

MOCK TEST PAPER 1
FINAL COURSE GROUP I
PAPER 4: CORPORATE AND ECONOMIC LAWS

Time Allowed: 3 Hours

Maximum Marks: 100 Marks

DIVISION A: MULTIPLE CHOICE QUESTIONS (TOTAL OF 30 MARKS)

Instructions: All questions are compulsory.

Case Study 1 (2 Marks each: 2 x 4=8 Marks)

Manit persuaded his B.Tech studies from IIT, Kanpur. He plans to do MS from US. Based on his qualification and ranking in the B.Tech, he got the scholarship from a US Company with a condition that he has to serve in that US company for a period of 3 years after completing of MS.

Manit's father Shyam Lal is a Member of Parliament (MP). The tenure of the Lok Sabha is going to end just after 6 months. The associated political party this time denied him to give ticket in the forthcoming election.

Therefore, Mr. Shyam Lal planned to fight election in his individual capacity. He contacted with his many friends of political backgrounds. He asked Manit over there, to contact them for providing of funds. These funds so collected will be utilised, at the time of election, for campaigning.

Manit's paternal aunt, (father's sister) is residing in US. She on the occasion of his 25th marriage anniversary sent USD 1000 to his brother as token of love.

Mr. Ram, a construction company, was assigned with a project on the development of model transportation system with many basic and latest facilities under the Ministry of Transportation. Being a good friend of Mr. Shyam, he asked Mr. Shyam to take with him, visit to US as he was to go on for official visit to study the road transportation system in US on behalf of transportation ministry. In US, Shyam Lal was also offered hospitality and was provided free travelling and hotel stay.

Based on the above scenario, answer the following questions:

1. Who amongst the following, shall not be prohibited to accept foreign contribution;
 - (a) Manit
 - (b) Mr. Shyam, being a candidature for coming election
 - (c) Mr. Shyam, being a member of legislature
 - (d) Mr. Ram, being a government representative
2. Manit collected funds on behalf of his father for the forthcoming elections, which he remitted to India. Whether such foreign contribution is permissible:
 - (a) Yes, as Manit is student in US so whatever the amount he is collecting is exempted, therefore such contribution is permissible.
 - (b) No, as Manit is collecting the money in USD as a foreign contribution for the election of his father, hence it is prohibited.
 - (c) Yes, it is permitted, if the Election Commission do not objects on the amount.
 - (d) Yes, if it is permitted by the RBI, having no objections on such collection of fund for the election purpose.
3. Manit's Aunt residing in US, sent USD 1000 to Mr. Shyam Lal. Whether Shyam Lal can receive such foreign contribution:
 - (a) No, as foreign contribution for a candidate for election is prohibited

- (b) Yes, subject to the prior approval of the RBI
 - (c) Yes, subject to the prior approval of the Enforcement Directorate
 - (d) Yes, Foreign contribution from a relative is permitted
4. While on official visit with Mr. Ram, Shyam Lal availed hospitality from a transport company in US. Whether such activity is permitted:
- (a) Shyam Lal has not accepted any cash and the hospitality was in kind so it is permitted
 - (b) Shyam Lal being a Member of Parliament, should not avail that hospitality since it is prohibited
 - (c) Shyam Lal can enjoy the US tour since the Government of India has sent him there
 - (d) Shyam Lal being a Member of Parliament should take prior permission of the Central Government before taking any foreign hospitality

Case Study 2 (2 Marks each= 5 x2=10 Marks)

Subh-Labh Savings and Investments (Nidhi) Ltd. was incorporated for the purpose of inculcating savings habits among its members on 31st July 2022. The company filed a prescribed Form with the Registrar, for declaration it as a Nidhi company.

Just after the incorporation, the company issued 3 lakh shares of ₹ 10/- each and made a first call of ₹ 5/- only.

The company is paying interest on deposits to its members @ 6% p.a. whereas the interest on loan is charged @15%.

After the end of one year from the date of incorporation, the company's membership strength reached to 560 and its Net Owned Funds (NOF) ₹ 15 lakhs. The deposits mobilised through the members reached to ₹ 375 lakhs.

