provided the date of its redemption shall not exceed 10 years from the date of issue.

**Case Study 33**

Sudarshan Cement Ltd. is an unlisted public company. During the preceding financial years, the key parameters of the company were as under: (₹ in crores)

Particulars	1st F.Y.	2nd F.Y.	3rd F.Y.
Paid-up Capital	45	45	45
Turnover	150	190	195
Loans and Advances from Banks # (Sanctioned Limit: ₹ 120 crores)	95	80	97
Deposits #	20	27	24



# Loans and Advances from Banks / Deposits: The Minimum and Maximum outstanding of loans and advances during the respective financial years were as under:

FY	1st F.Y.		2nd F.Y.		3rd F.Y.	
Month	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Loan & Advance	89	115	90	97	92	99
Deposits	19	22	17	27	15	30

The Managing Director of the company had appointed Suresh (an employee of the company, posted in Accounts Dept. of the company) as an Internal Auditor for the company for 1st F.Y. The Audit Committee of Board had objected such appointment and removed Suresh from such post and had recommended appointment of Anthony as internal auditor for 1st F.Y., which had been subsequently approved by the Board of Directors. Anthony had just cleared the final examination of the Institute of Chartered Accountants of India (ICAI) and he was neither having the membership of ICAI nor the Certificate of Practice from ICAI.

### Multiple Choice Questions

#### 33.1 Whether the company was required to appoint internal auditor for 2nd F.Y.?

- Since the company is an unlisted public company, hence it was not required to appoint internal auditor.
- The company's paid-up capital, turnover, loans & advances and deposits were below the threshold limits, hence, was not required to appoint internal auditor.
- The highest outstanding amount in the head of 'loans and advances' during the 1st F.Y., was ` 115 crores, hence it required to appoint internal auditor for the 2nd F.Y.
- The sanctioned limit for the loans and advances was ` 120 crores, which exceeded the threshold limit and hence it was required to appoint internal auditors for the 2nd F.Y.

#### 33.2 Whether the company was required to appoint internal auditor for 3rd F.Y.?

- Since the company is an unlisted public company, hence it was not required to appoint internal auditor.
- The company's paid-up capital, turnover and loans & advances were below the threshold limits, hence, was not required to appoint internal auditor.
- he highest outstanding amount in the head of 'loans and advances' during 2nd F.Y., was ` 97 crores, hence was not required to appoint internal auditor for 3rd F.Y.
- The highest deposit amount outstanding during 2nd F.Y., was ` 27 crores, which exceeds the threshold limit, hence it was required to appoint internal auditor for 3rd F.Y.

#### 33.3 Whether the company was required to appoint internal auditor for 4th F.Y.?

- Since the company is an unlisted public company, hence it was not required to appoint internal auditor.
- he company's paid-up capital, turnover, loans & advances and deposits were below the threshold limits, hence, was not required to appoint internal auditor.
- The highest outstanding amount in the head of 'loans and advances' during the 3rd F.Y., was ` 99 crores, which was below the threshold limit, hence was not required to appoint internal auditor for the 4th F.Y.

- d) The deposit amount outstanding at the end of 3rd F.Y., was ` 24 crores, which was below the threshold limit, but during the said FY the maximum outstanding was ` 30 crores, hence it was required to appoint internal auditor for the 4th F.Y.

**33.4 Choose the correct option with respect to appointment of Anthony as Internal Auditor of the company:-**

- a) A person should be C.A. means he should at least have the membership of ICAI.  
b) Appointment of CA who is not having the Certificate of Practice from ICAI is not a valid appointment for the post of internal auditor.  
c) A person (CA, CMA or any other professional as may be decided by the Board) may be appointed as internal auditor whether engaged in practice or not.  
d) It depends upon the discretion of the management.

**Answer Keys Question No. Answer**

- 33.1** (c) The highest outstanding amount in the head of 'loans and advances' during the 1st F.Y., was ` 115 crores, hence it required to appoint internal auditor for the 2nd F.Y.  
**33.2** (d) The highest deposit amount outstanding during 2nd F.Y., was ` 27 crores, which exceeds the threshold limit, hence it was required to appoint internal auditor for 3rd F.Y.  
**33.3** (d) The deposit amount outstanding at the end of 3rd F.Y., was ` 24 crores, which was below the threshold limit, but during the said FY the maximum outstanding was ` 30 crores, hence it was required to appoint internal auditor for the 4th F.Y.  
**33.4** (c) A person (CA, CMA or any other professional as may be decided by the Board) may be appointed as internal auditor whether engaged in practice or not.

