

SAMPLE TEST PAPER.

Q.1 Comment on the following: (5 marks each)

(a) Reduction of share capital and Diminution of share capital means the same.

Ans: Reduction of Share Capital:

1a

Section 66(1) of the Companies Act, 2013 states that, subject to confirmation by the Tribunal a company limited by shares or limited by guarantee and having share capital, may by special resolution, reduce its share capital in following manner:-

(a) reduce or extinguish the liability on any of its shares in respect of share capital not paid-up;

(b) either with or without reducing or extinguishing liability on any of its shares -

- (i) cancel any paid-up share capital unrepresented by available assets, or
- (ii) pay off any excess of capital.

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Ans:

(1a) Diminution of Share Capital:

Section 61(1)(e) of the Companies Act, 2013 provides that, a company limited by share or guarantee and having share capital, if authorised by its Articles, may cancel the shares, by passing ordinary resolution, which have not been taken or agreed to be taken by any person and thereby diminish the amount of share capital by such cancelled shares.

Also, Diminution of share capital does not require any confirmation of the Tribunal.

Also, Section 61(2) specifically states that the cancellation of shares under 61(1) of the Companies Act, 2013 shall not be deemed to be reduction of share capital.

Thus, Reduction of Share Capital and Diminution of Share Capital is not the same.

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Q.2. Situational based Question — 3 marks each.

(a) Sumeet, Puneet and Manmeet were subscribers of the MOA of a private Co. for 500 shares, 300 shares and 200 shares respectively. After incorporation, Sumeet and Puneet bought the shares they had subscribed for from the company, whereas, Manmeet bought 200 shares from Sumeet. Will Manmeet be liable to the company for the shares, he has not bought from the company?

Ans. — In case of a subscriber, no application or allotment is necessary to become a member.

By virtue of his subscribing to the memorandum, he is deemed to have agreed to become a member on incorporation of company and is liable for the shares subscribed.

— when a subscriber subscribes to the memorandum, he gives an undertaking to the company that he will pay to the company for the said shares.

— further, subscribers has to take these shares directly from the company and not through transfer from other members.

— thus, in the above case Manmeet is not absolved from his liability to the company by purchasing shares from Sumeet.

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Q.2. Situational Based Question - 5 marks each.

(b) HIJ Engineers Ltd. has a paid-up capital of Rs 20 lakhs, Free Reserves of Rs 3 lakhs and Securities Premium of Rs 2 lakh. It has granted a loan of Rs 14 lakhs to KLM Traders Ltd. The Board of Directors is proposing the following transactions without securing approval of the members.

(1) Sanctioning a loan of Rs 2 lakhs to KLM Cement Ltd &

(2) Sanctioning a loan of Rs 3 lakh to an employee of the company.

Can the Board of Directors sanction the aforesaid loans?

Ans 2b. Facts of the given case: The Co. HIJ Engineers Ltd has given loan of Rs 14 lakhs to KLM Traders Ltd and further proposed to grant loan of Rs 2 lakh to KLM Cement Ltd. and loan of Rs 3 lakh to an employee of the company, without securing approval of members.

Provisions of law: As per Section 186(2) of the Companies Act, 2013 the limits for the loan and investment will be an amount whichever is higher of the following -

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Ans 2b.

(a) 60% of paid up share capital, free Reserves & Securities premium account = $25 \text{ lakhs} \times 60\%$
 $= 15 \text{ lakhs}$ OR

(b) 100% of Free Reserves and Securities Premium account = 5 lakhs.

Issue Involved: Since the company has already given loans of Rs 14 lakh to KLM teachers, it will exceed the limit of Rs 15 lakh (as given above) if they propose to grant a loan of Rs 2 lakh to KLM Cement Ltd.

Conclusion: Hence, prior approval by special resolution will be required in term of Sec 186(3).

— However, According to Sec 186(2) there is no limit imposed on the right of the company to sanction a loan to an employee of the company. ~~the~~

→ Therefore, Board can grant a loan of Rs 3 lakh to its employee without the approval from members.

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Q.3. Descriptive Questions — 8 marks

"The fundamental attribute of corporate personality is that the company is a legal entity distinct from the members." Explain the given statement with relevant case law.

Ans 3: A company incorporated under the Act is vested with a corporate personality, so it bears its own name, acts under name, may have a seal and its assets are separate and distinct from those of its members.

The shareholders are not the agents of the company and so they cannot bind it by their acts.

A company is a different 'person' from the members who compose it. Therefore, it is capable of owing a property, having a bank account, suing or being sued in its own name.

Separate legal personality is the most striking characteristics of a company which can be explained with the given case law of —
Salomon v/s Saloman & Co Ltd.

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Ans 3. Facts of the case: Salomon was a leather merchant and boot manufacturer. He formed a limited company consisting of himself, his wife, his daughter and his four sons, all being the subscribers of the company's paid up share capital.

Salomon sold his business to the company so formed by him. In part payment of the purchase consideration for business sold to the company, debentures of an amount of £10000 secured by a floating charge on company's assets, were issued to Salomon and remaining amount, was paid in cash.

Issue Involved: The company soon ran into difficulties and the debenture holders appointed a receiver, and the company went into liquidation. The unsecured trade creditors claimed whole of the company's assets on the ground that the company was a mere agent for Salomon, and that they were entitled to payment of the debts prior to debentures.

