

II – INTERNAL QUESTION PAPER ANSWER KEY

PART-A

1. Memorandum of association
2. Certificate of Incorporation
3. No limit
4. Company Act
5. Articles of Association
6. Ordinary resolution
7. directors
8. Special Resolution
9. Limited Liability
10. Freely transferable
11. Articles of Association
12. Ordinary resolution
13. 50 Lakhs
14. Public Co.
15. freely transferable
16. Government company
17. 3
18. Managed by directors
19. Lieu of prospects
20. Articles

PART-B

21. The articles of association are a document, which contains the bye-laws or the rules and regulations for the internal management of a company

22. It informs the company about the formation of a new company.

It serves as a written evidence about the terms and conditions of issue of shares or debentures of a company.

23. A prospect is an organization or potential client who resembles the seller's ideal customer profile but has not yet expressed interest in their products or services.

PART-C

24.(A) Notice of Board Meeting:

Holding of Board Meeting:

Filing of MGT-14:

Issue of Offer Letter:

Tendering Period:

Right of Renunciation:

Decline of Offer:

Receipt of Funds:

Issue of Notice of Board Meeting and Convening of Board Meeting:

Allotment in case of Foreign Shareholder:

Filing of Return of Allotment:

Issue of Share Certificate:

(B) Clauses in Memorandum of Association

- ❖ Name clause
- ❖ Situation clause
- ❖ Object clause
- ❖ Liability clause
- ❖ Capital clause
- ❖ Association clause

25.(a) Where the directors have no authority under the company's Articles of Association to make an allotment, the allotment would be irregular and may be ratified by the company. But it would be void where the company itself has no power to make an allotment. At common law any subscription money was returnable to the allottee. [Waverly Hydropathic Co. v. Barrowman, 1895 23 R. 136]. Allotment of shares to a charitable Institution by way of donation If there is no payment in monies worth for the shares; the allotment would be ultra vires. In case of allotment for consideration, other than cash, there is a requirement for companies to disclose in the return of allotment the number of shares allotted by it for consideration otherwise than in cash. Allotment of shares by the company as fully paid up shares to charitable trust by way of donation shall not be valid.

(b) Distinction Between Memorandum and Articles of Association:-

1. The Memorandum is the charter of the company setting out its constitution. It lays down the conditions of incorporation and defines the limits and powers of the company. Articles on the other hand, contain the bye-laws of the company for the conduct of its internal administration. They define the rights and duties of the directors, members, etc,
2. The Memorandum states the objects for which the company is established, whereas the Articles state the rules or manner of carrying out the business as stated in the Memorandum. They cannot provide anything contrary to the powers and objects set forth in the Memorandum.
3. A company cannot be incorporated without preparation and filing of the Memorandum with the Registrar, whereas the preparation of article is not compulsory. If the articles are not prepared by any company, Table 'A' of the Companies Act is applied.
4. The Memorandum governs the external relations of the company i.e., relations between the company and the public including creditors, buyers, sellers, debtors, etc.; outsiders dealing with the company know what its permitted range of business is. The articles, on the other hand, define the relationship between the

- members and the management of the company. Their main concern is to provide rules and regulations for the internal working of the company.
5. The Memorandum is a primary and fundamental document. It is the foundation of the company's structure and is responsible for the company's birth. It is unchallenged on statutory matters. Articles of association are a secondary, subordinate and subsidiary document. They should be read and understood in the light of the memorandum. They complement and supplement the memorandum.
 6. The Memorandum lays down the scope or area of the company beyond which the company cannot go. All acts of the company which are beyond its scope are ultra vires or illegal and they cannot be ratified by the company.

As Articles are subordinate to Memorandum, their activities should be confined to the area of scope of the Memorandum. However, all acts which are ultra vires the articles(beyond the scope of articles), but intra virus (within) the Memorandum are not void and can be ratified by the company by a special resolution.

26.(a) When any prospectus is issued by the company, then it is basically to invite people to purchase their share. Now, it is the duty of the company to see that the statements mentioned in the prospectus are of true nature. As, prospectus is a soul of the company, it is the duty of the co. to prepare such prospectus with complete due care. Also, when any prospectus is made the co. is bound to mention every detail regarding the co. in its prospectus. Omission of single fact also may mislead the investors. Preparing a prospectus is of a great responsibility. Thus, the company, director or a promoter is liable if any of the statement mentioned in the prospectus is of untrue nature.

(b) 1. Permission for listing should have been provided for in the Memorandum of Association and Articles of Association.

2. The company should have issued for public subscription at least the minimum prescribed percentage of its share capital (49 percent).

3. The prospectus should contain necessary information with regard to the opening of subscription list, receipt of share application etc.

4. Allotment of shares should be done in a fair and reasonable manner. In case of over subscription, the basis of allotment should be decided by the company in consultation with the recognized stock exchange where the shares are proposed to be listed.

5. The company must enter into a listing agreement with the stock exchange. The listing agreement contains the terms and conditions of listing. It also contains the disclosures that have to be made by the company on a continuous basis.

PROGRAM OUTCOME

Company Law gives the fundamental knowledge and exposure of the Company's Act. This paper impart the knowledge on procedure for formation of companies and board of directors, their qualification and disqualification , writing of minutes and agenda and qualities of company secretary.

PROGRAM LEARNING OUTCOME

The objective of the course is to impart basic knowledge of the provisions of the Companies Act 2013. Case studies involving issues in company law are required to be discussed.

Unit I

Introduction: Administration of Company Law 2013 - National Company Law Appellate Tribunal (NCLAT), Special Courts- Characteristics of a Company- Lifting of Corporate Veil - Types of Companies Including One-Person Company, Small Company and Dormant Company - Association not for Profit- Illegal Association- Formation of Company- On-line Filing of Documents- Promoters- Legal Position, Pre-Incorporation Contract - On-line Registration of a Company.

Unit II

Documents : Memorandum of Association - Articles of Association- Doctrine of Constructive Notice and Indoor Management - Prospectus-shelf and Red Herring Prospectus- Misstatement in Prospectus- GDR- Book Building- Issue, Allotment and Forfeiture of Share- Transmission of Shares, Buyback and Provisions Regarding Buyback- Issue of Bonus Shares.

Unit III

Management: Classification of Directors -Women Directors- Independent Director- Small Shareholder's Director- Disqualifications- Director Identity Number (DIN)- Appointment- Legal Positions - Powers and Duties - Removal of Directors- Managing Director, Manager; Meetings of Shareholders and Board- Types of Meeting, Convening and Conduct of Meetings, Postal Ballot, Meeting Through Video Conferencing - e-Voting - Committees of Board of Directors - Audit Committee - Nomination and Remuneration Committee - Stakeholders Relationship Committee - Corporate Social Responsibility Committee.

Unit IV

Dividends, Accounts, Audit– Provisions Relating to Payment of Dividend - Provisions Relating to Books of Account- Provisions Relating to Audit - Auditors' Appointment- Rotation of Auditors - Auditors' Report- Secretarial Audit.

Unit V

Winding Up - Concept and Modes of Winding Up - Insider Trading - Whistle Blowing – Insider-Trading - Meaning and Legal Provisions- Whistle blowing- Concept and Mechanism.

Suggested Readings

Text Book:

1. MC Kuchhal, (2014), *Modern Indian Company Law*, Shri Mahaveer Book Depot (Publishers), Delhi.

Reference Books:

1. GK Kapoor & Sanjay Dhamija, *Company Law*, Delhi. Bharat Law House.
2. Anil Kumar, *Corporate Laws*, Delhi, Indian Book House.
3. Reena Chadha & Sumant Chadha, *Corporate Laws*, Delhi. Scholar Tech Press.
4. Gower and Davies, *Principles of Modern Company Law*, Sweet & Maxwell.
5. Sharma, J.P., *An Easy Approach to Corporate Laws*, Ane Books Pvt. Ltd., New Delhi.

Register No.....
[16CMU301]

KARPAGAM UNIVERSITY
(Established Under Section 3 of UGC Act 1956)
COIMBATORE-21
FIRST INTERNAL EXAMINATION-JULY 2017
(For the candidate admitted 2016 onwards)

II. B.COM
Third Semester
COMPANY LAW

Time: 2 Hours

Maximum: 50 marks

PART-A (20*1=20 Marks)

Answer All the Questions

1. The companies Act _____.
a) 1956 b)1946 c)1876 d)1865
2. A private limited company the number of members limited to _____.
a)45 b)60 c)75 d)50
3. The Indian partnership Act _____
a) 1963 b)1956 c)1932 d)1945
- 4.The minimum member of persons required to form a public company is _____.
a) 10 b)20 c)7 d)8
- 5.The minimum member of persons required to form a private company is _____.
a) 15 b) 2 c)3 d)4
6. Registered companies are the companies which are incorporated _____
a) By a royal charter b) By a special act of parliament
c) Under the companies act d) Under the partnership act
7. A company is known as the _____ of another company if it has control over that other

company.

- a) Subsidiary company b) Holding company c) Public company d) Private company

8. A company is known as the _____ of another company when control is exercised by the latter over the former.

- a) Subsidiary company b) Holding company c) Public company d) Private company

9. _____ means any company in which at least 51 percent of the paid up share capital is held by the central government.

- a) Government company b) Holding company c) Public company d) Private company

10. A _____ is any company incorporated outside India but which has a place of business in India.

- a) Foreign company b) Government company c) Holding company d) Public company

11. The term company is defined under which sec of the Act?

- a) Sec 3 (1) b) Sec 4 (2) c) Sec 2 (4) d) Sec 1 (3)

12. Property of the company belongs to

- a) Company b) Share holders c) Members d) Promoters

13. Which company shares can be freely transferable?

- a) Private Company b) Public Company c) Both (a) & (b) d) holding company

14. How many months did the company can continue its business u/s 45 _____

- a) 1 b) 2 c) 5 d) 6

15. Liability of a member in case of a private company is

- a) Limited b) Unlimited c) Both (a) & (b) d) limited gurantee

16. Maximum no. of persons in case of partnership banking business _____

- a) 10 b) 20 c) 30 d) 5

17. Minimum paid up share capital in case of a private company is _____

- a) 1 Lakh b) 2 Lakhs c) 3 Lakhs d) 4 Lakhs

18. Minimum paid up share capital in case of a public company is _____
a) 1 Lakh b)3 Lakhs c)5 Lakhs d)7 Lakhs
19. Minimum no. of Directors in case of a public company is _____
a)1 b)2 c)3 d)4
20. Minimum no. of Directors in case of private company is _____
a)1 b)2 c)3 d)4

PART-B (3*2=6 Marks)

Answer All the Questions

21. Define Company.
22. What are private companies?
23. Who are promoters?

PART-C (3*8=24 Marks)

Answer All the Questions

- 24.a) Distinguish between Public company and Private company

(Or)

- b) Discuss the various stages of formation a company.

- 25.a) Enumerate the classification of companies.

(Or)

- b) Explain the characteristics of a company.

- 26.a) Discuss the various functions of promoter.

(Or)

- b) List out the contents of Articles of Association.



Karpagam Academy of Higher Education
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Coimbatore - 641 021.

DEPARTMENT OF COMMERCE

II B.COM

COMPANY LAW

Subject Code : 16CCU301

Academic Year : 2017 -

2018

Class : II B.Com

Semester : III

LECTURE PLAN -UNIT-1

S. No.	LECTURE DURATION (Periods)	TOPICS TO BE COVERED	SUPPORT MATERIALS
1	1	Company and Difference Between company, Partnership	W1
2	1	Administration of company law	W1
3	1	NCLT and NCLAT, special court	W1
4	1	Impact of NCLT and NCLAT, special court	W1
5	1	Company - Definition and characteristics	T.P.1
6	1	Kinds of companies ➤ Charter company, statutory company	T.P.3
7	1	Private company and Public Ltd companies	T.P.3
8	1	Foreign Company	T.P.3
9	1	Kinds of companies ➤ One man company, holding company, subsidiary company	T.P.3
10	1	Lifting of corporate veil	R1.P;26
11	1	Formation of company • Minimum Subscription	T.P:66
12	1	Formation of company	T.P:72
13	1	Duties of the Secretary before and after incorporation	T.P:72
14	1	Recapitulation and discussion of important questions	
		Total no. of hours planned for unit-1	14Hours

UNIT-2

S. No.	LECTURE DURATION (Periods)	TOPICS TO BE COVERED	SUPPORT MATERIALS
1.	1	Memorandum of association - Meaning and purpose	T.P:111
2.	1	Alteration of Memorandum ➤ change of name, change of registered office	T.P.117
3	1	Contents of Memorandum of association	T.P.117
4	1	Articles of association ➤ Meaning and its importance	T.P:132
5	1	Forms of articles of association	T.P:132
6	1	Contents of articles of association	T.P:132
7	1	Alteration of articles of association	T.P:132
8	1	Distinction Between Memorandum and Articles of Association	135
9	1	Doctrine of constructive notes	T.P:138
10	1	Doctrine of indoor management ➤ Expectations to the doctrine of indoor management	T.P:139
11	1	Prospectus - meaning ➤ Prospectus self	T.P:143
12	1	Red hearing prospectus	T.P:118
13	1	Misstatement in prospectus	W2
14	1	Allotment of shares	T.P:265
15	1	Issue and forfeiture of shares	T.P:270
16	1	Transmission of Share,	T.P.202
17		Issue of bonus share	T.P.204
18	1	Buyback and provision regarding buyback.	W1
19	1	Book Building	W1
20	1	Recapitulation and discussion of important questions	
		Total no. of hours planned for unit-2	20 Hours

UNIT-3

S. No.	LECTURE DURATION (Periods)	TOPICS TO BE COVERED	SUPPORT MATERIALS
1.	1	Directors Women Directors	R4.P:299-230
2	1	Classification of Directors	R4.P:299-230
3	1	Directors ➤ Independent Directors ➤ Small Shareholder 's directors.	R4.P:299-230
4	1	Executive directors and non executive directors	R4.P: 232
5	1	Whole time and nominee Directors	R4.P: 232
6	1	Disqualification of Directors	T.P:358
7	1	Directors Identity Number (DIN)	T.P:358
8		Appointment of Directors	T.P:360
9	1	Legal Position of Directors	T.P:348
10	1	Powers and duties of directors	T.P:350
11	1	Removal of Directors	T.P:348
12		Liabilities and share qualification of Directors	T.P:348
13	1	Manager ➤ Managing Directors	T.P:330
14	1	Meeting ➤ Types of meeting	T.P:331
15	1	Conduct of meeting	T.P:331
16	1	Committees ➤ Committees of Board of directors	W3
17	1	Audit Committees	W3
18	1	Committees ➤ Nomination and Remuneration Committee	W3
19	1	Corporate Social Responsibility committee.	W3
20	1	Recapitulation and discussion of important questions	
		Total no. of hours planned for unit-3	20 Hours

UNIT-4

S. No.	LECTURE DURATION (Periods)	TOPICS TO BE COVERED	SUPPORT MATERIALS
1.	1	Dividends	T.P:239
2	1	Types of Dividends	T.P:245
3	1	Interim Dividend	T.P:245
4	1	Declaration of Dividend	T.P:245
5	1	Eligibility and Payment of Dividend	T.P:245
6	1	Dividend Warrant	T.P:245
7	1	Procedure regarding payment of dividend	T.P:248
8	1	Book of Accounts	T.P:401
9	1	Auditor	T.P:406-410
10	1	Appointment of Auditors	T.P:406-410
12	1	Reappointment of Auditor	T.P:406-410
13	1	Removal and Change of Auditors	T.P:406-410
14	1	Rights powers and duties of Auditor	T.P:411
15	1	Audit Report	T.P:411
16	1	Secretarial Audit	T.P:411
17	1	Recapitulation and discussion of important questions	
18	1	Recapitulation and discussion of important questions	
		Total no. of hours planned for unit-4	18 Hours

UNIT-5

S.No	LECTURE DURATION (Periods)	TOPICS TO BE COVERED	SUPPORT MATERIALS
1	1	Winding up meaning ➤ Dissolution and insolvency	R1.P:484
2	1	Procedure for Winding up	T.P:418
3	1	Modes of winding up ➤ By tribunal	T.P:415
4	1	Procedure for compulsory winding up	T.P:415
5	1	Modes of winding up ➤ Voluntary winding up	T.P:416
6	1	Member Voluntary Winding Up Creditors Voluntary Winding Up	T.P:416
7	1	Difference between compulsory and voluntary Winding up	T.P:417
8	1	Insider Trading ➤ Meaning and	W4
9	1	Legal provision of Insider Trading	W4
10	1	Mechanism of Insider Trading	W4
11	1	Whistle Blowing ➤ Concept and Features	W5
12	1	Characteristics of Whistle Blowing	W5
13	1	Whistle Blowing ➤ Mechanism of whistle blowing	W5
14	1	Recapitulation and discussion of important questions	
15	1	Revision : Discussion of ESE question papers	
16	1	Discussion of ESE question papers	
17	1	Discussion of ESE question papers	
18	1	Discussion of ESE question papers	
		Total no. of hours planned for unit-5 & Question Paper Discussion	18 hours

SUPPORT MATERIALS

Text Book

T – 1. N.D.Kapoor, “Company Law and Secretarial Practice” 2010 13th edition Sultan Chand & Sons, New Delhi

Reference books

R1- Bagri A K, “Company Law”, 2007 11th edition, Vikas Publishing House, New Delhi.

R2 – Gower L.C.B. “Principles of Modern company Law”, 1997, Stevens & Sons, London.

R3- Ramiah A, “Guide to the Companies Act”, 2014, 18th edition, Wadhwa & Co., Nagpur

R4 – Singh Avtar, “Company Law”, 2015, 16th edition, Eastern Book Co., Lucknow

Website Reference

W1- www.yourarticlelibrary.com/accounting/.../book-building...of.../70527/

W2- <https://blog.cleartax.in/my-only-income-is-from-selling-shares-do-i-need...>

10. There are ----- modes of delivery
a Two b Three c Four d Five
11. The person who buys or agrees to buy the goods is called the -----
a Buyer b Seller c Bailor d Bailee
12. ----- are the goods which are also not in existence at the time of contract of sale
a Contingent goods b Specific goods c Existing goods d Future goods
13. A company limited by guarantee and having a share capital may be a _____
a. Public company b. Private company c. Both a&b d. None
14. Companies property is not the property of _____
a. Partners b. Share holders c. Both A&B d. None
15. The contract is deemed to have been entered into personally by the actual maker

a. Broker b. Partners c. Agent d. None
16. _____ gives a memorandum of association of a company limited by shares
a. Table A b. Table B c. Table C d. Table E
17. The subscription of shares or debentures of a company is a
a. mis statement b. prospectus c. Alteration of articles d. memorandum
18. The rate of From the date of encashment till payment of realisation
a. 15% b. 18% c. 20% d. 24%
19. The prospectus issued by company must contain Form of application
a. Official b. blank c. Monetary d. Unofficial
20. Means the inclusion of securities of the company in the official list of stock exchange
a. Trading of securities b. procedure for listing c. Listing of securities
d. Listing agreement

PART B (5 X 4= 20 Marks)
Answer ALL the Questions

21. a. What do you mean valid contract and void contract?
Or
b. Who are persons of unsound mind?
22. a. What are the circumstances under which an agency is irrevocable?
Or
b. Write a note on "Public notice".

