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

END SEMESTER EXAMINATION – OCTOBER 2016

LAW 20225 Corporate Law

Date : 22nd October 2016
Time : 9.00 a.m. - 11.30 a.m.
Duration : Two and a half (02 ½) hours

Instructions to Candidates:

- Write your Index Number in the space provided at the top of this sheet. Do not write your name anywhere in this question paper.
- This paper consists of three Sections (A, B and C).
- Section A – Answer **ALL** the questions in this paper itself.
Section B – Answer **ONLY FIVE (05)** questions.
Section C – Answer **ONLY ONE (01)** 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

Answer **ALL** Questions

Question No. 01

Write the most appropriate answer.

1. Julia and Tom wish to form a new company, which of the following document is required to be lodged with the Registrar General of Companies?
 - a. Memorandum of Association.
 - b. Articles of Association.
 - c. A rout map.
 - d. A letter from Grama Niladari.

Answer:

2. Persons who take the procedural steps to set up a company and who make business preparations for the company are known as:
 - a. Directors.
 - b. Shareholders.
 - c. Registrars.
 - d. Promoters.

Answer:

3. XYZ Company conducted an AGM on 1st Sept 2016. On that day due to fire accident in the hall, all shareholders died. Will the company still be in existence.
 - a. Yes
 - b. No

Answer:

4. Shares issue without any special rights attached to them are known as:
 - a. Ordinary shares
 - b. Preference shares
 - c. Redeemable shares
 - d. Bonus shares.

Answer:

5. Minority buy-out rights are available for
- Creditors
 - Minority Shareholders who have voted for special resolutions
 - Minority Shareholders who have voted against special resolutions
 - Majority Shareholders who have voted for special resolutions

Answer:

6. The Companies Act 2007 ss187-190 imposes various duties on directors. Which of the following is not imposed by the Act?
- To act in good faith and in the interest of the company
 - To attend the minimum of two Board meetings annually
 - To comply with Act and company's articles
 - To exercise reasonable skill care and diligence.

Answer:

7. What is a derivative action?
- A claim brought by a company against one of its directors for negligence, default or breach of duty or breach of trust.
 - A claim brought by a shareholder or director on behalf of the company to bring proceedings or intervene in proceedings to which a company is a party for the purpose of continuing, defending or discontinuing the proceedings
 - Where a creditor, in place of the company, brings a claim against a director of the company for negligence, default or breach of duty or breach of trust.
 - A petition to have the company wound up.

Answer:

8. Which one of the following statements is incorrect?
- Notice of Annual General meeting must be given to every member and every director
 - All companies must hold annual general meetings
 - Directors and secretaries of public companies that fail to hold an annual general meeting are liable to a fine
 - The directors of a company can be required to hold a general meeting by the company's auditors.

Answer:

9. "A shareholder who wishes to make a proposal to change the Company Name must give the company, a notice of their proposal prior to the meeting." What is the length of time period required to pass a special resolution.
- a. 7 days
 - b. 14 days
 - c. 28 days
 - d. 42 days

Answer:

10. When is compulsory winding up of a company deemed to be commenced?
- a. With filing the petition before commercial high court
 - b. With the passing of resolution by shareholders
 - c. With the appointment of liquidator
 - d. By a decision of the Board of Directors.

Answer:

(Total 20 marks)

SECTION B

Answer **ONLY FIVE (05)** Questions

Question No. 02

- i. The incorporation procedure of a company has been simplified by the Companies Act No.07 of 2007. Do you agree with this statement. Explain

(08 marks)

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

(04 marks)

(Total 12 marks)

Question No. 03

- i. Illustrate duties of a director on serious loss of capital.

(05 marks)

- ii. Comment on how to appoint company directors.

(07 marks)

(Total 12 marks)

Question No. 04

- i. What are the rights and liabilities of a shareholder?

(03 marks)

- ii. “*Doctrine of Ultra Vires is abolished by the Companies Act No. 07 of 2007. However objective is still a part of Sri Lankan company law*”. Comment

(09 marks)

(Total 12 Marks)

Question No. 05

Explain the difference between the following pairs of terms

- i. Shares and Debentures

(03 marks)

- ii. Limited company and Guarantee company

(03 marks)

- iii. Company contracts and Pre incorporation contacts

(03 marks)

iv. Ordinary resolution and Special resolution

(03 marks)

(Total 12 marks)

Question No. 06

“Winding-up is a terminal form of the administration of the affairs of a company. However it is not the death of a company. It is a process whereby the assets of the company are collected and realized.”

i. Mention three non-terminal form of company arrangement.

(03 marks)

ii. Explain cases in which a company can be wound up by court.

(09 marks)

(Total 12 marks)

Question No. 07

i. Generally all businesses of a company can be done by passing ordinary resolutions; however certain businesses cannot be done without passing special resolution under section 92 of the Companies Act.

Write four of them.

(08 marks)

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

(04 marks)

(Total 12 marks)

Question No. 08

Section 184 of the Companies Act No.07 of 2007 provides very wide powers on board of directors. However directors should be mindful of the provisions of section 185 of the Act.

i. What is meant by a “Major transaction” under section 185?

(06 marks)

ii. Explain how a limited company can reduce its stated capital

(06 marks)

(Total 12 marks)

SECTION C

Answer **ONLY ONE (01)** Question

Question No. 09

Ann's Chocolate Limited has been formed to import and export chocolates into Sri Lanka. Unfortunately Ann's chocolates were not popular in the country and business was not successful as they expected. In May 2015, the board decided to stop chocolate business and commenced a shoe business. The company entered into few contracts with an Italian Company to import shoes and other materials to Sri Lanka. Assume you are an investor of this company and are against the shoe business.

- i. Explain the validity of the contracts entered into by Ann's chocolate limited to import shoes and other materials into Sri Lanka.

(06 marks)

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

(06 marks)

- iii. Assume that the company has passed a special resolution to change its business and you have voted against it.

Explain remedies available for you under the Companies Act No.07 of 2007.

(08 marks)

(Total 20 marks)

Question No. 10

Consider the role of a company auditor, paying particular attention to duties of an auditor.

(Total 20 marks)