

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN

Intermediate Examinations Autumn 2008

September 3, 2008

COMPANY LAW Module D

(MARKS 100)
(3 hours)

- Q.1 The annual general meeting of Iqra Industries Limited (IQL) a listed company, is to be held on October 25, 2008. In addition to the normal businesses, the company is planning to discuss a strategic business plan for the approval of the share holders. Explain the requirements of Companies Ordinance, 1984 as regards the circulation of information/documents to various stake holders, prior to the above meeting. (11)
- Q.2 (a) The board of directors of Dinar Ltd, a listed company, had recommended a final dividend @ 100% for the year ended June 30, 2008. Just a week after the notice for AGM had been dispatched, the company suffered huge losses due to certain unanticipated events and incurred heavy liabilities. The company is now considering the following options:
- (i) Reducing the dividend to 25%.
 - (ii) Deferring the payment of 75% of the dividend, for six months.
- Explain whether the company can exercise the above options, under the Companies Ordinance, 1984. (04)
- (b) List the type of mortgages and charges which must be registered under the Companies Ordinance, 1984. What will be the consequence of non registration? (06)
- Q.3 On April 30, 2008 the Board of Directors of MIL informed the CFO that it wishes to change the auditors of the company. The interim audit for the year ended June 30, 2008 is due to commence shortly.
- As the CFO of the company, advise the Board about the provisions contained in the Companies Ordinance, 1984 as regards:
- (a) change of auditors prior to the completion of their term. (02)
 - (b) restrictions imposed on the appointment of certain persons as auditors of the company. (06)
- Q.4 Green Leaf Limited, a listed company, has sent a notice of the forth coming Annual General Meeting, to the Company Secretary of Red Rose Limited which is also a listed company. Red Rose Limited has recently acquired 100,000 shares in Green Leaf Limited and you are required to advise its directors about the following, in the light of Companies Ordinance, 1984:
- (a) Who can represent Red Rose Limited in the annual general meeting of Green Leaf Limited? (03)
 - (b) What are the essential characteristics of an instrument of proxy to be submitted to Green Leaf Limited and what is the deadline for its submission? (04)

- Q.5 (a) Peach Panther Ltd (PPL) is planning to call an Extra Ordinary General Meeting (EOGM) to transact certain businesses due to an emergency faced by the company. You are required to answer the following:
- (i) Which meetings are called EOGM?
 - (ii) What is the minimum notice period for calling an EOGM? Can PPL hold such meeting on a shorter notice? (05)
- (b) Explain the term “special business” with reference to the Companies Ordinance, 1984. Give at least two examples. (06)
- Q.6 Shalimar Cement Limited is a listed company. Its customers mainly include dealers residing in various cities of the country. The company wants to introduce certain changes in the agreements with its dealers and other customers. Accordingly, the dealers will be required to keep a security deposit with the company. Other customers will have to pay an advance of 50%, 60 days before the cement is delivered.
- Briefly describe the provisions contained in the Companies Ordinance, 1984 pertaining to the above issues. (05)
- Q.7 Any association, partnership or company consisting of more than twenty persons, can not be formed for the purpose of carrying on any business for acquisition of gain unless it is registered as a company under the Companies Ordinance, 1984.
- You are required to list down the exceptions to the above rule. (07)
- Q.8 (a) A foreign company is in the process of selecting a name for its subsidiary which is being incorporated as a limited liability company in Pakistan. You are required to inform them about the prohibitions of certain names, under the Companies Ordinance, 1984. (03)
- (b) Specify the competent authorities who shall be required to grant their approval in the following situations:
- (i) Conversion of public limited company into private limited company.
 - (ii) Variation in the terms of a contract mentioned in the prospectus of the company.
 - (iii) Alteration of memorandum of association.
 - (iv) Change of name by a company.
 - (v) Investment in associated companies. (05)
- Q.9 Sunshine Oils Limited issued 50 million shares of Rs. 10/- each on March 20, 2007 and commenced its business on June 12, 2007. On April 7, 2008, the Board of Directors decided to issue further shares at a discount of Rs. 3/- per share.
- You are required to list the conditions specified under the Companies Ordinance, 1984 for the issuance of shares at discount. (09)
- Q.10 (a) Under what conditions can a listed company alter its memorandum of association in order to allow the cancellation of its shares? Would such cancellation be considered as reduction of share capital of the company? (05)
- (b) Narrate the provisions contained in the Companies Ordinance, 1984 as regards the reduction of share capital of a company limited by shares. (08)

(3)

Q.11 (a) Blue Berry Limited a public unlisted company has two business segments X & Y. A meeting of the Board of Directors of the company is planned to be held in the first week of the third quarter and the following issues are on the agenda:

- (i) A prospective buyer has made a very attractive offer for segment Y and there is a proposal from one of the directors that the offer may be accepted.
- (ii) New machinery with advanced technology has been introduced and there is a need to acquire it for the business. However, the new machinery is very costly and the finance department has informed that the old machinery will have to be sold at an amount which is considerably less than its book value.
- (iii) After physical stock taking, the internal audit department has recommended that there is a need to write off 30% of slow moving spare parts and loose tools. However, according to the technical department the spare parts are in good condition and there is no need for write off.

In the light of the provisions of the Companies Ordinance 1984, explain how the directors can take decision in respect of the above issues. (06)

(b) Khan (Pvt) Limited has eight shareholders each of whom is a director of the company. Their shareholding is as under:

- A & B hold 25% shares each.
- C, D, E & F hold 10% shares each.
- G & H hold 5% shares each.

A, B, C, D and E are not satisfied with the performance of the CEO of the company and want to remove him before the expiry of his term of office. A board meeting was called for this purpose. It was attended by the aggrieved directors only, who passed a resolution for removal of the CEO.

In the light of the relevant provisions of the Companies Ordinance, 1984, you are required to:

- (i) Explain whether the CEO can be removed in the manner as described above?
- (ii) Propose any other way to remove the CEO if F, G & H do not want to remove him. (05)

(THE END)