Reg No
[16CMU301]

KARPAGAM UNIVERSITY

Karpagam Academy of Higher Education

(Established Under Section 3 of UGC Act 1956)

COIMBATORE- 641 021

SECOND INTERNAL EXAMINATION, AUGUST -2017

(For the candidates admitted 2016 onwards)

II B.COM –THIRD SEMESTER

COMPANY LAW

Max. Mark: 50

Time: 2 Hours

Date: 08/09/17

PART - A (20X 1 = 20 Marks)

CHOOSE THE CORRECT ANSWER

1. The _____ defines the scope of company's activities
 - a. Prospectus
 - b. Statutory declaration
 - c. Memorandum of association
 - d. Articles of association
2. Private company can start its business immediately after the issue of
 - a. Certificate of commencement of Business
 - b. Certificate of Incorporation
 - c. State government approval copy
 - d. Business license
3. Age limit of Directors in case of private company is _____
 - a. 65
 - b. 70
 - c. 75
 - d. No limit
4. Qualification shares for a director are provided in the _____
 - a. Company Act
 - b. Memorandum of Association
 - c. Articles of Association
 - d. Contract b/w Company & Directors
5. Address of the registered office is situated in _____
 - a. Memorandum of association
 - b. Articles of association
 - c. Prospectus
 - d. Certificate of incorporation
6. A company can change its name by passing _____
 - a. Ordinary resolution
 - b. Special resolution
 - c. Either by special resolution or by ordinary resolution
 - d. Court
7. If the company failed to refund application money within 130 days from the date of issue of prospectus on non-receipt of minimum subscription who will be personally liable.
 - a. Company
 - b. Directors
 - c. Shareholders
 - d. Secretary

8. If the name of the company is identical with or similar to an existing company then which resolution should be passed to change name
 - a. Ordinary resolution
 - b. Special Resolution
 - c. Court
 - d. None
9. The liability of members if company is limited by shares
 - a. Unpaid value of shares
 - b. Guarantee amount
 - c. Unlimited liability
 - d. Limited liability
10. Transfer of shares in the company is
 - a. Restricted
 - b. freely transferable
 - c. Prohibited
 - d. Not transferred
11. Address of the registered office is situated in _____
 - a. Memorandum of association
 - b. Articles of association
 - c. Prospectus
 - d. Certificate of incorporation
12. A company can change its name by passing _____
 - a. Ordinary resolution
 - b. Special resolution
 - c. Either by special resolution or by ordinary resolution
 - d. Court
13. Maximum paid up capital in case of public company.
 - a. 50 Lakhs
 - b. 100 Lakhs
 - c. 125 Lakhs
 - d. 5lakhs
14. Y Pvt.Co. is subsidiary of X Co. which is a public Company? Mention Y is a
 - a. Private Co
 - b. Public Co.
 - c. Government Co.
 - d. Holding company
15. Transfer of shares in the case of public company is
 - a. Prohibited
 - b. Restricted
 - c. Freely transferable
 - d. Illegal
16. XYZ Co. is having 15% share capital held by X Company and 50% held by Central Government and 10% held by State Government and 25% held by other people then that company will be
 - a. Government Company
 - b. Private Company
 - c. Public Company
 - d. holding company
17. Minimum number of directors in case of public company is _____
 - a. 1
 - b. 2
 - c. 3
 - d. 4
18. Every company shall have a chief executive except other than a company:
 - a. Managed by a managing agent
 - b. Managed by a professional body
 - c. Managed by directors
 - d. Managed by promoters
19. All public companies either issue a prospectus or file a statement in _____
 - a. Lieu of Prospectus
 - b. Shelf Prospectus
 - c. Prospectus
 - d. Articles
20. Companies Act provides provisions for dating and registration of _____
 - a. Lieu of Prospectus
 - b. Shelf Prospectus
 - c. Prospectus
 - d. Articles

PART - B (3X2=6 Marks)

ANSWER ALL THE QUESTIONS

21. Define Articles of Association of a company.
22. List out the objects of issuing prospects.
23. Define Prospects.

PART - C (3X8=24 Marks)

ANSWER ALL THE QUESTIONS

24. (a) Explain the legal provisions relating to issue and registration of a prospect.
(Or)
(b) Enumerate the details of Clauses in Memorandum of Association?
25. (a) Discuss the doctrine of ultra vires with reference to the affairs of a Company?
(Or)
(b) Write the Distinction between Articles and Memorandum of Association?
26. a) Explain the Consequences of misstatements in Prospectus ?
(Or)
(b) What is meant by listing of Shares? What is the Procedure for listing of Shares?

17. The interim dividend is paid between _____ of the company
 a. Two AGM b. Three AGM c. Four AGM d. Five AGM
18. Winding-up of a company is a process of _____
 a. Putting an end to the partnership b. Putting an end to the Company
 c. Closing Shares d. none of the above
19. A _____ capital is that part of share capital which carries a preferential right with respect to dividend and capital both.
 a. Equity Share b. Share c. Paid up share d. Preference Shares
20. The companies act allows a company to convert its fully paid up shares into _____
 a. Shares b. Capital c. Stock d. Bond

PART - B (3X2=6 Marks)

ANSWER ALL THE QUESTIONS

21. Define the term dividend precisely.
 22. Who is official Liquidator?
 23. Define the term dividend.

PART - C (3X8=24 Marks)

ANSWER ALL THE QUESTIONS

24. (a) Distinction between interim dividend and final dividend.
 (Or)
 (b) Explain the rules regarding dividend.
25. (a) Enumerate the various grounds for compulsory winding up.
 (Or)
 (b) Explain the various kinds of winding up.
26. (a) What are the duties of company secretary in respect of a compulsory winding up of company?
 (Or)
 (b) What do you understand by the Winding up of company? What are the different modes of Winding up?

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KARPAGAM UNIVERSITY
Karpagam Academy of Higher Education
(Established Under Section 3 of UGC Act 1956)
COIMBATORE- 641 021
THIRD INTERNAL EXAMINATION - SEPTEMBER, 2017
(For the candidates admitted from 2016 onwards)
II B.COM - Third Semester
COMPANY LAW

Time: 2 Hours

Date: 12/09/17

Maximum: 50 Marks

PART - A (20X1 = 20 Marks)

CHOOSE THE CORRECT ANSWER

1. A company secretary has to be _____.
 - a. Firm or body corporate
 - b. Registered with securities exchange board of India
 - c. Person with desired professional degree
 - d. Part of any secretarial agency
2. A share certificate is required to be signed by _____.
 - a. Company secretary
 - b. Two directors
 - c. Two directors and company secretary
 - d. All directors and company secretary
3. A secretary should have sound knowledge of _____.
 - a. Company law
 - b. Tax laws
 - c. Labour laws
 - d. Factory Law.
4. _____ is a person who is a member of the "Institute of Company Secretaries" of India.
 - a. Private secretary
 - b. Secretary of an association
 - c. Secretary of a cooperative society
 - d. Company Secretary
5. A casual vacancy arising out of resignation of company's auditor can be filled by _____.
 - a. Company in general meeting by ordinary resolution
 - b. Company in general meeting by special resolution
 - c. Board of directors
 - d. Audit committee
6. In winding-up by the court, the statement of affairs has to be submitted within _____.
 - a. 15 days from the date of winding-up order
 - b. 21 days from the date of winding-up order
 - c. 30 days from the date of winding-up order
 - d. 90 days from the date of winding-up order
7. A company Secretary may be dismissed when _____.
 - a. Fails to maintain register
 - b. His term of appointment has expired
 - c. Fails to conduct meeting
 - d. Order issued in resolution
8. _____ have fixed denomination.
 - a. Share
 - b. Stock
 - c. Debenture
 - d. bond
9. _____ resolution should be passed by the company to offer shares to outsiders.
 - a. Special resolution
 - b. Ordinary resolution
 - c. Certificate of central government
 - d. Approval of Director
10. The secretary is responsible to the _____ for the proper discharge of the duties of his office.
 - a. Board members
 - b. Directors
 - c. Managers
 - d. Executives
11. The first item in order of payment to be made by liquidator is _____.
 - a. Secured creditors
 - b. Preferential creditors
 - c. Liquidation expenses
 - d. Preferential creditors
12. A company can invest money in another company only if it is so authorized by its _____.
 - a. Memorandum of association
 - b. Articles of association
 - c. Auditors
 - d. Company secretary
13. An auditor of a company _____.
 - a. must be a chartered accountant
 - b. need not be a chartered accountant
 - c. may be any one who can audit accounts
 - d. must be a company secretary
14. The petition made to the court for winding up of a company must contain _____.
 - a. Advertisement of petition
 - b. Proceeding against the company
 - c. List of Memberships
 - d. Name of the company with the date of its incorporation
15. _____ is the share of the company's profit distributed among the members.
 - a. Profit
 - b. Dividend
 - c. Interest
 - d. Commission
16. _____ is recommended by the _____ in its report to the shareholders.
 - a. Final profit, Board of directors
 - b. Final profit, Managing director
 - c. Final Dividend, Board of directors
 - d. Final Dividend, Managing director

Introduction; Administration of company law (NCLT and NCLAT; special court), Characteristics of a company, lifting of corporate veil, types of companies, formation of companies

COMPANIES ACT

Meaning of Company Law:

Company law is that branch of law which deals exclusively with all aspects relating to companies, such as incorporations of companies allotment of shares and share capital membership in companies management and administration of companies, winding up of companies. etc. Company law in India is that branch of Indian law which regulates companies in India.

Constitution of Board of Company Law Administration.

(1) As soon as may be after the commencement of the Companies (Amendment) Act, 1988, the Central Government shall, by notification in the Official Gazette, constitute a Board to be called the Board of Company Law Administration.

(1A) The Company Law Board shall exercise and discharge such powers and functions as may be conferred on it, by or under this Act or any other law, and shall also exercise and discharge such other powers and functions of the Central Government under this Act or any other law as may be conferred on it by the Central Government, by notification in the Official Gazette under the provisions of this Act or that other law.

(2) The Company Law Board shall consist of such number of members, not exceeding nine, as the Central Government deems fit, to be appointed by that Government by notification in the Official Gazette :

Provided that the Central Government may, by notification in the Official Gazette, continue the appointment of the chairman or any other member of the Company Law Board functioning as such immediately before the commencement of the Companies (Amendment) Act, 1988, as the chairman or any other member of the Company Law Board, after such commencement for such period not exceeding three years as may be specified in the notification.

(2A) The members of the Company Law Board shall possess such qualifications and experience as may be prescribed.

(3) One of the members shall be appointed by the Central Government to be the chairman of the Company Law Board.

(4) No act done by the Company Law Board shall be called in question on the ground only of any defect in the constitution of, or the existence of any vacancy in, the Company Law Board.

(4A) Omitted w.e.f. 31st May, 1991.

(4B) The Board may, by order in writing, form one or more Benches from among its members and authorize each such Bench to exercise and discharge such of the Board's powers and functions as may be specified in the order ; and every order made or act done by a Bench in exercise of such powers or discharge of such functions shall be deemed to be the order or act, as the case may be, of the Board.

(4C) Every Bench referred to in sub-section (4B) shall have powers which are vested in a Court under the Code of Civil Procedure, 1908 (5 of 1908), while trying a suit, in respect of the following matters, namely :

- (a) discovery and inspection of documents or other material objects producible as evidence ;
- (b) enforcing the attendance of witnesses and requiring the deposit of their expenses ;
- (c) compelling the production of documents or other material objects producible as evidence and impounding the same ;
- (d) examining witnesses on oath ;
- (e) granting adjournments ;
- (f) reception of evidence on affidavits.

(4D) Every Bench shall be deemed to be a civil court for the purposes of section 195 and Chapter XXVI of the Code of Criminal Procedure, 1973 (2 of 1974), and every proceeding before the Bench shall be deemed to be a judicial proceeding within the meaning of sections 193 and 228 of the Indian Penal Code, 1860 (45 of 1860), and for the purpose of section 196 of that Code.

(5) Without prejudice to the provisions of sub-sections (4C) and (4D), the Company Law Board shall in the exercise of its powers and the discharge of its functions under this Act, or any other law be guided by the principles of natural justice and shall act in its discretion.

(6) Subject to the foregoing provisions of this section, the Company Law Board shall have power to regulate its own procedure.

NCLT AND NCLAT ON COMPANY LAW

The Ministry of Corporate Affairs ('MCA') on 1st June 2016 notified the constitution of National Company Law Tribunal ('NCLT') and National Company Law Appellate Tribunal ('NCLAT') in exercise of powers conferred under §408 and §410 of the Companies Act 2013 ('Companies Act'). This notification has been in abeyance for almost 14 years since it was first introduced by the Companies (Second Amendment) Act 2002 based on the recommendations of Eradi committee. However, in recent times the Government of India has been emphasising on easing the process of carrying out business in India. Thus, in recent times, various legal reforms have been carried out and the constitution of the NCLT and the NCLAT is one more step in this direction.

The newly setup NCLT will, initially, have 11 benches including two benches in the national capital, New Delhi. Retired Supreme Court judge Hon'ble Justice SJ Mukhopadhaya will be the first Chairperson of NCLAT and Retired Justice MM Kumar will be the first President of the NCLT.

IMPACT OF THE CONSTITUTION OF NCLT AND NCLAT ON COMPANY LAW LITIGATION

The constitution of the NCLT is likely to have a fundamental impact as far as company law litigation is concerned. Some of the more important consequences of this development are enumerated below:

- a. **Single Window:** The most significant benefit likely to arise from the constitution of the NCLT and the NCLAT is that the tribunals will, effectively, act as a single window for settlement of all company law related disputes. The newly constituted tribunals will replace the existing Company Law Board ('CLB'), the Board of Industrial and Financial Reconstruction ('BIFR') and its appellate authority. Thus, the unnecessary fragmentation and multiplicity of the proceedings before various courts and tribunals in the same matter will now be curbed.

The constitution of the NCLT is in consonance with the recently enacted Insolvency and Bankruptcy code and the liquidation process of companies and corporate debtors will now be considerably simplified.

Further, in the previous regime most powers were reserved either for the Central Government, the CLB or the High Courts. However, with the formation of the NCLT, the intent is to consolidate these powers and jurisdiction and assign them

- to a single authority, thereby simplifying the dispute adjudication process as far as companies are concerned.
- b. **Class Action Claims:** Shareholders are allowed to file class action suits before the NCLT, against the company for the breach of provisions of the Companies Act. Per this provision, if 100 or more shareholders or depositors find that the company's affairs are not being managed in its best interests, they may approach the NCLT. In a class action suit, shareholders can collectively sue directors or auditors of the company for their misconduct or unwarranted acts. This remedy will be crucial for the minority shareholders who seek redressal against arbitrary/oppressive decisions of their management. In addition, with the increase of shareholder activism in India such a remedy would be a valuable remedy in the hands of shareholders against their boards.
 - c. **Greater Field Impact:** Under the old law, the CLB was operating through only 5 benches. However, the NCLT will commence with 11 benches, with the Principal Bench being in New Delhi. This will undoubtedly aid in ensuring a wider reach for adjudicating company law matters in India.
 - d. **Speedy Disposal of Cases:** The NCLT has been given the powers to regulate its own procedure which will assist them in disposing matters in a simplified manner. Further, the NCLT and the NCLAT are under a mandate to dispose of cases before them as expeditiously as possible. In this context, a time limit of 3 months has been provided to dispose of cases, with an extension of 90 days for sufficient reasons to be recorded by the President or the Chairperson, as the case maybe. This time limit is expected to ensure the speedy disposal of cases by the NCLT and the NCLAT.
 - e. **Limitations and Unanswered Questions:** The notification does not expressly specify the manner or procedure for transferring pending cases from the CLB and High Courts to the NCLT. It is likely the process of transfer will be commenced and implemented as a gradual process. The objective may be to transfer the matters to the new body in a gradual manner, so as to give the NCLT ample amount of time to structure itself in the company law litigation of the country. However, effective steps will need to be taken to prevent unnecessary confusion amongst litigants.

In addition, provisions relating to the winding up of the companies and those under Chapter XV of the Companies Act have not yet been notified. Therefore, these matters will continue to be governed by the provisions of Companies Act 1956. There is no updated information available in terms of when the provision of Chapter XV are likely to be brought into force.

The NCLAT will act as the appellate forum and all appeals from the orders of the NCLT will be heard by it. Appeals from the NCLAT will be heard by the Supreme Court of India.

COMPANY

- A Company is formed when registered under the Indian Companies Act, 1956.
- A Private Company is formed with a minimum of 2 persons and a public

company with 7 persons at least

- A private Company is limited to 50 members excluding its present and past employees. There is no limit to the maximum numbers of members in case of a public company.
- A Company has a separate legal entity distinct from the members who constitute it.
- Properly belongs to the Company and not to the individual members.
- The liability of the shareholders is limited.
- Shares are freely transferable. In a private company the articles restrict the right of members to transfer their shares.
- A Company has a perpetual succession. It comes to an end in the event of winding up.
- But the capital of a Joint stock companies is very large, as it is contributed by a large number of Shareholders.
- Audit of account by qualified auditor is compulsory.

PARTNERSHIP:

- I. Partnership is created when agreed between the individuals. Registration of partnership firm is optional under the partnership Act.
- II. A partnership can be created by two persons.
- III. The maximum number of members in a partnership firm is limited to 10 in case of banking business and 20 in case of any other business.
- IV. A partnership firm has no legal existence apart from its members i.e., the partners and the firms are one and the same.
- V. Property of the partnership firm belongs to individual partners comprising the firm.
- VI. The liability of partnership is unlimited.
- VII. The partner cannot transfer his share without the consent of his co-partners.
- VIII. Partnership comes to an end when a partner dies or becomes insolvent, unless otherwise provided in the partnership deed.
- IX. The capital of a partnership firm is limited, as it is contributed only by a few persons
- X. Audit of account is not compulsory.

NATURE AND CHARACTERISTICS OF A COMPANY

Since a corporate body (i.e. a company) is the creation of law, it is not a human being, it is an artificial person (i.e. created by law); it is clothed with many rights, obligations, powers and duties prescribed by law; it is called a „person“. Being the creation of law, it possesses only the properties conferred upon it by its Memorandum of Association. Within the limits of powers conferred by the charter, it can do all acts as a natural person may do.

The most striking characteristics of a company are:

(i) Corporate personality

By incorporation under the Act, the company is vested with a corporate personality quite distinct from individuals who are its members. Being a separate legal entity it bears its own name and acts under a corporate name. It has a seal of its own. Its assets are separate and distinct from those of its members. It is also a different „person□ from the members who compose it. As such it is capable of owning property, incurring debts, borrowing money, having a bank account, employing people, entering into contracts and suing or being sued in the same manner as an individual. Its members are its owners but they can be its creditors simultaneously as it has a separate legal entity.

A shareholder cannot be held liable for the acts of the company even if he holds virtually the entire share capital. The shareholders are not the agents of the company and so they cannot bind it by their acts. The company does not hold its property as an agent or trustee for its members and they cannot sue to enforce its rights, nor can they be sued in respect of its liabilities. Thus, „incorporation□ is the act of forming a legal corporation as a juristic person. A juristic person is in law also conferred with rights and obligations and is dealt with in accordance with law. In other words, the entity acts like a natural person but only through a designated person, whose acts are processed within the ambit of law [Shiromani Gurdwara Prabandhak Committee v. Shr Sam Nath Dass AIR 2000 SCW 139].

EXAMPLE

The case of Salomon v. Salomon and Co. Ltd., (1897) A.C. 22 The above case has clearly established the principle that once a company has been validly constituted under Companies Act, it becomes a legal person distinct from its members and for this purpose it is immaterial whether any member has a large or small proportion of the shares, and whether he holds those shares beneficially or as a mere trustee. In the case, Salomon had, for some years, carried on a prosperous business as a leather merchant and boot manufacturer. He formed a limited company consisting of himself, his wife, his daughter and his four sons as the shareholders, all of whom subscribed for 1 share each so that the actual cash paid as capital was £ 7. Salomon sold his business (which was perfectly solvent at that time), to the Company for the sum of £ 38,782. The company□s nominal capital was £ 40,000 in £ 1 shares. In part payment of the purchase money for the business sold to the company, debentures of

the amount of £10,000 secured by a floating charge on the company□s assets were issued to Salomon, who also applied for and received an allotment of 20,000 £ 1 fully paid shares. The remaining amount of £8,782 was paid to Salomon in cash. Salomon was the managing director and two of his sons were other directors.

The company soon ran into difficulties and the debentureholders appointed a receiver and the company went into liquidation. The total assets of the company amounted to £6050, its liabilities were £10,000 secured by debentures, £8,000 owing to unsecured trade creditors, who claimed the whole of the company□s assets, viz., £6,050, on the ground that, as the company was a mere „alias□ or agent for Salomon, they were entitled to payment of their debts in priority to debentures. They further pleaded that Salomon, as principal beneficiary, was ultimately responsible for the debts incurred by his agent or trustee on his behalf.

(ii) Limited Liability

“The privilege of limited liability for business debts is one of the principal advantages of doing business under the corporate form of organisation.” The company, being a separate person, is the owner of its assets and bound by its liabilities. The liability of a member as shareholder, extends to contribution to the assets of the company up to the nominal value of the shares held and not paid by him. Members, even as a whole, are neither the owners of the company’s undertakings, nor liable for its debts. In other words, a shareholder is liable to pay the balance, if any, due on the shares held by him, when called upon to pay and nothing more, even if the liabilities of the company far exceed its assets. This means that the liability of a member is limited. For example, if A holds shares of the total nominal value of Rs. 1,000 and has already paid Rs. 500/- (or 50% of the value) as part payment at the time of allotment, he cannot be called upon to pay more than Rs. 500/-, the amount remaining unpaid on his shares. If he holds fully-paid shares, he has no further liability to pay even if the company is declared insolvent. In the case of a company limited by guarantee, the liability of members is limited to a specified amount mentioned in the memorandum. Buckley, J. in *Re. London and Globe Finance Corporation*, (1903) 1 Ch.D. 728 at 731, has observed: „The statutes relating to limited liability have probably done more than any legislation of the last fifty years to further the commercial prosperity of the country.

They have, to the advantage of the investor as well as of the public, allowed and encouraged aggregation of small sums into large capitals which have been employed in undertakings of “great public utility largely increasing the wealth of the country”. There are, however, some statutory exceptions to the principle of limited liability. As provided by Section 45 of the Companies Act, 1956, the members become personally liable if the membership falls below prescribed minimum and the business is carried on for more than six months thereafter. It is also provided in the Act vide Section 323 that a limited company may, if so authorised by its articles, alter its memorandum by special resolution so as to render the liability of its directors or of any of its director or manager as unlimited. Further, where in the course of winding up it appears that any business of the company has been carried on with intent to defraud creditors, the Court may declare the persons who were knowingly parties to the transaction as personally liable without limitation of liability for all or any of the debts/liabilities of the company.

(iii) Perpetual Succession

An incorporated company never dies except when it is wound up as per law. A company, being a separate legal person is unaffected by death or departure of any member and remains the same entity, despite total change in the membership. A company’s life is determined by the terms of its Memorandum of Association. It may be perpetual or it may continue for a specified time to carry on a task or object as laid down in the Memorandum of Association. Perpetual succession, therefore, means that the membership of a company may keep changing from time to time, but that does not affect its continuity.

The membership of an incorporated company may change either because one shareholder has transferred his shares to another or his shares devolve on his legal representatives on his death or he ceases to be a member under some other provisions of the Companies Act.

