

**MODEL TEST PAPER**  
**Self-Paced Online Modules**  
**Set- A- Corporate and Economic Laws**

**Time Allowed: 3 Hours**

**Maximum Marks: 100**

**All Questions are compulsory. Each questions are of 2 Marks Each.**

**Section A-Company Law (50 Marks)**

1. Pharma Limited is a company listed with Bombay Stock Exchange. The company is having 500 small shareholders. 50 shareholders with shareholding of 1200 equity shares of Rs. 10 each, have proposed to appoint Amar as a Director as their representative on the Board of Directors of the company. One of the director of the Board contended that appointment of Amar is not valid due to lack of holding of any shares in the company.

Based on the above details and referring to the provisions of the Companies Act, 2013, you are requested to answer the following MCQs: **(4 Marks)**

- 1.1 Whether the proposal to appoint Amar as a Small Shareholders' Director can be adopted?
- (a) The said proposal cannot be adopted as notice for his appointment shall be given by 1000 small shareholders.
  - (b) The said proposal cannot be adopted as notice for his appointment shall be given by more than 1/10 of total small shareholders and no shareholding of Amar is not in compliance.
  - (c) The said proposal can be adopted as 1/10th of 500 small shareholders comes to 50 and his holding in Pharma Limited is not necessitated mandatorily.
  - (d) The said proposal cannot be adopted as no nominal value of Rs. 20,000 shares held by Amar in Pharma Limited.
- 1.2 If there is no such proposal moved by the small shareholders, can Pharma Limited appoint Small Shareholders' Director on its own?
- (a) No, Pharma Limited cannot appoint a small shareholder director on its own.
  - (b) Yes, Pharma Limited can suo moto appoint small shareholders' director, even if there is no such proposal moved by the small shareholders.
  - (c) No, for appointment of small shareholders director, notice must come from atleast 1000 small shareholders.
  - (d) No, for the appointment of small shareholders director, notice must come from 1/10 of total small shareholders.
2. PCR Limited has appointed Mr. Vivek, a person resident in India, as a Managing Director who has taken a charge of the post on 1<sup>st</sup> June, 2021. The remuneration package sanctioned to him is as below:

Sr. No.	Particulars	Amount
1	Salary	60,00,000
2	Rent free accommodation	6,00,000
3	Children education allowance	3,00,000

4	Leave Travel Concession Package	3,00,000
5	Premium in respect of insurance taken for indemnification	5,00,000

It has, further, been informed that-

- (a) Mr. Vivek has availed the Leave Travel Concession Package which will not be pro-rated for 2021-22.
- (b) Mr. Vivek is not proved guilty during the financial year 2021-22 with respect to the above insurance policy.

Based on the above details and referring to the provisions of the Companies Act, 2013, you are requested to answer the following MCQs: **(6 Marks)**

- 2.1 What would be the amount of yearly remuneration for FY 2021-22 paid by PCR Ltd. to Mr. Vivek, the managing director who is appointed on 1<sup>st</sup> June, 2021?
  - (a) Rs. 65,50,000
  - (b) Rs. 60,50,000
  - (c) Rs. 60,00,000
  - (d) Rs. 77,00,000
- 2.2 If PCR Limited has incurred losses during the financial years 2020-21 and 2021-22 and the effective capital of the company as on 31st March 2021 is in negative, is there any excess remuneration paid to Mr. Vivek and if yes, what would be that excess remuneration?
  - (a) Yes, excess remuneration is there of Rs. 10,00,000
  - (b) Yes, excess remuneration is there of Rs. 10,50,000
  - (c) Yes, excess remuneration is there of Rs. 15,50,000
  - (d) Yes, excess remuneration is there of Rs. 27,00,000
- 2.3 Under what circumstances, PCR Limited can waive the excess remuneration paid to Mr. Vivek (if any)?
  - (a) A waiver is approved by an ordinary resolution passed by the company within 1 year from the date the sum becomes refundable.
  - (b) A waiver is approved by a special resolution passed by the company within 1 year from the date the sum becomes refundable.
  - (c) A Waiver is approved by an ordinary resolution passed by the company within 2 years from the date the sum becomes refundable.
  - (d) A Waiver is approved by a special resolution passed by the company within 2 years from the date the sum becomes refundable.

3. Daily Needs Ltd. is a unlisted public company, engaged in the business of supplying the daily needs of the house hold. It receives orders, on online basis and make supplies to the customers at their door steps.

As on 31.03.2021, the total number of shareholders were 500. The share capital of the company is 100 lakh rupees.

Gyan Singh is the Managing Director of the company. He joined this company in April 2020. Prior to joining this company, Gyan Singh was the General Manager in a NBFC. From the media sources, it came into picture that Gyan Singh was involved in sanctioning the proposal of big loans without

insisting the security from the borrowers and many of the loan accounts during his tenure turned into NPA. It shows the intention of Gyan Singh that he might have been involved in accepting the bribe in sectioning the clean loans.

After joining this company, Gyan Singh started ordering his employees to supply the goods at the shops of the retailers also on credit. Whereas the company's policy was to supply the essential daily needs at the door steps of consumers only. Many of retailers used to visit the MD's office to supply the goods on credit. In some of the cases the recovery from that retailers became difficult and the company had to write-off these debts while finalising the annual accounts as of 31.03.2021.

Aggrieved from this, some 10 members of the company made an application before the Tribunal making the company and its MD as respondents, that the affairs of the company are being conducted in a manner prejudicial to the public interest and requested for removal of the Managing Director.

The Tribunal turned down the application of the members mentioning therein that the members who applied for are not eligible to apply.

When Dharmesh, one of the shareholder came into the knowledge that the Tribunal has turned down the application of 10 member, he himself alone applied to the Tribunal making the company and its MD as respondent. Dharmesh is holding 2 lakh of shares, consisting the face value of Rs 20 lakh. He is also the Member of the Parliament.

After accepting the application, the Tribunal heard both the parties and observed that Gyan Singh was involved in mal-practices, on the basis of his past track record and the present working. It opined that this person is not a fit and proper person to continue as MD of the company and ordered for removal of Gyan Singh from the post of Managing Director. The Managing Director claimed for the compensation for removal of the office from the company, from the date of removal to the remaining period.

Based on the above scenario, answer the following questions:

**(10 Marks)**

- 3.1** In case of oppression and mismanagement, how many members can apply to the Tribunal:
- (a) Not less than 100 members are required to file an application with the Tribunal.
  - (b) Not less than one-tenth of the total number of members i.e. 50 members ( $500/10= 50$ ) are required to file an application with the Tribunal
  - (c) Not less than 100 members of the company or not less than one-tenth of the total number of its members, whichever is less. i.e. 50 members are required to file an application with the Tribunal.
  - (d) Not less than 100 members of the company or not less than one-tenth of the total number of its members, whichever is higher i.e. 100 members are required to file an application with the Tribunal.
- 3.2** On what grounds the application of Dharmesh was accepted by the Tribunal:
- (a) Dharmesh is one of the shareholder of the Company.
  - (b) Dharmesh is having the majority of shares in the company.
  - (c) Dharmesh is having more than one-tenth share in the share capital of the company.
  - (d) Dharmesh is Member of Parliament.
- 3.3** Whether Tribunal have powers to remove the Managing Director, who was appointed by the Board and the shareholders in the General Meeting:
- (a) No, Tribunal do not have the powers to remove any official.

