

(CA INTERMEDIATE ALL BATCHES)

DATE: 27.12.2020

MAXIMUM MARKS: 100

TIMING: 3¼ Hours

PAPER :LAW

Answer to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium. His/her answer in Hindi will not be valued.

Question No. 1& 2 is compulsory.

Candidates are also required to answer any Four questions from the remaining Five Questions.

Answer 1:

- | | | |
|------|---------------|--------------|
| (1) | Ans. a | } {1 M Each} |
| (2) | Ans. c | |
| (3) | Ans. b | |
| (4) | Ans. a | |
| (5) | Ans. d | |
| (6) | Ans. b | |
| (7) | Ans. c | |
| (8) | Ans. c | |
| (9) | Ans. d | |
| (10) | Ans. a | |
| (11) | Ans. b | } {2 M Each} |
| (12) | Ans. c | |
| (13) | Ans. d | |
| (14) | Ans. a | |
| (15) | Ans. d | |
| (16) | Ans. c | |
| (17) | Ans. d | |
| (18) | Ans. d | |
| (19) | Ans. d | |
| (20) | Ans. d | |
| (21) | Ans. c | |

Answer 2:

- (a)** According to section 19 of the Companies Act, 2013 a company shall not hold any shares in its holding company either by itself or through its nominees. Also, holding company shall not allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void.
- Following are the exceptions to the above rule-
- (a) Where the subsidiary company holds such shares as the legal representative of a deceased member of the holding company; or
 - (b) Where the subsidiary company holds such shares as a trustee; or
 - (c) Where the subsidiary company is a shareholder even before it became a subsidiary company of the holding company but in this case it will not have a right to vote in the meeting of holding company.
- In the given case one of the shareholders of holding company has transferred his shares in the holding company to a trust where the shares will be held by subsidiary company. It means now subsidiary will hold shares in the holding company. But it will hold shares in the capacity of a trustee.
- Therefore, we can conclude that in the given situation S can hold shares in H.
- } {2^{1/2} M}
- } {1^{1/2} M}
- } {1 M}

MITTAL COMMERCE CLASSES INTERMEDIATE – MOCK TEST

Answer:

- (b) Problem asked in the question is based on the provisions of the Indian Contract Act, 1872 as contained in Section 150. The section provides that if the goods are bailed for **hire**, the bailor is responsible for such damage, whether he was or was not aware of the existence of such faults in the goods bailed. } {3 M}
- Accordingly, applying the above provisions in the given case B is responsible to compensate A for the injuries sustained even if he was not aware of the defect in the carriage. } {2 M}

Answer:

- (c) Appointment of Trustee for Depositors: Following provisions are required to be observed in this respect:
- One or more trustees for depositors need to be appointed by the company for creating security for the deposits.
 - A written consent shall be obtained from the trustee before their appointment.
 - A statement shall appear in the circular or advertisement with reasonable prominence to the effect that the trustees for depositors have given their consent to the company for such appointment.
 - The company shall execute a deposit trust deed in Form DPT-2 at least seven days before issuing the circular or circular in the form of advertisement.
 - No person including a company that is in the business of providing trusteeship services shall be appointed as a trustee for the depositors, if the proposed trustee:
 - (a) is a director, key managerial personnel or any other officer or an employee of the company or of its holding, subsidiary or associate company or a depositor in the company;
 - (b) is indebted to the company, or its subsidiary or its holding or associate company or a subsidiary of such holding company;
 - (c) has any material pecuniary relationship with the company;
 - (d) has entered into any guarantee arrangement in respect of principal debts secured by the deposits or interest thereon;
 - (e) is related to any person specified in clause (a) above.
 - No trustee for depositors shall be removed from office after the issue of circular or advertisement and before the expiry of his term except with the consent of all the directors present at a meeting of the board. In case the company is required to have independent directors, at least one independent director shall be present in such meeting of the Board.

Answer 3:

- (a) (i) The appointment and re-appointment of auditor of a Government Company or a government controlled company is governed by the provisions of section 139 of the Companies Act, 2013 which are summarized as under:
The first auditor shall be appointed by the Comptroller and Auditor General of India within 60 days from the date of incorporation and in case of failure to do so, the Board shall appoint auditor within next 30 days and on failure to do so by Board of Directors, it shall inform the members, who shall appoint the auditor within 60 days at an extraordinary general meeting (EGM), such auditor shall hold office till conclusion of first Annual General Meeting. } {2 M}