**Case Study 34**

Satguru Investments Ltd was incorporated on 25th April, 2021. The first Board meeting of company was held on 30th April, 2021, to discuss the business issues along with the appointment of first auditor of the company. The Company Secretary put a panel of 5 auditors before the Board, however no consensus was arrived at, for the appointment of any of the auditor. The time prescribed under the Companies Act, 2013, for appointment of the first auditor lapsed and accordingly the company informed its members that first auditor for the company could not be appointed and called an Extraordinary General Meeting of the members for making appointment of the first auditor. The name of Bharat, a practicing CA, was proposed and the same was appointed by the members. The first Annual General Meeting of the company was held on 15th December, 2021 in which, Bharat was appointed as an auditor of the company till the conclusion of the 6th Annual General Meeting. In the month of January 2022, a news was published in the local newspaper that Bharat was sentenced for imprisonment of 2 years by a court of law for the offence of fraud for which he was going to appeal before the higher court against the decision of the lower court. The company treated it as a casual vacancy of the auditor and the Board appointed another auditor named Gaurav, till the conclusion of the next AGM. The next AGM held on 20th August 2022, however in this AGM no appointment of auditor was made.

**Multiple Choice Questions**

- 34.1** The first auditor should be appointed by the Board of Directors within \_\_\_\_\_ days from the date of registration of the company, failing which the members of the company shall within \_\_\_\_\_ days at \_\_\_\_\_ appoint such auditor and such auditor shall hold office till the conclusion of the \_\_\_\_\_.

- a) 30 days / 30 days / an EGM / 6th AGM
- b) 30 days / 60 days / an EGM / 6th AGM
- c) 30 days / 90 days / an EGM / First AGM.
- d) 30 days / 90 days / an EGM / 6th AGM

**34.2 How, the company shall treat the situation of conviction of Bharat by the court of law?**

- a) The company shall continue with the appointment of such auditor.
- b) The company shall wait till the appeal and its final decision comes out.
- c) The company shall wait till the date when the execution of Bharat accomplished i.e., he is actually put behind the bars.
- d) The company shall treat this as casual vacancy.

**34.3 In the given case the Board treating it as casual vacancy, appointed Gaurav. Such casual vacancy of auditor should be filled up by the Board of Directors \_\_\_\_\_ days and Gaurav shall continue as an auditor of the company till the conclusion of the next AGM.**

- a) Within 30 days
- b) Within 45 days
- c) Within 60 days
- d) Within 90 days

**34.4 Gaurav was appointed by the Board as an auditor till the conclusion of the next AGM. However, in the next AGM, no appointment of auditor was made. Now what shall be the status:**

- a) The present auditor Gaurav, shall continue to be the auditor of the company.
- b) The present auditor Gaurav's term was only upto the conclusion of the next AGM so he should vacate the office as an auditor.
- c) The Board can appoint another person as auditor in place of Gaurav, treating it as casual vacancy.
- d) When no appointment is made by the members in the AGM, an EGM shall be called upon to make the appointment of auditor within 90 days.

**34.5 If the Board intends to remove Gaurav as an auditor before the expiry of his term, what procedure needs to be followed?**

- a) The auditor can be removed before expiry of his term by moving an ordinary resolution in the shareholder's meeting.
- b) The auditor can be removed before expiry of his term by moving an ordinary resolution in the shareholder's meeting, after obtaining the previous approval of the Central Govt.
- c) The auditor can be removed before expiry of his term by moving a special resolution in the shareholder's meeting.
- d) The auditor can be removed before expiry of his term by moving a special resolution in the shareholder's meeting, after obtaining the previous approval of the Central Government.

**Answer Keys Question No. Answer**

**34.1** (c) 30 days / 90 days / an EGM / First AGM.

**34.2** (d) The company shall treat this as casual vacancy.

**34.3** (a) Within 30 days

**34.4** (a) The present auditor Gaurav, shall continue to be the auditor of the company.

**34.5** (d) The auditor can be removed before expiry of his term by moving a special resolution in the shareholder's meeting, after obtaining the previous approval of the Central Government.