- (b) The Tribunal can only order for the winding up of the company if it is just and equitable for the company.
- (c) The Tribunal may after observing the mal-practices of the MD, can ask not to repeat it.
- (d) The Tribunal can terminate the service agreement arrived at between the company and the MD.

**3.4** Whether Gyan Singh, the Managing Director can demand compensation from the company from the date of removal to the remaining period:

- (a) The MD can demand the compensation from the date of removal to the remaining period.
- (b) The MD can be relieved by notice with three month's salary.
- (c) The MD can be relieved by notice with one month's salary.
- (d) The MD cannot demand any compensation for loss of office.

**3.5** Whether Gyan Singh after being terminated from this company, can apply to any other company for the post of director or any other office:

- (a) After termination from this company, Gyan Singh can apply to any other company for the post of director or any other office.
- (b) After termination from this company, Gyan Singh cannot apply to any other company for the post of director or any other office, a period of one year.
- (c) After termination from this company, Gyan Singh cannot apply to any other company for the post of director or any other office, a period of three years.
- (d) After termination from this company, Gyan Singh cannot apply to any other company for the post of director or any other office, a period of five years.

**4.** Based at Shivamogga, Karnataka, Lotus Switchgears Limited (LSL) is a noted manufacturer, exporter and supplier of electrical products like Miniature Circuit Breakers (MCBs), Molded Case Circuit Breakers (MCCBs), Residual Current Circuit Breakers (RCCBs), Electric Leakage Circuit Breakers (ELCBs), Solar water Pumping Systems, Wires and Cables, etc. and has a good network of factories and distribution channels. The business grew by leaps and bounds due to the sincere and dedicated efforts of the said founding directors in the following capacity:

Arjun	Managing Director
Ramakrishnan	Promoter
Ravi Bhatt	Promoter
Ramesh	Whole-time Director
Ripudaman	Whole-time Director

However, the company is facing some difficult times for the past four years or so.

In a quest to overcome the difficulties faced by the company, Raghuram, a visionary, was appointed as the Executive Director at the EGM held on 12th January, 2020.

Shruthi Components Private Limited (SCPL) is one of the subsidiaries of LSL. The Board of Directors of LSL wished to exercise the power to dispose of its whole investment in SCPL. Accordingly, Mahadevan, whole-time Company Secretary of the company was directed to ascertain the procedure for disposing of company's investment in SCPL.

Following data was extracted from the Audited Financial Statements of LSL for the year ending 31.03.2023:

S. No.	Description	Amount (Rs. in Crore)
1	Paid -up Capital	50
2	General Reserves	54
3	Securities Premium Account	5
4	Accumulated Losses	7
5	Revaluation Reserves created out of revaluation of assets	30
6	Deferred Revenue Expenditure & Miscellaneous Expenditure not written off	2
7	Investment in SCPL	25

Based on the above data and considering Section 2 (57) of the Companies Act, 2013, Mahadevan calculated the 'net worth' of LSL as under:

Particulars	Amount (Rs. in Crore)
Paid-up Capital	50
Add: General Reserves	54
Add: Securities Premium Account	5
Less: Accumulated Losses	7
Less: Deferred Revenue Expenditure & Miscellaneous Expenditure not written off	2
Net Worth	100

In view of the 'net worth' of Rs. 100 crore, Mahadevan informed the Board that as per the relevant provisions, SCPL was an undertaking of LSL.

Earlier during April, 2022, in the course of normal business, LSL entered into a contract for the continuous supply of some consumables and components with Anant Supplies Private Limited (ASPL) for a period of 3 years to be renewed with mutual consent thereafter. Ramesh, the Whole-time Director of LSL, was not an interested party at the time of entering into this Supply Contract with ASPL. However, during the second year of the Supply Contract, Rajesh, son of Ramesh, purchased about 30% of the equity shares of ASPL through one of his family owned business entities and also lent Rs.25 lakh as unsecured loan to ASPL. Ramesh did not inform LSL or the Board of Directors regarding the new developments since he was of the opinion that there was no need for such disclosure. However, the Company Secretary and the Board had their own reservations, after the matter came to their knowledge from a third party.

During the statutory audit for the F.Y. 2022-23, while verifying the earlier years' documents in connection with certain matter, the newly appointed auditors observed that the appointment of Raghuram as an Executive Director was invalid by reason of certain defects and also disqualification. During the month of August, 2023, the statutory auditors discussed the issue of irregular appointment with the Board of Directors of LSL.

The Board apprised the auditors that since his appointment as Executive Director of the company, Raghuram had participated in several Board Meetings and assented to various decisions, which had both pecuniary and operational impact. In addition, the Board had also passed several resolutions during that period. Accordingly, the Board, in one of its meetings, decided by passing a resolution that the wrongfully appointed Director Raghuram shall make good the losses, if any, for the period he remained Executive Director but all the resolutions passed during his period shall be valid and stand good.

One of the investors, Raman had invested substantially in the equity shares of LSL. However, he was quite worried about his investment after going through the latest Audited Financial Statements of 2022-23, for he found that there was continuous downward trend in earning per share (EPS). He was of the opinion that the Directors of LSL have been getting exorbitant remuneration, resulting in lesser profits for the company.

Accordingly, he approached the Registered Office of the company at Shivamogga and requested for inspection of the copies of the recent Service Contracts of Arjun, the Managing Director as well as Ramesh and Ripudaman, the Whole-time Directors of the company. He was utterly surprised when he was informed by the official concerned that the Service Contracts with Arjun, Ramesh and Ripudaman were not in writing and therefore, could not be produced for inspection. However, he was also informed that only copies of the written Memorandum setting out the terms and conditions of the service could be provided for inspection. Raman was not convinced and thought it to be a fraudulent practice for which the company and every defaulting officer of the company must be punished.

LSL, after complying with the required legal formalities, had made some political contributions and had incurred certain expenses during the financial year 2022-23. The details are as under:

- (a) Payment of Rs.10,00,000 as contributions to LMS party.
- (b) Donation of Rs.2,00,000 for a public function and a dance program of Ravi Shankar, a film star and it can be reasonably presumed that his activities support Janta Welfare Party.
- (c) Publication cost of Rs. 1,00,000 incurred for inserting an advertisement in the Souvenir published on behalf of Janta Welfare Party.
- (d) Publication of pamphlets costing Rs.1,00,000 though not meant for any political party but incurred for promoting a candidate of political party who is going to contest in upcoming elections.

LSL disclosed in its financial statements Rs.11,00,000 as political contributions and Rs.3,00,000 as 'Advertisement and Business Promotion Expenses'.