Based on the above scenario, answer the following questions:

5. State in which of the business, Subh-Labh Ltd. can be engaged:
- (a) enter into any partnership arrangement in its borrowing or lending activities
 - (b) raise loans from banks or financial institutions or any other source
 - (c) business of borrowing or lending in its own name
 - (d) carry on the business of leasing finance.
6. By what time, Subh-Labh Ltd. is required to ensure that they may have atleast 200 members:
- (a) By 31st December 2022
 - (b) 31st March 2023
 - (c) 30th April 2023
 - (d) 30th July 2023
7. In the given case, if, the NOF is ₹ 15 lakh and deposits mobilised from members is ₹ 375 lakh, which gives ratio of NOF to deposit as 1: 25. State what shall be the correct answer with respect to the ratio of Net Owned Funds for deposits :
- (a) 1:10
 - (b) 1:15
 - (c) 1:20
 - (d) 1:25

8. What shall be the minimum paid up equity share capital requirement of Subh-Labh Ltd:
- (a) Five lakh rupees
 - (b) Ten lakh rupees
 - (c) Twenty lakh rupees
 - (d) Twenty Five rupees
9. A Subh-Labh Ltd. shall not accept deposits:
- (a) exceeding twenty times of its Net Owned Funds as per its last audited financial statements.
 - (b) Not exceeding twenty times of its Net Owned Funds as per the last financial year.
 - (c) Not less than twenty times of its Net Owned Funds as per the last financial year
 - (d) more than twenty five times of its Net Owned Funds as per the last financial year

Independent MCQS (12 Marks)

10. Mr. Q, a Director of PQR Limited, is proceeding on a foreign tour covering entire Europe for four months. He proposes to appoint Mr. Y as an alternate Director to act on his behalf during his absence. The Articles of Association of PQR Limited provide for the appointment of alternate Directors. Mr. Q claims that he has a right to appoint alternate Director of his choice. Which of the following options is applicable in the given situation:
- (a) Claim made by Mr. Q to appoint Mr. Y as alternate Director is valid as the Articles of Association of PQR Limited provide for such appointment.
 - (b) Claim made by Mr. Q to appoint Mr. Y as alternate Director is not valid as the authority to appoint alternate Director has been vested in the Board of Directors only and that too subject to empowerment by the Articles of Association.
 - (c) Mr. Y cannot be appointed as an alternate Director in place of Mr. Q since Mr. Q is proceeding on a foreign tour covering entire Europe for four months only which is less than the required absence of minimum six months.
 - (d) Mr. Y cannot be appointed as an alternate Director in place of Mr. Q since Mr. Q is proceeding on a foreign tour covering entire Europe for four months which is more than the required absence of maximum three months. **(2 Marks)**
11. Requisite number of shareholders of Vimaan Aerospace Limited, which has been incorporated under the Companies Act, 2013, filed an application with the National Company Law Tribunal (NCLT) under Section 241 highlighting the mismanagement in the conduct of the affairs of the company. Taking cognizance of the application, the National Company Law Tribunal (NCLT) passed an order under Section 420 on November 23, 2021, providing the sought after relief to the shareholders of Vimaan Aerospace Limited. On finding some mistake in the order, the shareholders brought the same to the notice of NCLT for rectification. You are required to select the correct statement from those given below as to the circumstances under which NCLT would be able to amend its order and the maximum period which the said order can be amended:
- (a) National Company Law Tribunal (NCLT) can amend its order to rectify any mistake apparent from the record when such mistake is brought to its notice by the parties and further, the order can be amended by NCLT at any time within a period of six months from the date of such order provided no appeal has been made against the said order.
 - (b) National Company Law Tribunal (NCLT) can amend its order to rectify any mistake apparent from the record when such mistake is brought to its notice by the parties and further, the order can be amended by NCLT at any time within a period of one year from the date of such order provided no appeal has been made against the said order.

