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

END SEMESTER EXAMINATION – JANUARY 2017

LAW 20225 Corporate Law

Date : 22nd January 2017
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 parts. (A, B and C)
- Part A – Answer **ALL** questions in the separate sheet provided.
Part B – Answer **only Five (05)** questions.
Part C – Answer **ALL** questions.
- 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

1. An association with an objective to promote sports is most suitable to be set up as which of the following?
 - a. A private limited company only.
 - b. A company limited by guarantee only.
 - c. A private or public company limited by shares or a private company limited by guarantee.
 - d. None of the above, it is a type of partnership.

Answer:

2. Sparkle private 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.

Answer:

3. Under the Companies Act 2007 the document that states the objectives of a company is called:
 - a. The Company Articles.
 - b. The Statement of Compliance.
 - c. The Memorandum of Association.
 - d. The Company Guarantee.

Answer:

4. Which one of the following statements is incorrect?
- a. The statutory minimum age of a director is 18.
 - b. There is no statutory maximum age for directors.
 - c. A company can be a director of another company.
 - d. There are no legal qualifications necessary for being a director.

Answer:

5. What percentage of shareholders is needed to pass resolution in lieu of meetings?
- a. It must be unanimous.
 - b. Not less than 85%.
 - c. Not less than 75%.
 - d. More than 50%.

Answer:

6. Which company shares can be freely transferable
- a. Private Company
 - b. Public Company
 - c. Both (a) & (b)
 - d. None of the above

Answer:

7. The company's nationality is decided by its
- a. Shareholders
 - b. Registered office
 - c. Place at books of accounts are kept
 - d. none of the above

Answer:

8. Company's owners are shareholders. So the company property belongs to the shareholders. Do you agree with this statement?
- a. Yes
 - b. No

Answer:

9. _____ stand in the fiduciary position of the company

- a. Directors
- b. Promoters
- c. Auditors
- d. None of the above

Answer:

10. M.M. ltd is incorporated on Jan 1, 2017. It must hold its first AGM before.

- a. Dec 31, 2017
- b. Dec 31, 2018
- c. June 30, 2017
- d. June 30, 2018

Answer:

(Total 20 Marks)

SECTION B

Answer only **FIVE (05)** questions

Question No. 02

- i. Explain how to incorporate a limited liability company in Sri Lanka with special reference to the required documents.

(06 marks)

- ii. Write comparative advantages of doing business as a “limited liability company” as oppose to partnership

(06 marks)

(Total 12 marks)

Question No. 03

Discuss the role of a company auditor, with considering particular attention to duties of an auditor

(Total 12 marks)

Question No. 04

- i. Compare preferential shareholders with debenture holders

(06 marks)

- ii. Outline the different types of shares a company can issue and explain the reasons to issue such different types of shares.

(06 marks)

(Total 12 Marks)

Question No. 05

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

(06 marks)

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

(06 marks)

(Total 12 marks)

Question No. 06

Explain the difference/s between the following pairs of terms

- i. Shares and debentures
- ii. Limited company and Guarantee company
- iii. Company Contracts and pre incorporation contracts
- iv. Ordinary resolution and Special resolution

(Total 12 marks)

Question No. 07

Johnson and Benson Limited has been formed to, sell and promote vegetarian foods in Sri Lanka. Unfortunately vegetarian foods were not popular in the country and business was not successful as they expected. In May 2015, the board decided to stop vegetarian foods and to start chicken and chips business. Company has entered into several contracts with China to import chicken and other meats to Sri Lanka. Assume you are an investor of this company and is against the non-vegetarian food business.

- i. Explain the validity of the contracts entered into by the company to import chicken and other meats to Sri Lanka.

(06 marks)

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

(06 marks)

(Total 12 marks)

Question No. 08

“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 the grounds for court winding-up.

(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. 09

Write notes on any two of the following

- i. Reduction of stated capital
- ii. Pre-Incorporation Contracts
- iii. Nihal Sri Amarasekara V Mitshui Corporation (Hilton Case)
- iv. Solvency Test

(Total 12 marks)

SECTION C

Question No. 10 - Compulsory

Benjamin is a non-executive director of a company called Nitec PLC. Further, he happens to hold a few shares of that company. Nitec PLC had few negotiation rounds with a well reputed private company called Start Treck (Pvt) Ltd to form a joint venture. Significantly, the owner of the Star Trek (Pvt) Ltd is the spouse of Benjamin.

Start Treck (Pvt) Ltd consented to proceed with the joint venture. Therefore, this latest development was discussed at the following board meeting of Nitec PLC. It was further revealed that it is expected to have an increase in the share price of Nitec PLC as a result of this joint venture. After the board meeting, Benjamin informed his sister Jasmine about the joint venture and the expected increase in the share price. The next day both Benjamin and Jasmine bought a considerable number of shares of Nitec PLC from a friend of theirs.

Discuss the followings with relevant statutory provisions and case law:

- i. Liabilities of Benjamin and Jasmine;
- ii. Validity of the above transactions.

(10 Marks)

(10 Marks)

(Total 20 Marks)