**Case Study 35**

Anshul and Nikita are husband and wife. They are engaged in the business of trading of handloom items. They purchase handmade bedsheets, towels, napkins and other related items from Solapur Maharashtra and sale them in Rajasthan. One of their friends suggested them to form a private limited company. By corporatizing their business, they will be having more recognition and may also be able to export such handloom products. They formed a company in the name of Anshul Textiles Pvt. Ltd. in which they both were the only members. They used to get the handloom work on job basis from the workers according to the demand and sale them in Indian market as well exporting the same. The company also availed a line of credit facility from the bank to the tune of ` 20 lakhs. Anshul used to travel different places in order to search for the new market. One day, the air craft, in which he was travelling, crashed while landing at the Mumbai airport. All passengers including Anshul, died. Now, Nikita was the only member in that private limited company. Their family friend suggested to include her brother as a member of the company, but Nikita did not agree to such suggestion. Instead, she thought to get it convert from private limited company to One Person Company (OPC) and make nomination in favour of her brother. Nikita's brother, Rohan, an Indian citizen, is presently in Auckland, New Zealand, in connection with his employment.

**Multiple Choice Questions**

**35.1** After the death of Anshul, for how much time period, Nikita can carry on the business of company without incurring any personal liability on her part for the debts of the company?

- a) Up to three months
- b) Up to four months
- c) Up to five months
- d) Up to six months

**35.2** Who can be a nominee in OPC:

- a) A nominee in an OPC shall be an Indian Citizen whether resident in India or otherwise
- b) A minor can be a nominee
- c) A person to become the nominee in OPC shall be at least 16 years but shall not be more than 60 years of age
- d) Only a nominee in one OPC can be made nominee in another OPC

**35.3** Whether Rohan can be a nominee of OPC?

- a) Since he is out of India, hence cannot become the nominee
- b) He can be a nominee of an OPC and has to provide his consent in the prescribed form.
- c) Since he is in employment, hence cannot be a nominee of an OPC
- d) He has to seek No objection certificate from his employer to become a nominee in an OPC and such NOC needs to be furnished to the Registrar

**Answer Keys Question No. Answer**

**35.1** (d) Up to six months

**35.2** (a) A nominee in an OPC shall be an Indian Citizen whether resident in India or otherwise

**35.3** (b) He can be a nominee of an OPC and has to provide his consent in the prescribed form.

**Case Study 36**

Rupesh took a house loan of ` 80 lakhs from Best Bank Ltd. While granting the house loan, the bank insisted to provide a guarantee. Rupesh's neighbour, Mithun, gave the guarantee for such housing loan. Rupesh also purchased a life insurance policy on his life from A-One Life Insurance Company Ltd., for a sum assured of ` 1 crore for a policy term of 20 years. He paid the first premium to the insurance company. This policy was purchased by the Rupesh in order to protect his family, in case of untimely death of Rupesh. Rupesh made nomination of the policy in favour of Archana, his wife. After some time Rupesh's business started running into losses and was not able to pay the instalments of housing loan to the bank. As a result, his loan account was classified by the bank as Non-Performing Asset (NPA) and the bank initiated to recover its pending dues. The Bank first sent the reminder letters/ mails to both the borrower and his guarantor and thereafter a legal notice was served. Even after notices, when the loan account was not regularised, the bank filed a suit in Debt Recovery Tribunal (DRT) against the guarantor. The guarantor objected and asked the bank to first get it recover from the borrower and if the borrower does not pay, then only the guarantor will be liable to pay. But the bank continued to follow up the matter in DRT and ultimately the decree was passed in favour of the Bank to recover the dues from the guarantor. Bank recovered entire outstanding loan from the guarantor as per the decree. Now the guarantor filed a suit against Rupesh to pay the amount, which he paid to the bank. Mithun also requested to the court to provide the possession and ownership of the house, if Rupesh is not able pay such amount. Meanwhile, Rupesh met with an accident and died on the spot. Claim was lodged by his wife and the insurance company paid the sum assured along with bonus amount to Archana (nominee of the deceased). Archana paid the amount to Mithun, which had been paid by Mithun to the bank in discharge of his guarantee and settled down all the issues.