#### **Multiple Choice Questions**

**[10 Marks]**

**4.1** Raman, who had invested substantially in LSL, was informed that only copies of the written Memorandum setting out the terms and conditions of the service could be provided for inspection as no written Service Contracts with Arjun (Managing Director) as well as Ramesh and Ripudaman (Whole-time Directors) were available. Raman was not convinced and thought it to be a fraudulent practice for which the company and every defaulting officer of the company must be punished.

In the light of the requirement of the relevant legal provisions under the given circumstances, choose the most appropriate remedy available to Raman as per the Companies Act, 2013:

- (a) Raman can hold liable to the Company and its every officer who is in default, for non-production of Written Service Contracts for inspection.
- (b) Raman finds that availability of only copies of the written Memorandum setting out the terms and conditions of the service, for inspection, is in order.
- (c) Raman have remedy only against Arjun, Ramesh and Ripudaman, for non-production of Service Contracts for inspection.
- (d) Raman have no remedy, as to production of Service Contracts for inspection, as it is not necessitated.

**4.2** According to Mahadevan, whole-time Company Secretary, SCPL was an undertaking of LSL. If the Board of Directors of LSL decided to dispose of its investment in SCPL, considering SCPL as an undertaking of LSL, which of the following options shall be applicable:

- (a) The Board of Directors of LSL shall exercise the power of disposing of its investment in SCPL, considering SCPL as an undertaking of LSL, by means of a Board Resolution assented to by all the Directors present at a duly convened Board Meeting.
- (b) The Board of Directors of LSL shall exercise the power of disposing of its investment in SCPL, considering SCPL as an undertaking of LSL, only with the consent of the company by an Ordinary Resolution.
- (c) The Board of Directors of LSL shall exercise the power of disposing of its investment in SCPL, considering SCPL as an undertaking of LSL, only with the consent of the company by a Special Resolution and thereafter, by seeking approval of the jurisdictional Registrar of Companies.
- (d) The Board of Directors of LSL shall exercise the power of disposing of its investment in SCPL, considering SCPL as an undertaking of LSL, only with the consent of the company by a Special Resolution.

**4.3** According to the case scenario, the Board of Directors of LSL stated that since January, 2020 Raghuram had participated in several Board Meetings and assented to various decisions, which had both pecuniary and operational impact. In addition, the Board had passed several resolutions during that period. Accordingly, the Board, in one of its meetings, decided by passing a resolution that the wrongfully appointed Director, Raghuram shall make good the losses, if any, over the period he remained Executive Director and all the resolutions passed during his period and assented to by him shall be valid and stand good.

Specify which amongst the following decision taken by the Board is valid as per the requirement of the Companies Act, 2013:

- (a) The decision of the Board is correct because no act done by a person as a Director shall be deemed to be invalid if it was subsequently noticed that his appointment was invalid by reason of any defect or disqualification, etc.
- (b) The Board is required to get all the resolutions passed during the tenure of Raghuram and assented by him, ratified by an Ordinary Resolution at a General Meeting of the shareholders.
- (c) The Board is required to get all the resolutions passed during the tenure of Raghuram and assented by him, ratified by a Special Resolution passed at a General Meeting of the shareholders.
- (d) The Board is required to cancel all the resolutions passed during the tenure of Raghuram and assented by him since they were void and inoperative *ab-initio*.

**4.4** The case scenario states that LSL, after complying with the required legal formalities, made some political contributions and incurred some expenses during the financial year 2022-23. LSL showed in its financial statements Rs.11,00,000 as political contributions and Rs.3,00,000 as 'Advertisement and Business Promotion Expenses'. From the following options choose the correct statement as regards the disclosure of political contribution :

- (a) The disclosure made by LSL in its financial statements showing Rs. 11,00,000 as political contributions and Rs. 3,00,000 as 'Advertisement and Business Promotion Expenses' is correct.

- (b) LSL was required to disclose Rs. 10,00,000 as political contributions and Rs. 4,00,000 as 'Advertisement and Business Promotion Expenses'.
- (c) LSL was required to disclose all the sums totaling Rs. 14,00,000 as political contributions.
- (d) LSL was required to disclose Rs.12,00,000 as political contributions and Rs. 2,00,000 as 'Advertisement and Business Promotion Expenses'.

**4.5** Ramesh, the Whole-time Director of LSL, was not an interested party at the time of entering into this Supply Contract with ASPL. However, during the second year of the Supply Contract, Rajesh, (son of Ramesh) purchased about 30% of the equity shares of ASPL through one of his family owned business entities and also lent Rs.25 lakh as unsecured loan to ASPL. Then also Ramesh did not inform LSL or the Board of Directors regarding the new developments since he was of the opinion that there was no need for such disclosure.

Comment upon the validity of the statement as to the non- disclosure of interest of Ramesh in compliance with the Companies Act, 2013:

- (a) Ramesh opinion is correct stating that there is no need for such disclosure of the interest of his son, Rajesh, as compliance is only w.r.t the director of the company.
- (b) Ramesh need to disclose as he is indirectly (due to his shareholding and granting of loan by his son) concerned in a Supply Contract with ASPL at the meeting of the Board in which the contract or arrangement is discussed forthwith when he becomes concerned or interested. Statement of Ramesh as to non-disclosure is invalid.
- (c) Ramesh was not interested or concerned in a Supply Contract with ASPL at the time of entering into this Supply Contract. A non –disclosure of interest by him is the valid statement.
- (d) As Rajesh is the concerned or interested person in the Supply Contract to ASPL, being a shareholder of ASPL and also indebted Rs.25 lakh as unsecured loan to ASPL. A non -disclosure of interest is the invalid statement.

**5.** Paavan Nidhi Limited having its Registered Office at Karol Bagh, New Delhi, has been declared as Nidhi by notification published in the Official Gazette. The company is incorporated with the object of cultivating the habit of thrift and savings among its members, receiving deposit from, and lending to, its members only, for their mutual benefit.

Paavan Nidhi Limited has six Directors, namely, Padam, Prakash, Puneet, Pratima, Poorva and Piyush and two hundred fifty members. All the Directors are shrewd businessmen having full dedication to the cause of the company. They are committed to run the company in accordance with the Nidhi Rules, 2014 and being law-abiding persons shall not do anything which is not permitted in case of a Nidhi like carrying on the business of chit fund or hire-purchase finance or leasing finance or insurance, etc. Padam is the senior-most Director with vast experience in the field of finance and therefore, he has been honoured by the company to hold Directorship for a term up to ten consecutive years.

The company offers following services for the benefit of its members:

1. Fixed Deposit Plans of different maturities;
2. Recurring Deposit Plans for members who do not wish to deposit lump-sum;
3. Opening of Savings Accounts in the name of members;
4. Gold Loans to the needy members on easy terms;

5. Mortgage Loans, etc.

PQR Traders Private Limited, having its Registered Office at Munirka, New Delhi, was incorporated last year. It had a chance to go through the operations of Paavan Nidhi Limited and finding them to be on sound footing, it applied for becoming its member. The Nidhi company is analysing the proposals received.

