



No. of Pages - 07
No of Questions - 19

SCHOOL OF ACCOUNTING AND BUSINESS
BSc. (APPLIED ACCOUNTING) GENERAL / SPECIAL DEGREE
PROGRAMME

YEAR II SEMESTER II
END SEMESTER EXAMINATION – AUGUST 2015

LAW 20225 Corporate Law

Date : 14th August 2015
Time : 5.30 p.m. - 8.00 p.m.
Duration : Two and a Half (02 ½) hours

Instructions to Candidates:

- This paper consists of three sections. (A, B and C)
- Section A – Answer **ALL** questions in the separate sheet provided.
Section B – Answer **only Four** questions.
Section C – Answer **only One** question
- The total marks for the paper is 100.
- The marks for each question are shown in brackets.
- Answers should be written neatly and legibly.

SECTION A

COMPULSARY

Select the most appropriate answer.

Question No. 01

Persons who take all the necessary steps to set up a company and set it going are known as:

- a. Directors
- b. Shareholders
- c. Registrars
- d. Promoters

Question No. 02

Companies set up under the provisions of the Companies Act No.07 of 2007 have one major constitutional document called:

- a. The Company Prospectus
- b. The Memorandum of Association
- c. The Articles of Association
- d. The Object Clause.

Question No. 03

Which of the following statements relating to debentures is incorrect?

- a. Debenture stock is transferable
- b. A company may not purchase its own debentures
- c. A debenture holder is a creditor of the company
- d. A debenture is the written document issued by a company setting out the terms of a loan.

Question No. 04

Shares issued without any special rights attached to them are known as:

- a. Ordinary shares
- b. Preference shares
- c. Redeemable shares
- d. Bonus shares.

Question No. 05

What is the legal minimum number of directors for a private limited company?

- a. 1
- b. 2
- c. 5
- d. 20.

Question No. 06

The Companies Act 2007 ss187-190 imposes various duties on directors. Which of the following is not imposed by the Act?

- a. To act in good faith and in the interest of the company
- b. To attend the minimum of two Board meetings annually
- c. To comply with Act and company's articles
- d. To exercise reasonable skill care and diligence.

Question No. 07

Decisions passed by shareholders are known as:

- a. Resolutions
- b. Provisions
- c. Articles
- d. Memorandums.

Question No. 08

Which one of the following statements is incorrect?

- a. Notice of meetings must be given to every member and every director
- b. All companies must hold annual general meetings
- c. Directors and secretaries of public companies that fail to hold an annual general meeting are liable to a fine
- d. The directors of a company can be required to hold a general meeting by the company's auditors if the auditors intend to resign.

Question No. 09

What percentage of shareholders is needed to pass special resolution?

- a. It must be unanimous
- b. Not less than 90%
- c. Not less than 75%
- d. More than 50%.

Question No. 10

When is voluntary winding up of a company deemed to be commenced?

- a. With filing the petition before commercial high court
- b. With passing of resolution of shareholders
- c. With the appointment of liquidator
- d. By a decision of the Board of Directors.

(Total 20 Marks)

SECTION B
ANSWER ONLY **FIVE (05)** QUESTIONS

Question No. 01

- i. Name the legal documents required to incorporate a limited company?

(06 Marks)

- ii. Describe the basic characteristics of a limited liability company.

(06 Marks)

(Total 12 Marks)

Question No. 02

- i. Illustrate duties of a director on insolvency.

(05 Marks)

- ii. Comment on how to appoint company directors.

(07 Marks)

(Total 12 Marks)

Question No. 03

- i. What can be included in Articles of Association of a company?

(03 Marks)

- ii. “Companies Act No.07 of 2007 has done away with the requirement of Memorandum of Association. But ‘objects’ are still a part of Sri Lankan law”. Discuss

(09 Marks)

(Total 12 Marks)

Question No. 04

By section 184 of the companies Act No.07 of 2007, directors have given very wide powers. But directors should be mindful of the provisions of section 185 of the Act.

- i. Illustrate what is meant by major transaction under section 185,

(06Marks)

- ii. Comment how a company can enter into a major transaction?

(06 Marks)

(Total 12 Marks)

Question No. 05

- i. Mention three reasons for company collapse.

(03 Marks)

- ii. What are the modes of winding up recognized by the Act?

(03 Marks)

- iii. What are the grounds for compulsory winding-up by court?

(06 Marks)

(Total 12 Marks)

Question No. 06

- i. What is a pre-incorporation contract according to section 23 of the Companies Act No.07 of the 2007?

(05 Marks)

- ii. What are the implied warranties in pre-incorporation contract under section 24 of the Companies Act No.07 of 2007?

(04 Marks)

- iii. What kind of orders may court make under section 25 of the Act if the company fails to ratify a pre-incorporation contract?

(03 Marks)

(Total 12 Marks)

Question No. 07

Johnson and Benson Limited has been formed to manufacture, sell, import and export shoes. In May 2015, the board decided to stop shoe business and to start chocolate business.

Company has entered into several contracts to export chocolates to China and India. Assume you are an investor of this company and are against the chocolate business.

- i. Explain the validity of the contracts entered into by the company to export chocolate to China and India

(06 Marks)

- ii. What are the remedies available to you against the company and against the board?

(06 Marks)

(Total 12 Marks)

SECTION C
ANSWER ONLY ONE (01) QUESTION

Question No. 01

Johnson and Benson PLC is in the pharmaceutical ingredients manufacturing business. In May 2010, the board was approached by ASB PLC who offered a revolutionary new bio-drug to the company for Rs. 5 M plus a percentage of future profits over the next 10 years. The board of directors rejected the proposal due to the company's lack of funds.

Romeo, a director of Johnson and Benson PLC, was at the board meeting and agreed with the decision to reject ASB'S offer. Later, discussing the offer with Juliet, a pharmaceutical expert, Romeo and Juliet decided to form a business with ASB PLC to develop manufacture and market the drug. They formed a limited liability company. Capulet Pharmaceuticals Ltd, for the purpose.

The drug was launched in May 2012. For the launch, Romeo, personally contacted a number of Johnson and Bensons clients. The launch was successful and the business started making profit soon afterwards.

Due to the financial crisis that substantially reduced government's budget and the available funding for health services and a number of product liability lawsuits, Johnson and Benson PLC has been struggling to meet its debt obligations. Capulet Pharmaceuticals Ltd is interested in buying out Johnson and Benson PLC.

Advise the company on any breaches of duty to the company committed by Romeo.

(Total 20 Marks)

Question No. 02

Saliya a Sri Lankan citizen who has worked for several years in Canada has returned to Sri Lanka with considerable savings of money. Recently he married Mala and she is now expecting a baby. Due to her pregnancy Mala resigned from her job and received some money as compensation. They are informed by their bank that Gemunu PLC is issuing ordinary shares and preferential shares. Saliya also notices that another company is issuing debentures. Saliya and Mala do not want to take any risks at this point as they both are jobless and expecting a baby. Advise them on comparative advantage of different types of shares and debentures as to which they should invest.

(Total 20 Marks)