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FOR CA FINAL EXAM PREPARATION

CA Final 2019 Question Paper · Paper 4 Corporate and Economic Laws

EXAM
CA Final

YEAR
2019

TYPE
Question Paper

SUBJECT
Paper 4 Corporate and Economic Laws

DATE
May 2019

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MAY 2019

Roll No. ..... **Final New Syllabus**

Paper - 4

Total No. of Questions – 6 **Corporate and Economic Laws**

No. of Printed Pages – **11**

Maximum Marks – **70**

GENERAL INSTRUCTIONS TO CANDIDATES

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Multiple Choice Questions (MCQs).
3. Part II comprises questions which require descriptive type answers.
4. Ensure that you receive the question paper relating to both the parts. If you have not received both, bring it to the notice of the invigilator.
5. Answers to Questions in Part I are to be marked on the OMR answer sheet only. Answers to questions in Part II are to be written on the descriptive type answer book. Answers to MCQs, if written in the descriptive type answer book, will not be evaluated.
6. OMR answer sheet will be in English only for all candidates, including for Hindi medium candidates.
7. The bar coded sticker provided in the attendance register, is to be affixed only on the descriptive type answer book. No bar code sticker is to be affixed on the OMR answer sheet.
8. You will be allowed to leave the examination hall only after the conclusion of the exam. If you have completed the paper before time, remain in your seat till the conclusion of the exam.
9. Duration of the examination is 3 hours. You will be required to submit (a) Part I of the question paper containing MCQs, (b) OMR answer sheet thereon and (c) the answer book in respect of descriptive type answer book to the invigilator before leaving the exam hall, after the conclusion of the exam.
10. The invigilator will give you acknowledgement on Page 2 of the admit card, upon receipt of the above-mentioned items.
11. Candidate found copying or receiving or giving any help or defying instructions of the invigilators will be expelled from the examination and will also be liable for further punitive action.

PART – II

70 marks

1. Question paper comprises **06** questions. Answer Question **No.** 1 which is compulsory and any **04** out of the remaining questions.
2. Working notes should form part of the answer.
3. Answers to the questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be evaluated.

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PART II

(Descriptive Questions)

Q. No. **1** is compulsory and attempt any **four** out of the remaining **five** questions.

1. (a) Two (2) out of Ten (10) directors on the board of XYZ Limited have retired by rotation at an Annual General Meeting. These two (2) vacancies or place of retiring directors is not filled up and the meeting has also not expressly resolved '*not to fill the vacancy*'. Since the AGM could not complete its business, it is adjourned to a later date. Neither place of retiring directors could be filled up at this adjourned meeting nor did the meeting expressly resolve '*not to fill the vacancy*'. Analyse & apply relevant provisions of the Companies Act, 2013 and decide : **8**

(i) Whether in such a situation the retiring directors shall be deemed to have been reappointed at the adjourned meeting ?

(ii) What will be your answer in case at the adjourned meeting, the resolutions for reappointment of these directors were lost ?

(iii) Whether such directors can continue in case the directors do not call the Annual General Meeting ?

(b) M/s. Tristar Ltd. (an unlisted public limited company) with the annual turnover of ₹ 700 crores entered into a contract of purchasing of raw material from M/s. PTC Pvt. Ltd. during the year 2018. M/s. Tristar Ltd. appointed Mr. Sudhir, a Director of the Company, to act in this deal of transaction on behalf of the company. Mr. Sudhir is also one of the member of M/s. PTC Pvt. Ltd. Mr. Sudhir settled the said transaction of purchase for ₹ 85 crores and entered into the contract. After a few transactions executed under the contract, the Board of M/s. Tristar Ltd. finds degradation in the quality of the raw material **6**

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supplied. Further, in a board meeting this contract was challenged considering it as a related party transaction and in contravention to section 188 (1) of the Companies Act, 2013 read with rules framed thereunder. During the period Mr. Sudhir was appointed as director in a newly incorporated company M/s. Raaga Limited.