During the current year, Mr. Kshitij, a member of Paavan Nidhi Limited deposited ₹ 1,00,000 in the name of his minor son Rudra who is of 12 years of age. Mr. Kshitij also desires that Rudra becomes a member of Paavan Nidhi and for that purpose he is negotiating with the company. As regards the validity of this matter, Piyush, one of the Directors has raised certain objections. The company wants to sort out the issue amicably.

**Multiple Choice Questions:**

**(10 Marks)**

- 5.1** From the case scenario, it is observed that PQR Traders Private Limited has applied for becoming a member of Paavan Nidhi Limited. From the following options, choose the one which is applicable in such a situation:
- (a) PQR Traders Private Limited cannot become a member of Paavan Nidhi Limited.
  - (b) PQR Traders Private Limited can become a member of Paavan Nidhi Limited by investing minimum ₹ 5,00,000 as capital.
  - (c) PQR Traders Private Limited can become a member of Paavan Nidhi Limited by including a clause in its Articles of Association which permits it to become a member of a Nidhi company.
  - (d) PQR Traders Private Limited must be in existence for a minimum period of three years to be eligible for becoming member of a Nidhi company.
- 5.2** Piyush, one of the Directors of Paavan Nidhi Limited has raised objection on acceptance of deposit amounting to ₹ 1,00,000 in the name of Rudra, a minor, and negotiations initiated by his father Mr. Kshitij to make him a member of the Paavan Nidhi. From the following options choose the one which is applicable in the given situation:
- (a) Paavan Nidhi Limited can neither accept deposit in the name of Rudra, a minor, nor can make him a member.
  - (b) Paavan Nidhi Limited may accept deposit in the name of Rudra, a minor, since it is made by Mr. Kshitij, a member and the father of Rudra but being minor, he cannot be made a member.
  - (c) Paavan Nidhi Limited cannot accept deposit in the name of Rudra exceeding ₹ 25,000 but he can become a member by contributing minimum amount.
  - (d) Paavan Nidhi Limited can accept deposit in the name of Rudra up to ₹ 2,00,000 and he can become a member of the company.
- 5.3** From the case scenario, it is evident that Padam, the senior-most Director, has been honoured by Paavan Nidhi Limited to hold Directorship for a term up to ten consecutive years. After relinquishing his office as Director at the expiry of ten years, when can Padam be re-appointed as Director of the company.
- (a) Padam shall be eligible for re-appointment only after the expiry of two years of ceasing to be a Director.

- (b) Padam shall be eligible for re-appointment only after the expiry of one year of ceasing to be a Director.
- (c) Padam shall be eligible for re-appointment only after the expiry of six months of ceasing to be a Director.
- (d) Padam shall not be eligible for re-appointment once he ceases to be a Director.

**5.4** If M/s A & A Associates, a firm of auditors, has been appointed as auditors of Paavan Nidhi Limited for a term of five years commencing from FY 2016-17 to FY 2020-21 and if the company is desirous of re-appointing the said firm of auditors for another term of five years commencing from FY 2021-22, then which of the following options is applicable in such an eventuality:

- (a) M/s A & A Associates cannot be re-appointed as auditors for another term of five years since no Nidhi company shall appoint or reappoint any auditing firm for two terms of five consecutive years.
- (b) M/s A & A Associates can be re-appointed as auditors for another term of five years since a Nidhi company is permitted to appoint or reappoint any auditing firm for two terms of five consecutive years.
- (c) M/s A & A Associates cannot be re-appointed as auditors for another term of five years since no Nidhi company is permitted to re-appoint any auditing firm before the expiry of two years if an auditing firm ceases to be its auditors after completion of the term of five years.
- (d) M/s A & A Associates cannot be re-appointed as auditors for another term of five years since no Nidhi company is permitted to re-appoint any auditing firm before the expiry of one year if an auditing firm ceases to be its auditors after completion of the term of five years.

**5.5** The rate of interest charged on loan given by Nidhi can be;

- (a) Five per cent above the highest rate of interest offered on deposits by Nidhi and shall be calculated on reducing balance method
- (b) Five per cent above the highest rate of interest offered on deposits by Nidhi and shall be calculated on as flat rate basis
- (c) Seven and half per cent above the highest rate of interest offered on deposits by Nidhi and shall be calculated on reducing balance method
- (d) Seven and half per cent above the highest rate of interest offered on deposits by Nidhi and shall be calculated on as flat rate basis

**6.** GenTech Engineering and Consultancy Limited (GECL), having its Registered Office in Kolkata, West Bengal, was incorporated way back in January, 2011. The Central Government holds 21% of its paid-up share capital while the State Government of Gujarat and Navyug Engineering Limited, a government company, hold 23% and 10% respectively.

As GECL was interested in ascertaining the market value of its assets, it invited tenders and after thorough scrutiny it shortlisted the following Registered Valuers:

- (1) **Mr. Anant:** He has set up his valuation practice in London for the last 5 years. He came to visit India on December 24, 2021, for a short span of around one month during which, in terms of the tender submitted by him, he was proposed by GECL to undertake the assignment relating to valuation of its assets.

- (2) **Mr. Aloknath:** He is a valuer member of a registered valuers' organisation and is one of the partners of M/s ALP & Associates, a Kolkata based valuation firm. Mr. Aloknath was given second preference by GECL if Mr. Anant refused the assignment relating to the valuation of assets.
- (3) **M/s MNC Valuers & Associates, LLP:** It is a Limited Liability Partnership, based at Kolkata, and all the partners of the firm are valuer members of a registered valuers' organisation. It was given third preference by GECL for undertaking the valuation of its assets.

GECL holds 15% paid-up share capital of Prayas Marketing Limited (PML). However, the jurisdictional Registrar of Companies (RoC), having reasonable cause to believe that the PML was not carrying on any business or operations, ordered a physical verification of the Registered Office of PML.

After physical verification of the Registered Office of PML, the Registrar formed an opinion that the company, in actuality, was not carrying on any business or operations and therefore, he issued a notice to the company and all of its Directors indicating his intention to remove the name of the company from the Register of Companies, if no explanation along with copies of relevant documents were filed within a period of 30 days from the date of the notice. Since no cause to the contrary was shown by the company and its Directors, the Registrar, after following the requisite procedure, removed the name of the PML from the Register of Companies and a notice dated 30.10.2021 to this effect was published in the Official Gazette. On publication of this notice in the Official Gazette and also its placement on the official website of the Ministry of Corporate affairs, PML was dissolved.

After dissolution as above of the PML effective from 30.10.2021 under Section 248 of the Companies Act, 2013, it ceased to operate as a company and Certificate of Incorporation was deemed to have been cancelled from such date.