**Multiple Choice Questions**

**36.1** In the given case, who is discharging the liability of a third person in case of his default in relation to the contract of guarantee?

- a) Mithun
- b) Rupesh
- c) Archana
- d) The Bank

**36.2** Choose the correct statement:-

- a) The liability of surety is secondary and arises immediately on the default by the principal debtor and the bank can sue the surety directly after obtaining prior permission of the court.
- b) The liability of surety is primary and the bank has the right to sue the surety directly without first proceeding against principal debtor.
- c) The liability of surety is secondary and arises immediately on the default by the principal debtor and the bank has the right to sue the surety directly without first proceeding against principal debtor.

- d) The liability of surety is primary and the bank can sue the surety directly after obtaining prior permission of the court.

**36.3 What is the consideration in case of contract between Mithun and the Bank?**

- a) Promise made for the benefit of the principal debtor to avail loan on the guarantee of the surety
- b) In contract of guarantee, there is no consideration involved between surety and the creditor
- c) Mithun can freely utilise the house
- d) Any past consideration

**36.4 A contract by which one party promises to save the other from loss caused to him by the conduct of the promisor himself, or by the conduct of any other person, is called:**

- a) A contract of Guarantee
- b) A contract of indemnity
- c) A wager contract
- d) A void contract

**36.5 A contract of life insurance is:**

- e) A contract of guarantee
- f) A Unilateral contract
- g) Not a contract of indemnity
- h) A contract of indemnity

**Answer Keys Question No. Answer**

**36.1** (a) Mithun

**36.2** (c) The liability of surety is secondary and arises immediately on the default by the principal debtor and the bank has the right to sue the surety directly without first proceeding against principal debtor.

**36.3** (a) Promise made for the benefit of the principal debtor to avail loan on the guarantee of the surety

**36.4** (b) A contract of indemnity 36.5 (c) Not a contract of indemnity

**Case Study 37**

Kirtee Agarwal and Kishan Shaw are two friends studying in the Mumbai City College. They both are pursuing Bachelor of Commerce (Hons) and are in their Semester V. Kirtee Agarwal is also pursuing Chartered Accountancy Course. She has completed her Foundation Level and is presently preparing for the Intermediate Level. On the other hand, Kishan Shaw is interested in Fashion Designing and is preparing to become a fashion designer after completing B.COM (Hons). One fine morning over a cup of tea both Kirtee and Kishan heard two persons promising to financially help each other. One person named Mr. P promised the other Mr. Q, that he will pay him a certain sum of money on the 76th Independence Day of India. To this Mr. Q asked Mr. P to pay this sum to Mr. R (friend of Mr. Q). After a moment's thought Mr. P changed his mind and promised to pay a reduced sum of money to Mr. R along with an I-Pad. Over hearing this conversation both Kirtee and Kishan started discussing over Promissory Notes. Since Kirtee is a CA Student she shared her knowledge about

Promissory notes and explained Kishan about Section 4 of the Negotiable Instrument Act, 1881. Having heard the details Kishan was curious in his mind regarding Promissory Notes. He had the following questions for which he needed answers. Considering the above data and assuming you are Kirtee, answer the following questions of Kishan:

### Multiple Choice Questions

**37.1** Kishan asks, 'If Mr. P promises Mr. Q that he will pay ` 4,00,000. However, he will pay the sum to Mr. Q on the 76th Independence day of India'. Will this promise constitute a valid Promissory Note?

- No. This is not a valid promissory note as it is conditional and promissory note should be unconditional.
- No. This is not a valid promissory note as there is no express of promise. It is a mere statement.
- Yes. This is a valid promissory note as the event stated in the promise is bound to happen.
- Yes. This is a valid promissory note as there is a promise to pay irrespective of the promise being conditional or unconditional.

**37.2** Kishan asked, 'when Mr. P promises to pay a friend of Mr. Q, ` 2,00,000 along with an I-Pad, on his birthday'. Will that be a valid Promissory Note?

- No. It is not a valid Promissory note as the order to pay must consist of money only.
- No. It is not a valid promissory note as there is no clarity on which birthday the payment will be made. It is a promise for an indefinite period.
- Yes. It is a valid promissory note as the maker and payee are certain, definite and different person.
- Yes. It is a valid promissory note as there is an express promise to pay ` 2,00,000 along with I Pad on friend's birthday.