- (c) National Company Law Tribunal (NCLT) can amend its order to rectify any mistake apparent from the record when such mistake is brought to its notice by the parties and further, the order can be amended by NCLT at any time within a period of two years from the date of such order provided no appeal has been made against the said order.
- (d) National Company Law Tribunal (NCLT) can amend its order to rectify any mistake apparent from the record when such mistake is brought to its notice by the parties and further, the order can be amended by NCLT at any time within a period of three years from the date of such order provided no appeal has been made against the said order. **(2 Marks)**
12. On June, 20, 2017, Mr. Anil Mehra was appointed as Manager of PQR Music Systems Limited for a period of five years. Considering his performance and dedication towards the company, the management of PQR Music Systems Limited decided to re-appoint him as Manager before the completion of his tenure. Out of the following four options, choose the one which indicates the date on which his re-appointment will be considered valid?
- (a) June 24, 2021.
- (b) February 1, 2021.
- (c) March 12, 2020.
- (d) September 10, 2020. **(2 Marks)**
13. Akshara Builders and Developers Ltd., a company listed on BSE Limited, is contemplating upper revision in the rate of interest of its existing 12% bonds by 1% so as to make them 13% bonds with effect from August 14, 2021. The said proposal is to be laid before the Board of Directors at a Board Meeting to be held on July 14, 2021. From the following options, choose the one which correctly indicates the latest date by which Akshara Builders and Developers Ltd. is required to intimate the BSE Limited about the Board Meeting where increase in rate of interest is being considered, keeping in view the Regulation 29 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015:
- (a) Akshara Builders and Developers Ltd. is required to intimate BSE Limited about the Board Meeting, where increase in rate of interest is being considered, latest by July 1, 2021.
- (b) Akshara Builders and Developers Ltd. is required to intimate BSE Limited about the Board Meeting, where increase in rate of interest is being considered, latest by July 3, 2021.
- (c) Akshara Builders and Developers Ltd. is required to intimate BSE Limited about the Board Meeting, where increase in rate of interest is being considered, latest by July 5, 2021.
- (d) Akshara Builders and Developers Ltd. is required to intimate BSE Limited about the Board Meeting, where increase in rate of interest is being considered, latest by July 7, 2021. **(2 Marks)**
14. As per the Companies Act, 2013, every petition filed before the Tribunal shall be disposed of:
- (a) Within 1 month from the date application is admitted
- (b) within 2 months from the date of first hearing
- (c) within 3 months from the date of its presentation
- (d) within 6 months from its filing **(1 Mark)**
15. Trial of an offence under the Companies Act, by special court shall be of such an offence:
- (a) which is punishable with imprisonment for a term exceeding one year
- (b) which is punishable with imprisonment for a term not exceeding one year
- (c) which is punishable with imprisonment for a term exceeding three years
- (d) which is punishable with imprisonment for a term not exceeding three years **(1 Mark)**

16. Who amongst the following may file an application for the restoration of the name of the company in the register of company and within the period of:
- The Company itself and within 2 years from the date of passing of the order dissolving the company
 - The authorised officials of the company and within 2 years from the date of passing of the order dissolving the company
 - NCLT and within 3 years from the date of passing of the order dissolving the company
 - Registrar and within 3 years from the date of passing of the order dissolving the company
- (1 Mark)**
17. Chetan Motorboats Limited, incorporated on 25th June, 2021 is desirous of making donations to a reputed political party. Out of the following options, choose the one which correctly depicts as to when Chetan Motorboats Limited shall be eligible to make such donations to a political party:
- Chetan Motorboats Limited shall be eligible to make donations to a political party after one year from the date of its incorporation.
 - Chetan Motorboats Limited shall be eligible to make donations to a political party after two years from the date of its incorporation.
 - Chetan Motorboats Limited shall be eligible to make donations to a political party after three years from the date of its incorporation.
 - Chetan Motorboats Limited shall be eligible to make donations to a political party after five years from the date of its incorporation.
- (1 Mark)**

DIVISION B: Descriptive questions (70 Marks)

Question no. 1 is compulsory. Attempt any **four** questions out of the remaining **Five** questions

1. (a) Decide in the light of the Companies Act, 2013, on the following proposals of loans for consideration before the Truth Ltd.
- Loan to its director, Mr. A for construction of residential house as a personal loan.
 - Loan to Mr. B, its whole time Director.
 - Loan to X Ltd. in the ordinary course of business and the rate prescribed is not less than bank rate prescribed by the reserve bank.
- (6 Marks)**
- (b) Examine the following situations in the light of the relevant provision of the Companies Act, 2013:
- The Board of Director of ABC Ltd. declared interim dividend for the current financial year 2020-2021. The proposal of dividend declaration was accepted at the meeting and dividend was declared. However, due to some reasons, the company failed to pay the dividend to the shareholders within prescribed period. Mr. futuristic, a director on the board of this company, had offer of appointment in other company PQR Ltd. He wishes to take up the post in the appointed company. Discuss on the appointment of Mr. Futuristic in PQR Ltd.
 - Mr. Talented was a director in a holding company and also in its subsidiary company. He was drawing his managerial remuneration from both the companies in his capacity as a director. It was brought to the attention of the company that he cannot draw remuneration from both the companies because of virtue of relationship as a holding and subsidiary company. Discuss on the legality of drawing managerial remuneration by Mr. Talented from both the companies.
- (8 Marks)**
2. (a) (i) Simar Limited was in the process of liquidation. It had some correspondence with its auditor, which was in the company's letter head. The auditor observed that the letter head was not in compliance with Section 344, as it did not mention the fact that the company was being wound up. He immediately called up one of the directors and advised him about the provisions of

Section 344 and the consequences of non-compliance. State, the provisions and consequences regarding which the auditor would have advised. **(4 Marks)**