**Multiple Choice Questions:**

**(6 Marks)**

- 6.1 From the case scenario, it is observed that the share of the Central Government in the paid-up share capital of GECL is 21% while the State Government of Gujarat and Navyug Engineering Limited, a government company, respectively hold 23% and 10% of its paid-up capital. Which one of the following options is applicable in such a situation:
- (a) GECL is a Government Company since both the Central Government and the State Government of Gujarat hold more than 25% of its paid-up share capital.
  - (b) GECL is not a Government Company since the Central Government, the State Government of Gujarat and Navyug Engineering Limited, a Government Company, hold only 54% of its paid-up share capital which is less than the threshold limit of 55%.
  - (c) GECL is a Government Company since the Central Government, the State Government of Gujarat and Navyug Engineering Limited, a Government Company, hold 54% of its paid-up share capital which is more than the threshold limit of 51%.
  - (d) GECL is not a Government Company since the Central Government and the State Government of Gujarat together hold 44% of its paid-up share capital which is less than the threshold limit of 51%.
- 6.2 Which one of the following options is applicable in case Mr. Anant was preferred to be given the valuation assignment of valuing the assets of GECL.
- (a) Mr. Anant cannot act as a valuer being a person not resident in India.
  - (b) Mr. Anant cannot act as a valuer since process of valuation of goodwill is a tedious and time-consuming task.

- (c) Mr. Anant can act as a valuer being a valuer member of a registered valuers' organisation in London and is more knowledgeable than others.
- (d) Mr. Anant can act as a valuer being a valuer member of a registered valuers' organisation in London and is out of India for less than seven years.

**6.3** In case PML is aggrieved by the order dated 30-10-2021 of the Registrar of Companies that led to the removal of its name from the Register of Companies and its dissolution and therefore, it desires to file an appeal to the National Company Law Tribunal (NCLT), which one of the following options shall be applicable in such a situation:

- (a) PML is permitted to file an appeal to the National Company Law Tribunal (NCLT) within a period of one year from the date of the order of the Registrar of Companies.
- (b) PML is permitted to file an appeal to the National Company Law Tribunal (NCLT) within a period of two years from the date of the order of the Registrar of Companies.
- (c) PML is permitted to file an appeal to the National Company Law Tribunal (NCLT) within a period of three years from the date of the order of the Registrar of Companies.
- (d) PML is permitted to file an appeal to the National Company Law Tribunal (NCLT) within a period of five years from the date of the order of the Registrar of Companies.

7. Mr. Atul is an employee of the company ABC Limited, and an investigation is going on him under the provisions of Companies Act, 2013. The company wants to terminate Mr. Atul as investigation is going against him. The company has filed the application with the Tribunal for approval of Mr. Atul's termination. The company has not received any reply from the Tribunal within 30 days of filling an application. After expiry of 30 days, the company considered it as deemed approval and terminated Mr. Atul.

On the basis of the Companies Act, 2013, answer the following questions: **(4 Marks)**

**7.1** Can ABC Limited terminate Mr. Atul, an employee of the company, if no reply is received from the Tribunal?

- (a) No, the termination of Mr. Atul is not valid, and company has attracted penal provisions under the Law.
- (b) No, the termination of Mr. Atul is not valid because the company cannot consider the non-reply of the Tribunal as deemed approval.
- (c) Yes, the termination of Mr. Atul made by the company is totally valid in law and the company can do so by considering deemed approval of tribunal.
- (d) Yes, the termination of Mr. Atul made by the company is totally valid in law as filing an application to the Tribunal is not required in this case and the company on its own can terminate Mr. Atul.

**7.2** Regarding termination of employment of Mr. Atul by ABC Limited, what is the remedy available with Mr. Atul?

- (a) Mr. Atul can file an appeal to the Appellate Tribunal within 30 days of his termination.
- (b) Mr. Atul can file an appeal to the Appellate Tribunal within 45 days of his termination.
- (c) Mr. Atul can file an appeal to the Court having jurisdiction within 30 days of his termination.
- (d) Mr. Atul has no remedy available to him.

## Section B: Securities Laws

8. FLY-FISH Limited is a listed company provided the following month-wise grievance position of the investors' complaints for the financial year 2022-2023.

Nos.	Apr 22	May 22	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23
Opening unresolved grievances	12	10	18	15	20	8	6	15	18	20	24	12
Grievances received during the month	16	14	12	14	18	12	20	17	15	14	15	14
Grievances redressed during the month	18	6	15	9	30	14	11	14	13	10	27	20
Closing unresolved grievances	10	18	15	20	8	6	15	18	20	24	12	6

**Requirement:** Referring to the applicable Regulation made under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, advise the Company about the grievance redressal position of investors' complaints to be filed during the month of April 2023 with the recognised stock exchanges where the securities of the Company are listed by answering the following Multiple Choice Questions: **(4 Marks)**

- 8.1** State within how many days FLY-FISH Limited is required to file a statement giving the status relating to Quarter 4 of the financial year 2022-2023 as to the investors complaints- mentioning number of complaints, pending complaints, disposed complaints and those remaining unresolved at the end of each quarter-
- It has to file the detailed status as to the investors complaints, by 30<sup>th</sup> day of April, 2023.
  - It has to file the detailed status as to the investors complaints for the financial year 2022-2023 within 3 months from the end of the financial year.
  - It has to file the detailed status as to the investors complaints relating to the each Quarter of the financial year 2022-2023 within 15<sup>th</sup> day of the next quarter, hence for quarter 4 by 15<sup>th</sup> day of April, 2023.
  - It has to file the detailed status as to the investors complaints relating to Quarter 4 of the financial year 2022-2023 within 21<sup>st</sup> day of April, 2023.
- 8.2** Ascertain how many complaints redressed during the relevant quarter of the financial year 2022-2023 as per the requirements of the mentioned quarter in above question -
- 10
  - 20
  - 27
  - 57
9. Pawan Limited operates in the aerospace segment and is planning to roll out an Initial Public Offer. One of its 12 directors was barred from assessing the capital market by SEBI. Though restrictions were imposed upon the promoter group as well, they were later removed after representations made by them in this regard. A subsidiary company of Pawan Limited, Vayu Limited, defaulted on the repayment of the deposit around nine months ago, which is now rectified.
- Fire Limited is among the major suppliers of Pawan Limited. It also offers consultancy services on energy management and space shuttle technology, in addition to trading in solar energy-based devices. Mr. Alok, CFO of Fire Limited, which is a listed entity, heard from someone that composite

issues can be made on the Indian Stock Market.

He seeks input from Mr. Bhavesh, the Company Secretary, regarding the type of securities specified to be issued in this way and what nature of issue or placement can be composed together. He is also not sure and has promised to revert after consulting the expert on the matter.

Finally, Fire Limited issued the red prospectus on the stock exchange, where its securities were not listed earlier. But made revisions to the price band notified earlier. Mr. Bhavesh suggests to the Board that they need to extend the bidding period from the current tenor of 5 days. Mr. Alok asked him to do the needful to extend the bidding.

Unfortunately, Fire Limited fails to obtain listing or trading permission from the stock exchanges where the specified securities were to be listed. Mr. Bhavesh is aware of the regulation that it shall refund through verifiable means the entire monies received upon receipt of the intimation from stock exchanges rejecting the application for listing of the specified securities, hence, he started making the necessary arrangements.