Thus, perpetual succession denotes the ability of a company to maintain its existence by the constant succession of new individuals who step into the shoes of those who cease to be members of the company. Professor

L.C.B. Gower rightly mentions, “Members may come and go, but the company can go on for ever. During the war all the members of one private company, while in general meeting, were killed by a bomb, but the company survived — not even a hydrogen bomb could have destroyed it”.

(iv) Separate Property

A company being a legal person and entirely distinct from its members, is capable of owning, enjoying and disposing of property in its own name. The company is the real person in which all its property is vested, and by which it is controlled, managed and disposed off. Their Lordships of the Madras High Court in *R.F.Perumal v. H. John Deavin*, A.I.R. 1960 Mad. 43 held that “no member can claim himself to be the owner of the company’s property during its existence or in its winding-up”. A member does not even have an insurable interest in the property of the company.

EXAMPLE

Mrs. Bacha F. Guzdar v. The Commissioner of Income Tax, Bombay, A.I.R. 1955 S.C. 74

The Supreme Court in this case held that, though the income of a tea company is entitled to be exempted from Income-tax up to 60% being partly agricultural, the same income when received by a shareholder in the form of dividend cannot be regarded as agricultural income for the assessment of income-tax. It was also observed by the Supreme Court that a shareholder does not, as is erroneously believed by some people, become the part owner of the company or its property; he is only given certain rights by law, e.g., to receive or to attend or vote at the meetings of the shareholders. The court refused to identify the shareholders with the company and reiterated the distinct personality of the company.

(v) Transferability of Shares

The capital of a company is divided into parts, called shares. The shares are said to be movable property and, subject to certain conditions, freely transferable, so that no shareholder is permanently or necessarily wedded to a company. When the joint stock companies were established, the object was that their shares should be capable of being easily transferred, [*In Re. Balia and San Francisco Rly.*, (1968) L.R. 3 Q.B. 588]. Section 82 of the Companies Act, 1956 enunciates the principle by providing that the shares held by the members are movable property and can be transferred from one person to another in the manner provided by the articles. If the articles do not provide anything for the transfer of shares and the Regulations contained in Table “A” in Schedule I to the Companies Act, 1956, are also expressly excluded, the transfer of shares will be governed by the general law relating to transfer of movable property.

A member may sell his shares in the open market and realise the money invested by him. This provides liquidity to a member (as he can freely sell his shares) and ensures stability to the company (as the member is not withdrawing his money from the company). The Stock Exchanges provide adequate facilities for the sale and purchase of shares. Further, as of now, in most of the listed companies, the shares are also

transferable through Electronic mode i.e. through Depository Participants instead of physical transfers.

(vi) Common Seal

On incorporation, a company acquires legal entity with perpetual succession and a common seal. Since the company has no physical existence, it must act through its agents and all such contracts entered into by its agents must be under the seal of the company. The Common Seal acts as the official signature of a company. The name of the company must be engraved on its common seal. A rubber stamp does not serve the purpose. A document not bearing common seal of the company is not authentic and has no legal force behind it.

The person authorised to use the seal should ensure that it is kept under his personal custody and is used very carefully because any deed, instrument or a document to which seal is improperly or fraudulently affixed will involve the company in legal action and litigation.

(vii) Capacity to Sue and Be Sued

A company being a body corporate, can sue and be sued in its own name. To sue means to institute legal proceedings against (a person) or to bring a suit in a court of law. All legal proceedings against the company are to be instituted in its own name. Similarly, the company may bring an action against anyone in its own name. A company's right to sue arises when some loss is caused to the company, i.e. to the property of the personality of the company. Hence, the company is entitled to sue for damages in libel or slander as the case may be [Floating Services Ltd. v. MV San Fransceco Dipaloo (2004) 52 SCL 762 (Guj)]. A company, as a person separate from its members, may even sue one of its own members for libel. A company has a right to seek damages where a defamatory material published about it, affects its business. Where video cassettes were prepared by the workmen of a company showing, their struggle against the company's management, it was held to be not actionable unless shown that the cassette would be defamatory. The court did not restrain the exhibition of the cassette. [TVS Employees Federation v. TVS and Sons Ltd., (1996) 87 Com Cases 37]. The company is not held liable for contempt committed by its officer. [Lalit Surajmal Kanodia v. Office Tiger Database Systems India (P) Ltd., (2006) 129 Comp Cas 192 Mad].

(viii) Contractual Rights

A company, being a separate legal entity different from its members, can enter into contracts for the conduct of the business in its own name. A shareholder cannot enforce a contract made by his company; he is neither a party to the contract nor entitled to the benefit of it, as a company is not a trustee for its shareholders. Likewise, a shareholder cannot be sued on contracts made by his company. The distinction between a company and its members is not confined to the rules of privity, however, it permeates the whole law of contract. Thus, if a director fails to disclose a breach of his duties to his company, and in consequence a shareholder is induced to enter into a contract with the director which he would not have entered into had there been disclosure, the shareholder cannot rescind the contract. Similarly, a member of a company cannot sue in respect of torts committed against the company, nor can he be sued for torts committed by the

company. [British Thomson-Houston Company v. Sterling Accessories Ltd., (1924) 2 Ch. 33]. Therefore, the company as a legal person can take action to enforce its legal rights or be sued for breach of its legal duties. Its rights and duties are distinct from those of its constituent members.

(ix) Limitation of Action

A company cannot go beyond the power stated in the Memorandum of Association. The Memorandum of Association of the company regulates the powers and fixes the objects of the company and provides the edifice upon which the entire structure of the company rests. The actions and objects of the company are limited within the scope of its Memorandum of Association. In order to enable it to carry out its actions without such restrictions and limitations in most cases, sufficient powers are granted in the Memorandum of Association. But once the powers have been laid down, it cannot go beyond these powers unless the Memorandum of Association is itself altered prior to doing so.

(x) Separate Management

As already noted, the members may derive profits without being burdened with the management of the company. They do not have effective and intimate control over its working and elect their representatives to conduct corporate functioning. In other words, the company is administered and managed by its managerial personnel.

(xi) Voluntary Association for Profit

A company is a voluntary association for profit. It is formed for the accomplishment of some public goals and whatsoever profit is gained is divided among its shareholders or restored for the future expansion of the company. Only a Section 25 company can be formed with no profit motive.

(xii) Termination of Existence

A company, being an abstract and artificial person, does not die a natural death. It is created by law, carries on its affairs according to law throughout its life and ultimately is effaced by law. Generally, the existence of a company is terminated by means of winding up. However, to avoid winding up sometimes companies change their form by means of reorganisation, reconstruction and amalgamation. To sum up, “a company is a voluntary association for profit with capital divisible into transferable shares with limited liability, having corporate entity and a common seal with perpetual succession”.

LIFTING OF OR PIERCING THROUGH THE CORPORATE VEIL

It means the company has a separate legal entity from the persons constituting its members.

Indeed, the theory of corporate entity is still the basic principle on which the whole law of corporations is based. But as the separate personality of the company is a statutory privilege, it must be used for legitimate business purposes only. Where a fraudulent and dishonest use is made of the legal entity, the individuals concerned will not be allowed to

take shelter behind the corporate personality. The Court will breakthrough the corporate shell and apply the principle of what is known as “lifting of or piercing through the corporate veil”. The Court will look behind the corporate entity and take action as though no entity separate from the members existed and make the members or the controlling persons liable for debts and obligations of the company

The corporate veil is lifted when in defence proceedings, such as for the evasion of tax, an entity relies on its corporate personality as a shield to cover its wrong doings. [BSN (UK) Ltd. v. Janardan Mohandas Rajan Pillai [1996] 86 Comp. Cas.371 (Bom).]. However, the shareholders cannot ask for lifting veil for their purposes. This was upheld in *Premlata Bhatia v. Union of India* (2004) 58 CL 217 (Delhi) wherein the premises of a shop were allotted on a licence to the individual licence. She set up a wholly owned private company and transferred the premises to that company with the Government consent. She could not remove the illegality by saying that she and her company were virtually the same person.

Statutory Recognition of Lifting of Corporate Veil

The Companies Act, 1956 itself contains some provisions (Sections 45, 147, 212, 247 and 542) which lift the corporate veil to reach the real forces of action. Taxation Laws have also made deep inroads to crack the corporate shell for efficient administration of tax laws. For the purpose of Wealth Tax and Estate Duty Legislation, new statutory formulae have been enacted for shares of private companies which substantially disregard the separate corporate entity and proceed on the basis that the ownership of such corporate property belongs to the shareholders. In terms of Income-tax Law, directors of private companies have been made personally liable for the tax liabilities of such companies. The face of the corporation is examined in order to pay regard to the economic realities behind the legal facade.

Lifting of Corporate Veil under Judicial Interpretation

Ever since the decision in the *Salomon v. Salomon & Co. Ltd.*, (1897) A.C. 22 normally Courts are reluctant or at least very cautious to lift the veil of corporate personality to see the real persons behind it. Nevertheless, Courts have found it necessary to disregard the separate personality of a company in the following situations:

(a) Where the corporate veil has been used for commission of fraud or improper conduct. In such a situation, Courts have lifted the veil and looked at the realities of the situation.

(b) Where a corporate facade is really only an agency instrumentality.

(c) Where the doctrine conflicts with public policy, courts lifted the corporate veil for protecting the public policy.

(d) Further, In *Daimler Co. Ltd. v. Continental Tyre & Rubber Co.*, (1916) 2 A.C. 307, it was held that a company will be regarded as having enemy character, if the persons having de facto control of its affairs are resident in an enemy country or , wherever they may be, are acting under instructions from or on behalf of the enemy.

(e) Where it was found that the sole purpose for which the company was formed was to evade taxes the Court will ignore the concept of separate entity, and make the individuals liable to pay the taxes which they would have paid but for the formation of the company.

(f) Avoidance of welfare legislation is as common as avoidance of taxation and the approach in considering problems arising out of such avoidance has necessarily to be the same and, therefore, where it was found that the sole purpose for the formation of the new company was to use it as a device to reduce the amount to be paid by way of bonus to workmen, the Supreme Court upheld the piercing of the veil to look at the real transaction.

(g) Another instance of corporate veil arrived at by the Court arose in *Kapila Hingorani v. State of Bihar*.

(h) Where it is found that a company has abused its corporate personality for an unjust and inequitable purpose, the court would not hesitate to lift the corporate veil. Further, the corporate veil could be lifted when acts of a corporation are allegedly opposed to justice, convenience and interests of revenue or workman or are against public interest. Thus, in appropriate cases, the Courts disregard the separate corporate personality and look behind the legal person or lift the corporate veil.

Lifting the Corporate Veil of Small Scale Industry

Where small scale industries were given certain exemptions and the company owning an industry was not controlled by any group of persons or companies, it was held that it was permissible to lift the veil of the company to see whether it was the subsidiary of another company and, therefore, not entitled to the proposed exemptions. [*Inalsa Ltd. v. Union of India*, (1996) 87 Com. Cases. 599 (Delhi).]

Use of Corporate Veil for Hiding Criminal Activities

Where the defendant used the corporate structure as a device or facade to conceal his criminal activities (evasion of customs and excise duties effected through the company), the Court could lift the corporate veil and treat the assets of the company as the realisable property of the shareholder.

For example, in a case, there was a prima facie case that the defendants controlled the two companies, the companies had been used for the fraudulent evasion of excise duty on a large scale, the defendant regarded the companies as carrying on a family business and that they had benefited from companies' cash in substantial amounts and further no useful purpose would have been served by involving the companies in the criminal proceedings. In all these circumstances it was therefore appropriate to lift the corporate veil and treat the stock in the companies' warehouses and the companies' motor vehicles as realisable property held by the defendants. The court said that excise department is not to be criticized for not charging the companies. The more complex commercial activities become, the more vital it is for prosecuting authorities to be selective in whom and what they charge, so that issues can be presented in as clear and short form as possible. In the present case, it seemed that no useful purpose would have

been served by introducing into criminal proceedings. [H. and Others (Restraint Order : Realisable Property), Re, (1996) 2 BCLC 500 at 511, 512 (CA).]

KINDS OF COMPANIES

Companies may be classified into different kinds or types from different points of view:

1. **Classification of companies from the point of view of incorporation or registration:** From the point of view of their incorporation, companies can be classified into three types. they are.

- a) **Chartered companies:** If a Company is incorporated under a special charter granted by the monarch it is called a chartered companies and is regulated by that charter. Chartered companies were common in the 17th and 18th centuries. For eg. British East India companies, Bank of England, Chartered Bank of Australia etc. are examples of chartered companies. This form of organization does not exist in India, as there is no monarchy.
- b) **Statutory Companies:** A statutory Company is a company which is incorporated under a special or separate act of the legislature (i.e., parliament). A statutory company requires special powers and privileges which it does not get under the companies Act. So, it is registered under a special act of the legislature. The powers and activities of a statutory companies are regulated by the special act under which it is established. This method of incorporation is adopted for companies of national importance and public utility companies, such as railway companies, electricity supply companies, etc. The RBI, SBI, LIC, UTI, etc are examples of statutory companies.
- c) **Registered Companies:** A company is brought into existence by registration with the registrar of companies under the companies Act of 1956, is called a registered company. The activities of these companies are governed by the comapanies Act. These constitute the most important Joint stock companies.

2. **Classification of Registered Companies on the basis of the liability of members:** From the point of view of the liability of the members, registered companies may be classified into three categories. They are:

- a) **Companies Limited by Shares:** Companies limited by share are companies in which the liability of a member is limited to the nominal or face value of the shares held by him. In short, these are the companies in which the liability of a member is limited only to the amount unpaid on the shares held by him. These companies are mostly trading companies. Most of the companies registered under the companies Act are of this type.
- b) **Companies Limited by Guarantee:** Companies limited by guarantee are companies in which the liability of each member is limited to a fixed amount

which he has guaranteed i.e., agreed to contribute to the assets of the company to meet the liabilities of the company in the event of its winding up. The amount guaranteed by each member is mentioned in the Memorandum of Association or Articles of Association of the Company. The members are required to pay the amount guaranteed by them, not during the life of the company but only when the company is wound up and the assets of the company are not sufficient to meet the liabilities of the company. These are mostly non-trading companies formed for the purpose of promoting art, culture, charity, science and education, etc.

- c) **Unlimited Companies:** Unlimited companies are companies in which the liability of members is unlimited i.e., members are liable for the debts of the company to an unlimited extent in the event of its winding up. Each member is liable to contribute from his private assets in proportion to his capital, in the company towards the amount required for the payment of the entire or full liabilities of the company. If any of the members is unable to contribute anything from his private assets, then, that additional deficiency is to be shared among the remaining members in proportion to their respective capital in the company.

- 3. **Classification of companies on the basis of ownership:** On the basis of ownership, companies may be classified into two kinds. They are:

Government companies

Non-government companies

- a) **Government companies:** A Company in which not less than 51% of the share capital is held by the central government and or by any state government or governments is called a government companies. It may be a public company or a private company. Some of the prominent government companies are: Hindustan Machine Tools, Bharat Electronic Limited, Indian Telephone Industries and Hindustan Aeronautics limited.

A Government company may be permitted by the central government to drop the words " Private Limited" or the word "Limited" from its name. The Central Government can by notification in the official gazette, restrict or modify the application of certain provision of the companies Act in regard to government companies.

- b) **Non- Government companies:** A non-government company is a company which is owned and managed by private investors.

- 4. **Classifications of companies on the basis of nationality:** On the basis of nationality, companies may be classified into two kinds, They are.

a) Domestic companies

b) Foreign companies

- a) **Domestic companies:** A Domestic company is a company which is incorporated in India. Today most of the Joint stock companies in India are domestic companies.
- b) **Foreign Company:** A foreign Company is a Company which is incorporated in a foreign country, but which has established a place of business in India. Although; foreign Companies are not registered or incorporated in India, some of the provisions of the companies Act, are applicable to them. The companies (Amendment) Act, 1974, has made several sections of the Act applicable to foreign companies in order to bring into the ambit of the provisions applicable to Indian companies.

Under section 592 of the companies Act, every foreign company must file with the registrar of companies within 30 days of the establishment of its business in India, the following documents.

A certified copy of its charter, statute; memorandum and articles or other documents defining its constitution.

The full address of the registered or principal office of the company.

List of the directors and secretary of the company with the required particulars

The name and address of the person authorized to receive any notice or document etc., required to be served on the companies.

The full address of the office of the company which is to be deemed its principal office of business in India.

Under section 593 of the companies Act, in case there is any alteration in any of the above particulars, the company is required to file a return of such alteration with the registrar of companies within the prescribed time.

5. **Classification of companies on the basis of control:** On the basis of control companies may be classified into

i) Holding companies

ii) Subsidiary companies.

i) **Holding Companies and Subsidiary Companies:** As per section 4 of the companies Act of 1956, "a holding Company is a company which is controlling a subsidiary company". In other words, a holding company is a company

- a) Which holds more than 70% of the nominal value of the equity share capital of another company or
- b) Which controls the composition of the board of directors of another Company
- c) Which controls more than 50% of the total voting power of another Company
- d) Where a Company is a subsidiary of another Company which is a subsidiary of a holding Company, that is, Company C is a subsidiary of Company B ,

whereas Company B is a subsidiary of holding Company A.

As per section 4 of the companies Act of 1956, " a subsidiary Company is a Company which is controlled by a holding Company". In other words, a Company becomes the subsidiary of another Company if:

- a) The other Company holds more than 50% of the nominal value of its equity share capital or
- b) The other Company controls the composition of its board of directors or
- c) The other Company controls more than 50% of its total voting powers
- d) It is a subsidiary of another Company which is subsidiary of the controlling company

Eg. When Company A has a control over company B, company A is known as a holding company and company B which is so controlled is known as a subsidiary company.

6. **Classification of companies on the basis of number of members:** Registered companies with share capital may be divided into two classes from the point of view of the the number of members

- i) Private Companies
- ii) Public Companies

i) **Private Companies:** Section 3(1) (iii) of the companies Act of 1956 defines a private company as a company which by its articles of association,

- a) Restricts the right of its members to transfer shares, if any,
- b) Limits the number of its member to fifty, excluding those members who are its present or past employees
- c) Prohibits any invitation to the public to subscribe to its shares or debentures

ii) **Public Companies:** Section 3 (I) (iv) of the companies Act of 1956 states that a "Public company is a company which is not a private company". In other words, a public company is a company

- a) Which has at least 7 members
- b) Which has no maximum limit to the number of members,
- c) Which can invite the public to subscribe to its shares or debenture, and which generally does not restrict the right of its members to transfer shares.

7. Other Kinds of Companies:

- a) **One Man Companies / Family Companies:** One man company refers to a company in which one man holds practically the hole of or the substancial no. of shares of the companies, and has controlling powers over the company and

some dummy members who are mostly his relations or friends, hold one or two shares each. The dummy members are included only to comply with the statutory requirements of the minimum no. of members.

- b) **Licenced Companies:** Association formed not for profit, but for promoting non trading purposes, such as art, science, education, sports, religion, charity, etc., can obtain a licence from the central layout and get themselves registered as companies with limited liability under Sec. 25 (U/S 25) of the companies act. They are called companies not for profit or licenced companies.

Eg. Education institutions, cultural association, sports, clubs, charitable association, etc.

COMPANY FORMATION

In the formation of a public limited company having share capital, mainly four stages are involved namely:

1. Promotion
2. Incorporation
3. Capital Subscriptions, and
4. Commencement of business or trading certificate.

In the case of the formation of a private company, only the first two stages are involved, because, a private company can commence its business immediately after securing the certificate of incorporation from the Registrar of companies. But in the case of formation of a public company, having share capital, there is need for the promoters to secure from the Registrar, the certificate to commence business in addition to the certificate of incorporation.

1. Promotion of Company

The person or persons who undertake responsibility of bring the company into existence are called 'Promoters'. In other words, the work of promotion is done by a person called "Promoter" or group of persons called "Promoters". Promotion involves discovery of specific business opportunity and subsequent organisation of the factors of production. According to Haney, promotion may be defined as the process of organizing and planning the finances of a business enterprise under the corporate form in other words, the steps which are taken to persuade a number of persons to come together for the achievement of a common objective through the company form of organisation is called promotion. Promotion may be undertaken either for starting a new business or for expanding the existing concern or for forming a holding company for a merger.

Steps in Company Promotion:

The work of promotion of a company involves four stages namely;

- a) Discovery of an idea and Preliminary investigation
- b) Detailed investigation

- c) Assembling and
 - d) Financing the promotion
- a) **Discovery of an Idea:** The promoter starts out with an idea to start some business either in a new field which has not been commercially exploited or in some existing lines of manufacture or business. He makes a preliminary investigation to find out whether it is worthwhile to make a detailed investigation. He makes a rough estimate of probable revenues and expenditure.
- b) **Detailed Investigation:** The promoter need to make a detailed investigation of his idea with the assistance of many experts like engineer, chemist, market analyst, financial expert, management consultant, etc,. On the basis of the reports of these experts, the promoters would be in a position to know the capital requirements, place of location, size of the unit, demand condition in the market, price of product, cost of production, probable return on capital, etc,. A detailed investigation will help the promoter to decide...whether the estimated income will be adequate to take care of the estimated cost of production and compension to the owner for risks and services.
- c) **Assembling:** After a detailed investigation, if the promoter is satisfied with the practicability and profitability of the proposed concern, he starts assembling the proposition. 'Assembling' means getting the support and consent of some other persons to act as directors or founders, arranging for patents, a suitable site for the company! .machinery and equipment and making contracts for filling the positions.
- d) **Financing the Proposition:** After assembling, the proposition, the promoter prepares a 'prospectus' to present to the public and to under writers to persuade them to, finance the 'proposition'. A prospectus contains complete details of the proposition and also the reports of various experts who have investigated the proposition. The promoter also takes steps to incorporate the company, and to secure the certificate to commence the business. For incorporating the company and also for obtaining the certificate to commence business, -the promoter has to full fill many legal formalities.