- (ii) Covid 19 pandemic has badly affected the business of travel ticket booking agent company. Restrictions & frequent lockdowns led to the permanent closure of the company's operations. The secured creditors of the company of value ₹ 50 Lakhs filed a winding up petition with the High court & subsequently the HC passes a winding up order. The workers of the company were not favouring this and hence filed an appeal against the winding up order. The workmen's dues were ₹ 30 Lakhs. The secured creditors were against this defending that their dues were more than the workmen's & hence not valid. Is the creditor's statement correct? Enumerate in the light of the Companies Act, 2013? **(4 Marks)**
- (b) Crown Industrial Conveyors Limited had advanced a loan of ₹ 1 crore to M & Co. Private Limited whose office was functioning in a rented house property belonged to Mr. M, the Managing Director. The lending company intends to attach the property of Mr. M as liquidation asset and seeks your advice with regard to its position in a Liquidation proceeding initiated under the Insolvency and Bankruptcy Code 2016. **(6 Marks)**
3. (a) Draft a Board resolution for approval of investment in equity shares by Speed Cycles Limited in Brakes and Gears Limited. **(4 Marks)**
- (b) In Crystal Limited, the following directors are getting sitting fees.

Director's Name	Sitting fees (INR)
Mr. X (Non-Executive Independent Director)	INR 70,000
Mrs. Y (Non-Executive Woman Director)	INR 80,000
Mr. Z (Non-Executive Director)	INR 60,000
Mr. L (Non-Executive Director)	INR 50,000

The Boards of Directors of Crystal Limited increased the sitting fees of Mr. Z and Mr. L to one lakh rupees each and continued the sitting fees of Mr. X and Mrs. Y at the old fees stated above. Referring to the provisions of the Companies Act, 2013, examine whether the decision of the Board of Directors to increase the sitting fees of few directors and maintaining the same sitting fees for remaining directors shall be deemed to be valid. **(4 Marks)**

- (c) Ms. Milap had resided in India for 182 days in the financial year 2019-20. She went to UK on 1st April, 2020 and returned to India on 1st July, 2021 on an employment contract in India for a year. She completed her contract and immediately left India. Under Section 2(v) of FEMA 1999, determine the residential status of Milap for the financial years:
- (i) 2020-21
- (ii) 2021-22 **(6 Marks)**
4. (a) A company incorporated in France, with limited liability, established an office in Baroda, and started conducting business activity from its place of business. In compliance of Section 382 of the Companies Act, 2013, it conspicuously exhibited a name board outside its office, with the name of the company in English in big block letters.
- In three days, the company received a notice from the Registrar stating that it had not properly complied with the requirements of Section 382 of the Companies Act, 2013. Mention the areas of lapses of the foreign company, which would be mentioned in the notice. **(4 Marks)**
- (b) Jackpot Limited, a public company, with 7 Directors in the Board, had not filed annual returns and financial statements for 2 consecutive financial years. The Register after required formalities, entered the name of the company in the register maintained for dormant companies.
- One of the directors suggested that since, the company was now registered as a dormant company, the company need not have 7 directors and having one or maximum two directors would suffice.

Following his advice, 5 directors resigned, and the company was left with only 2 directors. The existing two directors did not file any statement with the Registrar, regarding change of directors.

Advise stating the provisions of Section 455, of the Companies Act, 2013, whether the reduction in the number of directors and not filing a statement with Registrar regarding change of Directors, is appropriate. **(4 Marks)**

- (c) (i) Hill Limited, a Public Limited company in India, obtained an External Commercial Borrowing ('ECB') of USD 50,000 dated 30th June 2020, from a foreign lender. On 2nd July 2021, based on mutual consent of the parties, ECB is fully converted into equity. The shares were issued to foreign lender at the par value and not at fair value. You are required to provide the correct legal position regarding the valuation of shares and state the reporting requirements by Hill Limited at the time of conversion of ECB into equity in the light of the provisions of the Foreign Exchange Management Act, 1999 and the Rules made thereunder. **(3 Marks)**

- (ii) Advise on the following legal positions as per the FCRA, 2010.