**Multiple Choice Questions:**

**(6 Marks)**

You are an expert on Securities Laws, and are professionally engaged to answer the following questions by identifying the most appropriate option based upon provisions contained in the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

**9.1** In regards to intent of Fire Limited which is listed issuer, to proceed with composite issue of specified securities. Advise Mr. Bhavesh and Mr. Alok what type of issue or placement can be composed together.

- (a) Public cum private placement
- (b) Public cum right allotment
- (c) Bonus cum right allotment
- (d) Public cum preferential allotment

**9.2** Which of the following options is representing the correct set of reasons or disqualifications due to which Pawan Limited become ineligible to make an initial public offer?

- i. if the issuer or any of its promoters or directors is a wilful defaulter or a fraudulent borrower.
- ii. if the issuer, any of its promoters, promoter group or directors or selling shareholders are debarred from accessing the capital market by the SEBI.
- iii. if any of the promoters or directors of the issuer is a promoter or director of any other company which is debarred from accessing the capital market by the SEBI.

- (a) i and ii only
- (b) ii only
- (c) ii and iii only
- (d) All of i, ii, and iii

**9.3** Regarding the revision made by Fire Limited in the price band, it shall extend the bidding (issue) period disclosed in the red herring prospectus for;

- (a) A minimum period of five working days
- (b) A minimum period of three working days

- (c) A minimum period of two working days
- (d) No extension is required

10. Venus Limited is a listed company that manufactures and trades in perfumes, attars, essential oils, natural extracts, and fragrance-based cosmetic and personal care items. It has the largest manufacturing plant for rose water extractions in Kannauj, the perfume capital of India and often referred to as the Grasse (France) of the East.

Venus Limited has 12 directors on its board, and Mr. Vinod Kapadia was appointed as managing director just a month ago. Mars Limited, another listed company, holds 12% of the equity shares and paid-up share capital of Venus Limited.

An Audit Committee was constituted, consisting of six directors, of whom three are independent and one is non-executive. Ms. Krishna, who is an independent director, was appointed as the chairperson of the Audit Committee. The Audit Committee of Venus Limited during 2021–22 and 2022–23 met on following dates:

Meeting	Date & Place of the meeting	No. of member of committee, who attended the meeting
A	18 <sup>th</sup> May 2021, RO	All 6 members
B	10 <sup>th</sup> August 2021, RO	All 6 members
C	30 <sup>th</sup> October 2021, RO	5 members including 3 independent directors
D	10 <sup>th</sup> Jan 2022, RO	All 6 members
E	15 <sup>th</sup> March 2022, RO	All 6 members
1	12 <sup>th</sup> April 2022, RO	All 6 members
2	17 <sup>th</sup> June 2022, RO	5 members including 3 independent directors
3	8 <sup>th</sup> July 2022, Shimla (HP, India)	4 members including 2 independent directors
4	11 <sup>th</sup> Nov 2022, RO	5 members including 2 independent and 1 non-executive directors
5	28 <sup>th</sup> December 2022, Kannauj (UP, India)	3 director including 1 independent and 1 non-executive directors
6	13 <sup>th</sup> Jan 2023, Grasse (France)	All 6 members
7	10 <sup>th</sup> March 2023, RO	1 independent and 1 non-executive director only

Since Mr. Vinod Kapadia is appointed as MD recently hence he is willing to know about the time within which the quarterly results need to be reported from end of the quarter in ordinary course of business.

**Multiple Choice Questions:**

**(10 Marks)**

You are an expert on securities laws, who is being professionally engaged to answer the following questions (specified as MCQs) by identifying the most appropriate option based upon provisions contained in the Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations, 2015.

10.1. Whether Mars Limited and Venus Company are related parties to each other?

- (a) No, because Mars Limited is not a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013.
- (b) No, because Mars Limited is not a related party to Venus limited under the applicable accounting standards.

- (c) No, because equity shares held by Mars Limited in Venus Limited is less than the threshold of 20%.
- (d) Yes
- 10.2** Whether constitution of Audit Committee is in order in case of Venus Limited?
- (a) No, because Audit Committee shall consist of at least 3 directors with independent directors forming a majority.
- (b) No, because Audit Committee shall consist of at least 3 directors out of which at least 2/3 shall be independent directors.
- (c) Yes, because Audit Committee shall consist of at least 3 directors out of which at least 1/3 shall be independent directors.
- (d) Yes, because Audit Committee shall consist of at least 3 directors with at-least 2 independent directors and/or non-executive directors.
- 10.3** Which of following is the correct option that represents those meetings of audit committee convened during 2022-23, which was supposed to be adjourned for want of quorum?
- (a) Only 7th meeting.
- (b) 5th and 7th meetings only.
- (c) 3rd, 5th and 7th meeting only.
- (d) None of the meeting.
- 10.4** How many instances of default by Venus Limited in context to number of meetings of audit committee and time gap between such meetings took place during 2021-22 and 2022-23;
- (a) Not even once in both the years
- (b) Once each during 2021-22 and 2022-23
- (c) Once only in 2021-22
- (d) Once only in 2022-23
- 10.5** Financial results of first quarter of 2023-24 need to be reported to stock exchange by Venus Limited within;
- (a) 15th July, 2023
- (b) 30th July, 2023
- (c) 14th August, 2023
- (d) 29th August, 2023

### **Section C: Economic Laws (30 Marks)**

- 11.** Mr. Raman resident in India had gone to London [UK] on a temporary visit in August 2022 and to Bhutan in February 2023. He brought in India at the time of his return, currency notes of Government of India and RBI Notes Rs. 20,000 from London in the denomination of Rs. 200 and Rs. 1,00,000 from Bhutan in the denomination of Rs. 500.

Referring to the provisions of the Foreign Exchange Management Act, 1999, answer the following questions: **(4 Marks)**

- 11.1** Whether import of Indian currency of Rs. 20,000 in the denomination of Rs. 200 from London by Mr. Raman is permissible under the provisions of FEMA?
- (a) Import of currency notes of Government of India and RBI notes of Rs. 20,000 is not permissible as it exceeds the limit of Rs. 10,000, denomination of currency is immaterial.

- (b) Import of currency notes of Government of India and RBI notes of Rs. 20,000 is permissible as it does not exceeds the limit of Rs. 25000, denomination of currency is immaterial.
- (c) Import of currency notes of government of India and RBI notes of Rs. 20,000 is not permissible as import of Indian currency can be done of denomination only upto Rs. 100.
- (d) Import of currency notes of government of India and RBI notes of Rs. 20,000 is not permissible as no import of Indian currency is allowed as per Regulations.

**11.2** Whether import of Indian currency of Rs. 1,00,000 in the denomination of Rs. 500 from Bhutan by Mr. Raman is prohibited under the provisions of FEMA?