In the light of the given facts, examine the following situations as per the Companies Act, 2013.

(i) What is the legal position of the contract entered between M/s. Tristar Ltd. through its director Mr. Sudhir, and M/s. PTC Pvt. Ltd. ?

(ii) Is there any contravention of section 188 (1) ? If yes, then state the liability of the wrongdoer.

(iii) Comment upon the appointment of Mr. Sudhir as a Director in M/s. Raaga Limited.

2. (a) (i) A group of shareholders consisting of 30 members decide to file a petition before the Tribunal for relief against oppression and mismanagement by the Board of Directors of M/s. Aravalli Manufacturing Company Limited having a paid up Share Capital of ₹ 1 crore. The company has a total of 500 members and the group of 30 members holds one-tenth of the total paid-up share capital accounting for one-fifteenth of the issued share capital. The grievance of the group is that due to the mismanagement by the Board of Directors, the company is incurring losses and has not declared any dividend for the past five years. In the light of the provisions of the Companies Act, 2013, please advise the group of shareholders regarding the admission of the petition and the relief thereof. 4

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(ii) A meeting of members of ABC Limited was convened as per the orders of the Court to consider a scheme of compromise and arrangement. Notice of the meeting was sent to 1000 members holding in aggregate 500000 equity shares. The meeting was attended by 800 members holding 350000 shares. 450 members holding 240000 shares voted in favour of the scheme; 200 members holding 60000 shares voted against the scheme. The remaining 150 members abstained from voting. Explain with reference to the provisions of the Companies Act, 2013, whether the scheme is approved by the requisite majority. **4**

(b) A Nationalized Bank had provided a term loan of ₹ 20 crores to Allwell Pharma Limited at an interest rate of 12% p.a. and principal amount is payable in equal half yearly installments of ₹ 2 crores in 5 years from the date of disbursement of loan. The loan is fully secured against the plant and machinery of the company. The company was regular in paying 3 half yearly installments along with the interest during the first two years. Due to recession in the market and increased competition from multinational companies, the price of the goods manufactured by the company had fallen down and consequently the company has to close down the plant. Hence, the company failed to pay the 4th installment but it paid the interest amount as and when due. After a period of 2 months (60 days) from the due date of the 4th installment, the Bank decided to sell the loan to an Asset Reconstruction company. It has also decided to sell a loan of ₹ 50 lakhs given to a farmer which is secured against the agricultural lands. The Manager seeks your advice on the above proposals in the light of the Provisions of the SARFASEI Act, 2002. **6**

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3. (a) Info-tech Overtrading Ltd. was ordered to be compulsory wound up by an order dated 10th March, 2019 by the Tribunal. The official liquidator who has taken control of the assets and other records of the company has noticed that : **8**

(i) One of the contributory whose calls are pending to be paid is about to leave India for evading payment of calls and;

(ii) A person having books of accounts of the company in his possession may abscond to avoid examination of books of accounts in respect of the affairs of the company.

Apprehending such possibilities, Tribunal detained such contributory for next 6 month disallowing him to leave India as well as arrest & seized books of accounts from the person which may possibly abscond to avoid examination of the affairs of the company.

Referring to the provisions of Companies Act, 2013, answer the following in current scenario :

(i) What is the validity of Tribunal's order for detention of contributory disallowing him to leave India ?

(ii) Is it correct from Tribunal's part to arrest and seize books of accounts from the person planning to abscond to avoid examination of books of accounts in respect of the affairs of the company ?