- (1) Whether donation given by Non-Resident Indians (NRIs) is treated as 'foreign contribution'?
- (2) Whether foreign remittances received from a relative are to be treated as foreign contribution as per FCRA, 2010? **(3 Marks)**

5. (a) The shareholders and creditors of Fume Limited, in a meeting convened for approval of a scheme of reconstruction of the company, passed the necessary resolutions. The Tribunal makes an order sanctioning a scheme of reconstruction of the company. After a few days, the Tribunal decided to modify the scheme of reconstruction of the company. After modifications of the scheme based on the order of the Tribunal, the company could not implement the scheme satisfactorily and the Tribunal decided to go for winding-up of the company. The directors of the company objected to the above acts of the Tribunal. Comment with reference to the provisions of the Companies Act, 2013, whether the objection raised by the directors is right on the decision of the Tribunal modifying the scheme and winding-up of the company. **(4 Marks)**

- (b) The following balances are extracted from the audited financial statement of B Private Limited for the financial year ending the 31st March, 2021:

	₹ in crore
Paid-up share capital	20
Balance in Profit and Loss Account	6
Borrowing from banks and financial institutions	49
Current Liabilities and Provisions	8

No other body corporate has invested any money in the share capital of B Private Limited. The Company has no default in repayment of the above borrowings subsisting at the proposed time of making the above transaction. The Company has also not committed a default in filing its financial statements or Annual Return with the Registrar.

The Company proposes to provide a loan of ₹ 50 lakh to its director Mr. B, who is in dire need of funds for financing his daughter's education. Another Director Mr. L contended that the loan should not be provided by the Company to Mr. B due to the restrictions imposed by the provisions of the Companies Act, 2013. Mr. B, on the other hand, is of the opinion that the Company being a Private Company, the restrictions are not applicable to the Company. Analysing and referring to the relevant provisions of the Companies Act, 2013 and the relevant notifications issued by the MCA, examine the validity of the proposal of B Private Limited to provide the loan to its Director, Mr. B.

(4 Marks)

- (c) P-1 entered into a contract with P-2 wherein P-2 will supply the building materials of Cement and Iron to P-1. In a contract note entered into between them, there was a clause to refer the matter to

the arbitration, in case of dispute arises in future, relating to the quality, quantity, price and place of supply of materials.

Both also executed an arbitration agreement and got it registered with the registering authority. The agreement copy was made in duplicate and each one of them was having the two original copies, duly signed.

During the course of business dealings, the disputes aroused between P-1 and P-2 for over pricing of invoices raised by P-2, whereas the same quality of material was available in the market at 10% lower prices.

P-1 referred the matter to a court and the summons were issued to P-2. P-2 informed to the court that there was an arbitration agreement between the P-1 and P-2 that in case of dispute, the matter will be decided by the arbitration.

Examine the following situations in the light of the Arbitration and Conciliation Act, 1996:

- (i) P-1 referred the matter to the court, where as P-2 informed to the Court that there is an agreement to refer the matter to the arbitration, in case of dispute. What view the judicial authority will take in the matter?
 - (ii) In the arbitration agreement there was no mention of the number of arbitrators. Whether the parties to the disputes can now determine the number of arbitrators? **(6 Marks)**
6. (a) The Securities and Exchange Board of India (SEBI), at present, is having a Chairman, 2 members from the Union Ministry, 1 member from the Reserve Bank of India and 5 other members (nominated by the Government of India). Out of the 5 other members, 4 members are whole-time members. Mr. A is one of those 4 whole-time members, who is also a director of PQR Limited. A matter relating to PQR Limited came up for consideration in a meeting of the Board (SEBI), in which Mr. A had some indirect pecuniary interest. Mr. A declared the fact of interest at the meeting of the SEBI, but took part in the deliberation and decision of the Board in respect to the matter. Out of the total 9 members (including the chairman), who were all present in the meeting, 5 members including the chairman and Mr. A (both are in strong support of the proposal), voted in favour of the matter and the remaining 4 members voted against the matter. Referring to the provisions of the Securities and Exchange Board of India Act, 1992, advise, how the matter will be decided. Will your answer differ in case Mr. A was only a part-time member and not a whole-time member of the SEBI? **(4 Marks)**
- (b) You are the compliance officer appointed by the Board of Directors of PR Limited, a listed company. Advice, referring to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 about the reporting timelines requirements with Stock Exchanges:
- (i) Change in the Capital structure of the listed company exceeding 2% of the total paid-up share capital
 - (ii) Proposal for buyback of securities
 - (iii) Change in contents of the listed company website
 - (iv) Record Date or date of closure of transfer book. **(4 Marks)**
- (c) (i) Explain the time limit for completion of the Corporate Insolvency Resolution process? **(3 Marks)**
- (ii) The Adjudicating Authority appointed under the Prevention of Money Laundering Act, 2002 issued an order attaching certain properties of XYZ Limited alleged to be involved in money laundering for a specified period. The company aggrieved by the order of the Adjudicating Authority seeks your advice about the remedy that is available under the Act. Advise explaining the relevant provisions of the Prevention of Money Laundering Act, 2002. **(3 Marks)**