2. Incorporation

After taking all the preliminary steps for registration, an application along with the necessary documents, stamp duty, registration and filing fees, has to be made to Registrar for the issue of the 'certificate of incorporation. The Registrar will scrutinize the documents and if satisfied will enter the name of the company in the register .and will issue the company its birth certificate called the Certificate of Incorporation.

Steps and Formalities for Incorporation of a Company

Promoters have to take certain steps for getting the certificate of incorporation from the Registrar of Companies, on hearing from the Registrar about the availability of names for the proposed company; they have to prepare the following documents and

file them with Registrar of Companies' of the state in which the registered office of company is to be situated.

- A. The Memorandum of Association to which at least seven persons have subscribed, their names and each one of them has taken at least one share. In the case of a private company, then number of persons required to subscribe their names is only two.
- B. The Articles of Association similarly signed except where Table' A' attached to the Companies Act 1956, has been adopted as the Company's Articles.
- C. The Address of the registered office of the company.
This is to be delivered in any case within 30 days of incorporation.
- D. A, list of directors with their names, addresses and occupations. The return containing the particulars of the directors should be filed within 30 days of their appointment.
- E. Consent in writing of the directors to act as directors.
- F. An Undertaking by the directors to take and pay for qualification shares, if any,
- G. The statutory declaration by an advocate or an attorney or a chartered accountant practicing of India, who is engaged in the formation of an company or by a person named in the articles as a director manager, or secretary of the company.

At the time of filing these documents with the Registrar of Companies, necessary stamp duty, registration fees and filing fees 'are to be paid. The Registrar will examine these documents and if he is satisfied with the documents, he will enter the name of the company in the Registrar and will issue to the company its birth certificate called the "Certificate of Incorporation".

3. Capital Subscription

A private company and a public company not having any share capital can commence business immediately after obtaining the Certificate of Incorporation, but a public company having a share capital can commence business only after obtaining another certificate called the 'Certificate of Commence Business' from the Registrar of companies. Hence, a public company having a share capital has to undergo two additional stages, namely

1. The subscription stage and
2. Commencement of business stage.

In the capital subscription stage, the company has to make arrangements for obtaining the necessary capital of the company. For this purpose, immediately after getting the certificate of incorporation, the company convenes a board meeting to deal with the following business:

1. Appointment or confirmation of the appointment of the secretary if one has already been appointed by the promoters at the promotion stage.
2. Adoption of preliminary contracts.
3. Appointment of bankers, solicitors, legal advisors, brokers, auditors, etc.,
4. Adoption of draft prospectus or statement in lieu of prospectus.
5. Listing shares on the stock exchange.
6. Adoption of underwriting contracts.

Adoption of Preliminary Contracts

Before registering the company, the promoters enter into several contracts on behalf of the proposed company such as contract for the purchasing of properties and assets, or contract for purchasing existing business, if any. As these contracts were entered into by the promoters, when the company was not in existence, they become valid only when they are ratified by the company. Hence, these contracts are ratified in the first board meeting of the company.

Appointment of Bankers

According to the Companies Act, all money received by the company with the application for shares must be deposited in a scheduled bank. Hence, before issuing prospectus, the Board of Directors appoint bankers by passing a resolution to that effect. For opening an account with the bank, the secretary has to make an application to the bank along with a copy of the memorandum of association, certificate of incorporation, a certified copy of the board resolution authorizing the opening of a bank account and specimen signatures of the persons who operate the account.

4. Commencement of Business

A public company cannot commence business without obtaining from the Registrar a certificate called 'certificate to commence business'. To obtain this certificate the following conditions must be fulfilled:

1. A prospectus or a 'statement in lieu of prospectus' has to be filed with the Registrar of companies. A statement in lieu of prospectus has to be prepared by those companies, which do not find it necessary to issue a prospectus for the issue of their shares. The statement must include all the information which a prospectus must contain under the law; that is:
2. The number of shares allotted is not less than the minimum subscription mentioned in the prospectus (or a statement in lieu of prospectus).
3. The directors have taken up and paid for their qualification shares. The amount paid on a share by them is not less than the amount paid by other members.
4. The declaration that no money is liable to become refundable to applicants for shares for reason of failure on the part of the company to apply for, or to obtain permission for, the shares or debentures dealt in any recognized stock exchange.

5. A declaration by one of the directors or the secretary, or secretary in whole time to the effect that all the conditions regarding the commencement of business have been complied with.
6. An application must be made by the company to the register of companies requesting him to agent the Business Commencement Certificate

Minimum Subscription

The minimum subscription is the minimum amount, which in the opinion of the directors or signatories to the memorandum, is required to commence business. In the case of a public company the registrar will issue the certificate to commence business only when the amount raised by allotting shares, is not less than the amount equivalent to the minimum subscription mentioned in the prospectus.

The amount fixed, as 'minimum subscription' must be sufficient to provide for:

- (a) Purchase price of any property bought or to be bought;
- (b) Preliminary expenses and commission payable by the company;
- (c) The repayment of sums borrowed to provide for the foregoing;
- (d) Working capital; and
- (e) Any other expenditure.

Certificate of Commence of the Business

The Registrar after receiving the declaration of compliance with the provisions of Section 149 from the secretary or one of the directors along with the required filing fees, will scrutinize the declaration and, if satisfied, will issue a certificate to commence business. From the date of the issue of this certificate, the company is entitled to commence business and also empowered 'to exercise its borrowing powers.

Further the company should get this certificate within one year of its incorporation. All contracts entered into between the date of incorporation and the date of commencement of business are provisional and would become binding on the company automatically only after it is entitled to commence business.

Duties of the Secretary before and after incorporation

Duties before incorporation

Before incorporation, the secretary has to assist the promoters in performing preparatory work and in fulfilling many legal formalities. He has to assist the promoters in convening and conducting meetings, drawing up preliminary contracts and documents required for registration. At this stage, he may also take the help of specialists such as a solicitor and a chartered accountant. The duties to be performed by the secretary before incorporation are as follows:

1. To help the promoter in making a detailed, investigation of the proposed venture.

2. If necessary, on the advice of the promoters to secure the opinion of the experts in different fields on the proposed venture.
3. To help the promoters in drawing up the financial plan for the proposed venture.
4. To attend to all preliminary meetings of the promoters, keep a record of proceeding of their meetings and to help in the discussion
5. To secure the approval of the Registrar for the proposed name of the venture.
6. To help the promoters in the preparation of preliminary contracts
7. To help the promoters in the drafting and finalizing of documents such as memorandum, articles of association etc.,
8. To follow the guidelines issued by SEBI
9. To see that all requirements of the Acts as to incorporation and registration are complied with and that documents such as memorandum, articles, etc., with the required stamp duty, filing fees and registration charges are duly filed with the Registrar.
10. To collect the certificate of incorporation from the Registrar.
11. To send a notice of the registered address of the company to the Registrar within 30 days of the date of registration.

Duties of the Secretary after Incorporation:

1. To make himself thoroughly conversant with the contents of the memorandum and articles of association.
2. To prepare the draft of prospectus or statement in lieu of prospectus.
3. To call the first board meeting and get the draft prospectus, preliminary contract etc., approved by the board.
4. To see that his own appointment is made and confirmed at the first board meeting
5. To get the necessary resolution passed for the appointment of bankers, legal advisers and other responsible officers of the company.
6. To arrange for the listing of securities of the company
7. To arrange for the opening of a bank account as per the directors of the board.
8. To secure the necessary forms and stationery and to arrange for the preparation of the common seal of the company.
9. To see that the prospectus or statement in lieu of prospectus is filed with the Registrar and to arrange for the issue of the prospectus to the public.
10. To arrange with the bankers to receive the application money from the intending investors
11. To arrange a board meeting as soon as the minimum subscription is reached and to get the necessary resolution passed for allotment of shares.
12. To arrange for the refund of application money to those who have not been allotted shares.
13. To issue letters of allotment/regret to applicants as per the decision of the board.
14. To see that all the legal requirements for commencement of business are complied with.
15. To see that a declaration is filed with the Registrar by one of the directors or the secretary himself, stating that the conditions required to be fulfilled for getting the certificate of commencement of business have been complied with

Possible Questions
PART-A

1	The term company is defined under which sec of the Act?	Sec 3 (1)	Sec 4 (2)	Sec 2 (4)	Sec 1 (3)	Sec 3 (1)
2	Property of the company belongs to	Company	Share holders	Members	Promoters	Company
3	Which company shares can be freely transferable	Private Company	Public Company	Both (a) & (b)	holding company	Private Company
4	Minimum number of members in case of public company	1	2	5	7	7
5	Minimum number of members in case of private company is	1	2	3	2	2
6	Maximum no. of members in case of private company is	50	100	150	200	50
7	Maximum no. of members in case of public company is	10	unlimited	50	100	unlimited
8	How many months did the company can continue its business u/s 45	1	2	5	6	6
9	Minimum subscription should be received with in _____ days	120	125	130	135	120
10	If minimum subscription is not received application money should be refunded with in _____ days	20	25	30	10	10
11	Liability of a member in case of a private company is	Limited	Unlimited	Both (a) & (b)	limited gurantee	Unlimited
12	Maximum no. of persons in case of partnership	10	20	30	5	10

	banking business					
13	Minimum paid up share capital in case of a private company is	1 Lakh	2 Lakhs	3 Lakhs	4 Lakhs	1 Lakh
14	Minimum paid up share capital in case of a public company is	1 Lakh	3 Lakhs	5 Lakhs	7 Lakhs	5 Lakhs
15	Minimum no. of Directors in case of a public company is	1	2	3	4	3
16	Minimum no. of Directors in case of private company is	1	2	3	4	2
17	Age limit of Directors in case of public company is	65	70	75	80	65
18	Age limit of Directors in case of private company is	65	70	75	No limit	No limit
19	The company's nationality is decided by its	Shareholders	Registered office	Place at books of accounts are kept	investor	Registered office
20	The liability of members if company is limited by guarantee	Unpaid value of shares	Guarantee amount	Unlimited liability	limited liability	Guarantee amount
21	The liability of members if company is limited by shares	Unpaid value of shares	Guarantee amount	Unlimited liability	limited liability	Unpaid value of shares
22	If the company failed to refund application money with in 130 days from the date of issue of prospectus on nonreceipt of minimum subscription who	Company	Directors	Shareholders	secretary	Directors

	will be personally liable.					
23	Transfer of shares in the company is	Restricted	Freely transferable	Prohibited	not transfred	Freely transferable
24	Transfer of shares in the partnership firm is	Restricted	Freely transferable	Prohibited	not transfred	Restricted
25	Generally Company liability is	Limited	Unlimited	Situation does not arise	restricted	Limited
26	Generally partnership firm liability is	Limited	Unlimited	Situation does not arise	restricted	Unlimited
27	Partners are of the firm	Owners	Employers	Agents	manager	Agents
28	XYZ private company had reduced to a single member and continued business more than 6 months. The company's liability will be.	Limited	Unlimited	Guarantee amount	Situation does not arise.	Unlimited
29	In the case of partnership firm. Audit is	Compulsory	Optional	restricted	not restricted	Optional
30	In the case of Company. Audit is	Compulsory	Optional	restricted	not restricted	Compulsory
31	Generally rights and obligations of the company are regulated in	AOA	M.O.A	Partnership deed.	limited	M.O.A
32	Generally rights and obligations of the Partnership firm are regulated in	AOA	M.O.A	Partnership deed.	unlimited	Partnership deed.
33	X is a director who has experience of 20 years on this basis X co. and taken him as a director. Can the X Co. say that the director X experience is company's	Yes	No	Situation does not arise.	restricted	Yes

	experience					
34	A company is named as govt. company if it is holds _____% of paid up share capital	more than 30	more than 40	more than 50	more than 100	more than 50
35	Which companies are exempted to add "Ltd" or "Pvt Ltd" at the end of their name	Private	Govt	Defunct	Association not for profits	Association not for profits
36	If the companies does not increase their paid up capital by 1/5 lakhs with in 2 years such companies are known as	Private	Public	Defunct	Govt Company	Defunct
37	Under which sec. a private company can voluntarily converted into public company	34	44	54	64	44
38	Under which sec. a private company can automatically converted into a public company	34	43	53	35	43
39	Central Government permission is required in case of _____ conversion	Private to public	Public to private	Both (a) & (b)	holding company	Public to private
40	With in how many days prospectus or statement in lieu of prospectus should file with ROC	30	40	20	50	30
41	_____ % of shares should be held by a company in another company so as to become	more than 50	more than 40	more than 30	more than 20	more than 50

	subsidiary					
42	Liability under _____ sec. may be imposed only if it is proved that the companies business has been carried on with a view to defraud the creditors	540	541	542	543	542
43	In case of Non – Profit making Companies notice of general meeting should be given with in _____ days	14	15	21	22	14
44	In case of companies other than Non –Profit making Companies notice of G.M. should be given with in _____ days	14	15	21	22	21
45	According to which sec. name of the company should end with “Ltd” or “Pvt Ltd”	10	11	12	13	13
46	The companies which are formed under special charter granted by the king or queen of England are called	Statutory companies	Registered companies	Chartered companies	holding company	Chartered companies
47	The companies which are formed under special Act. Those companies are called as	Chartered companies	Statutory companies	Registered companies	holding company	Statutory companies
48	The companies which are formed under companies Act. 1956. They will be called as	Chartered companies	Statutory companies	Registered companies	holding company	Registered companies
49	Invitation to public offering shares or debentures in case of private	Prohibited	Restricted	Acceptable	not mandatory	Prohibited

	company					
50	Accepting of deposits from public in case of private company is	Prohibited	Restricted	Acceptable	not mandatory	Prohibited
51	Maximum paid up capital in case of public company.	50 Lakhs	100 Lakhs	125 Lakhs	5lakhs	5lakhs
52	Y Pvt.Co. is subsidiary of X Co. which is a public Company? Mention Y is a	Private Co	Public Co.	Government Co.	holding company	Public Co.
53	Transfer of shares in the case of public company is	Prohibited	Restricted	Freely transferable	Illegal	Freely transferable
54	XYZ Co, is having 15% share capital held by X Company and 50% held by Central Government and 10% held by State Government and 25% held by other people then that company will be	Government Company	Private Company	Public Company	holding company	Government Company
55	XYZ Co, is having 10% share capital held by another Public Company and 35% held by Central Government and 55% held by people then that Company is	Government Company	Private Company	Public Company	charter company	Government Company
56	Which of the following companies must file a statement in lieu of prospectus?	A private limited company	A cooperative society .	C. A company that has issued a prospectus .	A public company that has not issued a prospectus .	A public company that has not issued a prospectus .
57	A foreign company means a company incorporated	A outside, outside	in, in .	. in , outside .	outside, in	outside, in

	_____India and having a place of business _____ India .					
58	A/an _____may become a director of a company	partnership firm	. person of unsound mind	individual .	body corporate .	individual .
59	How many directors of a public company, unless the articles provide otherwise, must be appointed by the company in general meeting	All the directors	One half of the directors .	Two-thirds of the directors	Three- fourths of the directors .	Two-thirds of the directors
60	The _____constitute the top administrative organ of the company. .	A general manager	shareholders.	board of directors .	advisory panel .	board of directors .

Final Accounts - Statement of Profit and Loss and Balance sheet of Corporate Entities
(Excluding Calculation of Managerial Remuneration) - Disposal of Company Profits

A limited company must prepare every year the Profit and Loss Account and the Balance Sheet. Section 209 makes it compulsory for a company to keep certain books of account. Section 210 governs the preparation of the final accounts. The important portions of this section read as follows: -

- (1) At every annual general meeting of the company held in pursuance of section 166, the Board of Directors of the company shall lay before the company –
 - (a) The balance sheet as at the end of the period specified in sub-section (3); and
 - (b) A profit and loss account for the period
- (2) In case of a company not carrying on business for profit, an income and expenditure account shall be laid before the company at its annual general meeting instead of profit and loss account, and all references to ‘profit and loss account’, ‘profit’ and ‘loss’ in this section and elsewhere in this Act, shall be construed, in relation to such a company, as references respectively to the ‘income and expenditure account’, ‘the excess of income over expenditure’ and ‘the excess of expenditure over income’.
- (3) The profit and loss account shall relate –
 - (a) In the case of the first annual general meeting of the company, to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than nine months; and
 - (b) In the case of any subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which the account was last submitted and ending with a day which shall not precede the day of the meeting by more than six months, or in case where an extension of time has been granted for holding the meeting under the second

provision to sub-section (1) of section 166, by more than six months and the extension so granted.

- (4) The period to which the account aforesaid relates is referred in this Act as a 'financial year', and it may be less or more than a calendar year, but it shall not exceed fifteen months:

Legal Position Regarding Final Accounts of Companies

Section 210 to 220 of the Companies Act, 1956 deal with the legal position relating to the final accounts of joint stock companies. A brief mention of these legal provisions is given below:

Section 210. It deals with the preparation and presentation of the final accounts of a joint stock company.

Section 211. It deals with form of contents of the Balance Sheet and Profit and Loss Account.

Section 212. It deals with the disclosure of certain particulars in the Balance Sheet of a holding company in respect of its subsidiaries.

Section 213. It makes provision for extension of the financial year of the holding company and subsidiary.

Section 214. It makes provisions regarding rights of holding company's representatives and members to inspect books of accounts kept by any of its subsidiaries.

Section 215. As per this section, the Balance Sheet and Profit and Loss Account of a company shall be authenticated, (i.e., signed) on behalf of the Board of Directors by its manager or secretary, if any, and by not less than two directors of the company, one of whom shall be a managing director, where there is one.

Section 216. As per this section, the Profit and Loss Account shall be treated as an annexure to the Balance Sheet and the auditors' report as an enclosure thereto.

Section 217. The report of the Board of Directors shall be attached to every Balance Sheet laid before the shareholders in general meeting.

Section 218. It provides for penalty for improper issue, circulation or publication of Balance Sheet or Profit and Loss Account.

Section 219. It deals with the right of the member to copies of Balance Sheet and Profit and Loss Account, auditors' report and every other document required by law to be

annexed or attached to the Balance Sheet, which is to be presented in the general meeting.

Section 220. According to this section, three copies of Balance Sheet and Profit and Loss Account be filed with the Registrar within 30 days after the annual general meeting.

Preparation and Presentation of the Final Accounts:

In respect of preparation and presentation of the final accounts the requirements of Section 210 of the Companies Act are quoted below:

- (1) At every annual general meeting of a company in pursuance of section 166, the Board of Directors of the company shall lay before the company :
 - (a) A balance sheet as at the end of the period specified in sub-section (3); and (b) a profit and loss account for that period.
- (2) In case of a company not carrying on business for profits, an income and expenditure account shall be laid before the company at its annual general meeting instead of profit and loss account and all references to “profit and loss account”, “profit” and “loss” in this and elsewhere in this Act shall be construed, in relating to such a company as references respectively to the “income and expenditure account”, “the excess of income over expenditure” and “the excess of expenditure over income”.
- (3) The profit and loss account shall relate :
 - (a) In the case of the first annual general meeting of the company to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than nine months: and
 - (b) In the case of any subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which the account was last submitted and ending with a day which shall not precede the day of the meeting by more than six months or in case where an extension of time has been granted for holding the meeting under the second provision to sub-section (1) of section 166, by more than six months and the extension so granted.
- (4) The period to which the account aforesaid relates is referred to in this Act as a financial year and it may be less or more than a calendar year, but it shall not exceed fifteen months.

Provided that it may extend to eighteen months where special permission has been granted in that behalf by the registrar.

- (5) If any person, being a director of a company, failure to take all reasonable steps to comply with the provisions of this section, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees or with both:

Provided that in case of any proceedings against a person in respect of an offence under this section, it shall be a defense to prove that a competent and reliable person was charged with the duty of seeing that the provision of this section were complied with and was in a position to discharge that duty.

Provided further that no person shall be sentenced to imprisonment for any such offence unless it was committed willfully.

- (6) If any person, not being a director of the company, having been charged by the Board of Directors with the duty of seeing that the provisions of this section be complied with, makes default in doing so, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees or with both:

Provided that no person be sentenced to imprisonment for any such offence unless it was committed willfully.

FINAL ACCOUNTS

So far, we have discussed that how the business transactions are recorded in Journal and

ledger and how to detect and rectify the errors and how to prepare Trial Balance. Is quite natural that the businessman is interested in knowing whether his business is running on Profit or Loss and also the true financial position of his business. The main aim of Bookkeeping is to inform the Proprietor, about the business progress and the financial position at the right time and in the right way. Preparation of Final accounts is highly possible only after the preparation of Trial Balance.

Final Accounts

Trading & Profit and Loss A/c Balance sheet

1. Trading and Profit and Loss A/c is prepared to find out Profit or Loss.
2. Balance Sheet is prepared to find out financial position a if concern.

Trading and P&L A/c and Balance sheet are prepared at the end of the year or at end of the part. So it is called Final Account.

Revenue account of trading concern is divided into two-part i.e.