(b) (i) Mr. Dawood Moosa, a known smuggler was caught in transfer of funds illegally exporting narcotic drugs from India to some countries in Africa. State the maximum punishment that can be awarded to him under Prevention of Money Laundering Act, 2002. **2**

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(ii) Mr. Robert has been arrested for a cognizable and non-bailable offence under Part-A of the schedule punishable for a term of imprisonment for more than three years under the Prevention of Money Laundering Act, 2002. He seeks your advice as to how can he be released on bail. Advise him. **4**

4. (a) (i) ABC Primex Ltd., an unlisted company is into profitable manufacturing business. It has net worth of more than ₹ 10 crore since preceding last four full years with net tangible assets of ₹ 5 crore in each of the four preceding years. Around 80% of the net tangible assets are held in monetary assets (readily convertible into cash). It has consistent track record of declaring dividend for last 5 years. With the expansion plan, Company plans to raise funds through Initial Public Offer (IPO). Advice the Company on : **4**

(A) Eligibility of the Company to raise funds through IPO route.

(B) Will it be eligible for IPO if Company has changed its name to XYZ Primex Ltd. since last 6 months and 60% of the revenue for the preceding one full year earned by it from the activity indicated by the new name ?

(C) Will your answer be different if there are any outstanding convertible securities issued by the company earlier ?

(ii) (A) What are the factors to be considered by the Adjudicating Officer while adjudging the quantum of penalty under Sec. 23I of the Securities Contract (Regulation) Act, 1956 ? **2**

(B) Define the term "Derivative" as appearing in the Securities Contract (Regulation) Act, 1956. **2**

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(b) After giving a reasonable opportunity of being heard, Central Government cancelled the certification of registration of Toastea Ltd, a company registered under FCRA on the ground of public interest. 2.5 years have passed since such cancellation. Company has submitted its written declaration not to involve in such activity again and request to restore the registration. Advise Toastea Ltd on its eligibility for re-registration or grant of prior permission. Also state the circumstance under which Government can cancel the certificate of registration granted to a person under the Foreign Contribution (Regulation) Act, 2010. **6**

5. (a) Gulmohar Ltd. is a company registered in India for last 5 years. Since last 2 financial years, it has not been carrying on any business or operations and has not filed financial statements and annual returns saying that it has not made any significant accounting transaction during the last two financial years. Considering the current situation, Directors of the Company is contemplating to apply to Registrar of Companies to obtain the status of dormant or inactive company. Advise them on : **8**

(i) Whether Gulmohar Ltd is eligible to apply to Registrar of Companies to obtain dormant status for the company ?

(ii) Will your answer be different if Gulmohar Ltd is continuing payment of fees to Registrar of Companies and payment of rentals for its office and accounting records for last two financials years ?

(iii) Is special resolution in general meeting a pre-requisite to make an application to Registrar of Companies for obtaining the status of dormant company ?

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(iv) What will be your answer if it is found after making an application of dormant company to Registrar of Companies that an investigation is pending against the company which was ordered 6 months ago ?

(b) The following particulars relate to M/s. Star House (P) Limited which has gone into Corporate Insolvency Resolution Process (CIRP) : **6**

S. No.	Particulars	Amount in Rupees
1.	Amount realized from the sale of liquidation of Assets	7,00,000
2.	Secured Creditors who has relinquished the security	2,50,000
3.	Unsecured Financial Creditors.	2,00,000
4.	Income Tax Payable within a period of two years preceding the liquidation commencement date.	25,000
5.	Cess Payable to State Government within a period of one year preceding the liquidation commencement date.	10,000
6.	Fees payable to resolution professional.	37,500
7.	Expenses incurred by the resolution professional in running the business of M/s. Star House (P) Limited on going concern.	17,500
8.	Workmen salary payable for a period of thirty months preceding the liquidation commencement date. The workmen salary is equal per month.	1,50,000
9.	Equity Shareholders.	5,00,000

State the priority order in which the liquidator shall distribute the proceeds under the Insolvency & Bankruptcy Code, 2016.