MITTAL COMMERCE CLASSES INTERMEDIATE – MOCK TEST

- In case of subsequent auditor for existing government companies, the Comptroller & Auditor General of India shall appoint the auditor within a period of 180 days from the commencement of the financial year and the auditor so appointed shall hold his position till the conclusion of the Annual General Meeting. {1 M}
- (ii) The situation as stated in the question relates to the creation of a casual vacancy in the office of an auditor due to resignation of the auditor before the AGM in case of a company other government company. Under section 139 (8)(i) any casual vacancy in the office of an auditor arising as a result of his resignation, such vacancy can be filled by the Board of Directors within thirty days thereof and in addition the appointment of the new auditor shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting. {2 M}

Answer:

- (b) Preamble: The Preamble expresses the scope, object and purpose of the Act more comprehensively than the Long Title. The Preamble may recite the ground and the cause making a statute and the evil which is sought to be remedied by it. Like the Long Title, the Preamble of a Statute is a part of the enactment and can legitimately be used for construing it. However, the Preamble does not over-ride the plain provision of the Act but if the wording of the statute gives rise to doubts as to its proper construction, e.g., where the words or phrase has more than one meaning and a doubt arises as to which of the two meanings is intended in the Act, the Preamble can and ought to be referred to in order to arrive at the proper construction. {2^{1/2} M}
- In short, the Preamble to an Act discloses the primary intention of the legislature but can only be brought in as an aid to construction if the language of the statute is not clear. However, it cannot override the provisions of the enactment.
- Proviso: The normal function of a proviso is to except something out of the enactment or to qualify something stated in the enactment which would be within its purview if the proviso were not there. The effect of the proviso is to qualify the preceding enactment which is expressed in terms which are too general. As a general rule, a proviso is added to an enactment to qualify or create an exception to what is in the enactment: ordinarily a proviso is not interpreted as stating a general rule. {2^{1/2} M}
- It is a cardinal rule of interpretation that a proviso to a particular provision of a statute only embraces the field which is covered by the main provision. It carves out an exception to the main provision to which it has been enacted as a proviso and to no other. (Ram Narain Sons Ltd. vs. Assistant Commissioner of Sales Tax, AIR 1955 SC 765).

Answer:

- (c) "Immovable Property" [Section 3(26) of the General Clauses Act, 1897]: 'Immovable Property' shall include: {2 M}
- (i) Land
 - (ii) Benefits to arise out of land, and
 - (iii) Things attached to the earth, or
 - (iv) Permanently fastened to anything attached to the earth.
- It is an inclusive definition. It contains four elements: land, benefits to arise out of land, things attached to the earth and things permanently fastened to anything attached to the earth. Where, in any enactment, the definition of immovable property is in the negative and not exhaustive, the definition as given in the General Clauses Act will apply to the expression given in that enactment.

MITTAL COMMERCE CLASSES INTERMEDIATE – MOCK TEST

In the instant case, X sold Land along with timber (obtained after cutting trees) of fifty tamarind trees of his land. According to the above definition, Land is immovable property; however, timber cannot be immovable property since the same are not attached to the earth. {2 M}

Answer 4:

- (a) Section 68(2) of the Companies Act, 2013 deals with the Conditions required for buy-back of shares. As per the Act, the company shall not purchase its own shares or other specified securities unless-
- (a) The buy-back is authorized by its articles;
 - (b) A special resolution has been passed at a general meeting of the company authorizing the buy-back: except where—
 - (1) the buy-back is, ten per cent or less of the total paid-up equity capital and free reserves of the company; and
 - (2) such buy-back has been authorised by the Board by means of a resolution passed at its meeting;
- Time limit for Completion of Buy Back: As per section 68(4), every buy-back shall be completed within a period of one year from the date of passing of the special resolution, or as the case may be, the resolution passed by the Board under sub-section (2). {2 M}
- Ratio of aggregate debts: Provision also specifies that ratio of the aggregate debts (secured and unsecured) owed by the company after buy back is not more than twice the paid up capital and its free reserves. However, Central Government may prescribe higher ratio of the debt for a class or classes of companies.
- As per the stated facts, Xgen Ltd. has a paid up equity capital and free reserves to the extent of Rs. 50,00,000. The company planned to buy back shares to the extent of Rs. 4,50,000.
- Referring to the above provisions, the answers will be as follows:
- 1. No, special resolution will not be required as the buyback is less than 10% of the total paid-up equity capital and free reserves ($50,00,000 \times 10 / 100 = 5,00,000$) of the company, but such buy back must be authorized by the Board by means of a resolution passed at its meeting. {1 M}
 - 2. Time limit for completion of buy back will be- within a period of one year from the date of passing of the resolution by the Board. {1 M}
 - 3. The ratio of the aggregate debts (secured and unsecured) owed by the company after buy back should not be more than twice the paid up capital and its free reserves. {1 M}
- The above buy-back is possible when backed by the authorization by the articles of the company.