1. Trading Account and
2. Profit and Loss Account.

1.5 TRADING ACCOUNT

Trading refers buying and selling of goods. Trading A/c shows the result of buying and

selling of goods. This account is prepared to find out the difference between the Selling prices and Cost price. If the selling price exceeds the cost price, it will bring Gross Profit. For example, if the cost price of Rs. 50,000 worth of goods are sold for Rs. 60,000 that will bring in Gross Profit of Rs. 10,000. If the cost price exceeds the selling price, the result will be Gross Loss. For example, if the cost price Rs. 60,000 worth of goods are sold for Rs. 50,000 that will result in Gross Loss of Rs.10, 000.

Thus the Gross Profit or Gross Loss is indicated in Trading Account.

Items appearing in the Debit side of Trading Account.

1. Opening Stock: Stock on hand at the commencement of the year or period is termed as the Opening Stock.
2. Purchases: It indicates total purchases both cash and credit made during the year.
3. Purchases Returns or Returns outwards: Purchases Returns must be subtracted from the total purchases to get the net purchases. Net purchases will be shown in the trading account.
4. Direct Expenses on Purchases: Some of the Direct Expenses are.
 - i. Wages: It is also known as Productive wages or Manufacturing wages.
 - ii. Carriage or Carriage Inwards:
 - iii. Octroi Duty: Duty paid on goods for bringing them within municipal limits.
 - iv. Customs duty, dock dues, Clearing charges, Import duty etc.
 - v. Fuel, Power, Lighting charges related to production.

vi. Oil, Grease and Waste.

vii. Packing charges: Such expenses are incurred with a view to put the goods in the

Saleable Condition.

Items appearing on the credit side of Trading Account

1. Sales: Total Sales (Including both cash and credit) made during the year.
2. Sales Returns or Return Inwards: Sales Returns must be subtracted from the Total Sales to get Net sales. Net Sales will be shown.
3. Closing stock: Generally, Closing stock does not appear in the Trial Balance. It appears outside the Trial balance. It represents the value of goods at the end of the trading period.

PROFIT AND LOSS ACCOUNT

Trading account reveals Gross Profit or Gross Loss. Gross Profit is transferred to credit

side of Profit and Loss A/c. Gross Loss is transferred to debit side of the Profit Loss Account. Thus Profit and Loss A/c is commenced. This Profit & Loss A/c reveals Net Profit or Net loss at a given time of accounting year.

Items appearing on Debit side of the Profit & Loss A/c

The Expenses incurred in a business is divided in two parts. i.e. one is Direct expenses are

Recorded in trading A/c., and another one is Indirect expenses, which are recorded on the debit side of Profit & Loss A/c. Indirect Expenses are grouped under four heads:

1. Selling Expenses: All expenses relating to sales such as Carriage outwards, Travelling

Expenses, Advertising etc.,

2. Office Expenses: Expenses incurred on running an office such as Office Salaries, Rent, Tax,

Postage, Stationery etc.,

3. Maintenance Expenses: Maintenance expenses of assets. It includes Repairs and Renewals,

Depreciation etc.

4. Financial Expenses: Interest Paid on loan, Discount allowed etc., are few examples for

Financial Expenses.

Item appearing on Credit side of Profit and Loss A/c.

Gross Profit is appeared on the credit side of P & L. A/c. Also other gains and incomes of

the business are shown on the credit side. Typical of such gains are items such as Interest

received, Rent received, Discounts earned, Commission earned.

Preparation Of And Presentation Of Final Accounts Of Joint Stock Companies As Per Company Law Requirements - Proforma

SCHEDULE VI, PART II

Form of Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Opening Stock	xxx	By Sales	
To Purchases		xxx	xxx
Less: Purchas Returns	xxx	Less: Sales Returns	
To Freight and Carriage	xxx	xxx	
To Wages	xxx	By Closing Stock	
To Coal & Coke	xxx		
To Gross Profit c/d	xxx		
	xxx		
To Salaries	xxx		xxx
To Rent	xxx		xxx
To Discount	xxx		xxx
To Commission	xxx	By Gross Profit b/d	xxx
To Advertisement	xxx	By Interest Received	xxx
To General Expenses	xxx	By Rent Received	xxx
To Directors' Fees	xxx	By Discount	xxx
Too Bad Debts		By Commission	
To Loss on sale of assets		By Profit on sale of Assets	
To Depreciation			
To Preliminary Expenses			

To Provision for Income Tax To Net Profit c/d			
	xxx		xxx

PROFIT AND LOSS APPROPRIATION ACCOUNT:

The profit and loss appropriation account may be separately prepared to give details regarding the balance of profit and loss brought forward from last year , the net profit (loss) earned during year and appropriation made during the year.

Proforma Of Profit And Loss Appropriation Account

Profit and loss appropriation account ofco. Ltd.

(as on 31 march, 20.....)

particulars	Rs.	particulars	Rs.
To Transfer to Reserves	Xxx	By Last year's Balance b/d	Xxx
To Income Tax for previous year not provided for	Xxx	By Net Profit for the year b/d	Xxx
To Interim Dividend	Xxx	By Amount withdrawn from General Reserve or any other reserve	Xxx
To Proposed dividend	Xxx	By Provision such as Income Tax provision no longer required	xxx
To Surplus (Balance figure) carried to Balance Sheet	xxx		

PROBLEMS IN PROFIT AND LOSS APPROPRIATION ACCOUNT

Illustration:1

The accounts of the thackery Ltd an amount of Rs3,00,000 to the credit of profit & loss account on 31.3.1998 out of which the directors decided to place Rs60,000 to general reserve and Rs42,000 to debentures redemption fund. At the annual general meeting held on 15.6.1998 , it was decided to place Rs20,000 to a development reserve and to pay a bonus of 2.5 % of the profit to directors as additional remuneration. The payment of the half-yearly dividends on Rs5,00,000 6% cumulative preference shares on Sept 30,1997 and march,31,1998 was confirmed and a dividend@10% was declared on the equity share capital of the face value of Rs6,00,000 . The balance of profit & loss account is to

be carried forward to next year. Prepare profit & loss Appropriation account showing the above arrangements

Solution:

Profit and loss appropriation account for the year ended 31.3.1998

Particulars	Amount	Particulars	Amount
To general reserve	60,000	By net profit as per P& L A/c	3,00,000
To debenture redemption fund	42,000		
To development reserve A/c	20,000		
To director's remuneration (2.5 % on Rs3,00,000)	7500		
To preference share dividend A/c (6% on Rs5,00,000)	30,000		
To equity share dividend A/c (10% on Rs 6,00,000)	60,000		
To balance of profit carried forward to B/S	80500		
	3,00,000		3,00,000

Illustration:2

Klusener Ltd had Rs21, 00,000 profit on 31.3.1998 after making provisions for depreciation and taxation Rs1, 30,400, profit was brought forward from last year. Following recommendations were made by the directors of the company to appropriate the profits:

To transfer Rs6, 30,000 to general reserve

To pay Rs85, 000 as ex-gratia bonus to employees of the company

To declare dividend @5% on equity shares

To transfer Rs45, 000 to staff gratuity reserve

To transfer Rs 50,000 to development rebate reserve

To transfer Rs90, 000 to deferred taxation reserve

The company's capital consisted of 1,00,000 equity shares of Rs10 each fully paid. For the year ending at 31.3.98, the directors transferred Rs40, 000 to dividend equalization reserve and Rs30,000 to debenture redemption fund account. Prepare profit & loss Appropriation account.

Solution:

Profit and loss appropriation account for the year ended 31.3.1998

Particulars	Amount	Particulars	Amount
To proposed bonus	85,000	by balance b/d	1,30,400
To proposed transfer to general reserve	6,30,000	By net profit for the year	21,00,000
To proposed dividend $10,00,000 \times 5/100$	50,000		
To staff gratuity reserve	45,000		
To development rebate reserve	50,000		
To deferred taxation reserve	90,000		
To dividend equalization reserve	40,000		
To debenture redemption fund A/c	30,000		
To balance carried forward to B/S	12,10,400		
	22,30,400		22,30,400

Managerial remuneration:

Remuneration paid to managerial personnel , viz , directors, managing director and manger, is subject to regulation. It does not include the remuneration payable to technical advisors or secretaries.

According to section 198 of the Companies Act, 1956 the total managerial remuneration payable by a public company or a private company which is subsidiary of a public company to its directors and its manager in respect of any financial year shall not exceed 11% of the net profits of that company for the financial year .

FORMAT SHOWING

Statement of profit for the purpose of managerial remuneration

Particulars	Amount	Amount
Net profit (given)		Xxxxx
Add:		
Special depreciation	Xxxx	
Provision for income tax	Xxxx	
Ex-gratia payment to a worker	Xxxx	
Capital expenditure	xxxx	
Development rebate reserve	Xxxx	
Loss on sale on investment	Xxxx	
Proposed dividend	Xxxx	
Provision for bad & doubtful debts	xxxx	xxxxx
Less:		
Capital profit on sale of assets, investments	Xxxx	xxxx
Net profit for managerial remuneration		xxxxx

The maximum remuneration payable to different categories of managerial personnel , as stated above can be summarized as follows:

Managerial personnel	Maximum % of net profits
Maximum remuneration to all the managerial personnel	11%
Manager	5%
Managing directors or whole time director	5%
Managing directors or whole time directors when there is more than one	10%
Part time directors when the company is not having managing director, whole time director or manager	3%
Part time directors when assisted by a	1%

managing directors, whole time directors or manager	
-----------------------------------------------------	--

PROBLEMS IN MANAGERIAL REMUNERATION

Illustration:3

From the following particulars, determine the ,maximum remuneration available to a full time director of a manufacturing company. The profit and loss account of the company showed a net profit of Rs 40, 00,000. After taking into account the following items:

Particulars	Amount
Deprecation (including deprecation of Rs40,000)	1,00,000
Provision for income tax	2,00,000
Donation to political parties	50,000
Ex-gratia payment to a workers	10,000
Capital profit on sale of assets	15,000

Solution:

Statement of profit for the purpose of managerial remuneration

Particulars	Amount	Amount
Net profit(given)		40,00,000
Add:		
Special deprecation	40,000	
Provision for income tax	2,00,000	
Ex-gratia payment to a worker	10,000	2,50,000
Less:		
Capital profit on sale of assets	15000	15000
Net profit for managerial remuneration		42,35,000

Commission to full-time director at maximum 5%permitted by law

$$42,35,000 \times 5/100 = \text{Rs } 2,11,750$$

Illustration:4

From the following calculate the maximum commission permissible to part-time directors:

When company not having managing director, or manager, or whole-time director:

Profit and loss account

Particulars	Amount	Particulars	Amount
To bonus paid to a foreign technician	20,000	By gross profit	36,41,000
To repairs	5,000	By profit on sale of building	80,000
To interest on debentures	10,000		
To donation to the university	75,000		
To compensation to an injured man	5,000		
To provision for taxation	8,50,000		
To loss on sale of the vehicle	6,000		
Net profit	27,50,000		
	37,21,000		37,21,000

Solution:**Statement showing profits for managerial remuneration**

Particulars	Amount
Net profit (given)	27,50,000
Add:	
Provision for taxation	8,50,000
Less:	
Capital profit	80,000
Net profit for managerial remuneration	35,20,000

Part time directors when the company

is not having managing director,

whole time director or manager

$$= 35,20,000 \times 3/100 = \text{Rs}105600$$

Illustration 5:

From the following particulars Determine the maximum remuneration available to the manager of B ltd .Before charging any such remuneration , the profit and loss account showed a credit balance of 23,10,000 for the year ended 31st march 1987 after taking into account the following matters:

Particulars	Amount	Particulars	Amount
Capital expenditure	5,25,000	Subsidy from Govt	4,20,000
Special deprecation	70,000	Multiples shift allowances	1,05,000
Bonus to foreign technicians	3,15,000	Provision for taxation	28,00,000
Compensation paid to injured workman	70,000	Ex-gratia to an employee	35,000
Loss on sale of fixed assets	70,000	Profit on sale of investments	2,10,000

Company is providing deprecation as per Sec 350 of the company's act 1956

Solution:

Statement of profit for the purpose of managerial remuneration

Particulars	Amount	amount
Net profit (given)		23,10,000
Add:		
Capital expenditure		5,25,000
Special deprecation		70,000
Provision for taxation		28,00,000
Ex-gratia to an employee		35,000
		57,40,000
Less:		
Profit on sale of investment		2,10,000
Net profit for managerial remuneration		55,30,000

Managerial remuneration @5% on 55,30,000

$$= 55,30,000 \times 5/100 = 55,300$$

BALANCE SHEET

Trading A/c and Profit & Loss A/c reveals G.P. or G.L and N.P or N.L respectively,

Besides the Proprietor wants

- To know the total Assets invested in business
- To know the Position of owner's equity
- To know the liabilities of business.

DEFINITION

The Word 'Balance Sheet' is defined as "a Statement which sets out the Assets and Liabilities of a business firm and which serves to ascertain the financial position of the same on

any particular date." On the left hand side of this statement, the liabilities and capital are shown. On the right hand side, all the assets are shown. Therefore the two sides of the Balance sheet must always be equal. Capital arrives Assets exceeds the liabilities.

OBJECTIVES OF BALANCE SHEET:

1. It shows accurate financial position of a firm.
2. It is a gist of various transactions at a given period.
3. It clearly indicates, whether the firm has sufficient assets to repay its liabilities.
4. The accuracy of final accounts is verified by this statement
5. It shows the profit or Loss arrived through Profit & Loss A/c.

SCHEDUL VI, PART I

(SECTION 211)

FORM OF BALANCE SHEET

A. HORIZONTAL FORM

Balance Sheet of (here enter the name of the company)

As on (here enter the date as at which the balance sheet is made out)

Figures for the previous year Rs. (1)	Liabilities (2)	Figures for the current year Rs. (3)	Figures for the previo us year Rs. (4)	Assets (5)	Figures for the current year Rs. (6)
	Share Capital: Authorized ... shares of Rs.each Issued: Shares of Rs. Each Subscribed: Shares of Rs. each.			Fixed Assets: (a) Goodwill (b) Land (c) Buildings (d) Leaseholds (e) Railway sidings (f) Plant and machinery (g) Furniture and	

	<p>Less: Calls Unpaid:</p> <p>(i) By Directors (ii) By others</p> <p>Add: Forfeited Shares</p> <p>Reserves and Surplus:</p> <p>1.Capital Reserve</p> <p>2.Capital Redemption Reserve</p> <p>3.Share premium A/c</p> <p>4. Other Reserves</p> <p>5. Surplus</p> <p>6. Proposed additions to Reserve</p> <p>7. Sinking funds</p> <p>Secured Loans:</p> <p>1.Debentures</p> <p>2.Loans and advances from Banks</p> <p>3.Loans and advances from subsidiaries</p> <p>4. Other loans and advances</p> <p>Unsecured Loans:</p> <p>1Fixed Deposits</p> <p>2.Loans and advances from subsidiaries</p> <p>3. Short term Loans and Advances</p> <p>4. Other loans and advances</p> <p>Current Liabilities</p>		<p>Fittings</p> <p>(h) Development of Property</p> <p>(i) Patents, trademarks and designs</p> <p>(j) Livestock</p> <p>(k) Vehicles etc.,</p> <p>Investments:</p> <p>1. Investment in Government or trust securities</p> <p>2. Investments in shares, debentures and bonds</p> <p>3. Immovable properties</p> <p>4. Investments in the capital of partnership firms</p> <p>Current assets, Loans and Advances:</p> <p>(A)Current Assets</p> <p>1. Interest accrued on investments</p> <p>2. Stores and Spare Parts</p> <p>3. Loose tools</p> <p>4. stock in Trade</p> <p>5. Work in progress</p> <p>6. Sundry Debtors</p> <p>7. Cash in hand and at bank</p> <p>(B) Loans and Advances:</p> <p>8. Advances and loans to subsidiaries</p> <p>9. Advances and loans to partnership</p> <p>10. Bills of Exchange</p> <p>11. Balances with customs, port trust etc.,</p> <p>Miscellaneous</p>	
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	and Provisions: A. Current Liabilities 1.Acceptances 2.Sundry Creditors 3.Subsidiary Companies 4. Advance payments 5. Unclaimed dividends 6. Other Liabilities 7. Interest accrued but not due on loans B. Provisions 1.Provision for Taxation 2.Proposed Dividend 3.For Contingencies 4.For proposed fund scheme 5.For insurance, pension and similar staff benefit schemes 6.For Provident Fund scheme 7. Other Provisions			Expenditure: 1.Preliminary Expenses 2.discount on issue of Shares 3. Underwriting Commission 4. Development Expenditure Profit and Loss Account	
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VERTICAL FORM OF BALANCE SHEET

Vertical form of Balance sheet inserted as Part B of Part I of Schedule VI to the Companies Act, 1956 by GSRNo.220 (E) dated 12 – 03 – 1979 is as follows:

B. VERTICAL FORM

Name of the Company

Balance Sheet as at

(1)	Schedule No. (2)	Figures as at the end of current financial year (3)	Figures as at the end of previous financial year (4)
I.SOURCES OF FUNDS (1) Shareholders' Funds: (a) Capital (b) Reserves and Surplus (2) Loan funds: (a) Secured Loans (b) Unsecured Loans II. APPLICATION OF FUNDS (1) Fixed assets: (a) Gross block (b) Less Depreciation (c) Net block (d) Capital work-in-progress (2) Investments (3) Current Assets, Loans and Advances: (a) Inventories (b) Sundry Debtors (c) Cash and bank balance (d) Other current assets (e) Loans and advances Less: Current liabilities and Provisions (a) Liabilities (b) Provisions Net Current Assets (1) (a) Miscellaneous Expenditure to the extent Not written off or			

Adjusted			
(c) Profit and Loss Account			
Total			

Meaning for the following important terms

‘provision’, reserves, capital reserves

Provision : Mean any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets, or retained by providing for any known liability of which the amount cannot be determined with substantial accuracy.

Reserves: It includes any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability.

Capital reserve: It include any amount regarded as free for distribution through the profit and loss account, and the expression ‘revenue reserve’ mean any reserve other than capital reserve .

‘Dividend’ : The expression dividends has two meanings, applied to accompany, which is a going concern, it ordinarily means that portion of the profits of the company which is allocated to the holders of the shares in the company. In case of a winding up, it means a division of the realized assets among the creditors and contributories according to their respective rights. The some of the legal provisions relating to dividend are as follows:

Dividend is paid in proportion to the amounts paid up on each shares,

Dividend should be paid even on call-in arrears unless prohibited by the articles and

Dividend must be paid in cash unless it is capitalized by issuing bonus shares.

Dividend must be paid within 42 days of declaration.

Calls –in- advance should not be considered for dividend purpose.

Dividend is paid only to registered shareholders or on his order to his banker. In case where shares are converted into warrants, the bearer of the warrants is entitled to dividend

Interim dividend: It is a dividend paid between two annual general meetings. In the middle of the year before ascertainment of the profit for the year. Directors have full authority to pay interim dividend in anticipation of profit for the year. Directors will be personally liable to reimburse the interim dividend paid, if there are no profits at the end of the financial period. This dividend is usually paid in six months and can be declared and paid only if the depreciation for the full year has already been provided. If the interim dividend is paid without sufficient profits then it amounts to payments of dividends out of capital and directors are liable to make good the amount.

Illustration 6 : Prepare a Balance Sheet in Vertical form as at 31st March, 2010 from the following information of Goodwill Company Limited as required under Part I B of Schedule VI of the Companies Act, 1956 :

	Rs.
Term loan	10, 00,000
Sundry Creditors	11, 45,000
Advances	3, 72,000
Cash and Bank Balances	2, 75,000
Staff Advances	55,000
Provision for Taxation	1, 70,000
Securities Premium	4, 75,000
Loose tools	50,000
Investments	2, 25,200
Loss for the year	3, 00,000
Sundry Debtors	12, 25,000
Miscellaneous Expenses	58,000
Loans from debtors	2, 00,000
Provision for doubtful debts	20,200
Stores	4, 00,000
Fixed assets (WDV)	51, 50,000
Finished goods	7, 50,000
General Reserve	20, 50,000
Capital work – in – progress	2, 00,000

Additional Information:

- (1) Share capital consists of :
 - (a) 3,000 Equity Shares of Rs. 100 each fully paid up.
 - (b) 10,000 – 10% Redeemable Preference Shares of Rs. 100 each fully paid up.
- (2) Term loans are secured
- (3) Depreciation on assets Rs. 5,00,000
- (4) Schedule need not be given. However, groupings should form part of the answer.

Solution :

Goodwill Company Limited
BALANCE SHEET
As on 31st March, 2010

		As on 31-3-10	As on 31-3-10
Sources of Funds			
1. Shareholders' Funds :			
(a) Share Capital		13,00,000	
(b) Reserves and Surplus		25,25,000	38,25,000
2. Loans Funds :			
(a) Secured Loans		10,00,000	
(b) Unsecured Loans		Nil	10,00,000
3. Suspense Account (Balancing figure)			27,00,000
			<u>75,25,000</u>
Application of Funds			
1. Fixed Assets:			
(a) Gross Block		56,50,000	
(b) Less : Depreciation		5,00,000	
(c) Net Block		51,50,000	
(d) Capital work-in-progress		2,00,000	53,50,000
2. Investments			2,25,200
3. Current Assets, Loans & Advances			
(a) Inventories		12,00,000	
(b) Sundry Debtors		12,04,800	
(c) Cash and Bank Balances		2,75,000	
(d) Loans and Advances		4,27,000	
		<u>31,06,800</u>	
Less : Current Liabilities & Provisions :			
(a) Current Liabilities	13,45,000	15,15,000	
(b) Provisions	<u>1,70,000</u>		15,91,800
4. Miscellaneous Expenditure :			
(a) Profit and Loss Account		3,00,000	
(b) Miscellaneous Expenses		58,000	3,58,000
			<u>75,25,000</u>

Working Notes:

Rs.