### Answer Keys Question No. Answer

**37.1** (c) Yes. This is a valid promissory note as the event stated in the promise is bound to happen.

**37.2** (a) No. It is not a valid Promissory note as the order to pay must consist of money only.

### Case Study 38

Ronak and Bhowmik are brothers and they are engaged in the business of dairy. Ronak is having 10 cows. The monthly revenue and expenses of the cows is tabulated as under:

Sr. No	Particulars	(Rs )
1	Revenue: (25 litres per cow per day) *(10 cows) * (Sale Price ` 40 per litre) * (30 days in a month) = 3,00,000	3,00,000
2	Expenses: i. For feeding: (300 per cow per day) *(10 cows) * (30 days in a month) = 90,000 ii. Medical Expenses (Salary to a Veterinary Doctor per month: 10,000 iii. Labour's Salary: (2 person *10,000) = 20,000 iv. Petrol exp for milk delivery van: Lump sum = 10,000 Total Exp= 90,000+10,000+20,000+10,000 =1,30,000	(1,30,000)
3	Savings per month	1,70,000
4	Yearly savings = 1,70,000*12 months	20,40,000

5	Salary to Bhowmik for looking after Ronak's Dairy business: $10,000 \times 12$ = 1,20,000	(1,20,000)
6	Less: Contingency Expenditure	(20,000)
7	Net Revenue to be collected (after a year)	19,00,000

Ronak's son Chirag is doing Engineering in Dairy Science from Denmark and is in Final Year. He learnt a lot by his engineering education and want to invite his father to know the technical aspects of dairy business. Chirag insisted his parents to come to Denmark and stay for a year to learn the nitty gritty of the dairy business and also enjoy the life in travelling nearby places. Ronak, talked to his brother Bhowmik and explained his plan to visit to Denmark for a year and requested to take care of his cows. The labourers are engaged for the maintenance of cows and delivery of the milk, and Bhowmik is just to have a watch over it, collect the revenues etc. and take care of the cows, till he returns back from Denmark.

Ronak also offered Bhowmik that for taking care of his dairy business, he will pay to him ` 10000 per month. Ronak also told Bhowmik that the cows are covered under the Insurance Policy, for which he has already paid advance premium and also shared the Insurance Policy with Bhowmik. However, Ronak did not disclosed that one cow is under sickness, it very often falls sick and needs to be taken care. Bhowmik agreed and the cows were shifted to Bhowmik's Dairy Farm House. Ronak and his wife went to Denmark to stay with their son and to understand the dairy business there and to visit the near places. Bhowmik was now looking after the dairy business of Ronak along with his dairy business.

During the year, 2 cows gave the birth to 2 calves. One cow, which often used to fall ill, had also influenced the other cows, as a result, one cow of Bhowmik, and one cow of Ronak which remained in close contact with this sick cow, also fell sick.

All the three cows (2 of Ronak and 1 of Bhowmik) died. When the insurance claim was lodged, the insurance company refused to pass on the claim on the following reasons:

- One cow of Ronak which was running sick was not insured.
- Post mortem Report of another two cows (one of Ronak and another of Bhowmik) revealed that these two cows were in close touch of the sick cow and due to infections, these two cows also died. When Ronak returned back to India, he demanded his cows back. Bhowmik returned 8 cows (10-2) but did not returned calves. Bhowmik informed Ronak that due to one sick cow (of Ronak) his cow also became sick and died and no insurance claim was admitted

### Multiple Choice Questions

**38.1 What was the fault on the part of Ronak (bailor) in this case?**

- a) Ronak has not taken the Insurance Policy of the sick cow.
- b) Ronak have not informed the continuous sickness of his cow, to Bhowmik
- c) Ronak has left the cows to his brothers and went to Denmark to enjoy the travelling and tourism.
- d) Ronak, before going to Denmark, should have sold this sick cow.

**38.2 Can Bhowmik claim damages for loss of his cow, which died, since this cow, remained in the close contact of the sick cow of Ronak:**

- a) Ronak is not liable for such loss.
- b) Bhowmik should himself take care of his cow.
- c) Ronak is liable to pay the price of the deceased cow of Bhowmik, since this cow died on account close contact of sick cow of Ronak.



- d) Bhowmik should be vigilant in taking care of the cows.