Answer:

- (b) The paying banker is discharged from liability, despite the forged Indorsement in favour of the payee, because of special protection granted by section 85(1) of the Negotiable Instruments Act, 1881. {3 M}
- In another instance, where the drawer's signature is forged, a banker remains liable to the drawer even by a payment in due course and cannot debit the drawer's account. {2 M}

MITTAL COMMERCE CLASSES INTERMEDIATE – MOCK TEST

Answer:

- (c) Transfer to reserves (Section 123 of the Companies Act, 2013): A company may, before the declaration of any dividend in any financial year, transfer such percentage of its profits for that financial year as it may consider appropriate to the reserves of the company. Therefore, the company may transfer such percentage of profit to reserves before declaration of dividend as it may consider necessary. Such transfer is not mandatory and the percentage to be transferred to reserves is at the discretion of the company. {2 M}
- As per the given facts, YZ Limited has earned a profit of Rs. 910 crores for the financial year 2017-18. It has proposed a dividend @ 10%. However, it does not intend to transfer any amount to the reserves of the company out of current year profit. {1 M}
- As per the provisions stated above, the amount to be transferred to reserves out of profits for a financial year is at the discretion of the YZ Ltd. acting vide its Board of Directors. {1 M}

Answer 5:

- (a) Restrictions on purchase by company or giving of loans by it for purchase of its share: As per section 67 (3) of the Companies Act, 2013 a company is allowed to give a loan to its employees subject to the following limitations: {3 M}
- (a) The employee must not be a Key Managerial Personnel;
 - (b) The amount of such loan shall not exceed an amount equal to six months' salary of the employee.
 - (c) The shares to be subscribed must be fully paid shares.
- Section 2 (51) of the Companies Act, 2013 defines the "Key Managerial Personnel" (KMP) whereby a KMP includes the Chief Executive, Company Secretary, Whole Time Director, Chief Financial Officer or any other officer who may be prescribed. In the given instance, HR Manager is not a KMP of the MNO Private Ltd. He is drawing salary of Rs. 30,000 per month and loan taken to buy 500 partly paid up equity shares of Rs. 1000 each in MNO Private Ltd.
- Keeping the above provisions of law in mind, the company's (MNO Private Ltd.) decision is invalid due to two reasons: {2 M}
- i. The amount of loan being more than 6 months' salary of the HR Manager, which should have restricted the loan to Rs. 1.8 Lakhs.
 - ii. The shares subscribed are partly paid shares whereas the benefit is available only for subscribing fully paid shares.

Answer:

- (b) If the creditor makes any variance (i.e. change in terms) without the consent of the surety, then surety is discharged as to the transactions subsequent to the change. {2^{1/2} M}
- In the instant case Y is liable as a surety for the loss suffered by the bank due to misappropriation of cash by X during the first nine months but not for misappropriations committed after the reduction in salary. [Section 133, Indian Contract Act, 1872]. {2^{1/2} M}

Answer:

- (c) Issue of bonus shares [Section 63]: As per Section 63 of the Companies Act, 2013, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of— {2 M}
- (i) its free reserves;
 - (ii) the securities premium account; or
 - (iii) the capital redemption reserve account:
- Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

MITTAL COMMERCE CLASSES INTERMEDIATE – MOCK TEST

As per the given facts, ABC Ltd. has total eligible amount of Rs. 12 lakhs (i.e. 5.00+3.00+4.00) out of which bonus shares can be issued and the total share capital is Rs. 30.00 lakhs. Accordingly:

- (i) For issue of 1:3 bonus shares, there will be a requirement of Rs. 10 lakhs (i.e., $\frac{1}{3} \times 30.00$ lakh) which is well within the limit of available amount of Rs. 12 lakhs. So, ABC Limited can go ahead with the bonus issue in the ratio of 1:3. **{1 M}**
- (ii) In case ABC Limited intends to issue bonus shares in the ratio of 1:2, there will be a requirement of Rs. 15 lakhs (i.e., $\frac{1}{2} \times 30.00$ lakh). Here in this case, the company cannot go ahead with the issue of bonus shares in the ratio of 1:2, since the requirement of Rs. 15 Lakhs is exceeding the available eligible amount of Rs. 12 lakhs. **{1 M}**

Answer 6:

- (a)** Under Section 114(2) of the Companies Act, 2013, for a valid special resolution to be passed at a meeting of members of a company, the following conditions need to be satisfied:
- (i) The intention to propose the resolution, as a special resolution must have been specified in the notice calling the general meeting or other intimation given to the members;
- (ii) The notice required under the Companies Act must have been duly given of the general meeting;
- (iii) The votes cast in favour of the resolution (whether by show of hands or electronically or on a poll, as the case may be) by members present in person or by proxy or by postal ballot are not less than 3 times the number of votes, if any, cast against the resolution by members so entitled and voting.
- Thus, in terms of the requisite majority, votes cast in favour have to be compared with votes cast against the resolution. Abstentions or invalid votes, if any, are not to be taken into account. **{1^{1/2} M}**
- Accordingly, in the given problem, the votes cast in favour (20) being more than 3 times of the votes cast against (5), and presuming other conditions of Section 114(2) are satisfied, the decision of the Chairman is in order. **{1 M}**

Answer:

- (b)** "Making of rules or bye-laws and issuing of orders between passing and commencement of enactment" [Section 22]: Where, by any Central Act or Regulation which is not to come into force immediately, on the passing thereof, a power is conferred to make rules or bye-laws, or to issue orders with respect to the application of the Act or Regulation or with respect to the establishment of any Court or the appointment of any Judge or officer thereunder, or with respect to the person by whom, or the time when, or the place where, or the manner in which, or the fees for which, anything is to be done under the Act or Regulation, then that power may be exercised at any time after passing of the Act or Regulation; But rules, bye-laws or orders so made or issued shall not take effect till the commencement of the Act or Regulation. **{3 M}**
- {2 M}**

Answer:

- (c)** Section 134(3)(c) of the Companies Act, 2013 provides that there shall be attached to statements laid before a company in general meeting, a report by its Board of Directors, which shall include a number of statements as prescribed in the sub section including Directors' Responsibility Statement.
- Further section 134(5) states that the Directors Responsibility Statement shall state that:

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- (i) In the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures; } {1 M}
- (ii) The directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit or loss of the company for that period; } {1 M}
- (iii) The directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities; } {1/2 M}
- (iv) That the directors had prepared the annual accounts on a going concern basis; and } {1/2 M}
- (v) The directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that such internal financial controls are adequate and were operating effectively; and } {1/2 M}
- (vi) The directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively. } {1/2 M}

Answer 7:

- (a) The Companies Act, 2013 by virtue of provisions as contained in Section 39 (1) and (2) regulates and restricts the minimum subscription and the application money payable in a public issue of shares as under:
- Minimum subscription [Section 39 (1)]
- No Allotment shall be made of any securities of a company offered to the public for subscription; unless; -
- (i) the amount stated in the prospectus as the minimum amount has been subscribed; and
- (ii) the sums payable on application for such amount has been paid to and received by the company-
- Application money: Section 39 (2) provides that the amount payable on application on each security shall not be less than 5% of the nominal amount of such security or such amount as SEBI may prescribe by making any regulations in this behalf.
- Further section 39 (3) provides that if the stated minimum amount is not received by the company within 30 days of the date of issue of the prospectus or such time as prescribed by SEBI, the company will be required to refund the application money received within such time and manner as may be prescribed.
- In case of any default under sub-section, the company and its officer who is in default shall be liable to a penalty, for each default, of one thousand rupees for each day during which such default continues or one lakh rupees, whichever is less.
- Section 40 (3) provides that all moneys received on application from the public for subscription to the securities shall be kept in a separate bank account maintained with a scheduled bank.

Answer:

- (b) According to the provisions of Section 184 of the Indian act Act, 1872, as between the principal and a third person, any person, even a minor may become an agent. But no person who is not of the age of majority and of sound mind can become an agent, so as to be responsible to his principal. } {2^{1/2} M}

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Thus, if a person who is not competent to act is appointed as an agent, the principal is liable to the third party for the acts of the agent. Thus, in the given case, D gets a good title to the watch. } {1^{1/2} M}

M is not liable to A for his negligence in the performance of his duties. } {1 M}

Answer:

- (c) For the sake of avoiding confusion and mixing up, the resolutions are generally moved separately in the annual general meeting. However, there is nothing illegal if the Chairman of the meeting desires that two or more resolutions should be moved together, unless any member requires that each resolution should be put to vote separately or unless a poll is demanded in respect of any business. } {2 M}
- Where notice has been given of several resolutions, each resolution must be put separately. However, if the meeting unanimously adopts all the resolutions, then it would not be illegal.
- One resolution which should be moved separately is relating to appointment of directors at a general meeting of a public or private company, where two or more directors cannot be appointed as directors by a single resolution. } {2 M}
- Hence, in the instant case, all the nine businesses cannot be moved together as two businesses were regarding appointment of Mr. Sahu and Mr. Pranav as directors. Besides these two resolutions, other seven resolutions can be moved together if the members unanimously agree.

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