1. Share Capital:

3,000 Equity Shares of Rs. 100 each

3, 00,000

10,000 – 10% Redeemable Preference Shares of Rs. 100 each	10, 00,000

	13, 00,000

2. Reserves and Surplus:	
Securities Premium	4, 75,000
General Reserve	20, 50,000

	25, 25,000

3. Fixed assets:	
Fixed Assets at WDV	51, 50,000
Add: Depreciation	5, 00,000

	56, 50,000

4. Inventories:	
Finished Goods	7, 50,000
Stores	4, 00,000
Loose Tools	50,000

	12, 00,000

5. Sundry Debtors:	12, 25,000
Less: Provision for Doubtful Debts	20,200

	12, 04,800

6. Loans and Advances:	
Advances	3, 72,000
Staff Advances	55,000

	4, 27,000

7. Current Liabilities :	
Sundry Creditors	11, 45,000
Loans from Debtors	2, 00,000

	13, 45,000

Illustration 7 The Arun Manufacturing Company Limited was registered with a nominal capital of Rs. 60,00,000 in Equity Shares of Rs. 10 each. The following is the list of balances extracted from its books on 31st March 2009:

	Rs.
Calls-in-arrear	75,000
Premises	30,00,000

Plant and Machinery	33,00,000
Interim dividend paid on 1 st November, 2008	3,92,500
Stock, 1 st April, 2008	7,50,000
Fixtures	72,000
Sundry Debtors	8,70,000
Goodwill	2,50,000
Cash in hand	7,500
Cash at Bank	3,99,000
Purchases	18,50,000
Preliminary Expenses	50,000
Wages	8,48,650
General Expenses	68,350
Freight and Carriage	1,31,150
Salaries	1,45,000
Directors' Fees	57,250
Bad Debts	21,100
Debenture interest paid	1,80,000
Share Capital	40,00,000
12% Debentures	30,00,000
Profit and Loss Account (Credit Balance)	2,62,500
Bills Payable	3,70,000
Sundry Creditors	4,00,000
Sales	41,50,000
General Reserve	2,50,000
Bad debts Provision 1 st April, 2008	35,000

Prepare Trading and Profit and Loss Account and Balance Sheet in proper form after making the following adjustments:

- Depreciate Plant and Machinery by 15%.
- Write off Rs. 5,000 from Preliminary Expenses.
- Provide for half year's debenture interest due.
- Leave Bad and Doubtful Debts Provision at 5% on Sundry Debtors.
- Provide for Income Tax @ 50%.
- Stock on 31st March, 2009 was Rs. 9,50,000.

Solution:

**Trading and Profit and Loss Account of Arun Manufacturing Company Limited
As on 31st March, 2009**

	Rs.		Rs.
To Opening Stock	7,50,000	By Sales	41,50,000
To Purchases	18,50,000	By Closing Stock	9,50,000
To Wages	8,48,650		
To Freight and Carriage	1,31,150		

To Gross Profit c/d	15,20,200		
	<u>51,00,000</u>		<u>51,00,000</u>
To Salaries	1,45,000	By Gross Profit b/d	15,20,200
To General Expenses	68,350		
To Directors' Fees	57,250		
To Bad debts			
21,100			
Add: New Provision			
43,500			
-----	29,600		

64,600			
Less: Old Provision	3,60,000		
35,000			

---	4,95,000		
To Debenture interest	5,000		
paid	1,80,000		
1,80,000	1,80,000		
Add: Outstanding	<u>15,20,200</u>		<u>15,20,200</u>
1,80,000	3,92,500		
-----		By Balance b/d	2,62,500
----	50,000	By Net Profit b/d	1,80,000
To Depreciation on Plant and Machinery			
To Preliminary Expenses			
To Provision for Income Tax			
To Net Profit c/d			
 To Interim Dividend			
To Profit Transferred to Balance Sheet			
	4,42,500		4,42,500

Balance Sheet of Arun Manufacturing Company Limited

As on 31st March, 2009

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets:	
Authorized Capital :		Goodwill	2,50,000
6,00,000 Equity Shares of		Premises	30,00,000

Rs. 10 Per share	60,00,000	Plant & Machinery 33,00,000	
Issued Capital :		Less: Depreciation 4,95,000	28,05,000
4,00,000 Equity Shares of Rs.10 per share	40,00,000	-----	
Subscribed & Paid up Capital:		Fixtures	72,000
4,00,000 Equity Shares Of Rs. 10 per share	39,25,000	Investments:	Nil
40,00,000		Current Assets, Loans and Advances :	
Less: Calls in arrears	2,50,000	A. Current Assets:	7,500
75,000	50,000	Cash in hand	3,99,000
-----		Cash at Bank	
Reserves and Surplus:		Sundry Debtors 8,70,000	
General Reserve	31,80,000	Less: Provision for Doubtful Debts 43,500	8,26,500
Profit and Loss account		-----	9,50,000
Secured Loans:	Nil	Stock	Nil
12% Debentures		B. Loans and Advances:	
30,00,000		Miscellaneous Expenditure:	
Add: Interest due		Preliminary Expenses 50,000	45,000
1,80,000	4,00,000	Less: Written Off 5,000	
-----	3,70,000	-----	
--			Nil
Unsecured Loans:	1,80,000	Profit and Loss Account:	
Current Liabilities & Provisions:			
A. Current Liabilities:			
Sundry Creditors			
Bills Payable			
B. Provisions:			
Provision for Income Tax			
	83,55,000		83,55,000

Illustration 8: From the following particulars furnished by **M/S VISHAL LIMITED.,** prepare the Balance Sheet as at 31st March, 2008, as required by Part I Schedule VI of the Companies Act.

Particulars	Dr. Rs.	Cr. Rs.
Equity Share Capital (Rs. 10 each, fully paid up)		10,00,000
Calls in Arrears	1,000	
Land	2,00,000	
Buildings	3,50,000	
Plant and Machinery	5,25,000	
Furniture	50,000	
General Reserve		2,10,000

Loan from State Financial Corporation		1,50,000
Stock :		
Finished Goods		
2,00,000	2,50,000	
Raw Materials		
50,000		68,000
-----	2,00,000	
	42,700	
Provision for Taxation		60,000
Sundry Debtors		1,00,000
Advances	30,000	
Proposed Dividend	2,47,000	
Profit and loss Account	13,000	
Cash Balance		1,21,000
Cash at Bank		2,00,000
Preliminary Expenses		
Loans (Unsecured)		
Sundry Creditors (for Goods and Expenses)		
	19,09,000	19,09,000

The following additional information is also provided : -

- Miscellaneous Expenses included Rs. 5,000 audit fees and Rs. 700 for out of pocket expenses paid to the auditors.
- 2,000 Equity Shares were issued for consideration other than cash.
- Debtors of Rs. 52,000 are due for more than six months.
- The cost of assets :

Buildings	Rs. 4, 00,000
Plant and Machinery	Rs. 7, 00,000
Furniture	Rs. 62,500
- The balance of Rs. 1, 50,000 in the Loan from State Finance Corporation is inclusive of Rs. 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.
- Balance at Bank includes Rs. 2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.
- Bills receivable for Rs. 2, 75,000 maturing on 30th June, 2008, have been discounted.
- The company had contract for the erection of machinery at Rs. 1, 50,000 which is still incomplete.

Solution:

BALANCE SHEET OF M/S VISHAL LIMITED
As on 31st March, 2008

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets :	
Authorized :	?	Land at cost	2,00,000

Issued and Subscribed :		Buildings, at cost	
1,00,000 Equity Shares of Rs. 10	10,00,000	4,00,000	3,50,000
Each (of the above shares, 2,000 equity shares are allotted as fully paid up pursuant to a contract without payment being received in cash)		Less: Depreciation	
Less; Calls-in-arrear	1,000	50,000	5,25,000
	9,99,000	-----	
Reserves and Surplus :	2,10,000	---	
General Reserve	1,00,000	Plant & Machinery	50,000
Profit and Loss Account		Less: Depreciation	Nil
Secured Loans :		1,75,000	
Loan from State Financial Corporation	1,50,000	-----	
1,42,500		Furniture at cost	
Add: Interest accrued	1,21,000	62,500	
7,500		Less: Depreciation	2,50,000
-----		12,500	
---		-----	
Unsecured Loans :		---	
Current Liabilities and Provisions :	2,00,000	Investments :	
A. Current Liabilities :	68,000	Current Assets, Loans and Advances :	
Sundry Creditors for goods and Expenses	60,000	A. Current Assets:	2,00,000
		Stock:	
B. Provisions :		Finished goods	30,000
Provision for Tax		2,00,000	
Proposed Dividend		Raw materials	2,47,000
Contingent Liabilities not Provided for:		50,000	
1. Bills receivable for Rs. 2, 75,000 maturing on 30 th June, 2008 have been discounted.		-----	
2. The company had contract for the erection of machinery at Rs. 1,50,000 which is still incomplete.		---	
		Sundry Debtors	42,700
		(a) Debtors outstanding	
		For more than six Months	13,300
		52,000	
		(b) Other Debtors	
		1,48,000	

		Cash Balance	
		Cash at Bank :	
		(a) Scheduled Banks	
		2,45,000	
		(b) Others	
		2,000	

		B. Loans and Advances: Advances Miscellaneous Expenditure : Preliminary Expenses	
	19,08,000		19,08,000

Illustration 9: The following is the balance sheet of Sri Kannan Department Stores Ltd., as at 31st March, 2009:

	Rs.	Rs.
Stock, 1 st April, 2008	7,50,000	
Purchases Returns		1,00,000
Purchases and Sales	24,50,000	34,00,000
Wages	3,00,000	
Discount		30,000
Carriage Inward	9,500	
Furniture and Fittings	1,70,000	
Salaries	75,000	
Rent	40,000	
Sundry Expenses	70,500	
Profit and Loss Appropriation Account, 31 st March, 2008		1,50,000
Dividend paid for 2007 – 08		
Share Capital	90,000	
Debtors and Creditors		10,00,000
Plant and Machinery	2,75,000	1,75,000
Cash at Bank	2,90,000	
General Reserve	4,62,000	
Patents and Trade Mark	48,000	1,55,000
Bills Receivable and Bills Payable	50,000	70,000
	50,80,000	50,80,000

Prepare Trading Account, Profit and Loss Account, and Profit and Loss Appropriation Account for the year ended 31st March, 2009 and Balance Sheet at that date. Take into consideration the following adjustments:

- Stock on 31st March, 2009 was valued at Rs. 8,80,000.
- Make a provision for income tax @ 50%.
- Depreciate Plant and Machinery @ 15%, Furniture and Fittings @ 10% and Patents and Trademarks @ 5%.
- On 31st March, 2009, outstanding rent amounted to Rs. 8,000 while outstanding salaries totaled Rs. 9,000.
- The Board Directors propose a dividend @ 15% per annum for the year ended 31st March, 2009 after the minimum transfer to General Reserve as required by law.

- (f) Make a provision for doubtful debts amounting to Rs. 5,100.
 (g) Provide for managerial remuneration @ 10% of the net profits before tax.

Solution

**Trading and Profit & Loss Account of Sri Kannan Department Stores Ltd.
 As on 31st March, 2009**

Dr.
Cr.

	Rs.		Rs.
To Stock, 1 st April, 2008	7,50,000	By Sales	34,00,000
To Purchases		By Stock, 31 st March, 2009	8,80,000
24,50,000			
Less: Returns	23,50,000		
1,00,000	3,00,000		
	9,500		

----	8,70,500		
To Wages	42,80,000		42,80,000
To Carriage Inward			
To Gross Profit c/d		By Gross Profit b/d	8,70,500
	84,000	by Discount	30,000
To Salaries			
75,000	48,000		
Add: Outstanding			
9,000	70,500		
	5,100		

To Rent	43,500		
40,000	17,000		
Add: Outstanding	2,400		
8,000			

----	63,000		
To Sundry Expenses	2,83,500		
To Provision for Doubtful Debts	2,83,500		
	9,00,500		9,00,500
To Depreciation On:			1,50,000
Plant & Machinery @ 15%	90,000	By Balance b/d	
Furniture & Fittings @ 10%	14,180	By Net Profit for the year b/d	2,83,500
Patents & Trade Mark @ 5%	1,50,000		
To Outstanding Managerial Remuneration @ 10% of net	1,79,320		

Profit before tax To Provision for Income Tax To Net Profit c/d			
To Dividend paid for 2007 – 08 To Transfer to General Reserve 5% of Net Profit To Proposed Dividend @ 15% To Balance carried to Balance sheet			
	4,33,500		4,33,500

**Balance Sheet of Sri Kannan Department store Ltd.
As on 31st March, 2009**

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
Authorized	?	Plant & Machinery	
Issued & Subscribed	10,00,000	2,90,000	2,46,500
Reserves and Surplus		Less: Depreciation	
General Reserve		43,500	
Balance as on 1 st April, 2008		-----	1,53,000
1,55,000		----	
Add: Additions		Furniture & Fittings	
Made during the Year	1,69,180	1,70,000	45,600
14,180	1,79,320	Less: Depreciation	
-----		17,000	Nil
----		-----	
Profit & Loss Account		---- Patents & Trade Mark 48,000	
Current Liabilities and Provisions:	70,000	Less: Depreciation	8,80,000
(A).Current Liabilities	1,75,000	2,400	
Acceptances	8,000	-----	
Creditors	9,000	----	2,69,900
Outstanding Rent	63,000	Investments	
Outstanding Salaries		Current Assets, Loans and Advances	4,62,000
Outstanding Managerial Remuneration	2,83,500	(A)Current Assets	50,000
(B).Provisions	1,50,000	Stock	Nil
		Debtors	Nil

Provision for Taxation Proposed Dividend		2,75,000 Less: Provision For doubtful Debts 5,100 ----- ----- Cash at Bank (B)Loans and Advances Bills of Exchange Miscellaneous Expenditure Profit and Loss Account	
	21,07,000		21,07,000

POSSIBLE QUESTIONS

PART-A

UNIT II					
QUESTION	Option 1	Option 2	Option3	Option4	Answer
Redeemable preference shares can be redeemed out of	Amount realized on sales of investment	Dividable profits other use available for dividend	Proceeds of fresh issue of shares	divisible profits or New issue of shares	divisible profits or New issue of shares
When preference shares are redeemed out of profits otherwise available for divided, the sum equal to The nominal amount of shares must be transferred to	Capital redemption reserve	Reserve land profits	Insurance fund	Profits & loss a/c	Capital redemption reserve
Capital redemption reserve is called	Out of share forfeiture a/c	To meet legal requirements	Out of security premium a/c	Voluntary	To meet legal requirements
Transfer to capital redemption reserve can be made from	Capital reserve	Forfeited shares A/C	General reserve	Securities premium A/C	General reserve
Transfer to capital redemption reserve A/C is not allowed from	P&L A/C	Debenture redemption fund	Workmen's accident fund	profit prior to incorporation	profit prior to incorporation
Capital redemption reserve A/C an be used for	Written off past losses	Issuing fully paid bonus shares	Decreasing dividends	Depreciation reserve	Issuing fully paid bonus shares
The premium on redemption of preference shares can be provided out of	Securities premium	Insurance loan	Assets	Liabilities	Securities premium
X Ltd has issued 10,000 equity shares of Rs.10 each at a premium of Rs.2 for redemption of preference Shares	Rs.100000	Rs.120000	Rs80000	Rs.20000	Rs.100000

which of due following amounts would be taken out as “processed of fresh issue “					
Y ltd had made a public issue of 2000 6% preference shared of Rs.100 each of a discount 8% for providing funds for providing redemption of preference shares which as the following amount would be considered as proceeds of fresh issue”?	Rs.200000	Rs.184000	Rs.216000	Rs.250000	Rs.184000
Which section of the companies Act provided for the issue and redemption of preference shares?	Section 80	Section78	Section 77A	section 77B	Section 80
Debenture represent the	Manager’s share in a business	Investment by share holders in a business	Long term borrowing of a business	shareholders	Long term borrowing of a business
Debenture holders are the	customers of the company	Creditors of the company	Owners of the company	Management	Creditors of the company
Debenture are shown under the following heading in a company’s balance sheets	Secured loan	Unsecured loan	Share capital	reserves and surplus	Secured loan
According to the companies Act the premium on issue of debentures should be credited to	Share premium A/C	Debenture premium A/C	securities premium a/c	premium a/c	securities premium a/c
Discount on debentures is shown under the following heading in a companies’ balance sheet	Fixed assets	Loan and advanced investments	Investment	Miscellaneous expenditure	Miscellaneous expenditure
Interest on debenture is	Half	Quarterly	Annually	Monthly	Half

normally payable	yearly				yearly
Fixed percentage of interests on debenture is calculated on	The issue price of debentures	The nominal value of debentures	The face value of debentures plus premium	issue or face value of debentures	The nominal value of debentures
Profits on cancellation of debentures is transferred to	Profits of loss A/C	Dividends equalization A/C	Capital reserve	revenue reserve	Capital reserve
Own debentures A/C is always to be debited with	The fair value	The cum-interest price	ex-interest price	nominal value	ex-interest price
The balance of sinking kind investments is transferred to	Profit and loss A/C	Debenture A/C	Creditors A/C	cash a/c	Debenture A/C
Purchase consideration is payable in	Cash	Shares	Debentures	all or any one of above	all or any one of above
Realization expenses met by the purchasing company should be debited to	Realization A/C	Goodwill	Vendor's A/C	cash a/c	Goodwill
One excess of purchase consideration over net asset is	Securities premium	Capital reserve	Goodwill	reserves	Goodwill
On sale of business, if the partners with to receive dividends in future in profit sharing ratio, the equity Shared received from the company must be distributed in the ratio of	Profit sharing	Capitals	Final claim	Number of shares	Profit sharing
If there is a loan advanced by a partners to the firm which has been acquisitioned by a company and purchase consideration is received in the form of equity and preference shares then the amounts of Such loan is satisfied by	Allotting equity shares	Allotting preference shares profits first	allocating bonds	allocating debentures	Allotting preference shares profits first
Profit prior to	Between	Between	Between	Between	Between

incorporation is the profit earned	the date of incorporation and the date of commencement of business	the date of purchase of business and the date of incorporation	the date of purchase of business and the date of commencement of business	the date of purchase of business and the date of sale	the date of purchase of business and the date of incorporation
Profit prior to incorporation belongs to	The company	The vendor	Purchaser	seller	The company
Profit prior to incorporation should be credited to	Goodwill A/C	Revenue reserve A/C	Capital reserve A/C	revenue or capital reserve	Capital reserve A/C
Less prior to incorporation should be debited to	Revenue reserve	Goodwill A/C	Capital reserve A/C	revenue or capital reserve	Goodwill A/C
Gross profit is to be apportioned between pre and post incorporation periods in	Time ratio	Adjusted time ratio	Sale ratio	adjusted sales ratio	Sale ratio
Bad debts recovered which was written off before purchase of business should be	Dividend in the time ratio	Dividend in the sale ratio	Posted in pre-incorporation period	Posted in post incorporation period	Posted in pre-incorporation period
Audit fees should be divide between pre and post incorporation periods in	Time ratio	Time ratio or posted in post incorporation period	Posted in post incorporation period	Divided in adjusted time ratio	Time ratio or posted in post incorporation period
The salary paid to manager for a period before acquisition of business should be	Divided in time ratio	Posted in pre incorporation period	Posted in post incorporation period	Divided in adjusted time ratio	Posted in pre incorporation period
Interest paid to vendor should be divided between pre and post incorporation period in	Adjusted time ratio	Time ratio	Sales ratio	adjusted sales ratio	Adjusted time ratio
AOA means	Article of association	Articles of annuity	Art of association	Art of annuity	Article of associatio

					n
Discount received from creditors and carriage inwards should be divided between pre and post Incorporation periods in _____	Sales ratio	Purchases ratio	Adjusted time ratio	Time ratio	Purchases ratio
For ascertaining pre incorporation profits establishment expenses are apportioned in the _____	Sale ratio	Time ratio	Gross ratio	adjusted sales ratio	Time ratio
Pre incorporation profits should be taken as _____ profits	Capital	Revenue	Reserves	share	Capital
Post incorporation profit should be taken as _____ profit	Revenue	Capital	Reserves and surplus	share	Revenue
Partner's salary is debited to the _____ profit	Post incorporation	Pre incorporation	commence ment period	registered	Pre incorporation
Preliminary expends written off are debited _____ profit	Post incorporation	Pre incorporation	commence ment period	registered	Post incorporation
Rent is divided in _____ while calculating pre incorporation profit	Sales ratio	Gross ratio	Profit ratio	Time ratio	Time ratio
The profit acquired from the date of business purchase till the date of incorporation is called _____	Profit prior to incorporation	Pre incorporation	Post incorporation	date of incorporation	Profit prior to incorporation
The price payable by a company for business acquired is known as _____	Sales consideration	Profit consideration	Price consideration	Purchase consideration	Purchase consideration
The profit made on acquisition of business is credited to _____	Profit reserve	Capital reserve	revenue reserve	capital or revenue	Capital reserve
If the net tangible assets exceeds the purchase considerations the difference will be treated as _____	Capital reserve	Profit reserve	Income reserve	capital or revenue	Capital reserve

When discount is allowed to vendor's debtors the same should be debtors to _____	Vendor's debtors	Vendor's creditors	Vendor's suspense	vendor a/c	Vendor's suspense
Owners of a company are called _____	Cashier	Employee	Share holders	Creditors	Share holders
Share holders receive _____ as return for their investment	Profit	Capital	Dividend	Salary	Dividend
A new company cannot issue shares at _____	Discount	Advertisement	Profit	premium	Discount
Preference shares can be redeemed only when they are _____ paid	halfly	Quarterly	Partly	Fully	Fully
Companies Act in 1988 prohibits issue of _____ preference shared	Irredeemable	Redeemable	Redeemed	Irredeemable	Irredeemable
Profits prior to incorporation are not allowed to be transferred to ----- -	CRR	Cash	CMR	Debtors	CRR
Reserve fund is _____ to transferred to capital redemption reserve A/C	Not allowed	Allowed	may be allowed	may not allowed	Allowed
Capital redemption reserve can be used for issuing fully paid _____ shares	Bonus	Paid in advance	Salary	issue	Bonus
Divisible profits mean profits which would otherwise be available for _____	Dividends	Salaries	Wages	Bonus	Dividends
"Proceeds" means the _____ amount when shares are issued at a discount	Un realized	Realized	may be realised	may not realised	Dividends
Own debentures A/C will appear on the _____ side of the	Assets	Liabilities	Credit side	Debit side	Assets

balance sheet					
It is customary to profit the rate of _____ payable on debentures A/C	Interests	Loan	Profit	Fund	Interests
profit on sale of sinking fund investment is to be credited to _____ account	sinking fund	cash	bank	investmen t	sinking fund

PART-B

1. Give an imaginary form of the profit & loss appropriation account of a limited company.

2. How will you deal with the following items while preparing a company's final accounts for the year ended 31.03.02 Land and building (Cost Rs. 10,00,000 depreciation provided Rs. 1,60,000) sold for Rs. 15,00,000

3. What is dividend

4. From the following find out Profit for Managerial remuneration

1. Net profit before provision for income tax and managerial remuneration
but after depreciation - Rs. 8,70,410

2. Depreciation provided in the books - Rs. 3,10,000

3. Depreciation provided in the books - Rs. 2,60,000

(Ans -net profit for Managerial remuneration- 9,20,410)

5. Under what heading in a company Balance sheet would you classify the following :

- (a). preliminary expenses (b). unclaimed dividends
(c). calls-in-arrears (d). Bills payable

(e). Loose tools

6.What do you understand by the term provision, reserves, reserve fund, capital reserves?