**38.3 Whether Bhowmik is responsible to give delivery of two calves which took birth during the year, when Ronak was on his tour to Denmark:**

- a) Bhowmik is not bound to give delivery of two calves, since he has already lost his own cow due to mistake of not disclosing the sickness of Ronak's cow by him (Ronak).
- b) Bhowmik is duty bound to hand over the delivery of two calves.
- c) Ronak should not insist for delivery of the calves.
- d) Bhowmik can keep the calves with him as the calves were born when the cows were in Bhowmik's custody.

**38.4 Bhowmik returns only 8 cows, since 2 cows of Ronak died. Whether Ronak is entitled to claim damages for 2 cows:**

- a) Ronak is not entitled to claim damages.
- b) Ronak is entitled to claim damages only, if he can prove that Bhowmik has not taken care of the cows as a prudent person, not taken the medical help of the doctor etc.
- c) Bhowmik should morally paid the loss of cows to his brother Ronak
- d) Bhowmik should not claim his salary, since Ronak has already suffered the loss of two cows

**Answer Keys Question No. Answer**

**38.1** (b) Ronak have not informed the continuous sickness of his cow, to Bhowmik

**38.2** (c) Ronak is liable to pay the price of the deceased cow of Bhowmik, since this cow died on account close contact of sick cow of Ronak.

**38.3** (b) Bhowmik is duty bound to hand over the delivery of two calves.

**38.4** (b) Ronak is entitled to claim damages only, if he can prove that Bhowmik has not taken care of the cows as a prudent person, not taken the medical help of the doctor etc.

**Case Study 39**

Ankit and Amit are friends. Amit asked Ankit to become guarantor for his cousin Arav, a grocery seller, for an amount of ` 1,50,000. This was required so that Mr. Sunil, the supplier may from time to time supply goods on credit basis to Arav during the next 1 year. Ankit purchased items worth ` 50,000 from Mr. Sunil and paid the amount within 15 days.

After one month Ankit bought items worth ` 50,000. Out of this amount, on 15th May 2021, Ankit paid ` 25,000 to Mr. Sunil. Ankit placed an order for items worth ` 15,000 on 17th May 2021. But due to some issues between Arav and Ankit, the later revokes the guarantee. Ankit conveys the same to Amit on 21st May 2021. Amit wanted to build a new house in Jaipur.

Mr. Amit was working in Agra and he was looking to hire a good architect so that he can build his dream house. Mr. Anuj, colleague of Mr. Ankit, suggested him to hire Mr. Mehta. Since, Mr. Amit never met Mr. Mehta, so he asked Mr. Anuj to stand as a guarantor for Mr. Mehta, to which Mr. Anuj agreed. He contacted Mr. Mehta, an architect to prepare the plan. Mr. Mehta prepared the plan and sent it to Mr. Ankit for final approval.

The payment was to be made on instalments basis at various stages of completion. Mr. Amit, however, paid him the last three instalments together. But even after 6 months delay, Mr. Mehta couldn't complete the construction. Mr. Ankit's company since last two years was buying raw materials from Dawe & Son's. The company required some more raw materials for its future use.

The Company issued a cheque for ₹ 100,000 in favour of Dawe & Son's on 04.02.2022 and the company had sufficient amount in their bank account. Due to some internal issues Dawe international was not able to present the cheque to the Bank for payment, within reasonable time.

The bank failed before the cheque was presented by Dawe & Son's. Mr. Ankit had a car in Agra. While he was travelling to Jaipur he parked his car at his colleague, Mr. Anuj's house. Mr. Ankit allowed Mr. Anuj only to use the car in his absence and Mr. Anuj allowed his neighbour to use the car. His neighbour rides with care, but unfortunately met with an accident.

Mr. Anuj got it repaired with a local mechanic and handed over the car to Mr. Ankit, after he returned to Agra. Being unaware of the incident, Mr. Ankit took his car home. But after couple of days due to the accident, the car had a breakdown.