- (a) Import of currency notes of government of India and RBI notes of Rs. 1,00,000 is not prohibited as there is no ceiling limit as per Regulations
- (b) Import of currency notes of government of India and RBI notes of Rs. 1,00,000 is prohibited as import of Indian currency can be done of denomination only upto Rs. 100.
- (c) Import of currency notes of government of India and RBI notes of Rs. 1,00,000 is not prohibited as denomination of currency is immaterial.
- (d) Import of currency notes of government of India and RBI notes from Bhutan is prohibited.

**12.** Upalayam Old Student Association was formed with the object of providing Coaching & Hostel facilities to the students studying in the government school. Mr. Murugan, an Indian Origin, acquired American citizenship and settled in USA. However, he is an overseas citizen of India cardholders. Mr. Murugan donated Rs. 10 Lakh to the said Association from his personal savings earned in USA through the normal banking channel. Referring to the provisions of the Foreign Contribution (Regulation) Act, 2010, answer the following: **(4 Marks)**

**12.1** Whether the donation made by Mr. Murugan is a Foreign Source?

- (a) No, as Mr. Murugan is a person of Indian Origin, the donation made by him is not a foreign source.
- (b) No, as Mr. Murugan is an overseas citizen of India cardholders, the donation made by him is not a foreign source.
- (c) No, as he has donated his personal savings, it is not a foreign source.
- (d) Yes, Donation from Mr. Murugan, a Person of Indian origin who has acquired American citizenship and also is an Overseas Citizen of India cardholder, will be treated as foreign contribution.

**12.2** In case Mr. Murugan still holds Indian Citizenship, state whether the donation made by Mr. Murugan is a Foreign Source?

- (a) The said donation will be treated as foreign contribution as Mr. Murugan is settled in USA and he is a foreigner.
- (b) The said donation will not be treated as foreign contribution as Mr. Murugan holds Indian citizenship and he is not a foreigner.
- (c) The said donation will be treated as a foreign contribution as Mr. Murugan has donated from his personal savings earned in USA.
- (d) The said donation will be treated as a foreign contribution as it is received from any country other than India.

13. Narsee Monjee is among the leading management institute of country. It offers state of art facilities in addition to global learning opportunities to its pupils through students exchange programme, wherein student has option to complete maximum upto two final semesters of their study program from any one of Ivy League foreign universities with which it has MOUs. Even faculty exchange program also in place to offer best blend of knowledge and teaching.

Ramesh Dayal and Manish Kandpal, two students (who are friends as well) of master level management program decided to complete final semester of their degree from one such foreign university under student exchange program. Therefore both of them left India on 23<sup>rd</sup> December, 2021. Despite earlier they have plan to come back to mother land by the June 30<sup>th</sup> of 2022 i.e. after the end of the final semester, but Manish got good job placement there and decided to start working there only. He returned to India in X-mas holidays in 2022 to meet his family, while Mr. Ramesh Dayal who also got placement offer, denied to employment there and returned to India as per plan.

To support studies of his son, the father of Manish remit him USD 64,000 during 2021-22 and USD 17,800 during 2022-23, while his tuition fee at such Higher Educational Institutions (HEI) is only USD 27,500 (including all).

Canada chapter of alumni association of Narsee Monjee organised a re-union function. Narsee Monjee's alumni club (constituted internally as part of university organisation structure) remit sponsorship (100000 Canadian dollars approximately equal to USD 75,000) of cultural evening as part of such re-union function.

Narsee Monjee's faculty of management also offers consultancy and Ministry of Defence Polices (MDPs). Recently (11<sup>th</sup> May to 20<sup>th</sup> May 2022) it delivered one such professional development in UAE to train the professionals their prior to roll out of Direct Tax. The invoice raised by MDP department on 22<sup>nd</sup> May for USD 10,000. **(8 Marks)**

### Multiple Choice Questions

- 13.1 In regard to remittance of an amount equivalent to USD 81,800 (USD 64,000 in 2021-22 and USD 17,800 in 2022-23) against the tuition fee of only USD 27,500 (including all), by father of Mr. Manish in foreign currency to his son (Mr. Manish), identify the correct option as per applicable law;
- (a) Violate the permissible limit during 2021-22
  - (b) Violate the permissible limit during 2022-23
  - (c) Violation in both the years 2021-22 as well as 2022-23
  - (d) There is no violation, neither in 2021-22 nor 2022-23
- 13.2 Regarding the realisation of proceed of Development Program Conducted in UAE the proceed of export of services (professional development program), in view of the changed economic scenario in the country, Vasuki, one of the Executive Directors of PISCO Electronics, requested the company for change in his borrowing terms *i.e.* to reduce the interest rate to 8% per annum from the existing 9% per annum and to increase the period of repayment from the present 20 instalments to 30 instalments. Which of the following options is applicable in such a situation:
- (a) The amount representing the full export value of services exported shall be realised within six months or within such period as may be specified by the Reserve Bank, in consultation with the Government, from time to time, from the date of export.
  - (b) The amount representing the full export value of services exported shall be realised and repatriated to India within six months or within such period as may be specified by the

Reserve Bank, in consultation with the Government, from time to time, from the date of export.

- (c) The amount representing the full export value of services exported shall be realised within nine months or within such period as may be specified by the Reserve Bank, in consultation with the Government, from time to time, from the date of export.
- (d) The amount representing the full export value of services exported shall be realised and repatriated to India within nine months or within such period as may be specified by the Reserve Bank, in consultation with the Government, from time to time, from the date of export.

**13.3** Quantify the amount of penalty, if applicable, if father of Ramesh, Mr. Narottam remit him USD 275,000 in 2021-22 through authorised dealer. Ramesh also studied in same HEI, where his friend Manish did and required to pay same amount of tuition fee:

- (a) Mr. Narottam doesn't violate any provision, because he remitted the amount through authorised dealer.
- (b) Mr. Narottam violates the provisions, therefore liable for penalty up to USD 25000.
- (c) Mr. Narottam violates the provisions, therefore liable for penalty up to USD 75000.
- (d) Mr. Narottam violates the provisions, therefore liable for penalty up to USD 247500.

**13.4** Regarding the residential status of Mr. Ramesh Dayal identify the correct statement out of following;

- (a) Mr. Ramesh is person resident in India for both FY 2021-22 and 2022-23.
- (b) Mr. Ramesh is person resident outside India for both FY 2021-22 but person resident in India for FY 2022-23.
- (c) Mr. Ramesh is person resident in India for FY 2021-22 but person resident outside India for FY 2022-23.
- (d) Mr. Ramesh is person resident outside India for both FY 2021-22 and 2022-23.

**14.** Amol Open University of Languages, is a private university established under a State Act. The objective behind the establishment of university was to provide degree/ diploma/ certificate course to the students, an online leaning platform to learn all the prominent languages, which are being spoken in the major part of the world. This will generate to the employability of the students in different part of the world, since they are familiar with the language of that country. Since this being an online learning platform, the students can pursue the programme simultaneously with doing their regular academic / professional course. The examination will also be held online, by sitting at home, through their PC/ Laptop in a protected environment, after completing certain hours of learning modules.

The University has made a tie up arrangements with experts in the foreign languages. They guide the students online and also through the pre-recorded videos.