Decision Held: The House of Lords observed that the company is a different person altogether from the subscribers of MOA and though it may be that after incorporation the business is precisely same as before and the same persons are managers but not agents of the company.

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Q.4 Distinguish — 5 marks / 3 marks each

(a) Between Partnership Firm and Company

Ans: Partnership Firm and Company

4a. (1) Meaning / Legal Person

A partnership firm is not a distinct person from the partners who form the firm. A company is a distinct legal person.

(2) Property

In a partnership firm, the property of the firm is the property of the individual partners. In a company, property belongs to the company and not to the members.

(3) Agency

Partners are the agents of the firm. Members of the company are not its agents.

(4) Contract

A partner cannot contract with his firm. A member can contract with his company.

(5) Liability

A partner's liability is always unlimited. The liability of shareholder is limited: either by shares or guarantee.

(6) Dissolution

The death or insolvency of a partner dissolves the firm. A company has perpetual succession, i.e. death or insolvency of a shareholder does not dissolve the company.

(7) Transfer of shares

A partner cannot transfer his share without consent of other partners. A company's share can be ordinarily be transferred.

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Q.5. Letter or Draft type Question - "5 marks"

XYZ Ltd. wishes to convey Meeting of Board of Directors through Electronic mode. Draft a suitable Notice for the same. Assume other information.

Ans. Date: 01/06/2019 (7 days prior to meeting Date)

Name of the Company: XYZ Ltd.

Registered Address: New Delhi

CIN:

Email: XYZ@gmail.com

Website: XYZ.com

NOTICE OF 4TH BOARD MEETING

Mr. ABC Director,
New Delhi,

Dear Sir,

1. NOTICE is hereby given that the 4th meeting of the Board of Directors of the company will be held on Monday, the 12th June 2019 at 4:30 pm at New Delhi.
2. The Agenda of the business to be transacted at the meeting will follow.
3. You may attend the Meeting through video conference, the details of which are enclosed.

In case, you desire to participate through such mode, please send a confirmation in this regard

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Ans 5 to Mr. P., the Company Secretary of the Company at XYZ@gmail.com within 2 days to enable making necessary arrangements.

Kindly make it convenient to attend the Meeting.

Yours faithfully,

For XYZ Limited

(Signature)

(Name)

(Designation)

(Email).

Q.6. Problem Based / Practical Question. — 5 marks

(a) A mutual fund has a NAV of Rs 11.50 at the beginning of the year. At the end of the year NAV increases to Rs 12.10.

Meanwhile, the fund distributes Rs 0.80 as dividend and Rs 0.70 as capital gains.

(i) What is the fund's return during the year?

(ii) Had these distributions been re-invested at an average NAV of Rs 11.80, what is the return for 200 units?

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Ans 6a

Given: NAV at beginning of the year = 11.50

NAV at the end of the year = 12.10

Dividend = 0.80

Capital Gains = 0.70

(i) Funds' return during the year = $\frac{\text{Total return}}{\text{NAV at beginning of the year}} \times 100$

Total return = Change in NAV price (12.10 - 11.50) = 0.60

Dividend Received = 0.80

Capital Gains = 0.70

\therefore total Return = 2.10

\therefore Holding period return = $\frac{2.10}{11.50} \times 100$

\therefore Fund's return during the yr = $\boxed{18.26\%}$

(ii) when all dividends and capital gains distributions are reinvested into additional units of the funds.

Dividends + Capital Gains = 0.80 + 0.70 = 1.50

Total received from 200 units = 1.50 \times 200 = Rs 300

Additional units acquired = $\frac{300}{11.8} = 25.42$ units.

Value of 225.42 units held at end of the year

= 225.42 \times 12.10 = Rs 2727

Price paid for 200 units at beginning of the year

= 200 \times 11.50 = 2300

\therefore Holding Period Return would be = $\frac{2727 - 2300}{2300} \times 100$

$\boxed{= 18.59\%}$

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Q.7. Informative type of Question - Smarks.

(a) Giridhar a retail Individual Investor had applied for IPO of Six Sigma Ltd. through Application Supported by Block Amount (ASBA) process. The Self Certified Syndicate Banks (SCSBs) failed to make bids in the Stock Exchange System even after the amounts has been blocked. The Issue was oversubscribed.

Based on the Sebi Guidelines/Circulars, answer the following:

(i) What are the factors that have been taken into account by Sebi for finalization of uniform policy for calculation of the minimum fair compensation?

(ii) Calculate the minimum fair compensation payable to Giridhar based on the following information:

- Listing Price = Rs 350

- Issue Price = Rs 300

- Minimum Bid lot = 20 shares

- Basis of allotment (ratio) = 7:8

Ans 7 According to Sebi Circular dated February 15, 2018, the following factors have been taken into account while finalization of uniform policy for calculation of minimum compensation payable to investors -

(a) opportunity loss suffered by the investor due to non-allotment of shares,

(b) the number of times the issue was over-subscribed in the relevant category,

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Ans 7.

(c) the probability of allotment, E

(d) the listing gains if any on the day of listing.

(*) (ii) Calculation of minimum fair compensation is as follows:

Compensation = Listing Price - Issue Price

x

no. of shares that would have
been allotted if bid was successful

x

Basis of allotment.

$$= (350 - 300) \times 20 \text{ shares} \times (7/8)$$

$$= 50 \times 20 \times 7/8$$

$$\text{Compensation} = \text{Rs } 875$$