

# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Intermediate Examinations Spring 2007

March 5, 2007



## COMPANY LAW

(Marks 100)

### Module D

(3 hours)

- Q.1 (a) A newly incorporated company has received a bill from a corporate lawyer for services relating to company's incorporation. The lawyer was hired by the promoters who have refused to make the payment.

Explain whether the company is liable to pay this amount.

(03)

- (b) Articles of association of JS Cement Limited, a listed company, includes a clause according to which, one member is prohibited from casting his vote in general meeting.

Comment on the legality of the above clause.

(02)

- (c) Under what conditions, the Companies Ordinance 1984 would override the memorandum of association of the company?

(02)

- Q.2 Rajab Limited operates an approved employees' provident fund. The employer and employees contribute 8.33% of the basic salary every month.

The annual accounts of the company for the year ended December 31, 2006, presented in the board meeting revealed that an amount of Rs. 3.5 million is payable to the fund by the company. It has been classified as a long term loan payable in installments up to December 31, 2010 at an interest of 15% per annum. This loan was obtained for the purpose of the company's business only. The company has paid the first installment due on December 31, 2006.

You are required to:

- (a) Discuss the provisions of the Companies Ordinance, 1984 regarding collection and deposit of contributions relating to the provident fund; and

(07)

- (b) Explain whether the loan obtained by Rajab Limited is in compliance with the requirements of the Companies Ordinance, 1984.

(02)

- Q.3 (a) Muharram Limited, a listed company, has found out that one of its directors does not meet the eligibility criteria provided in the Companies Ordinance, 1984. The said director has already attended three meetings of the Board of Directors.

Describe the impact of the above on the resolutions passed by the Board. Also explain whether the concerned director can attend future meetings of the Board.

(03)

- (b) The election of directors of Ramadan Limited, a listed company, is due in March 2007. The directors of the company have decided that liability of one of the directors, to be appointed in March 2007, will be unlimited.

Briefly describe the additional steps which the company is required to follow, with regards to appointment of a director with unlimited liability.

(03)

- (c) The Board of directors of RS Limited wants to appoint Mr. Salahuddin, an employee of the company, as Chief Executive of the company. You are required to explain the following:
- (i) The minimum number of shares required to be acquired by Mr. Salahuddin.
  - (ii) The tenure of office for which Mr. Salahuddin may be appointed.
  - (iii) Will it be necessary to obtain members' approval of the terms and conditions being offered to him? (06)
- (d) The directors or promoters are responsible for any untrue statement contained in a prospectus. What are the grounds on the basis of which directors or promoters can escape such liability? (06)

- Q.4 (a) Safar Textile Limited was incorporated in December 2006. In February 2007, the company offered its shares to the general public. The offer has been fully subscribed.

Explain the requirements of the Companies Ordinance, 1984 in respect of moneys received from share subscriptions and when the company would be able to utilize the subscription money. (05)

- (b) The board of directors of Shaban (Pvt.) Limited have approved a major expansion program for which they are planning to raise Rs 35 million from the general public. The current authorized and paid up capital of the company is Rs. 100 million and Rs. 65 million respectively.

Advise the company about the changes required to be incorporated in the memorandum and articles of association, to make the company eligible for raising capital from the public. (05)

- (c) RA Limited is a public limited company. It has two **classes** of shares namely 'A' and 'B'. The directors of the company have decided to restrict the voting rights of Class 'A' shareholders. In lieu thereof, they shall be allowed to get preference in payment of dividend.

State the procedures through which the decision of directors can be put into effect. (03)

- (d) Zilhaj Limited has been incurring losses since last many years. The directors have now decided to restructure the company's business. As part of the financial restructuring, one of the suggestion is to reduce the capital of the company which is not represented by available assets.

State the procedures that the company has to follow for reduction of capital, under the Companies Ordinance, 1984. (07)

- Q.5 (a) The shareholders of Ramadan Limited holding 20% of the voting power submitted a requisition to hold an extraordinary general meeting (EOGM) to remove the auditor of the company. The company neither called the EOGM nor allowed them to hold the meeting at the company's registered office. The said meeting was then held at some other place and resolution for removal of the auditor was passed.

Discuss the validity of the said meeting and resolution passed therein. (05)

- (b) (i) List down the type of companies who are not required to hold the statutory meeting. (02)
- (ii) State the provisions of the Companies Ordinance, 1984 regarding adjournment of statutory meeting. (02)

- Q.6 (a) The audited financial statements of Shawwal Limited for the year ended December 31, 2006 have been approved at the recently convened AGM. Now the directors have decided to change the company's financial year to June 30. They are evaluating the option of preparing 6 monthly accounts up to 30 June 2007 or accounts covering a period of 18 months i.e. up to June 30, 2008.

Discuss both the above options and quote the relevant legal provisions in each case. (05)

- (b) Discuss the provisions of the Companies Ordinance, 1984 related to quarterly accounts of listed companies. (03)
- (c) Explain the relevant provisions relating to authentication of financial statements of a listed company in the absence of its chief executive. (05)

- Q.7 (a) In the context of mortgages and charges, what do you understand by the following terms enumerated in the Companies Ordinance, 1984?

- (i) modification of charge (02)
- (ii) satisfaction of charge (02)

- (b) An association, partnership, etc. consisting of more than twenty members and formed for the purpose of acquisition of gain is considered illegal, provided the same is registered under the Companies Ordinance, 1984.

What are the exceptions to the above rule? (06)

- Q.8 (a) State the provisions of the Companies Ordinance, 1984 with respect to annual return required to be filed by a company. (08)

- (b) JA Sugar Mills Limited, an unlisted public company, has seven directors who are all members of the company. One of the directors, Mr. Nooruddin, plans to sell his shares in the company.

You are required to explain whether the following are correct:

- He will cease to be the director of the company on the date he sells all the shares;
- The company may appoint another person in his place for the next three years;
- The company may continue to run the business with six directors till the next annual general meeting. (06)

**(THE END)**