Several Foreign Governments intend to offer donations / contributions for the development of their language. The respective countries have offered to give foreign currency contribution for the promotion of these languages.

Based on the above scenario, answer the following questions:

**(4 Marks)**

**14.1** The Certificate of Registration to the University was given only for the purpose of preparing the educational material (print or soft copy), paying of honorarium to teachers and IT related

infrastructure for online classes only. Whether Certificate of Registration can be used for receiving foreign contribution for building the infrastructure of the University Campus:

- (a) The funds once received can be utilised for any other purposes.
- (b) The funds are being utilised for building construction i.e. for University's objective so it can be used.
- (c) No, the purpose for which the Certificate of Registration has been granted, cannot be diverted. The end use of the funds has to ensure to utilise in that purpose only.
- (d) It is on the discretion of the University Officials, how to utilise it.

**14.2** Whether Foreign contribution so received by the University can be invested in any Mutual Fund Scheme:

- (a) Mutual Fund Schemes are safe, hence can be invested
- (b) All Mutual Fund Schemes are not safe and very volatile in nature.
- (c) The surplus funds can be invested only in debt based secure investments
- (d) It depends upon the discretion of the University officials.

**15.** Hangout Casa was a very prominent chain of Chinese restaurant with presence all around the nation. Most of its outlets/restaurants are operating on franchise model, but some are company owned as well and operating at lease-hold premises. Hangout Casa had a great reputation, its outlets have award-winning chefs and tastefully designed interiors. Much of its business came from weekend parties and get-to-gathers.

Due to health-related awareness among the people at large, the consumption level of fast food is declining. Covid also jolted the liquidity position badly. The competition from low price alternative options also dented the sales revenue of almost all the retail outlets. It tried to widen the range of items offered, likewise recently it started selling ice creams of Rim Jim Brand. Efforts to negotiate with lessor to reduce the rent were largely unsuccessful. Eventually the business became insolvent.

Suppliers of food, beverages and utilities were unpaid for supplies provided in the previous 45-60 days, amounting to around Rs. 9,50,000. There were lease rental arrears that included the rent for one month amounting to Rs. 50,000 towards landlord, Mr. Deepak (the landlord had received advance rent for three months, lease deed provided for one-month rent as security and one-month rent as advance). Amount of Rs. 78,000 is also due towards Rim Jim Limited, whose ice-cream it sells. Though somehow it managed to pay bank dues to avoid any legal actions.

Hangout Casa also had a secured creditor, 'Punji Bank'. The bank indicated that it did not wish to appoint a receiver/ file for insolvency as the accounts were regularly maintained. For most of its own outlets the salaries due to employees (chef, assistant chef, waiters and house-keeping staff) were paid in half since the past three months.

Hangout Casa went insolvent and CIRP was initiated. Ms. Naziya Khatoon was appointed as interim resolution professional and later as resolution professional. Ms. Naziya while forming committee of creditor was not sure about inclusion and exclusion of certain creditors who own both operational and financial debt.

Rim Jim Limited a cash rich outlet chain of Ice-cream Parlors is currently looking for expansion of their business and diversification thereof. Board of Rim Jim, decided to submit a resolution plan and being resolution applicant it submitted a resolution plan along with an affidavit stating that he is eligible under section 29A of the IBC, to the resolution plan prepared on the basis of the information memorandum. Some resolution plans also received by Resolution Professional.

A meeting of committee of creditor was convened a week later, wherein the selected resolution plans that confirm the conditions referred to in sub-section (2) to section 30 were to be considered. Rim Jim Limited is of view that it can through its representative attend such meeting of committee of creditor and is allowed to vote as well.

**Multiple Choice Questions:**

**(10 Marks)**

- 15.1** Regarding the view point of Rim Jim Limited, that it's representative shall also be allowed to attend the meeting of the committee of creditors in which the resolution plan of the applicant is considered. Identify the correct statement in the light of the Insolvency and Bankruptcy Code, 2016:
- (a) Rim Jim Limited may attend the meeting of the committee of creditors in which the resolution plan of the applicant is considered and allowed to vote.
  - (b) Rim Jim Limited may attend the meeting of the committee of creditors in which the resolution plan of the applicant is considered, but not allowed to vote.
  - (c) Rim Jim Limited shall not attend the meeting of the committee of creditors in which the resolution plan of the applicant is considered.
  - (d) Rim Jim Limited may attend the meeting of the committee of creditors in which the resolution plan of the applicant is considered, and vote if allowed by resolution professional.
- 15.2** Under IBC there are two types of debt, Operational and Financial. Identify the correct statement regarding the nature of lease rental arrears:
- (a) Lease rental arrear is financial debt in all cases, for the purpose of IBC, 2016.
  - (b) Lease rental arrear is financial debt only if lease period is more than 3 years, for the purpose of IBC, 2016.
  - (c) Lease rental arrear is operational debt in all cases, for the purpose of IBC, 2016.
  - (d) Lease rental arrear can be operational or financial debt as per mutual understanding between lessor and lessee, for the purpose of IBC, 2016.
- 15.3** It is specified in the fact of case scenario that the suppliers of food, beverages and utilities were unpaid for supplies provided in the previous 45-60 days, amounting to around Rs. 9,50,000. Largest among such suppliers is Man Mohan Diary to whom Rs. 2,11,390 is due, who gave notice two week back for payment but no payment was made by Hangout Casa. Can Man Mohan Diary file an application under section 9 of the Code?
- (a) Yes, because amount outstanding or in default is more than Rs.1 lakh.
  - (b) Yes, because he served the notice and 10 days has been elapsed but no payment has been made.
  - (c) No, because amount outstanding or in default is less than Rs. 10 lakh.
  - (d) No, because amount outstanding or in default is less than Rs. 100 lakh.
- 15.4** For most of its own-run (Owned and Operated Hangout Casa; other than franchised) outlets the salaries due to employees (chef, assistant chef, waiters and house-keeping staff) were paid in half since the past three months. What is nature of outstanding employee's dues?
- (a) These are neither operational debt nor financial debt
  - (b) These are financial debt in all the case for the purpose of IBC

- (c) These are operational debt in all the case for the purpose of IBC
- (d) These are operational debt if is in arrear for less than 3 month and beyond, classified as financial debt.

**15.5** Ms. Naziya Khatoon, Resolution Professional for Hangout Casa, need your advice regarding constitution of committee of creditors. Advise her regarding correctness of following statements pertaining to committee of creditors.

- i. Committee of creditor shall be constituted by interim resolution professional after collation of all the claim received against corporate debtor and determination of financial position.
  - ii. Committee of creditor shall comprise of all the creditors.
  - iii. Related party shall not have right to representation at committee of creditors.
  - iv. Those who own both financial as well operational debt, shall also, included in committee of creditors; but only to the extent of financial debt owed by Hangout Casa to such creditors.
- (a) Only statement i, ii and iii are correct
  - (b) Only statement ii, iii and iv are correct
  - (c) Only statement i, iii and iv are correct
  - (d) All the statements are correct