Mr. Amit lends his unused furniture to Mr. X gratuitously to be used for next one year. Mr. X incurs some amount on its repairs. After six months Mr. Amit asked Mr. X to return his furniture as he needed it for his personal use. Mr. X refused to deliver the furniture as the specified time period was not over

### **Multiple Choice Questions**

**39.1 Referring to the provisions of the Indian Contract Act, 1872, decide whether Ankit is absolved from his liabilities to Mr. Sunil for the subsequent credit supply and for how much amount would Ankit be liable, in case Arav makes default in paying back for the goods already supplied on credit pending payment?**

- a) Ankit cannot be absolved from his liabilities and he needs to pay a total of ₹. 40,000 to Mr. Sunil.
- b) Ankit can be absolved from his liabilities but he needs to pay a total of ₹ 40,000 to Mr. Sunil.
- c) Ankit can be absolved from his liabilities but he needs to pay a total of ₹ 40,000 to Mr. Sunil.
- d) Ankit is absolved from his liabilities the moment he conveyed it to Amit and as such he need not required to pay anything in case of a default.

**39.2 Mr. Mehta, even after 6 months of delay could not fulfil his promise and complete the construction of Mr. Ankit house. According to the provision of Indian Contract Act 1882, decide whether Mr. Anuj can be held liable for the loss?**

- a) Mr. Anuj being a guarantor is liable for the loss
- b) Mr. Anuj is discharged of all his liabilities, as soon as prepayment is done by Mr. Ankit.
- c) Mr. Anuj being a guarantor is liable only for the last 3 instalments.
- d) Mr. Anuj is only liable when he had the knowledge of the prepayments made by Mr. Ankit

**39.3 Decide under the provisions of the Negotiable Instruments Act, 1881, how and from whom Dawe & Son's can recover the money?**

- a) from the company, by returning the cheque for nonpayment.
- b) from the company, after remark by the bank for nonpayment of the same.
- c) from the bank, as the company is discharged of his liability when it is not presented to bank on time.
- d) from any of the two, Dawe & Son's can claim the amount of the cheque.

**39.4 Mr. Anuj before handing over the car to Mr. Ankit got it repaired from the local mechanic. According to the provisions of the Indian Contract Act, 1872, choose the correct option.**

- a) Mr. Anuj is liable to compensate Mr. Ankit for the loss done to the car.

- b) Mr. Anuj is not liable to compensate Mr. Ankit as he already got it repaired from the mechanic.
- c) Mr. Anuj is not liable to compensate Mr. Ankit as due care was taken while driving the car.
- d) Mr. Anuj is liable only in case when he was driving the car.

**39.5 According to the provision of the Indian Contract Act, 1872, do you think Mr. Amit has a right to take back his furniture before specified time of one year? Chose the correct option.**

- a) In case of premature termination Mr. Amit need to pay to Mr. X for the loss or damage suffered by Mr. X that is in excess of the benefit received out of the use of such furniture
- b) Since it is a gratuitous bailment Mr. Amit is not required to pay anything to Mr. X
- c) In case of a gratuitous bailment Mr. X can refuse to return the furniture before specified time.
- d) In gratuitous bailment too, Mr. Amit is liable to indemnify the total loss incurred by Mr. X.

### **Answer Keys Question No. Answer**

**39.1** (c) Ankit can be absolved from his liabilities but he needs to pay a total of ₹ 40,000 to Mr. Sunil

**39.2** (b) Mr. Anuj is discharged of all his liabilities, as soon as prepayment is done by Mr. Ankit

**39.3** (c) from the bank, as the company is discharged of his liability when it is not presented to bank on time.

**39.4** (a) Mr. Anuj is liable to compensate Mr. Ankit for the loss done to the car.

**39.5** (a) In case of premature termination Mr. Amit need to pay to Mr. X for the loss or damage suffered by Mr. X that is in excess of the benefit received out of the use of such furniture.