7.Write short notes on Managerial Remuneration.

8. Write short notes on profit & loss Appropriation Account.

9.What are the maximum remuneration payable to different categories of managerial personnel.

10.Re-arrange the following heads of asset side of balance sheet

(a) fixed assets (b). Miscellaneous expenditure (c) . Loan and advances

(d). investments (e). Current assets

11. What is Interim Dividend.

PART-C

12. From the following particulars, determine the maximum remuneration available to a full time director of a manufacturing company. The profit and loss account of the company showed a net profit of Rs.20,00,000 after taking into account the following items:

Rs.

(i) Depreciation (including special depreciation of Rs.20,000)	50,000
(ii) Provision for income tax	1, 00,000
(iii) Donation to political parties	25,000
(iv) Ex-gratia payment to a worker	5,000
(v) Capital profit on sale of assets	7,500

(Ans -Net profit for managerial remuneration-21, 17,500; remuneration for full time director-1,05,875)

13. X ltd has balance in profit &loss account Rs.1,00,000 and made further profit of Rs.4,00,000 in current year .The following decision were taken

(a) Provision for taxation Rs. 70,000, (b) Dividend equalization a/c Rs.1, 00,000 (c) Dividend on equity shares Rs.1,50,000 (d) General reserve Rs.45,000 (e) capitalization of Rs.1,00,000 from general reserve for issue of bonus shares. Give profit and loss appropriation A/c.

(Ans -Surplus carried to B/S-35,000)

14. Determine maximum remuneration available for full time director of manufacturing company. The profit & loss A/c show net profit Rs.40, 00,000 after taking following items.

Depreciation (including special depreciation Rs. 40,0000) Rs.1,00,000

Provision for income tax Rs.2,00,000

donation to political parties Rs.50,000

Ex-gratia payment to a worker Rs.10, 000

capital profits on sale of assets Rs.15, 000

(Ans -net profit for managerial remuneration-42,35,000; remuneration for full time director-2,11,750).

Essay types:

1. Prepare in a summarized form of balance sheet of a company as per companies Act, 1956, using imaginary figures.
2. Explain the treatment of 'provision for tax' under companies act
3. Explain the law relating to the calculation of managerial remuneration
4. The following trial balance of Nalli Ltd as at 30th Dec 1998 is given to you

Debit	Rs.	Credit	Rs.
Stock (1.1.98)	80,000	8000 equity shares of Rs. 100 each, Rs.75 paid	6,00,000

Bank	17,600	6% debentures	2,00,000
Patents	60,000	Sundry Creditors	1,00,000
Calls in arrears	20,000	General Reserve	80,000
Returns inwards	30,000	Sales	10,00,000
Purchases	7,72,000	Returns outward	20,000
Wages	1,08,000	P&L A/c(Cr)	12,000
Insurance Prepaid	400		
Bills receivable	30,000		
Sundry debtors	80,000		
Discount on issue of debentures	10,000		
Plant and Machinery	4,00,000		
Land and Building	3,00,000		
Insurance	4,000		
General expenses	40,000		
Establishment expenses	60,000		
Total	20,12,000		20,12,000

Additional information:

1. Value of stock on 31st Dec 1998 was Rs.74, 000
2. Outstanding wages totaled Rs.10, 000
3. A provision 5% is to be credited on sundry debtors for doubtful debts

4. Depreciate patents @ 10 % and Plant & Machinery @ 7.5% and on Land & building @ 4%. You are required to prepare Trading and Profit & Loss Account for the year ended 31.12.98 and Balance sheet as on that date.

(Ans –Gross profit-Rs94,000; Net loss- Rs62,000;

Surplus carried forward to B/S-Rs50,000;B/S-9,20,000)

5. Determine the maximum remuneration payable to the part time directors and Manager of Bharat Ltd (a manufacturing company) under section 309 and 387 of the companies Act 1956 from the following particulars. Before charging any such remuneration the Profit & Loss account showed a credit balance of Rs.23.05, 000 for the year ended 31st March 1998 after taking into account the following matters:

1. Profit on sale of investments	Rs.2, 05,000
2. Subsidy received from government	Rs.4, 10,000
3. Loss on sale of fixed assets	Rs. 65,000
4. Ex-gratia to an employee	Rs. 30,000
5. Compensation paid to injured worked man	Rs .75, 000
6. Provision for taxation	Rs. 2, 79,000
7. Bonus to foreign technicians	Rs. 3, 12,000
8. Multiple shift allowance	Rs.1, 00,000
9. Special depreciation	Rs. 75,000
10. Capital expenditure	Rs.5, 10,000

Company is providing depreciation as per section 350 of the companies Act 1956

(Ans -net profit for managerial remuneration-29,94,000;Total managerial remuneration-1,79,640)

6. A Ltd was registered with an authorized capital of Rs. 6,00,000 in equity shares of Rs.10 each. The following is its trial balance on 31.3.2011

Particulars	Debit Balance	Credit Balance
	Rs.	Rs.
Goodwill	25,000	-
Cash	750	-
Bank	39,900	
Purchases	1,85,000	-
Preliminary expenses	5,000	-
Share Capital	-	4,00,000
12% Debentures	-	3,00,000
Profit and loss account (cr)	-	26,250
Calls in arrears	7,500	-
Premises	3,00,000	-
Plant and machinery	3,30,000	-
Interim dividend	39,250	-
Sales	-	4,15,000
Stock (1.4.2010)	75,000	-
Furniture	7,200	-
Sundry Debtors	87,000	-
Wages	84,865	-

General expenses	6,835	-
Salaries	14,500	
Director's Fees	5,725	
Bad Debts	2,110	
Freight and carriage	13,115	-
Debentures interest paid	18,000	-
Sundry creditors	-	77,000
General reserve	-	25,000
Provision for bad debts	-	3,500
	12,46,750	12,46,750

Analyze the Financial position of the company by prepare trading account, profit and loss account, profit and loss appropriation account and balance sheet after making the following adjustments.

- (i) Depreciate plant and machinery by 15%
- (ii) Write off Rs.500 from preliminary expenses
- (iii) Provide for 6 months interest on debentures
- (iv) Leave bad and doubtful debts provision at 5% on sundry debtors
- (v) Stock on 31.3.2011 was Rs.95,000
- (vi) Provide for income tax at 50%

**(Ans –Gross profit-Rs1,52,020; Net loss-
Rs18,000;**

**Surplus carried forward to B/S-Rs5,000;B/S-
8,35,500)**

7. Sky Ltd has an authorized capital of Rs. 5,00,000 divided into 5,000 equity shares of Rs. 100

each. The following is the Trial balance of the company for the year ended 31st December

2001.

Particulars	Dr	Cr
Equity Share Capital		5,00,000
Bills Receivable	40,000	
Plant & Machinery	1,50,000	
Premises	1,00,000	
Debtors	1,00,000	
Cash	3,500	
Bank	5,500	
Sundry Creditors		1,10,000
Opening Stock	2,70,000	
Purchases & Sales	7,00,000	9,43,000
Wages	80,000	
Fuel and Power	35,000	
Carriage inwards	16,000	

Discount received		7,000
Auditor's fees	11,000	
Salary	44,000	
Traveling Expenses	14,000	
Purchase returns		8,000
Carriage outwards	4,000	
15% Bank Loan		1,00,000
Interest on Bank Loan	15,000	
Factory Rent	40,000	
Bad Debts	40,000	
	16,68,000	16,68,000

Adjustments:

- Value of stock on 31.12.2001 Rs. 2,20,000.
- Provide 5% Provision for Bad Debts on Debtors.
- Depreciate Plant & Machinery at 10%
- Unpaid wages Rs. 5,000 and Salary Rs. 6,000

Prepare Trading and Profit & Loss A/C and Balance Sheet for the year ended 31.12.2001 and the Balance Sheet as on that date.

(Ans-Gross profit-25,000; Net loss-122000; B/S-7,21,000)

Winding up - Concept and modes of winding up. Insider-Trading , Whistle – Blowing – insider trading; meaning and legal provision, whistle blowing; concept and mechanism.

WINDING UP OF COMPANIES

Winding up of company is the process whereby its life is ended and its property administered for the benefit of its creditors. An administrator, called liquidator, is pays its debts and finally distributes any surplus among the members in accordance with their rights.

In other words, winding up or liquidation of a company is a legal process by which the business of a company is closed, i.e., the assets of the company are realized, its creditors are paid off, and the surplus, if any, is distributed among the members in accordance with their rights as provided in the articles of a company.

Reasons for the winding: up of a company

When a company is wound up, it does not necessarily mean that it has become insolvent. Even a solvent company may be wound up, if the members of the company decide to do so. For instance, a solvent company may be wound up for the purpose of reconstruction and amalgamation. Therefore, winding up of a company are:

1. If the main objects of the company for which it was formed have been accomplished.
2. If the company is unable to carry out its main objects
3. If the company has to dispose of its business or undertaking to another company or concern.
4. If the company has become insolvent (i.e., if the company is unable to pay its creditors in full)

MODES OF TYPES OF WINDING UP:

The companies Act provides for three types of winding up. They are:

1. Compulsory winding up or winding up by an order of the court.
2. Voluntary winding up.

Voluntary Winding up may be sub -divided into:

1. Member's Voluntary winding up (i.e., winding up on the initiative and under the supervision of members)
2. Creditor's Voluntary winding up (i.e., winding up on the initiative and under the supervision of the creditors of the company).
3. Winding up under the supervision of the court.

COMPULSORY WINDING UP OR WINDING UP BY THE COURT

Compulsory winding up of a company is brought about by an order of the court.

1. If the company, of its own accord, passes a special resolution that it should be wound up by the court, and presents a petition to the court for the winding up.
2. If the company makes a default in filling the statutory report with the registrar of companies or in holding the statutory meeting within the pre-scribe time
3. If the company does not commence business within one year from the date of its incorporation or suspends its business for a whole year
4. If the number of members falls below seven in the case of a public company, and below two in the case of a private company.
5. If the company is unable to pay its debts
6. If the court is of the opinion that it is just and equitable that the company be wound up.

PROCEDURE FOR COMPULSORY WINDING UP

First Step: Making an application or petition to the court for compulsory winding up.

Second Step: Hearing and disposing of the petition

Third Step: Appointment of the official liquidator and communication of the winding u order to the liquidator and the registrar of companies

Fourth Step: Liquidation proceeding by the official liquidator

Fifth Step: Dissolution of the company

Contributes

Contributes refer to person who are liable to contribute to the assets of the company in the event of winding up. Contributories include not only the holders partly-paid shares, who are liable to contribute the unpaid amount on their shares, but also the holders of fully paid shares who are entitled to a share in the surplus, if any.

Duties of the Official Liquidator:

The principal duties of the official liquidation are

1. He should conduct the liquidation proceedings.
2. He should take into his custody the books, documents and the assets of the company.
3. He must also submit further report to the court stating matters relating to the formation of the company, fraud or any other matter which should be brought to the notice of the court.
4. He must maintain proper books of accounts relating to the company. He must also maintain the minutes of proceedings of the meetings held.

5. He should keep all the funds of the company in the '**Public Accounts of India**' in the reserve bank of India. (He must not keep the funds of the company in his private account).
6. He should see that a printed copy of the audited accounts or a summary there of is sent to every creditor and contributory.
7. He is required summon meeting soft creditors and contributories as directed by the order of the court of the purpose of constituting a "**committee of inspection**"
8. He should realize the assets and distribute the proceeds among the creditors of the creditors or contributories, according to their rights.
9. In the administration of the assets of the company, he must carry out the directions of the creditors or contributories or the committee of inspection by resolution.
10. He should submit accounts to the committee of inspection for the purpose of inspection.
11. He must obey the court's order for disposing of the company's books.

Secretary's Duties in Connection with Compulsory Winding up:

The important duties of the secretary in regard to the compulsory winding up of a company are;

1. He must assist the directors in preparing the petition for the compulsory winding up to be submitted to the court, when the company itself is the petitioner for compulsory winding up.
2. He should file with the registrar of companies a certified copy of the winding up order passed by the court within 30 days of the passing of the court order.
3. He must submit to the official liquidator a statement of affairs of the company, containing the particulars regarding the assets and liabilities of the company, the names and addresses of the creditors, etc. with in 21 days of the date of the winding up order.
4. He should furnish any other information regarding the company which the official liquidator requires fro time to time.
5. He should ensure that the words "**the company is under liquidation**" are mentioned on every letter, document, etc. Issued by the company after the winding up order has been passed.

VOLUNTARY WINDING UP

Meaning of voluntary winding up

Voluntary winding up refers to the winding up of a company either by its members or by its creditors without the interference of the court. In voluntary winding, the share holders and the creditors of a company settle their affairs themselves without going to the court, though they may apply to the court for directors or orders, if and when necessary.

Difference between compulsory winding up and voluntary winding up:

The main differences between compulsory winding up and voluntary winding up are:

1. Compulsory winding up of a company is brought about by an order of the court, whereas voluntary winding up is brought about either by the members or by the creditors of the company without the intervention of the court.
2. Compulsory winding up is of only one type. But voluntary winding up is of two types, viz., (a) members voluntary winding up and (b) creditors voluntary winding up.
3. In the case of compulsory winding up, the liquidator is appointed by the court. On the other hand, In the case of voluntary winding up, the liquidator is appointed wither by the members or by both the members and the creditors.
4. Voluntary winding up is more convenient than compulsory winding up.

Circumstances under which a company is wound up voluntarily:

A company is wound up voluntarily in the following circumstances:

1. When the period, fixed of the duration of the company by its articles expires and the company passes an ordinary resolution for winding up voluntarily.
2. When the event, on the occurrence or happening of which the company is to be dissolved as per its articles occurs and the company passes an ordinary resolution for winding up voluntarily
3. When the company passes a special resolution for voluntary winding up at any time

Modes or Types of Voluntary Winding up:

There are two types of voluntary winding up. They are:

1. Members voluntary winding up
2. Creditors voluntary winding up

MEMBERS VOLUNTARY WINDING UP**Meaning of members voluntary winding up**

A members voluntary winding up refers to a voluntary winding up which takes place at the instance an under the control and supervision of the members of the company, and in which a declaration of the solvency of the company has been made by the board and the same has been filed with the registrar of companies.

Secretarial Duties / Procedure for members voluntary winding up

The following procedure is, generally voluntary followed in the case of member winding up.

First Step: Making and filing of a declaration of solvency of the company

Second Step: Passing of the resolution at an extraordinary general meeting, publication of the same in the official gazette and local newspapers and filing a copy of the same with the registrar of companies.

Third Step: Appointment of liquidator or liquidators

Fourth Step: Commencement of liquidation proceedings by the liquidator

Fifth Step: Calling of the general meeting of the member's by the liquidator at the end of each year and presentation of his report and statement on winding up

Sixth Step: Calling of the final meeting of the members and presentation of detailed final accounts of the winding up proceedings by the liquidator

Seventh Step: Filing of the certified copies of final accounts of the winding up of the company with the registrar of companies and also with the official liquidator

Eighth Step: Making of a thorough scrutiny of the books of account of the company by the official liquidator

Ninth Step: Dissolution of the company

Tenth Step: Calling of the creditors meeting in case of insolvency

Creditors Voluntary Winding up:

The Voluntary Winding up in which the declaration of the solvency of the company is not made by the directions and so is controlled and supervised by the creditors of the company is known as creditors Voluntary Winding up. In short, the winding up which takes place at the instance and under the control and supervision of the creditors is called Creditors Winding up.

Circumstances under which the Creditors Voluntary Winding up takes place:

A Creditors Voluntary Winding u takes place when a company is unable to pay its liabilities in full [i.e., when a company is insolvent] and still wants to undergo voluntary winding up. In this case, creditors voluntary winding up is reslated. So as to protect the into of the creditors.

Procedure for Creditor's Voluntary Winding up:

The following procedure is generally, followed in the case of creditors voluntary winding up.

First Step: Convening the meeting of the members and the meeting of the creditors

Second Step: Presentation of statement of affairs before the creditors meeting

Third Step: Passing of resolution for the voluntary winding up and appointment of liquidators

Fourth Step: Filing of the copy of the resolution for voluntary registrar of winding up with. The companies

Fifth Step: Appointment of the committee of inspection by the creditors

Sixth Step: Fixation of the remuneration of the liquidator

Seventh Step: Cessation of the powers of the board of directors and the commencement of the liquidation proceedings by the liquidator

Eighth Step: Calling of the meeting of the members and the creditors the liquidator at the end of each year and presentation of his report and statement on winding up.

Ninth Step: Calling of the final meeting of the members and the creditors and the presentation of the final accounts of the winding up proceedings by the liquidator

Tenth Step: Filing of the certified final account of the winding up with the registrar of companies by the liquidator

Eleventh Step: Dissolution of the company

Secretarial Duties in connection with Creditors Voluntary Winding up:

1. He should convince a meeting of the BOD to fix the date of the general meeting of the members and a meeting of the creditors where a resolution is required to be passed for the voluntary winding up of the company.
2. He should prepare and get the approval of the board for the draft resolution for winding up to be placed at the general meeting of the members.
3. He should see that the notice of the meeting of the members and the meeting of the creditors are published in the official Gazette and also in local newspapers.
4. He should help the director in preparing the Statement of Affairs of the company and the list of the creditors to be placed before the creditors meeting.
5. He should see that the director is nominated to preside over the creditors meeting
6. He should ensure that the statement of affairs and the list of creditors are placed before the creditors meeting
7. He should see that the resolution necessary for the voluntary winding up is passed at the members meeting as well as at the creditors meeting.
8. He should see that a copy of the resolution passed for winding up in the creditors meeting is filed with the registrar of company.
9. In case a special resolution has been passed for the winding up at the members meeting, the secretary should see that the special resolution is filed with the registrar of company within 30 days of the passing of special resolution.
10. He should ensure that the liquidator is appointed and his remuneration is fixed by the creditors at their meeting.
11. He should see that every letter, invoice, order, etc., issued by the company during the period of winding up contains a statement that the company is under liquidation.
12. He should see that all books, papers and documents as well as movable and immovable property.

INSIDER TRADING

Insider Trading as a term is subject to many definitions and it includes both legal and prohibited activities. Insider Trading happens on a daily basis, legally, when corporate management and Board of Directors buy or sell or deal with stocks of their own companies within confines of the company policies and regulations governing the trading. In other words, Insider Trading is buying, selling or dealing with a security while breaching the company policies or regulations, thus breaching the trust and confidence of a company while possessing material or non-public information about the securities.

Definitions:

The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations 1992, does not directly define the term Insider Trading. But it defines the term "Insider", "Connected Person" and "Price Sensitive Information".

Insider Trading is the trading of securities of a company by an Insider using company's non-public, price-sensitive information while causing losses to the company or profit to oneself.

Insider: According to the Regulations, "Insider" means any person who is or was connected to the company or is deemed to have been connected with the company and who reasonably is expected to have access, connection to unpublished price sensitive information in relation to that company.

