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

**YEAR II SEMESTER II (INTAKE III/IV – GROUP A)**  
**END SEMESTER EXAMINATION – JULY 2016**

**LAW 20225 Corporate Law**

Date : 28th July 2016  
Time : 9.00 a.m. – 11.30 a.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** the questions in the sheet provided.  
Section B – Answer **five (05)** questions out of the seven questions given.  
Section C – Answer **one (01)** question out of the two questions given.
- 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**

Answer **ALL** Questions

Select The Most Suitable Answer.

### **Question No. 01**

#### **Question 1.1**

Which of the following is NOT a method of creating a company?

- a. A written agreement made by the directors.
- b. Registration under the Companies Act No 7 of 2007.
- c. Act of Parliament.
- d. Grant of Royal Charter.

#### **Question 1.2**

Sparkle (Pvt) Ltd is a private limited company, limited by shares. It has one director. How many shareholders does the law require it to maintain?

- a. One provided, it is a different person from the director.
- b. Five.
- c. Two.
- d. One which can be the same person as the director.

#### **Question1. 3**

Companies set up under the provisions of the Companies Act No7 of 2007 have one major constitutional document called:

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

**Question 1.4**

Which one of the following is NOT a right of a shareholder?

- a. To receive a dividend declared by the company
- b. To attend and vote a meetings
- c. To receive the company's accounts
- d. To manage company affairs

**Question 1.5**

Which one of the following statements is INCORRECT?

- a. The statutory minimum age of a director is 18.
- b. Every type of company must have a director.
- c. A company can be a director of another company.
- d. A person must sign a declaration to become a director.

**Question 1.6**

In order to be a company secretary of a private limited company which has less than Rs. 500,000/= stated capital what qualifications must you have?

- a. A qualified lawyer.
- b. A member of one of the named professions (such as Institute of Chartered Accountants, Institute of Chartered Secretaries and Administrators).
- c. You need no qualifications.
- d. Have been a secretary of a public company for at least three years out of the last five years.

**Question 1.7**

Decisions passed by shareholders are known as:

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

**Question 1.8**

What percentage of shareholders is needed to pass a *resolution in lieu of meetings*?

- a. It must be unanimous.
- b. Not less than 85%.
- c. Not less than 75%.
- d. More than 50%.

**Question 1.9**

How is voluntary liquidation of a company commenced?

- a. By a Court Order.
- b. By an ordinary resolution of shareholders.
- c. By a special resolution of shareholders.
- d. By a decision of the Board of Directors.

**Question 1.10**

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

- a. Ordinary shares
- b. Preference shares
- c. Treasury shares
- d. Capital shares

## **SECTION B**

Answer **FIVE (05)** Questions Only

### **Question No 02**

“The concept of incorporating a company was first introduced in England in the year 1844. It was assumed that a typical registered company would have a large membership of investors. Although the UK Companies Act of 1856 set the minimum number of registered company at seven, within twenty years or so it was realized that it was unnecessary for a company to have a large membership. The practice then grew, of incorporating private companies.”

- i. Explain what a Private Limited Company is.

**(06 marks)**

- ii. List out the required documents to incorporate a private limited company.

**(06 marks)**

**(Total 12 marks)**

### **Question No. 03**

- i. Illustrate major duties of a company's auditor.

**(06 marks)**

- ii. Write **SIX (06)** rights of a company auditor.

**(06 marks)**

**(Total 12 marks)**

**Question No. 04**

- i. Write an essay on effect of objective clause with reference to the section 17 of the Companies Act No.07 of 2007.

**(06 marks)**

- ii. Explain the following terms in relation to the company law

a. Doctrine of *ultra vires*.

**(03 marks)**

b. Indoor management rule.

**(03 marks)**

**(Total 12 Marks)**

**Question No. 05**

On 1 of July 2016, Mudland (pvt) Ltd entered into an agreement to purchase a land in Colombo, for Rs.50 Million. The total of all the assets of the company as at 31 march 2016 amount to Rs. 75 Million.

- i. Advise the company on the provisions of the Companies Act No 7 of 2007 it should be adhere to, in order to make this transaction legal.

**(06marks)**

- ii. Discuss three situations where directors are required to satisfy the solvency test.

**(06marks)**

**(Total 12 marks)**

**Question No. 06**

- i. What are the cases in which a company can be wind up by court?

**(06 marks)**

- ii. Explain whether directors are entitled to claim their wages as preferential creditors in the event of winding-up.

**(06 marks)**

**(Total 12 marks)**

**Question No. 07**

- i. Compare ordinary shares with preferential shares.

**(06 marks)**

- ii. Explain reasons to issue different types of shares.

**(06 marks)**

**(Total 12 marks)**

**Question No. 08**

Write notes on **TWO (02)** of the followings.

- i. Reduction of stated capital
- ii. Solvency Test
- iii. Role of Company Secretary
- iv. Pre-incorporation contract.

**(Total 12 marks)**

## SECTION C

Answer **ONLY ONE (01)** Question

### **Question No. 09**

Thomas is an employee of Public Sector Department. According to his appointment letter he cannot hold any other office (including directorship) without his employer's permission. Thomas wanted to establish a media company. He formed the company "ABC Network Ltd." but never became a shareholder. Thomas's close friends, Ash, Berty and Charley were shareholders of the ABC Network Ltd.

Berty and Charley were appointed as directors. However board of directors was given advices and instructions by Thomas and as a practice directors followed Thomas's advices. In addition, Thomas used visiting cards stating that he was the Chairman of ABC Network Ltd. He also had entered into several contracts on behalf of the company. Thomas's employer was informed that Thomas was a businessman and chairman of the ABC Network Ltd.

- i. Explain, with reference to the Company Law, whether Thomas is a director of the ABC Network Ltd.

**(10 marks)**

- ii. Mention **FIVE (05)** duties of directors.

**(05 marks)**

- iii. Explain the duties of directors on insolvency situations according to section 219 of the Companies Act No. 07 of 2007.

**(05 marks)**

**(Total 20 marks)**



**Question No. 10**

- i. Dias, aged 69 years, is a director of ABC (Pvt) Ltd., which is a fully owned subsidiary of XYZ PLC. The XYZ PLC has appointed Dias as a Director of ABC (Pvt) Ltd to safeguard the interest of XYZ PLC.

Now Dias wants to know the followings.

- a. Whether Dias can act for the interest of XYZ PLC.

**(07 marks)**

- b. Whether the age limit is applicable to Dias when he reaches 70 years.

**(08 marks)**

- ii. Describe the different classes of shares of a company.

**(05 marks)**

**(Total 20 marks)**