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6. (a) M/s. Bright Motors (P) Limited at the Annual General Meeting (AGM) held on 30.09.2016 appointed Mr. Anmol as a Non-Executive Director on the board of the company for a period of three years. On 2nd October, 2017 Mr. Anmol suffered a severe heart failure and expired. The board of directors of the company on 16th October, 2017 appointed Mr. Prateek to fill the casual vacancy so created. The appointment of Mr. Prateek was made for a term of three years by the board. Subsequently at the AGM held on 29-09-2018 Mr. Prateek's appointment was not proposed or approved as the board was of the view that it is not required. But the CFO of the company is of the opinion that the board of directors have contravened the provisions of the Companies Act, 2013 in respect of non-approval of the appointment of Mr. Prateek and his office tenure. Decide. **4**

OR

The following information is provided in respect of M/s. Fortune Limited under three different case scenarios on the borrowing powers of the Board of Directors of the company. Mr. Murli, the CFO seeks your advice with explanations as to the nature of resolution which needs to be passed under each of the case scenarios as per the provisions of section 180 (1) (c) of the Companies Act, 2013. Detailed workings should form part of your answer. **4**

Particulars	Case I (₹ in Crores)	Case II (₹ in Crores)	Case III (₹ in Crores)
Equity Share Capital (Paid-up)	150	150	150
Preference Share Capital (Paid-up)	50	50	50
Securities Premium Account	50	50	50
Free Reserves	20	20	20
Total :	**270**	**270**	**270**

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Working Capital Loan (repayable on demand-Existing) from Sigma Capital Limited	50	50	50
Cash Credit Limit from a scheduled bank (repayable on demand-Existing)	120	120	120
6 months loan for purchase of Plant & Machinery from scheduled bank-(proposed)	30	40	130
24 months loan for purchase of Plant & Machinery from scheduled bank- (proposed)	10	20	150
Total	**210**	**230**	**450**

(b) Mr. Dhruv is a Director of M/s. LT Limited and XT Limited respectively. M/s. LT Limited did not file its financial statements for the year ended 31st March 2016, 2017 & 2018 respectively with the Registrar of Companies (ROC) as mandated under the Companies Act, 2013. M/s. LT Limited also did not pay interest on loans taken from a public financial institution from 1st April 2017 and also failed to repay matured deposits taken from public on due dates from 1st April 2017 onwards. 4

Answer the legality of the following in the light of the relevant provision of the Companies Act, 2013 :

(i) Whether Mr. Dhruv is disqualified under Companies Act, 2013 and if so, whether he can continue as a Director in M/s LT Limited ? Further can he also seek reappointment when he retires by rotation at the AGM of M/s. XT limited scheduled to be held in September 2019 ?

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(ii) Mr. Dhruv is proposed to be appointed as an Additional Director of M/s. MN Limited in June 2019. Is he eligible to be appointed as an Additional Director in M/s. MN Limited ? Decide.

(c) (i) Who is a "Reporting Entity" under the Prevention of Money Laundering Act, 2002 and what are the obligations cast on them under Sec. 12 of the Act ? The Bank account of Amar has been attached by the order of an Assistant Director for a period of 180 days. The lawyer of Amar objected to this attachment. Decide the validity of the attachment. 3

(ii) Continental Rubber Limited is a supplier of raw materials to Smooth Latex Limited. It filed a petition before the NCLT for the recovery of ₹ 10,00,000 from Smooth Latex Limited. Smooth Latex Limited, the Corporate Debtor, has other financial creditors to the extent of ₹ 1,50,00,000 and they also joined together and filed petitions to NCLT. The Corporate Debtor has a total of 40 financial creditors and 2 operational creditors. Further, all the financial creditors are having equal voting rights/shares. 3

Notice was issued on 1st August, 2018 for the conduct of the first meeting to be held on 5th August, 2018 at a common venue. The meeting was attended by all 40 financial creditors and 2 operational creditors. A resolution was passed to appoint Mr. TK as a Resolution Professional. 25 of the financial creditors voted in favour of the resolution and 10 voted against the resolution and 5 financial creditors and 2 operational creditors abstained from voting. Decide whether the resolution passed is valid ? In the light of the provisions of Insolvency and Bankruptcy Code, 2016 read with rules framed thereunder, explain the requirements of issue of notice and quorum for the conduct of the meeting.

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