### **Case Study 40**

Mr. X and Mr. Y are friends. Mr. X runs a taxi business. Mr. Y hires a car from Mr. X for one month. Mr. Y paid ₹ 5000 to Mr. X. Mr. X instructed Mr. Y to deliver his car to one of his neighbour Mr. A, after the specified time, as he is going out of town for two months. With no malicious intention, after expiry of one month, Mr. Y thought to retain the car with himself. Mr. Y decided to pay ₹ 5000 to Mr. X, when he returns, as he can easily travel to his office on daily basis. Mr. Gupta visited Mr. X. Mr. X needed ₹ 50,000 for his personal use. Mr. X promised to pay the amount in 3 months. Mr. X bought an imported T.V. from abroad. Since, Mr. Gupta deals in electronic goods, he asked Mr. X to pledge the T.V, to which Mr. X agreed. Mr. X pledged the T.V. against the loan amount of Mr. Gupta. The T.V's cable got damaged by Mr. X but TV was in a working condition. After the specified time, Mr. X did not pay off the debt. Finally, Mr. Gupta decided to sell the T.V, to recover his debt, but had to bear the cost of cable repair worth ₹ 5,000. A customer bought a music system from Mr. Gupta on 4th January, 2022. The customer paid 10% of the amount in cash, and issued two cheques dated 21st January, 2022 and 10th February 2022. The 1st cheque issued by customer got cleared on 4th February. Mr. Gupta deposited the 2nd cheque on 12th May, 2022 which got returned due to insufficient funds in the bank account of the drawer. Mr. Gupta send notice to the customer within a week, after receiving the information from the bank regarding return of the cheque. The customer even after 15 days' time neither replied to the notice nor paid the amount to Mr. Gupta. Mr. Gupta asked his lawyer to sue the customer under the relevant law. Mr. Gupta's son Amit, found a Rado watch in the cafe; lying on the floor. Amit tried to find the owner of the watch but all his efforts went in vain. Amit got the watch repaired from the showroom by paying ₹ 1000. Next day Amit came to know about the real owner of the watch, from the advertisement newspaper stating the loss of a watch in the cafe along with the reward of ₹ 4000 to the finder of the watch. Amit went to the owner to return the watch. Amit demanded ₹ 5,000 as he had paid ₹ 1000 for the repair of the

watch. Mr. X lent his car gratuitously to his banker friend Mr. Yaseen, till summer vacation. But after 15 days Mr. X terminated the contract and took back his car. Due to summer vacation, no cars were available and Mr. Yaseen had to arrange another car for much higher price i.e. for ₹ 12,000, which is generally available for ₹ 8,000.

### **Multiple Choice Questions**

- 40.1 With reference to the provision of the Indian Contract Act, 1872, how would you justify the action of Mr. Y?**
- a) Mr. Y can retain the car as he had no malicious intention and was ready to pay ₹ 5,000
  - b) Mr. Y was authorised to retain the car as a Bailee and had an option either deliver it to Mr. Y or his neighbour
  - c) The car can be retained by Mr. Y, after informing Mr. Y's neighbour
  - d) It was not justifiable for Mr. Y to retain the car after 1 month
- 40.2 Will Mr. Gupta succeed in the suit to be made by him? I. No offence is constituted II. The cheque was presented in the bank within specified time IV. The drawer of the cheque failed to make payment of the said amount of money within 15 days of the receipt of the said notice V. The notice in writing given to the drawer of the cheque, within a week regarding the return of the cheque as unpaid.**
- a) I
  - b) II and IV
  - c) III and IV
  - d) II, III and IV
- 40.3 By referring to the provisions of the Indian Contract Act, 1872, what should be the liability of the owner to pay to Amit?**
- a) The owner needs to pay the reward amount as well as the repairing cost to Amit
  - b) Amit has no right to claim the repairing amount of the watch.
  - c) Amit can retain the watch till the owner pays him the repairing cost as well as the prize money and Amit can sue the owner for the prize money only.
  - d) Amit has a right to claim the repairing amount of the watch.
- 40.4 According to the provision of the Indian Contract Act, 1872, how would you evaluate Mr. Yaseen's situation?**
- a) Mr. X is liable to compensate Mr. Yaseen for the loss, which is in excess of the benefit derived by Mr. Yaseen.
  - b) Since there is no consideration involved, Mr. X is not liable to pay any compensation.
  - c) No loss is caused to Mr. Yaseen, so he is not liable to get any compensation.
  - d) Mr. Yaseen is liable to get compensation only if it is expressly mentioned in the contract.

### **Answer Keys Question No. Answer**

- 40.1** (d) It was not justifiable for Mr. Y to retain the car after 1 month
- 40.2** (a) I
- 40.3** (c) Amit can retain the watch till the owner pays him the repairing cost as well as the prize money and Amit can sue the owner for the prize money only.
- 40.4** (a) Mr. X is liable to compensate Mr. Yaseen for the loss, which is in excess of the benefit derived by Mr. Yaseen