Connected Person:

The Regulation defines that a "connected person" means any person who-

(i) is a director, as defined in clause (13) of section 2 of the Companies Act, 1956 of a company, or is deemed to be the director of the company by virtue of sub-clause (10) of section 307 of the Act.

(ii) occupies the position as an officer or an employee of the company or holds a position involving a professional or business relationship between himself and the company, whether temporary or permanent and who may reasonably be expected to have an access to unpublished, price sensitive information in relation to that company.

Price Sensitive Information means any information, which relates directly or indirectly to a company and which if published, is likely to materially affect the price of securities of the company.

Following are some examples of Price Sensitive Information:

1. Financial results of the company.
2. Intended declaration of Dividends.
3. Issue of shares by way of public rights, bonus, etc.
4. Any major expansion plans or execution of new projects
5. Amalgamation, mergers and takeovers.
6. Disposal of the whole/substantial of the undertaking.

In the United States vs Carpenter, 1986, the Supreme Court cited that the usage of Inside Information received by virtue of confidential relationship must not be used or disclosed and by doing so, the individual gets charged for Insider Trading.

In 1997, O'Hagans Case, the court recognised that a company's information is its property: "A Company's confidential information qualifies as property to which the company has a right of exclusive use. The undisclosed misappropriation of such information in violation of fiduciary duty constitutes fraud akin to embezzlement- the fraudulent appropriation to one's own use of money or goods entrusted to one's care by another."

In 2007, representatives Brian Baird and Louise Slaughter introduced a bill "Stop Trading on Congressional Knowledge Act or STOCK Act".

Insider Trading in India:

1. In 1948, First concrete attempt to regulate Insider Trading was the constitution of Thomas Committee. It helped restricting Insider trading by Securities Exchange Act, 1934.
2. In 1956, Sec 307 & 308 were introduced in the Companies Act, 1956. This change made it mandatory to have disclosures by directors and officers.
3. 1979, the Sachar Committee recognized the need for amendment of the Companies Act, 1956 as employees having company's information can misuse them and manipulate stock prices.

4. 1986, Patel committee recommended that the Securities contracts (Regulations) Act, 1956 be amended to make exchanges reduce Insider Trading.

5. 1989, Abid Hussain Committee recommended that the Insider Trading Activities be Penalized by civil and criminal proceedings and also suggested that SEBI formulate the regulations and governing codes to prevent unfair dealings.

6. 1992, India has prohibited the fraudulent practice of Insider Trading through "Security and Exchange Board of India (Insider Trading) Regulations Act, 1992. Here, a person convicted of Insider Trading is punishable under Section 24 and Section 15G of the SEBI Act, 1992.

7. 2002, the Regulations were drastically amended and renamed as "SEBI (Prohibition of Insider Trading) Regulations, 1992.

Why to Control Insider Trading?

- To protect general investors. The manipulation of market by using Insider trading generally causes great losses to a company, thus leading to loss for investors or great profit only for the Insiders and no investor. It steals away the possibility of earning profit from an investor.
- To protect the interest and reputation of the company. Once a company faces a problem of Insider Trading, investors tend to lose confidence in the company and stop investing in the company and also selling all the stocks of the company.
- To maintain confidence in the stock exchange operations. With SEBI also regulating all the tradings, if any Insider gets a chance to get past the laws, it decreases the investors' confidence in the stock exchange operations itself.
- Indian Financial Market is still very low in the domestic investment rate. To have a healthy economy, a proper financial system is a must and for that, confidence in the market is of utmost importance.

Rationale behind Prohibiting Insider Trading:

Securities market deals with the allocation of capital in an economy. This function enables market efficiency, where market's price reflects the risk and future returns accurately. Insider trading appears biased to investors as insiders have additional price sensitive information before them and can use it to make profits while the late reception of information makes investors suffer loss or not gain the deserved profits. If a market is integrated and free of illegal trading, it may lead to healthy growth of the market and such markets can inspire the confidence of the Investors.

Insider trading leads to loss of confidence of Investors on the market which can lead to a halt in market dealings thus causing a situation similar to the Great Economic Depression of the United States. Besides, a company's information is its property and no one but the company must profit from it.

Significant Penalties:

- SEBI may impose a penalty of not more than Rs. 25 Crores or three times the amount of profit made out of Insider Trading; whichever is higher.
- SEBI may initiate criminal prosecution; or

- SEBI may issue order declaring transactions in Securities based on unpublished price sensitive information; or
- SEBI may issue orders prohibiting an insider or refraining an insider from dealing in the securities of the company.

MEANING AND DEFINITION OF WHISTLE BLOWING

US Academicians Miceli and Near (1984)⁵ defines Whistle blowing as “the disclosure by organizational members (former or current) of illegal, immoral, or illegitimate practices under the control of their employees, to persons or organizations that may be able to effect action”.

Australian academic Jubb (1999)⁶ defines, “whistle blowing is a deliberate nonobligatory act of disclosure, which gets onto public record and is made by a person who has or had privileged access to data or information of an organization, about nontrivial illegality or other wrongdoing whether actual, suspected or anticipated which implicates and is under the control of that organization, to an external entity having potential to rectify the wrongdoing”.

CHARACTERISTICS/ FEATURES OF WHISTLE BLOWING

a) Whistle-blowing is not the same as complaint:

Complaining is not same as blowing the whistle. In most instance complaints involve personal subject matter of the complainant than with others or public interest. Whereas the whistle blowing is concerned with subject matter affecting public interest. Complaints from service users, relatives or representatives would not be classed as whistle blowing. These would need to be raised using the service’s complaints procedure. Employees those who have complaints regarding pay, hours and general grievances would need to raise their complaints using their organizations grievance procedure.

b) It is not a witness of a crime:

Witness of crime is not considered as whistle blowing. The general criminal and civil proceedings and lawsuits include witness of a crime for investigation purpose. But, whistle blower is not mere witness, but much more than witness. Whistle blower may be witness or may not be witness of crime, but having enough information about that crime.

c) It is non-public information:

Information about a company that is not known by the public is known as non-public information. Therefore the matter involved in whistle blowing is considered as nonpublic information.

d) Substantial importance:

The matter of whistle blowing must have substantial importance. The substantial importance is concerned with having or involved worth material facts and figures, the costs of damage/ loss to the public. There cannot be simple matter involved in whistle blowing which causes no harm to public and less or no loss to anyone.

e) Desired changes:

The whistle blower is expecting to stop some activity which causes harm and loss to public and society. Therefore there are some desired changes involved by doing so.

f) Voluntary way:

Whistle blowing is purely a voluntary act of a person and also a group. There is no external force to make an act of whistle blowing, rather its internal force to do so.

g) Moral protest:

Moral issues are concerned with the principles or rules of right conduct or the distinction between right and wrong; ethical. The moral protest is fighting against the immoral/ unethical issues. Therefore whistle blowing is considered as moral protest.

h) Public interest disclosure:

A *public interest disclosure*²⁰ is made when a person discloses to proper authority information that tends to show past, present or proposed future improper conduct by a *public* body in the exercise of its functions. Definitions of improper conduct: An offence against State law; whistle blowing is public interest disclosure.

Possible Question

PART_B

1	A company must inform the registrar about redemption of preference shares within	21 days	15 days	30 days	25 days	30 days
2	Share premium amount is treated as the _____ capital of a company	issued	Reserve	Subscribed	paid up	Reserve
3	A company can create 'reserve capital' by passing _____	an ordinary resolution	a special resolution	a board resolution	Annual General Meeting	a special resolution
4	The capital which is part of the uncalled capital of the company which can be called up only in the event of its winding up it is called	Issued capital	Nominal capital	Authorised Capital	Reserve capital	Reserve capital
5	XYZ Co. is a holding of XZ Pvt. Company. XZ Co. issued deferred shares. The issue is valid or void	Valid	Void	Situation does not arise	enforceable	Void
6	What is the maximum period for redemption in case of preference shares issued by the company	10 years	15 years	20 years	12 years	20 years
7	Capital redemption reserve must be used for issue of	Fully paid bonus shares	Fully paid equity shares	Preference shares	unpaid capital	Fully paid bonus shares
8	Part of the issued capital taken by public is called _____	Subscribed	Called – up capital	Uncalled capital	Paid up capital	Subscribed
9	Part of authorized capital which is offered by the company for subscription	subscribed	Issued	Uncalled	called up	Issued

10	Stamp duty on registration of the company is payable based on _____ capital.	Nominal	Authorized	Both (a) & (b)	paid up	Both (a) & (b)
11	Deferred shares are also known as _____ shares	Founders	Equity	Preference	debenture holders	Founders
12	_____ Preference shares carry the right to cumulate the dividends	Converted	Cumulative	Non-converted	redemption	Cumulative
13	Paying back of capital is called	Redemption	Conversion	Participation	termination	Redemption
14	Premium amount on the securities are transferred to _____ account	Securities premium	Reserve fund	Capital Reserve	None	None
15	Maximum rate of discount that can be allowed on issue of shares	5%	10%	15%	20%	10%
16	To issue the shares at discount company at least how many years should complete how many years	1	2	3	4	1
17	_____ are the shares issued by the company to its employees or directors for consideration other than cash	Bonus	Sweat	Right	ESOP	Sweat
18	Cumulative preference share holders have voting right if dividend are in arrears for _____ years	1	2	3	4	2
19	_____ form is to be found in case of variation rights of share holders	23	19	18	20	19
20	_____ is an aggregate of fully paid share that have been legally consolidated.	Share	Stock	Both (a) & (b)	bond	Stock
21	_____ have fixed denomination	Share	Stock	Both (a) & (b)	bond	Share
22	_____ resolution should be passed by the company to offer shares to outsiders	Special resolution	Ordinary resolution	C.G	Both or b)	Special resolution
23	Company must pass _____ for reducing its share capital	OR	S.R	C.G permission	Both or b)	S.R

2 4	Court order the company to add _____ after reducing its share capital	And reduced	Ltd	Both (a) & (b)	pvt Ltd	And reduced
2 5	For reducing its share capital it should give notice to whom?	Debtors	Creditors	Both (a) & (b)	shareholders	Creditors
2 6	Reduction & diminution is done under which sec.	100 & 94	94 & 100	100 & 96	96 & 100	100 & 94
2 7	Which of the following can be used for buy back of shares	Free reserves	Securities premium	Proceeds of fresh issue of shares	All of the above	All of the above
2 8	Buy back by board resolution can only be upto _____	15	10	25	20	10
2 9	Buy back should be less than or equal to _____ % of total paid up capital	25	30	35	40	25
3 0	In case of buy back debt equity ratio should be _____	1:02	2:01	3:01	1:03	2:01
3 1	Every buy back shall be completed with in _____ month from the date of passing the S.R.	6	8	10	12	12
3 2	The company must deliver share certificate within _____ if the shares allotted by company	2 months	3 months	4 months	8 months	3 months
3 3	The company must deliver share certificate within _____ if the shares applied for transfer	3 months	2 months	5 months	8 months	2 months
3 4	Share warrants can be issued with the prior approval of the _____	Company law board	Dept of company affairs	Registrar	None	Registrar
3 5	Stamp duty to be paid at the time of issue of share certificate is.	Nominal	High	Very high	low	Nominal
3 6	Stamp duty to be paid at the time of issue of share warrant.	Nominal	High	Very high	low	Very high
3 7	_____ specifies the time limit with in which share certificate is to be delivered	sec 110	sec 111	sec 112	sec 113	sec 113
3	_____ is a document	Share	Share	Both (a)	Dividen	Both (&

8	showing title	certificate	warrant	& (b)	d warrant	(b)
3 9	Extension of time limit is possible only in which of the following?	Shares	Debentures	Both (a) & (b)	Dividend	Debentures
4 0	In case of extension of time limit for issue of debenture certificate should be given by _____	NCLT	ROC	DCA	both b and c	NCLT
4 1	The period of extension granted by NCLT for issue of debenture certificate is _____	5	7	9	11	9
4 2	Which of the following can issue the share warrant	Public	Private	Both (a) & (b)	statutory company	Public
4 3	Voting Rights are available to share warrant holders.	Yes		No		No
4 4	Duplicate certificate obtained if original certificate lost in case of.	Share Certificate	Share warrant	Dividend warrant	both b and c	Share Certificate
4 5	Name of the member is struck off from the register in case of _____	Issue of share certificate	Share warrant	Forfeiture	both b and c	Share warrant
4 6	_____ Days be given for payment of call money from the date of service of notice	14	13	12	11	14
4 7	_____ arises in respect of debt due on shares as well as on other transactions	Forfeiture	Lien	Both (a) & (b)	bailee	Lien
4 8	Return of partly paid shares by the shareholders to the company is _____	Surrender	Forfeiture	Lien	bailee	Surrender
4 9	No consideration shall be paid by the company in exchange of _____ shares	Lien	Forfeited	Surrender	bailee	Surrender
5 0	Transfer deed should in form No.	6 B	5 B	7 B	8 B	7 B
5 1	_____ is voluntary passage of the rights and duties of member from a share holder.	Transfer	Transmission	Both (a) & (b)	Blank transfer	Transfer

5 2	The person who transfer his rights and duties is called _____	Transferee	Transfer or	Promisor	Promise e	Transferor
5 3	The person to whom the rights and duties are endorsed is called _____	Transferee	Transfer or	Endorser	Endorse e	Transferee
5 4	_____ is an instrument of transfer signed by the transferor in which the name & date are not filled.	Forged transfer	Blank transfer	Both (a) & (b)	no transfer	
5 5	_____ is issued in acknowledgement of any indebtedness	Debenture certificate	Share certificat e	Share warrant	both b and c	Debenture certificate
5 6	Own funds are called _____	Debenture capital	Share capital	Loan capital	authoris ed capital	Share capital
5 7	Incase of allotment Debenture Certificate is to be issued with in _____ months	1	2	3	4	3
5 8	Debenture holders are _____	Owners	Creditor s	Debtors	Both (a) & (b)	Creditors
5 9	Return paid on shares is _____	Interest	Dividen d	Commiss ion	Both (a) & (b)	Dividend
6 0	Debentures payable to a holder of certificate is called _____	Bearer	Unregist ered	Secured	Both (a) & (b)	Bearer

1	Charge includes _____	Loans	Mortgag e	Security	Hire	Mortgage
2	Commencement of winding up of a company does not affect the nature of _____	A fixed charge	A floating charge	Both (a) & (b)	b) Specific	Both a & b)
3	Which of the following authorities is empowered to extent time for registration of charges _____?	CG	Compan y law board	Court	NCLT	NCLT
4	_____ is a charge when it is made specifically to cover assets	Fixed	Specific	Floating	Both (a) & (b)	Specific
5	_____ is a charge created on a class of assets related to ordinary course of business	Fixed	Specific	Floating	b) Specific	Floating

6	Which of the following charge is not registered with the ROC _____	Charge on immovable property	Charge on uncalled share capital	Charge on called made but not paid	Charge on call made but paid	Charge on immovable property
7	Unsecured debentures does not require any registration because it is not secured by _____	Fixed	Floating charge	Both (a) & (b)	Charge on uncalled share capital	Both (& (b)
8	Incase of any default is made in filing the particulars related to charge then penalty is upto _____ thousands	5 to 10	10 to 15	15 to 20	20 to 25	5 to 10
9	_____ Sec. contains the provision relating to modification of a charge	130	135	140	145	135
10	Any charge is satisfied in full then which form is to be file with ROC _____	17	18	19	20	17
11	A charge requiring registration shall be filed with the registrar with in _____	21 days	30 days	45 days	40 days	30 days
12	When a charge become void., the money secured there under becomes repayable with in _____ months	1	2	10	immediately	immediately
13	What is the time limit for conducting statutory meeting?	1 to 5 months	1 to 6 months	1 to 9 months	1 to 12 months	1 to 6 months
14	Notice of statutory meeting should be given with a period not less than _____	21 clear days	14 clear days	7 clear days	30 clear days	21 clear days
15	Notice of statutory meeting should be attested by at least _____	3 directors	2 directors	3 directors	4 directors	2 directors
16	The time gap between two AGM's shall not exceed.	15 months	18 months	16 months	10 months	15 months
17	First AGM must be held within _____ from the incorporation of the company	15 months	18 months	12 months	10 months	18 months

18	XYZ co, incorporated on 1 st Jan 2005. The AGM should be held on 1 st July 2006. ROC extended that time to 1 st Sep.2006.Is the AGM valid.	Valid	Invalid	Situation does not arise	enforce ble	Invalid
19	Every AGM must be held with _____ from the date of the Balance Sheet.	4 months	6 months	9 months	10mont hs	9 months
20	First AGM must be held with in _____ from the date of the balance sheet	6months	9months	5months	10mont hs	9months
21	AGM should be held at	Company	Register ed office	Corporat e office	other places	Registered office
22	Failure to convene AGM u/s 166 penalty will be	50,000+250 per every day	75,000+250 per every day	1,00,000 +250 per every day	25,000+250 per every day	50,000+250 per every day
23	Length of notice in the case of AGM is 21 clear days. Articles provided 25 clear days for length of notice. Is the AGM valid	Valid	Invalid	void	enforce ble	Valid

24	Length of notice in the case of AGM is 21 clear days. Articles provided that 15 clear days for length of notice. Is the AGM valid	Valid	Invalid	void	enforce ble	Invalid
25	A shareholder appointed a proxy. The proxy must be a member of the company. Do you agree with this statement.	Agree	Disagree	not applicabl e	both a & b	Disagree
26	All special business can only be transected by passing a special resolution. Do you agree with this statement	Agree	Disagree	not applicabl e	both a & b	Disagree
27	In case of Public Company the quorum should be	5 members	7 members	2 members	8 member s	5 members

2 8	In case of private company the quorum should be	2 members	3 members	4 members	8 members	2 members
2 9	Quorum should be present at the	Commencement of meeting	Middle of the meeting	d) End of the meeting	Any time during meeting .	Commencement of meeting
3 0	_____ meeting given an opportunity to the member to know discuss on promotion & formation of the company.	General	EGM	Statutory	quarterly	Statutory
3 1	_____ report is send by the directors to its members.	Statutory	Audit	Annual	quarterly	Annual
3 2	In the given below who are not required to hold Statutory General Meeting	Private company	Government Company	Public company	Both (a) & (b)	Both (& (b)
3 3	In case of Statutory General Meeting receipts & payments are prepared up to _____ days before the date of report	3	5	7	9	7
3 4	Who should certify that company allotted the shares and cash received in respect there of _____	Auditor	Director	Share holder	Members	Auditor
3 5	In the given below who are required to hold A.G.M	Public company	Private company	Government company	holding company	Public company
3 6	The time period for conduction of AGM is extended by ROC for how	1	2	3	4	3

	many months					
37	Which of the following company can held the AGM on public holiday _____	Public company	Private company	Govt company	Association not for profits	Association not for profits
38	_____ may grant exemption to any class of companies with regard to the time & place of AGM	CG	ROC	NCLT	D.C.A	C.G
39	In case of failure to convene the AGM fine is upto Rs. _____	25,000	50,000	75,000	80,000	50,000
40	In case of continuing default to convene the AGM fine is Rs. _____ for every day	250	300	350	400	250
41	The resolution passed at AGM are _____	Valid	Void	Voidable	Void abinitio	Valid
42	Every business transacted at an EGM is a _____ business	Ordinary	Special	Both (a) & (b)	void	special
43	M.M. Obtained, the incorporation on Jan 1, 1993 and C.C.B on June 1, 1993. The earliest date on which it can hold the statutory meeting is _____	#####	#####	1-Jul-93	##### #	August 1, 1993
44	Majority rule is not applicable when _____	The act done is illegal	The act done is ultra vires the	The act done constitutes a	mistakes	The act done is illegal

			company	fraud		
4 5	A cost auditor makes his report to:	Members of company	Director s of company	Registrar	C. G.	Directors of company
4 6	A company not declare dividend at.	Statutory meeting	Annual general meeting	Extra ordinary G.M	quoram	Statutory meeting
4 7	If as a person is present in more than 1 capacity his presence will be counted as _____	1	2	3	4	2
4 8	In the absence of a quorum the proceedings of the meeting will be _____	Valid	Void	Voidable	enforceable	Void
4 9	If quorum is not present with in _____ time the meeting is stand dissolved.	½ Hr	1 Hr.	1 ½ Hr	2 Hr.	½ Hr.
5 0	In case of class or debenture holders quorum constitutes _____ members.	1	2	3	4	1
5 1	_____ Order to call a EGM even though 1 member present in person or by proxy.	ROC	C.G	NCLT	D.C.A	C.G
5 2	_____ can vote at the meeting even though not a member.	shareholder	President	Governor	both a & b	All the above
5 3	Voting right can't be exercised in case of _____	Calls in advance	Calls in arrears	Both (a) & (b)	no voting rights	Calls in arrears
5 4	Casting vote can be cast by whom only in case of equality of votes	Chairman	Director	Auditor	Manager	Chairman
5 5	The Chairman on his own motion _____ also order a poll	Must	Should	May	not required	May
5 6	Poll is conducted by Chairman with in _____ hrs from the demand.	24	48	72	36	48
5 7	Proxy need not be a _____ of the company	Shareholders b) Members		Both (a) & (b)	creditor	Both and b)
5 8	Depositing of proxy with the company should be made with in how many hours	24	48	36	72	48

5 9	If the notice contain a special business then an _____ statement shall be enclosed:	Explanator y	Enquiry	Both (a) & (b)	minuts	Explanator y
6 0	_____ is the official recording of the proceedings of a meeting	Quorum	Minutes	Both (a) & (b)	records	Minutes